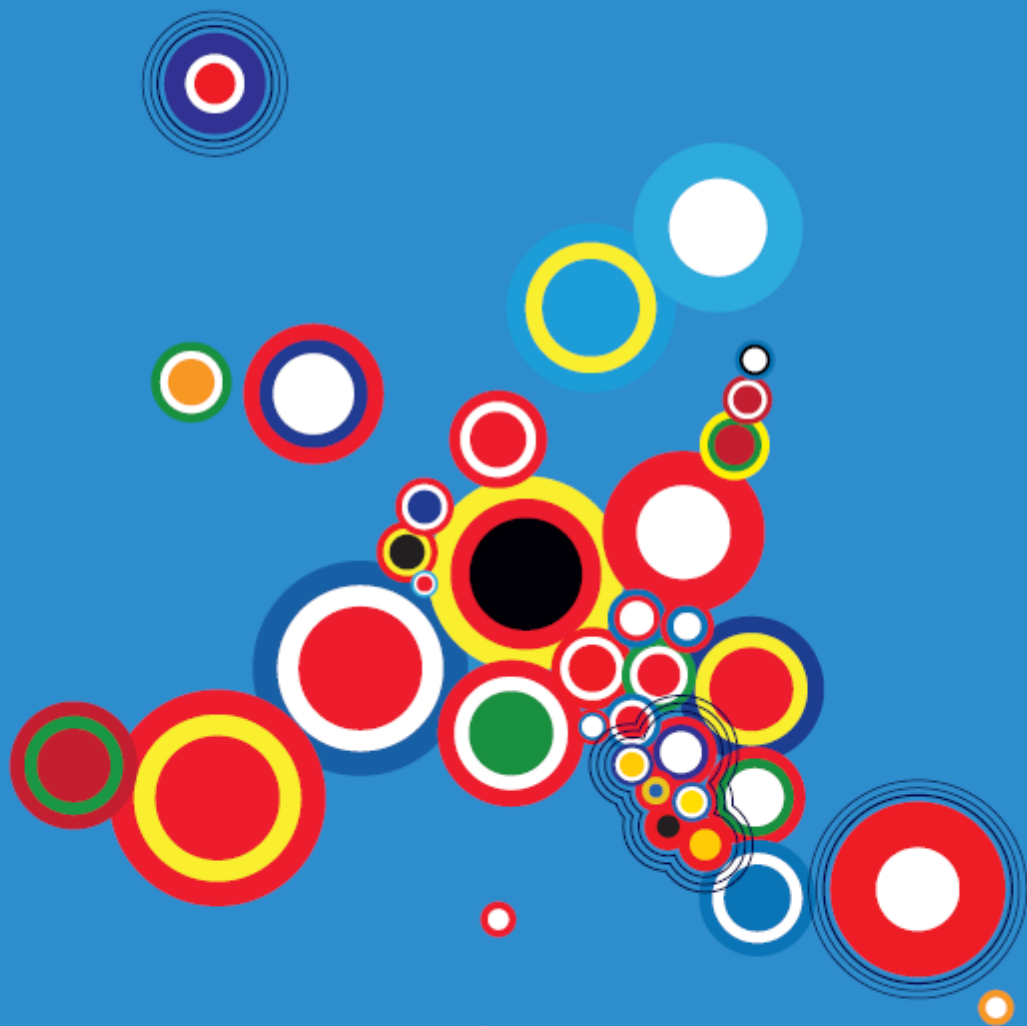




European
Commission

Albania Progress Report



October 2014

Enlargement

*In its Communication 'Enlargement Strategy and Main Challenges 2014-15'¹,
the Commission put forward the following
conclusions and recommendations on Albania:*

The decision of the European Council of June 2014 to grant Albania candidate status is recognition for the reform steps undertaken. It is also an encouragement to step up the pace of reforms. In November 2013, the Commission launched a High Level Dialogue with Albania to help the country to maintain focus on its EU integration process and to monitor reform progress under the key priorities identified for the opening of accession negotiations. In May 2014 Albania adopted a roadmap laying down and structuring its planned reforms under the key priorities.

Albania has made progress over the past year. Further steps were taken towards the reform of the judiciary. The government has shown political will to act decisively in the prevention and fight against corruption. The legislative framework was strengthened and policy coordination and monitoring at central level improved. The fight against organised crime shows a positive trend in a number of areas, with an intensification of law enforcement activities, notably on drug seizures and drug-related crimes, and on economic crime and trafficking of human beings. Some steps were taken to improve the legal recognition of the rights of lesbian, gay, bisexual, transgender and intersex persons.

However, many shortcomings remain, in particular in the rule of law field. Much work lies ahead. Fighting corruption and organised crime are significant challenges. Albania will need to undertake substantial and sustained efforts to address the implementation of the key priorities identified for the opening of accession negotiations. Albania will need to act decisively to: continue the reform of the public administration with a view to enhancing its professionalism and depoliticisation; pursue a comprehensive reform of the judiciary to reinforce its independence, efficiency and accountability through an inclusive process and in close consultation with the Venice Commission; intensify its anti-corruption efforts and take further determined steps in the fight against organised crime, with a view to establishing a solid track record of proactive investigations, prosecutions and convictions in both areas; and take effective measures to reinforce the protection of human rights, including of Roma, and anti-discrimination policies, as well as implement property rights. As regards freedom of expression and media, the government failed to act on the identified priorities. All statutory functions of the Audiovisual Media Authority need to be restored and its independence guaranteed in practice. Albania should pursue economic reforms aimed at increasing competitiveness and tackling high unemployment, as well as address the high level of informality in the economy and improve the business environment.

It is crucial that the reform process is accompanied by a constructive and sustainable political dialogue between government and opposition. It is the responsibility of both government and opposition to ensure that political debate takes place primarily in parliament and to contribute to creating the conditions for its proper functioning. The government needs to ensure that the opposition has the possibility to fully perform its democratic control function. At the same time, the opposition also needs to engage constructively in the democratic processes. Compromise-based and constructive work in parliament is vital for the sustainability of reforms. The establishment of a National Council for European Integration, uniting all stakeholders, will further help to enhance the inclusiveness of the reform process. It is also key for consensus on the relevant reforms across Albanian society.

¹ COM(2014)700 final of 8.10.2014

*Summary of findings of the
2014 Progress Report on Albania²*

Albania has made further progress towards fulfilling the **political criteria**. A High Level Dialogue on the Key Priorities was launched and Joint Working Groups to structure work on the required reforms were established. A National Council for European Integration is yet to be established to foster inclusiveness and unite all stakeholders around the reform process. A constructive and sustainable political dialogue between government and opposition is vital for the sustainability of reforms.

Parliament consensually adopted a Resolution on European Integration. It endorsed a number of legislative measures relevant to EU integration, mainly in the areas of fight against corruption and organised crime and also voted on appointments to the judiciary. Transparency of the legislative procedure was improved. However, a tense political climate impinged on parliamentary work, resulting in the opposition often abstaining from and since July boycotting all parliamentary work. Both government and opposition need to ensure political debate takes place primarily in parliament. The government needs to ensure that the opposition has the possibility to fully perform its democratic control function. At the same time, the opposition also needs to engage constructively in the democratic processes.

The reform of the public administration moved forward, notably with the Civil Service Law coming into effect, the adoption of relevant implementing legislation and steps to improve recruitment procedures. Implementation needs to be pursued with a view to strengthen the depoliticisation, accountability and professional standards of public administration. The Code of Administrative Procedures needs to be finalised and adopted in line with EU standards. Steps will need to be taken to reinforce the independence and performance of independent institutions.

Albania took further steps towards the reform of the judiciary by engaging with the Venice Commission in view of enhancing the independence, accountability and professionalism of the judicial system and by starting to draft the 2014-2020 judicial reform strategy. Some steps were made to improve the accountability and transparency of the judiciary, including through legislative amendments regulating the immunities of judges and prosecutors. Disciplinary proceedings against judges have led to a number of sanctions. The Administrative Courts started to function, although they still need to be made fully operational. Changes were introduced to the Law on the High Council of Justice aimed at improving its functioning. However, concerns have been expressed on their expeditious adoption without including and consulting all relevant actors. Many shortcomings remain and there is an overall awareness that deep reform of the judiciary is urgently needed. Further substantial efforts to ensure the independence, efficiency and accountability of the judiciary will need to be made, including through constitutional amendments. Albania will need to vigorously pursue this process with the constructive cooperation of all stakeholders, including through continued cooperation with the Venice Commission. Determined action is needed to reinforce the disciplinary system for judges, prosecutors and lawyers, as well as to further improve the efficiency of courts.

The government has shown political will to act decisively in the prevention and fight against corruption. The legislative framework was strengthened and policy coordination and monitoring at central level improved. A National Anti-Corruption Coordinator was appointed and a network of anti-corruption focal points was established in all line ministries. However, corruption is prevalent in many areas, including the judiciary and law enforcement, and remains a particularly serious problem. Albania needs to take measures to enforce the legislative framework and adopt the 2014-20 anti-corruption strategy and action plans. Inter-institutional cooperation needs to be enhanced and existing obstacles to proactive

² Annex to COM(2014)700 final of 8.10.2014

investigations need to be removed. Albania will also need to further develop the track record of investigations, prosecutions and convictions in corruption cases, notably at high level.

The fight against organised crime shows a positive trend in a number of areas, with an intensification of law enforcement activities including on drug seizures and drug-related crimes, economic crime, and trafficking of human beings. In particular, the authorities have taken serious steps to fight cultivation and trafficking of cannabis, which remains a serious concern, most notably through a major police operation in the village of Lazarat and in the north of the country. International cooperation has been strengthened. Efforts in fighting organised crime need to be further stepped up, however. The cooperation between law enforcement institutions should be further improved and legislative barriers affecting the efficiency of investigations should be lifted. Albania will need sustainable efforts, combined with proactive and systematic financial investigations and consistent enforcement of legislation, to counter all kinds of criminal activities including money laundering, and trafficking of human beings and in drugs. Albania should continue acting decisively against cannabis cultivation. Fighting organised crime and corruption is fundamental for countering criminal infiltration of the political, legal and economic system.

As regards fundamental rights, freedom of assembly and association, as well as freedom of thought, conscience and religion, continued to be generally respected. Cooperation between the state authorities and civil society organisations regarding the rights of lesbian, gay, bisexual, transgender and intersex (LGBTI) persons was improved. The legal framework for persons with disabilities was revised; its implementation needs to be ensured. Gender-discriminatory legal provisions need to be removed, the institutional capacity for child protection should be strengthened and children's forced labour should be addressed. An action plan on children's rights was adopted. Albania will need to focus on implementing measures to enhance Roma inclusion and protect vulnerable groups. The protection of property rights needs to be further strengthened, including through reviewing the 2012 property reform strategy and strengthening security of legal ownership. As regards freedom of expression and media, the government failed to act on the identified priorities. All statutory functions of the Audiovisual Media Authority need to be restored and its independence guaranteed in practice. The unauthorised use of frequencies by several broadcasters remains a problem.

Albania's positive engagement in regional cooperation and good neighbourly relations remains essential.

As regards the **economic criteria**, Albania made some progress towards becoming a functioning market economy. Albania should be able to cope with competitive pressures and market forces within the Union in the medium term, provided that it further accelerates structural reforms.

Albania preserved macroeconomic stability, proceeded with arrears clearance and took steps to improve tax administration and collection. However, economic growth slowed further and the current account deficit remains large, reflecting weak competitiveness. The budget deficit exceeded the target in 2013 and the high level of public debt increased further restricting the fiscal room for manoeuvre. Inflation remained low, which allowed monetary easing to continue, but this did not translate into credit growth due to the high level of non-performing loans in commercial banks. Unemployment is high and the informal economy remains widespread.

Albania should pursue fiscal consolidation efforts with a view to reducing public debt, while at the same time preserving room for growth-friendly expenditure. The energy sector should be reformed and pension and tax administration reforms to be further implemented in order to lower the risks it poses to public finances. Bank lending and credit growth need to be supported by the continued payment of state arrears towards companies and by addressing

non-performing loans. Obstacles to private-sector development should be removed by improving the business environment, which is characterised by deficiencies in the rule of law, weaknesses in the regulatory framework and uncertainty over property ownership. Creating favourable conditions for private investment, and in particular foreign direct investment, is essential for diversifying the narrow production base. Education and training should be further improved to address skills mismatches in the labour market and increase employability.

The Stabilisation and Association Agreement (SAA), which entered into force in April 2009, continued to be overall smoothly implemented. Albania continued aligning its legislation to the requirements of the EU in a number of areas, enhancing its **ability to take on the obligations of membership**. A new National Plan for European Integration for 2014-2020 was adopted. However, concrete improvements have been moderate in most areas. Albania will need to make substantial efforts to upgrade its preparations for implementing EU *acquis*. More efforts are needed to ensure protection of intellectual property rights. The settlement of the dispute between the government and the power distribution company CEZ contributed to pave the way for further energy sector reforms. Stepping up efforts in this area, including the diversification of energy sources and the functioning of the electricity market, is vital for economic development. Albania will also need to reinforce environmental protection, and address shortcomings noticed in the areas of transport, food safety, and consumer and health protection. The administrative capacity and professional standards of bodies charged with the implementation of the *acquis* needs to be strengthened and the independence of regulatory bodies safeguarded. Enhancing transparency and accountability, in particular as regards public procurement and public finance management, remains essential.



Brussels, 8.10.2014
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COMMISSION STAFF WORKING DOCUMENT

**ALBANIA
2014 PROGRESS REPORT**

Accompanying the document

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Enlargement Strategy and Main Challenges 2014-2015

{COM(2014) 700 final}

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1. INTRODUCTION

1.1. Preface

The Commission reports regularly to the Council and Parliament on the progress made by the countries of the Western Balkans region towards European integration, assessing their efforts to comply with the Copenhagen criteria and the conditionality of the Stabilisation and Association Process.

This progress report, which largely follows the same structure as in previous years:

- briefly describes the relations between Albania and the European Union;
- analyses the situation in Albania in terms of the political criteria for membership;
- analyses the situation in Albania on the basis of the economic criteria for membership;
- reviews Albania's capacity to take on the obligations of membership, i.e. the *acquis* expressed in the Treaties, the secondary legislation, and the policies of the European Union.

This report covers the period from October 2013 to September 2014. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and enables an objective assessment.

The report is based on information gathered and analysed by the Commission. Many sources have been used, including contributions from the government of Albania, the EU Member States, European Parliament reports³ and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Albania in its separate communication on enlargement,⁴ based on the technical analysis contained in this report.

1.1. Context

The Stabilisation and Association Agreement between Albania and the EU came into force in April 2009. Albania presented its application for membership of the European Union on 28 April 2009. Following a request by the Council, the Commission submitted its Opinion on Albania's application in November 2010. In December 2010, the Council noted that the opening of accession negotiations would be considered once the Commission has assessed that the country has achieved the necessary degree of compliance with the membership criteria and, in particular, has met the key priorities set out in the Commission's Opinion.

In view of the progress made by Albania, the Commission recommended in October 2013 that Albania be granted candidate status, on the understanding that it continues to take action in the fight against organised crime and corruption. In December, the Council stated that it would decide on whether to grant candidate status in June 2014, in the light of a report by the Commission focusing on Albania's implementation of its judicial reform strategy and on the fight against organised crime and corruption. The Council stressed that sustained implementation of reforms and fulfilment of all key priorities would be necessary for the

³ Until 1 July 2014, the rapporteur for Albania was Mr Nikola Vuljanic. The current rapporteur is Mr Knut Fleckenstein.

⁴ Enlargement Strategy and Main Challenges 2014-15, COM(2014) 700.

opening of negotiations. In its June report,⁵ the Commission confirmed its recommendation that the Council should grant Albania candidate status. The European Council of June 2014 endorsed the decision of the General Affairs Council granting Albania candidate status.

1.2. Relations between the EU and Albania

Albania participates in the **Stabilisation and Association Process**.

Overall, Albania has implemented its obligations under the **Stabilisation and Association Agreement** (SAA) well. The protocol on the adaptation of the SAA, to take account of Croatia's accession to the EU, was signed in February 2014; pending its ratification, the protocol is applied on a provisional basis with effect from 1 July 2013.

Regular political and economic dialogue between the EU and Albania has continued through the SAA structures. The Stabilisation and Association Committee and Council met in March and May 2014, respectively. Meetings of six subcommittees and of the special group on public administration reform were held. Albania participated in the multilateral economic dialogue with the Commission and the EU Member States to prepare the country for participation in multilateral surveillance and economic policy coordination under the EU's Economic and Monetary Union. A High Level Dialogue on the key priorities for opening accession negotiations⁶ was launched in November 2013, with subsequent meetings in March, June and September 2014. Joint working groups to structure work on the required reforms were established in September 2014.

Visa liberalisation for Albanian citizens travelling to the Schengen area has been in force since December 2010. As part of the monitoring mechanism in place since visa liberalisation, the Commission has been regularly assessing the progress made by the country in implementing reforms introduced under the visa roadmap. The monitoring mechanism also includes an alert mechanism to prevent abuses, coordinated by Frontex. The Commission has regularly submitted its post-visa liberalisation monitoring reports to the European Parliament and the Council. The next report will be presented by the end of 2014. A visa-waiver suspension mechanism entered into force in January 2014. On this basis, EU Member States can request the Commission, in an emergency situation and as a measure of last resort, to examine the possibility of temporarily suspending the visa waiver for third-country nationals. A **readmission agreement** between the European Union and Albania has been in force since 2006.

Between 2007 and 2013, the EU provided **financial assistance** to Albania under the Instrument for Pre-accession Assistance (IPA). Albania has benefited from IPA components I — transition assistance and institution building — and II — cross-border cooperation — receiving a total allocation of approximately €594 million, which includes approximately €82 million in 2013 for the national programme under IPA component I. The assistance is managed either by the EU Delegation in Tirana or by the Albanian government under indirect management.

The implementation of EU assistance was, in some cases, affected by missing or delayed construction permits, non-budgeting of funds for operating and maintaining EU-funded investments, missing or delayed utility connections, missing or delayed re-imburement of value added tax to contractors and civil society organisations and a lack of coordination with

⁵ 'Report from the Commission to the Council and the European Parliament on Albania's Progress in the Fight Against Corruption and Organised Crime and in the Judicial Reform', COM(2014) 331 final from 04.06.2014.

⁶ These are reforming the public administration and the judiciary, fighting corruption and organised crime, strengthening the protection of human rights and anti-discrimination policies, and implementing property rights.

other institutions, including local governments. Similarly, some staff replacements following the change of government affected people who had been trained with EU support. Strengthening national ownership and addressing the shortcomings above is essential to maximise the impact of future EU support.

Under IPA II, Albania will benefit from EU assistance for 2014-20, with a total indicative allocation of €640 million. A 2014-20 country strategy, drafted in partnership with the Albanian government and in consultation with relevant stakeholders, was adopted by the Commission in August. Over this period, IPA II will address fundamental issues in the areas of rule of law, democracy, economic governance and public finances to support the successful reforms and investments needed for the integration process.

Albania will also receive support under the IPA multi-country programmes and will participate in cross-border cooperation programmes with neighbouring Western Balkan countries and Member States and in trans-national cooperation programmes under the European Regional Development Fund.

Albania participates in the following **EU programmes**: the Seventh Research Framework Programme, the Competitiveness and Innovation Framework Programme, Lifelong Learning, Europe for Citizens, Culture and Customs. Albania has also recently concluded or is in the process of concluding new agreements for a number of programmes, including: Horizon 2020, Competitiveness of Enterprises and Small and Medium-sized Enterprises, Fiscalis 2020, Erasmus+, Creative Europe and Employment and Social Innovation. Albania has applied for observer status in the EU Fundamental Rights Agency.

2. **POLITICAL CRITERIA**

This section examines the progress made by Albania towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States and compliance with international obligations.

2.1. **Democracy and the rule of law**

The government has shown concrete action and sustained political will in the area of EU-related reforms, covering a broad range of issues. In November, the government and the opposition joined forces to adopt a resolution on EU integration and have continued to support the process since then. However, further consensus building has been affected by an increasing confrontational climate between the government and the opposition, which often abstained from parliamentary work and, in July, launched a parliament boycott.

Constitution

Overall, the implementation of the Constitution has been upheld. Since the new government took office, the Constitutional Court has examined seven lawsuits filed by opposition, one filed by local government units and one filed by the President. Four cases relate to the functioning of state institutions. Swift implementation of Constitutional Court decisions is essential.

Elections

Building on progress in the 2013 parliamentary elections, Albania needs to implement the recommendations of the OSCE's Office for Democratic Institutions and Human Rights (OSCE/ODIHR) election observation mission, notably strengthening the independence of the election administration bodies, well ahead of the 2015 local elections.

Parliament

In November, parliament consensually adopted a resolution on Albania's European integration, endorsing a number of measures relevant to EU integration, mainly on the rule of law. The government secured a 3/5 qualified majority in parliament when two Members of Parliament (MPs) from the opposition decided to join one of the majority coalition's parliamentary groups. EU integration remained a high priority for parliament. The opposition generally participated in the political discussions during parliamentary proceedings, although it often abstained from parliamentary work including on the administrative and territorial reform, and withdrew from key votes on legislative initiatives. Since July, the main opposition party has boycotted all parliamentary work. This followed a violent incident within parliament. Further action is needed from both the government and the opposition to ensure a constructive and sustainable political dialogue in parliament.

Parliament voted on appointments to judicial institutions and endorsed one nomination to the High Council of Justice and the re-appointment of the Chairman of the Constitutional Court for a new term. It rejected three presidential nominations to the High Court.

Parliament overruled the presidential veto on nine laws, including amendments to the Law on the High Council of Justice and the law on administrative territorial reform. The overruling of the veto on a normative act postponing the entry into force of the Civil Service Law (consensually adopted in the previous legislature) led to an opposition complaint to the Constitutional Court, which decided to annul the normative act, *inter alia*, on the grounds that a normative act cannot replace a law requiring a 3/5 majority.

Regarding parliament's oversight role, the jurisprudence of the Constitutional Court on the scope and limits of parliamentary control through *ad hoc* inquiry committees needs to be fully applied by parliament. Relevant Constitutional Court decisions need to be implemented without undue delay.

The Parliamentary Committee on European Integration monitored and held a public hearing on the government's road map on the five key priorities for opening accession negotiations. It also exercised its oversight role through hearings with the Minister for European Integration.

Parliament continued to monitor the work of independent institutions and discussed their reports more frequently. However, further action is needed to ensure appropriate follow-up to their findings and recommendations. There have been controversies over the set-up, appointment procedures and performance of a number of independent institutions which are accountable to parliament. The applicable legislation needs to be fully implemented and the professionalism, functioning and independence of these institutions ensured. The procedures of electing and dismissing the heads and boards of these institutions by a simple majority in parliament remain a matter of concern, as this seriously affects their independence. Steps to reinforce the independence and performance of these institutions need to be taken in an inclusive reform process.

Transparency and inclusiveness in the legislative process have improved. In December, an action plan was adopted to address the recommendations in the European Commission's 2013 progress report relating to parliament. Draft laws, work programmes and agendas for plenary and committee meetings are generally published on the parliament's website. Further work is needed on ensuring the timely publication of the minutes of committee meetings. Public access to the work of parliamentary bodies has improved overall with the simplification of accreditation procedures. Parliamentary committees have generally been proactive in holding consultations with civil society and interest groups. However, the short notice and the lack of clear rules on public consultations need to be addressed. In May, parliament decided to set up offices for MPs in 12 regions, with one MP from the majority and one from the opposition in

each office. However, outreach by MPs to their constituencies remains limited. Work has been done to improve administrative and expert capacity in parliament, mainly through assigning new staff to key positions. Sufficient means need to be allocated for training parliamentary staff.

Overall, progress has been made on the functioning of parliament. Transparency and inclusiveness in the legislative process have improved. Further action is needed to ensure a more institutionalised consultation process and further strengthen parliament's oversight role, including through implementation of the relevant jurisprudence and rulings of the Constitutional Court. Government and opposition should take steps to restore political dialogue in parliament. The government needs to ensure that the opposition has the possibility to fully perform its democratic control function. At the same time, the opposition also needs to engage constructively in the democratic processes. Increasing cross-party cooperation remains essential for a sustainable reform process.

Government

The new government carried out a broad redistribution of responsibilities and changed the structure and names of the ministries. It has 16 ministries, one more than the previous government, and three Ministers of State.

European integration is the first priority for the government's programme, which pays particular attention to related challenges in the rule of law, public administration and fundamental rights areas. The government has actively engaged with the European Commission in the High Level Dialogue process on the key priorities. In May, the government adopted a comprehensive roadmap to structure Albania's efforts in addressing the key priorities. In July, it adopted the 2014-20 National Plan for European Integration.

The government set up a delivery unit network to identify its policy priority objectives and monitor progress in meeting them. Delivery units were established in all line ministries, under the coordination of the Prime Minister's Office. Six priorities have been identified (good governance, water, energy, land, foreign direct investments, structural reform) and a matrix of the expected results has been drafted. Its implementation is regularly monitored through performance indicators. Effective links between the delivery unit structures and EU integration reform planning will need to be ensured.

A Department for Development Programming, Financing and Foreign Aid has been set up in the office of the Deputy Prime Minister to ensure that budget allocation, donor funding and strategic business investment are consistent with government priority objectives.

The Ministry of European Integration has further consolidated its role as coordinator for EU affairs, including as regards the implementation of the 2014-20 National Plan for European Integration, and is working on the 2014-20 National Strategy for Development and Integration. To manage the challenges of upcoming reforms, the ministry's institutional capacity needs to be further strengthened and its coordinating role systematically enforced.

Some steps have been taken towards improving the functioning of the interinstitutional working groups, but the majority remain *ad hoc* fora. Relations between state institutions continued to be difficult at times and interinstitutional cooperation needs to be improved.

Regarding *local self-government*, a Minister of State responsible for local affairs was appointed in September 2013. The Law on Territorial and Administrative Reform was adopted in July, reducing the number of local government units from 373 to 61, abolishing also the communes and keeping the 12 existing regions. The main opposition party abstained from voting and expressed its strong disagreement over the reform. The law aims to increase the units' efficiency, financial sustainability and capacity to provide services. Local

government units experienced difficulties in exercising their competences in the period leading up to the adoption of the law and the national strategy on territorial planning. In August, the National Territorial Council decided that the implementation of the already adopted local planning instruments should be suspended and that new development permits should be issued. The implementation of the new Civil Service Law by the newly established local government units has not been fully launched.

Decentralisation reforms progressed and work has started on clarifying the functions of local government units under the new territorial administrative division in the preparation of amendments to the Law on the Organisation and Functioning of Local Government.

Amendments to the Law on Territorial Planning were enacted in July with the aim of further clarifying the scope of national territorial planning instruments and strengthening the role of relevant institutions. The central government was more involved in managing urban development issues and has taken measures to strengthen the competence of central institutions such as the National Urban Construction Inspectorate and the National Territorial Agency. In March, the Constitutional Court ruled that the inspectorate could not interfere with local government's authority to demolish illegal constructions. The transparency of the decision-making process in the National Territorial Agency and Council and in local government bodies needs to be improved.

Total local government expenditure in 2013 was estimated at 2.2% of GDP, while revenues remained at 0.8% of GDP. Local taxes continued to dominate revenues for local government.

Local government human resources management and financial control remain weak. Transparency and strategic planning in central funding to local authorities remain a challenge. Strong politicisation still hinders relations between central and local governments and limits local authorities associations' role. Local authorities still need to develop an inclusive dialogue with civil society and local communities.

Overall, the new government undertook a number of reforms to bring the country closer to meeting the key priorities for progress towards the EU and deliver further tangible results, notably in the area of rule of law. Steps have been taken to strengthen and streamline government structures and improve interinstitutional cooperation. Further strengthening of capacity, coordination and strategic planning for EU integration is needed.

Regarding local self-government, substantial efforts have been made to advance territorial-administrative reform. Further action is needed to strengthen the administrative capacity of local government units, allowing them to exercise their authority and implement legislation in a financially sustainable way, enforcing transparency, effectiveness and inclusiveness.

Public administration

The drafting of the new public administration reform strategy resumed in January, with the aim of broadening the **strategic framework for public administration reform**. The new strategy is foreseen to cover public administration organisation, policymaking, e-government and ensure also a link to public financial management and programming.

Regarding **policy development and coordination**, after the reshuffling of functions and staff under the new government, the administration is still trying to achieve its full capacity. The Prime Minister's Office was significantly strengthened, enforcing inter-ministerial coordination and creating new units for delivery, research and policy development, legislation and programme monitoring, and support for strategic business investments, but there is not yet a fully operational annual and mid-term planning system. Coordination was further strengthened through the appointment of a Minister of State for Innovation and Public Administration, whose human and financial resources need to be increased to fulfil the

Minister's policy coordination role. The public administration reform special group in the framework of the SAA remains the main forum of dialogue on these issues between Albania and the EU.

With regard to **public service and human resources management**, following the elections and an extensive reorganisation affecting the structures of the 16 ministries, around 13 % of staff in the central government institutions were dismissed. In parallel, staff numbers were increased in key ministries such as the Ministry of European Integration. The restructuring of the public sector raised heated debate on the legality of the process that was followed and the number of personnel downgraded, dismissed and put on waiting lists, and on the results in relation to cutting expenditure. Albania needs to increase its efforts to ensure that the high staff turnover does not compromise capacity or business continuity.

The Department of Public Administration, which has demonstrated increasing transparency, estimated that since September 2013, around 380 civil servants in central institutions were dismissed, resigned or put on waiting lists and around 100 were downgraded out of a total of 1392 current civil servants. The department also estimated around 5200 dismissals and resignations in subordinate institutions and agencies. Further efforts are needed to ensure transparency and accuracy of data. Recruitment of civil servants was frozen from March to July to ensure proper implementation of the new legislation. It was also estimated that there were 137 appeals by employees in central institutions with 85 % of them still pending, while the same percentage in subordinate institutions and agencies is also high, reaching 75 % of 1758 appeals. Two thirds of all concluded cases at first instance were won by the employees. Final court rulings should be fully respected and implemented.

The new Civil Service Law became effective in February. By March, the government adopted 10 by-laws, covering significant issues such as recruitment, transfer, promotion, dismissal, the description and classification of job positions and the new senior management staff. From April to September, the Department for Public Administration produced five sets of guidelines on job descriptions, disciplinary measures, the competencies of the Restructuring Committee, lateral transfers and executive positions through open competitions. It introduced an electronic system for applications for recruitments and for data collection of personnel in public institutions. It has organised intensive training for the proper implementation of the law, which remains a challenge.

Building a comprehensive monitoring mechanism is essential. In this respect, the Civil Service Commission has been replaced by the Civil Service Commissioner, whose appointment by the parliament is still pending. The functioning and independence of the new institution must be ensured, something essential for proper monitoring of public institutions.

The approval of the necessary implementing legislation for the Law on the Organisation and Functioning of the Public Administration is still pending. The government needs to assess all existing legislation on the organisation and functioning of all subordinate institutions and align it to the principles and provisions of this law.

The Department of Public Administration has started to play a more prominent role. It facilitated training regarding the new legislation, including at local level. Departmental capacity has been increased from 22 to 35 with a view to reach 43, according to the Prime Minister's order adopted in February. The implementation and extension of the human resources management information system has been subject to delay. Implementation was resumed in August and work advanced on data entry of personnel files from central government institutions, relating just to the human resources module of the system. The roll-out of the system to all public institutions and linking it to the Ministry of Finance's treasury system have been delayed. The School of Public Administration is operating with its full

annual budget and new premises, implementing its annual work plan and *ad hoc* extra activities in cooperation with the Department of Public Administration.

With regard to **accountability and service delivery**, a new Code of Administrative Procedures was adopted by the government in June and is currently in parliamentary procedure. The law aims to strengthen the principles and standards of good administration and transparent administrative decision-making, including e-administration. Implementation of the Law on Administrative Courts progressed when the courts started to operate in November 2013. They work regularly, providing rulings in reasonable timeframes despite the heavy workload. Vacancies for judges and assistant judges have not yet been fully filled and the case management system needs to become operational.

Public financial management was identified as one of the key priorities in the government programme and as an integral part of good governance reforms. A comprehensive reform programme, including a public financial management strategy for the period 2014-20 is planned to be finalised by the end of the year. The Ministry of Finance needs to enhance its human resources to this end. Albania has taken short-term measures for improved public financial management through the adoption of the arrears prevention and clearance strategy and the partial payment of arrears through IMF and World Bank loans. Temporary measures improving monitoring by the Ministry of Finance were gradually introduced to address the urgent need for commitment controls aiming to prevent new arrears. Systemic actions will be implemented as part of the 2014-20 public financial management strategy.

Overall, some progress has been made on public administration reform with the coming into effect of the Civil Service Law and its implementing legislation and some first steps for its implementation. The new legislation provides an opportunity to build a professional, effective, depoliticised and accountable public administration. Proper implementation and monitoring are now essential. The appointment and independence of the Civil Service Commissioner and transparent and merit-based practises, especially in future recruitment, need to be ensured. Applicable legislation and court rulings must be fully respected. The Department of Public Administration was reinforced to meet its increasing responsibilities. The new Minister of State for Innovation and Public Administration should have the necessary means and human resources to fulfil policy coordination tasks. Albania has also committed to substantial reforms in public financial management over the period 2014-20. A comprehensive reform programme will address and sequence reform actions in the relevant parts of the public financial management system.

Ombudsman

The Ombudsman has continued to actively promote human rights. He has recommended legislative changes to improve respect for the rights of vulnerable groups, including lesbian, gay, bisexual, transgender and intersex people, the Roma, former political prisoners and persecuted people. His cooperation with civil society organisations improved further with the establishment of a civil society advisory board on human rights in December. The Ombudsman submitted his annual report to parliament in April. His special reports have started to be published on the parliament's website, but their follow-up remains limited. In 2013, the Ombudsman conducted 180 inspections and on-site visits in prisons and other institutions, handled 220 complaints and issued 55 recommendations. Follow-up on his recommendations has improved but needs to be further strengthened. Further action is needed to ensure that the Ombudsman is properly informed and consulted by the government on draft legislation and reforms, notably those directly affecting his areas of competence. The budget allocated to the Ombudsman's Office was reduced and remains insufficient. The institution needs stronger political and financial support from both parliament and the government to continue to carry out its duties in a fully effective manner.

Civil society

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by the state institutions. Cooperation between state institutions and civil society organisations (CSOs) has improved. Civil society was regularly consulted on policy and legal initiatives, although with limited follow-up. The National Council for European Integration, which has the potential to play a key role in institutionally reflecting the broad national consensus on European integration, has not yet been established. A new Supervisory Board of the Agency for Support to Civil Society was nominated. The Ministry of European Integration set up a unit for civil society coordination to cooperate with CSOs on European integration. The new law on access to information has been adopted in September. Access to information and the transparency of policymaking and legislation need to be further improved. Consultations with CSOs need to become more systematic and transparent, including follow-up on their recommendations. Preparations to set up the National Council for Civil Society, a consultative body to enable regular dialogue between the government and CSOs on key issues related to civil society development in Albania, are at an early stage. No steps have been taken towards revising the tax framework for CSOs and removing provisions that undermine their financial viability, particularly on VAT reimbursement for received grants. Cooperation between CSOs and local government units remains very weak due to the lack of adequate capacity to ensure proper cooperation and funding for CSOs. The civil society sector remains fragmented and overly dependent on donor funding.

Judicial system

Albania has demonstrated commitment to judicial reform, notably by interacting with the Venice Commission to improve the independence, accountability and professionalism of the system. Measures were taken to increase the accountability of judges, prosecutors, MPs and other senior officials through the adoption of legislation regulating their immunity. Disciplinary proceedings against magistrates have led to a number of sanctions. Rules on the suspension and removal from office of members of the High Council of Justice were introduced, although concerns have been expressed on their expeditious adoption without including and consulting all relevant actors. The administrative courts started to function, but they still need to be made fully operational. A school for lawyers has been set up and new criteria for the selection of the magistrates' school management and staff were introduced.

Albania needs to vigorously pursue judicial reform with the constructive cooperation of all stakeholders and through continued engagement with the Venice Commission, including on the new judicial reform strategy for 2014-20 which is being prepared, and a comprehensive review of the applicable legislative framework. Appropriate implementation of adopted measures is essential and the legal gap resulting from the Constitutional Court's repeal of the Law on Judicial Administration needs to be addressed. Training for judges and judicial staff needs to be improved. The role of the Council of Prosecutors should be reinforced. Full public access to all court decisions needs to be ensured without delay. The regulatory framework for the private bailiff enforcement system should be improved. Measures need to be taken to streamline and reduce the backlog in the High Court. Further measures are required to ensure that the appointment, promotion and transfer of judges are clearly based on merit and other objective criteria. Expeditious and transparent court proceedings should be ensured.

The functioning of the judicial system continues to be affected by politicisation, limited accountability, poor interinstitutional cooperation, insufficient resources and backlogs. The status of the High Court and the process of appointing its members remain of concern in terms of possible politicisation, as long as the relevant constitutional provisions are not amended. The disciplinary system for magistrates needs to be substantially improved, including through

a more transparent and efficient inspection system. Corruption in the judiciary remains a serious concern.

For a detailed analysis of the developments in the judicial system, *see Chapter 23 — Judiciary and fundamental rights.*

Fight against corruption

Albania has taken further steps and has demonstrated continued political will to prevent and combat corruption. Reporting, policy coordination and monitoring at central level have improved through the appointment of a National Anti-Corruption Coordinator and the establishment of a network of anti-corruption focal points in all line ministries. Legal amendments to address corruption offences by high-level state officials have been adopted. Albania should now focus on their enforcement. The 2014-20 anti-corruption strategy and action plans remain to be adopted. The structural reforms that have been introduced illustrate an all-encompassing approach aiming to develop a more robust anti-corruption framework and to include a wide range of institutions. As a positive step towards increased transparency, the 2012-13 asset declarations by senior officials have been published by the High Inspectorate for Declaration and Audit of Assets and Prevention of Conflict of Interest (HIDAACI). Sufficient resources, training and specialised staff need to be ensured to improve the efficiency of investigations and to develop a convincing track record of investigations, prosecutions and convictions at all levels. Proactive investigations, systematic risk assessments and interinstitutional cooperation need to be improved. Corruption remains prevalent in many areas and remains a particularly serious problem.

For a detailed analysis of the developments in the area of anti-corruption policy, *see Chapter 23 — Judiciary and fundamental rights.*

Fight against organised crime

A number of legislative initiatives reforming the police and establishing a National Bureau of Investigation were adopted. International police and judicial cooperation has increased through the implementation of extradition agreements. An operational agreement with Europol was ratified and work began on its implementation. Financial investigations, and seizures and confiscations of assets have increased. The national referral mechanism against trafficking in human beings has been improved and coordination of the relevant authorities and actors, including at local level, has increased. Seizures of drugs have increased, and the national plan for fighting the cultivation of cannabis has been implemented with positive results. The authorities have taken serious steps to fight against the cultivation and trafficking of cannabis, most notably through a major successful police operation in the village of Lazarat. Cooperation and joint training between prosecution officials, police and the judiciary on trafficking has been stepped up in key areas. Organised crime remains a considerable challenge and Albania needs to increase its efforts to build up a consistent track record of investigations, prosecutions and convictions in all areas and at all levels. Albania still lacks a comprehensive overall strategic approach towards organised crime on its territory. The number of confiscations of criminal assets and convictions for money laundering need to be increased through the systematic use of financial investigations. Trafficking in human beings, both international and internal, remains a serious challenge, calling for more emphasis on a holistic approach of prevention, protection and prosecution, and improved international cooperation. Cannabis eradication campaigns and the fight against drug trafficking, which remains a serious concern, should be further developed through international cooperation and the proactive use of special investigative means and risk assessment.

For a detailed analysis of the developments in the fight against organised crime, *see Chapter 24 — Justice, freedom and security.*

2.2. Human rights and the protection of minorities

In the area of freedom of expression, implementation of the Law on Audiovisual Media has been slow, mainly due to a lack of political agreement on filling the vacancies in the media regulator, the Audiovisual Media Authority. As a result, the authority has not been able to fully perform its statutory tasks, such as licensing, audience measurement, and implementation of the digitisation strategy. The lack of transparency of media financing and the interference in the media by political and economic interests remain major challenges. This includes the non-transparent allocation of funds for advertising by state-owned companies and the government.

As regards women's rights, the National Council on Gender Equality began its work and coordinators on gender issues were appointed in all line ministries. The number of reported serious offences and cases of domestic violence against women increased. An online system to report cases of gender violence has been launched, but is operational in only 29 municipalities. Other measures have not yet been implemented, such as an extension of the referral mechanism for domestic violence and mainstreaming women's employment in the strategies of all municipalities. As regards children's rights, Albania remains a source country for forced child labour.

Regarding the area of anti-discrimination policies, the number of cases examined and inspections initiated by the Commissioner for Protection against Discrimination has increased. The Law on Protection from Discrimination is largely in line with the EU *acquis*; however, its implementation is insufficient and a solid anti-discrimination case-law needs to be built. The legal framework for persons with disabilities was revised; its implementation needs to be ensured.

Albania presents a mixed picture on the protection of minorities. While inter-ethnic relations have remained good overall, comprehensive legislation on minorities has not been adopted and the legal framework for the protection of minorities remains fragmented. Living conditions, access to education, employment, health and social care for the Roma population need to be improved, following up on the seminar on Roma and Egyptians in February. Better coordination between central and local government and improved inter-ministerial cooperation are essential.

For a detailed analysis of the developments in the area of human rights and the protection of minorities, *see Chapter 23 — Judiciary and fundamental rights*. For developments in the areas of trade union rights, anti-discrimination and equal opportunities, *see also Chapter 19 — Social policy and employment*.

2.3. Regional issues and international obligations

Albania still maintains a 2003 bilateral immunity agreement with the United States, granting exemptions for US citizens from the jurisdiction of the **International Criminal Court**. In doing so, it is not complying with the EU Common Positions on the integrity of the Rome Statute or with the related EU guiding principles on bilateral immunity agreements. Albania needs to align with the EU position.

Regional cooperation and good neighbourly relations form an essential part of Albania's process of moving towards the EU. Albania has continued to actively participate in regional initiatives, including the South-East European Cooperation Process (whose Chairmanship Albania took over in June), the Central European Initiative, the Regional Cooperation Council, the Energy Community Treaty and the Central European Free Trade Agreement. During its one-year presidency of the Adriatic and Ionian Initiative, Albania organised the Conference of Parliament Speakers and the meeting of the Council of Foreign Affairs Ministers. Albania continued to actively participate in all events related to the implementation

of the Trans-Adriatic Pipeline and Ionian Adriatic Pipeline projects. The country is continuing to contribute to the EUFOR ALTHEA mission in Bosnia and Herzegovina.

Overall, Albania has continued to act as a constructive partner in the region, further developing **bilateral relations with other enlargement countries and neighbouring EU Member States**. A bilateral convention on regional cooperation, under Article 13 of the SAA, has not yet been concluded with either Montenegro or Serbia.

Relations with *Bosnia and Herzegovina* remained good. Bilateral consultations were held in February aiming to strengthen cooperation in all areas of mutual interest. A bilateral agreement on mutual protection of classified information was signed in May.

Good relations with *the former Yugoslav Republic of Macedonia* continued, with frequent high-level visits and despite some short-lived tensions following demonstrations and statements in July over the verdict in the ‘Monster’ case. In March, both countries signed a memorandum of cooperation on tourism.

Relations with *Montenegro* continued to be good. An agreement on cooperation in the field of tourism was signed in April.

Albania and *Serbia* demonstrated their willingness to improve bilateral relations by taking steps towards improving the rights of their respective national minorities. A regular air link between Belgrade and Tirana was established in September.

Albania continued to have very good relations with *Kosovo*,* with which it signed a new declaration on cooperation and strategic partnership aiming to boost economic growth. Bilateral agreements were concluded in the areas of health, tourism, culture, taxation, use of joint border customs points, energy, unification of the employment market, the opening of joint consular offices, and on collaboration on the use of the EU *acquis* translated into Albanian. Albania continued to support the ongoing dialogue between Kosovo and Serbia, facilitated by the EU, and Kosovo’s participation in regional and international initiatives.

Albania continued to have good relations with *Turkey*, with several high-level visits in both capitals. An Albania-Turkey economic and trade forum was held in February. In April, the two countries agreed to establish a strategic partnership and high-level cooperation council to structure their cooperation in the fields of foreign policy and international cooperation, justice and home affairs, defence and security issues, the economy, energy, environment protection, culture, education and science. A memorandum of understanding on bilateral cooperation on information technologies was also signed in April.

Relations with *Greece* intensified. Several bilateral agreements, including on the delimitation of the Greek-Albanian continental shelf and maritime zones, are under discussion. A joint declaration was signed in May, paving the way for a solution on the use of place names in official documents.

Italy remains Albania’s main trade partner. The two countries maintained very good diplomatic relations and intensified their bilateral cooperation in the area of rule of law.

Overall, Albania continued to play a constructive role in contributing to the stability of the region, and continued to implement the Stabilisation and Association Process commitments in this regard. Albania needs to align with the EU position on the integrity of the Rome Statute and with the related EU guiding principles on bilateral immunity agreements.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

3. ECONOMIC CRITERIA

In examining economic developments in Albania, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

Monitoring of the economic criteria needs to be seen in the context of the increased role of economic governance in the enlargement process, as welcomed by the General Affairs Council of 17 December 2013.

Economic and structural reforms are at the forefront of the government's agenda to re-launch growth and increase competitiveness. The European Council in June 2014 encouraged Albania to pursue its policy of improving economic governance and investment climate.

3.1. The existence of a functioning market economy

Albania maintained macroeconomic stability but still faces significant challenges. Persistent fiscal imbalances have caused public debt to reach high levels and fiscal buffers are largely exhausted. Large accumulated government arrears have sapped liquidity and confidence in the economy, despite the government beginning to clear these in March. The high current account deficit reflects weak competitiveness and a narrow production base. The private sector is held back by weaknesses in the regulatory environment and the rule of law. Substantial efforts are required to improve the labour market.

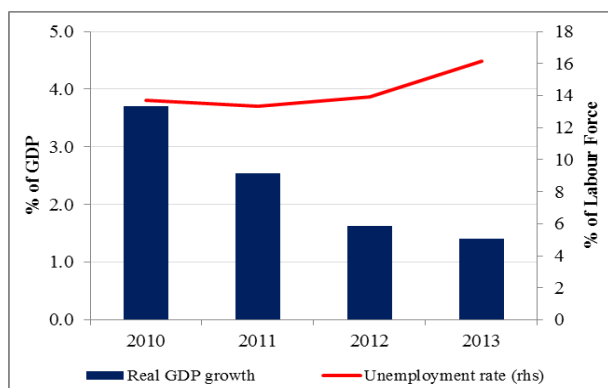
Economic policy

Macroeconomic stability was broadly preserved, but vulnerabilities remain elevated mainly as a result of fiscal and, to a lesser extent, external imbalances. In January, Albania submitted its eighth Economic and Fiscal Programme, covering 2014-16. The programme's medium-term macroeconomic scenario assumes a reacceleration of growth coupled with fiscal consolidation; such an outlook faces challenges and requires sustained effort to be achieved. The conclusion in February and May 2014 of loan agreements with the IMF and the World Bank respectively is expected to provide an anchor for increasing macroeconomic stability and implementing growth-boosting reforms. A National Economic Council, chaired by the Prime Minister and involving the business community, was set up in the last quarter of 2013 to provide guidance and consistency in economic reforms. ***Overall, the consensus on the main fundamentals of economic policies has been maintained.***

Macroeconomic stability

GDP growth decelerated further to an estimated 1.4% in 2013 from 1.6% a year earlier. The

Figure 1 Real GDP growth and unemployment

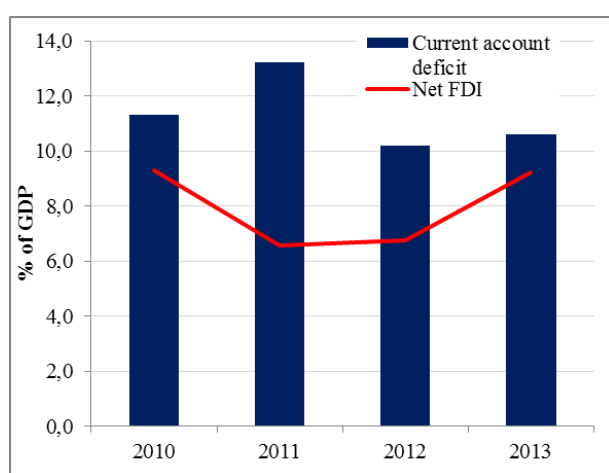


main driver of the slowdown remained sluggish domestic demand, as both private consumption and especially investment were adversely affected by weak confidence and anaemic lending. Uncertainty, partly related to the high level of unpaid government obligations towards businesses, was slow to dissipate, even if the repayment of arrears started in March. Net exports maintained their positive contribution in 2013 as a result of stagnating imports and good export performance. In the first quarter of 2014, GDP growth was still low at 1.7%, but survey indicators point to a broader-based

recovery of private domestic demand in the second quarter. Per capita GDP in purchasing power standards remained at 30% of the EU-28 average in 2013. **Overall, the timely execution of the plan to clear accumulated government arrears and the removal of obstacles to bank lending are key to further improving confidence, bolstering investment and reviving growth in the short run.**

External imbalances remained large, reflecting a narrow production base, the overall low competitiveness of the economy and a large fiscal deficit. The current account deficit increased slightly to 10.6% of GDP in 2013. Strong growth in exports of goods, driven by crude oil sales and electricity exports thanks to favourable hydrological conditions, and a slight decrease in goods imports helped the substantial trade deficit to narrow, but the traditional surplus on the services account practically disappeared due to weak tourism sector performance. The current transfer surplus also declined substantially due to a 26% drop in remittances from migrant workers in 2013. In the first quarter of 2014, the current account deficit widened by 31% year-on-year as strong growth of goods exports was offset by a pick-up in imports, reflecting stronger consumption and private investment. The services account deficit also widened despite inbound tourism showing signs of improvement, as tourism outflows also increased. In the same period, the decline in remittances slowed down but did not reverse.

Figure 2: External position



Risks resulting from a large current account deficit continued to be mitigated on the financing side by a healthy reliance on foreign direct investments (FDI) as opposed to debt-generating flows. Net FDI inflows, driven by investments in extraction and privatisations in the hydropower sector, surged by 38% in 2013 to 9.2% of GDP and covered the bulk of the current account shortfall. Official reserves increased in 2013

and at year-end covered 4.7 months of imports; the import coverage was at around the same level at end-June 2014, providing an adequate level of safeguard against adverse shocks. Net FDI inflows increased by 11.7% year-on-year and continued to be substantial in the first quarter of 2014. **Overall, continued strong emphasis on attracting foreign direct investment is crucial both for mitigating vulnerabilities linked to high external imbalances and for transferring knowledge, boosting productivity and broadening the production base.**

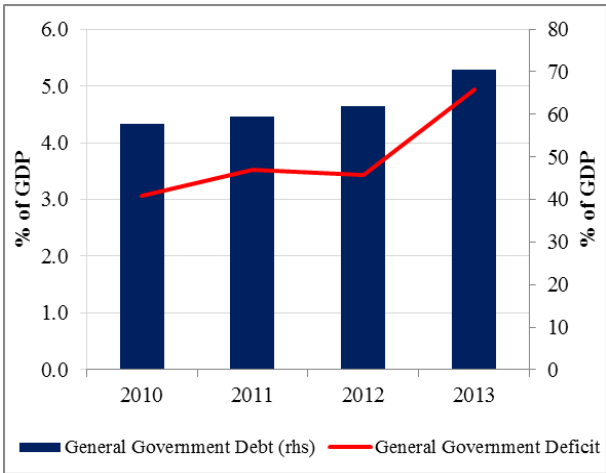
Labour force survey data suffer from shortcomings but indicate continued deterioration in labour market conditions. The average rate of unemployment increased in 2013 by 2.2 percentage points to 15.6% and remained on an upward trend throughout the year, reaching 18.3% in the first quarter of 2014. While some aspects of the labour market, such as the ease of hiring and firing or the link between pay setting and productivity, display sufficient flexibility, the high prevalence of long-term unemployment and large gender differences in labour force participation indicate significant structural impediments. The activity rate of the population aged 20-64 is comparably low at 68%, as is the employment rate, which stood at 57.2% in 2013. Informal employment remains widespread, hindering company development and fiscal revenues, reducing job security and affecting social security entitlements. **Overall, Albania needs to continue its work to address the high unemployment rate and the high prevalence of informal employment.**

Macroeconomic stability continued to be supported by a sound monetary policy operating under an inflation-targeting regime. Weak aggregate demand and low imported inflation led the average inflation rate to decelerate to 1.9% in 2013, slightly below the lower band of the Bank of Albania’s target range of 2-4%, and it continued to hover around this level in the first half of 2014. Low inflationary pressures created room for further monetary policy easing, and the Bank of Albania cut the key interest rate several times, bringing it down to a new historic low of 2.5%. However, the stimulus has only partly been passed on to the economy in the form of lower lending rates, due to banks’ high risk aversion amid a large proportion of non-performing loans on their balance sheets. The free-floating exchange rate of the lek remained broadly stable against the euro in 2013 and the first eight months of 2014, helping to keep imported inflation low. The degree of euroisation of the financial system decreased somewhat but remains high, constraining monetary policy. Alleged theft at the Bank of Albania led to the prosecution and dismissal of a number of officials, including the governor who is accused of abuse of office. When addressing this issue, central bank independence should be safeguarded and the proper functioning of the institution should be ensured. **Overall, low inflation allowed the monetary policy easing cycle to continue, but its impact on aggregate demand remained constrained by banks’ high risk aversion.**

The budget deficit was at 4.8% of GDP in 2013, exceeding the initial target of 3.5%. Disappointing revenue from direct taxes and election-related spending increases in the first half of the year necessitated a substantial revision of the budget in October. In 2013 as a whole, total revenues were 8.9% lower than initially planned. In terms of expenditure, efforts to contain the budget shortfall focused again on cutting capital spending, which ended up 7.8% lower than planned, although it did increase marginally as a share of GDP (to 4.8%).

The need to finance the budget deficit and the recognition of accumulated arrears, estimated at 5.3% of GDP, pushed up the level of public debt to 70.5% at the end of 2013, from 62.3% a year earlier. Even though efforts to lengthen the maturity profile of the debt stock achieved some results in 2013 (notably with the first successful issuing of a 10-year bond), its short-term component remains high, exposing the country to refinancing risks. The narrow investor base, which comprises mainly domestic banks, adds to these vulnerabilities and also exposes local banks to sovereign risk.

Figure 3 Fiscal developments



The government adopted an arrears clearance and prevention strategy in February. It aims, with the support of loans from the IMF and the World Bank, to clear arrears within three years and implement substantial improvement in public finance management to avoid their re-emergence. Unpaid bills and outstanding tax refunds were not previously captured by official debt statistics; recognising and settling them therefore constitutes a major step forward in terms of increasing transparency and re-establishing trust in the government as a contract partner. In March, the government began the process of clearing outstanding arrears, clearing roughly 35% of total

arrears by end-July. An independent external auditor has been contracted to enhance the reporting framework and ensure proper oversight of the process.

The stated objective of fiscal policy in 2014 is to consolidate public finances while clearing a large part of government arrears. This translates into a deficit target of 6.5 % of GDP, which includes repayment of arrears worth 2.5 % of GDP. Increases in excise, fuel and building taxes, as well as an increase in corporate income tax from 10 % to 15 % are expected to underpin the forecast 11 % rise in overall revenue, while the introduction of progressivity in personal income tax is projected to have a slightly negative budgetary impact. Changes implemented by the new government to the tax and customs administrations caused disruption, but measures were taken to address fiscal evasion, uncovering several VAT and excise fraud schemes, and to improve tax collection. As a clear sign of progress, revenues in the first seven months of 2014 were up by 11 % in annual terms, driven by a 16.5 % surge in VAT receipts (*See also Chapter 16 — Taxation*). Due to an underspend on investment caused by a reassessment of existing projects and procedures, total expenditure was at the same level as a year earlier, despite beginning arrears repayments. The overall deficit in the first seven months was 38 % lower than a year earlier and amounted to around 2.2 % of the full-year GDP.

Fiscal consolidation is expected to continue after 2014, although this could require additional policy measures in the next two years. Significant fiscal risks stem from an unreformed energy sector where the government acts as financier of last resort and from the obligation for the state, confirmed by recent judgments of the European Court of Human Rights, to pay compensation to former property owners, unless the modalities for compensation are adjusted. The public debt to GDP ratio is forecast to decrease from 2015. With basic legislation amended in July, progress was made on reforming the pension system with a view to improving its sustainability in the long run and decreasing the long-term implicit liabilities of the state.

Overall, macroeconomic stability should be further increased by lowering the public debt-to-GDP ratio, while preserving fiscal space for growth-enhancing public investment. Fiscal consolidation, focusing on revenues, started with the 2014 budget, but continued work is needed to put public finances on a sustainable footing. The ongoing clearance of arrears and the improvements in public finance management constitute major steps forward and should be carried out as planned.

Interplay of market forces

The private sector remains dominant, accounting for about 80 % of GDP and 82 % of the workforce. Privatisation is advanced but there was no progress on the sale of the remaining stakes in energy, oil, telecommunications and insurance companies. The dispute following the earlier revocation of the privatised electricity distributor CEZ Shpërndarje's licence was resolved in June, with a deal in which CEZ receives €95 million as payment of receivables and for the transfer of shares. Efforts to increase private sector involvement in the energy sector resulted in the signature of 14 new concessions for electricity generation during 2013. The proportion of total electricity generation provided by private hydro power plants increased to 11 % in 2013, from an estimated 7 % in 2012. However, high distribution losses, accumulated arrears, regulated tariffs below cost-recovery level and a lack of market-based mechanisms are detrimental to investor interest in the sector and should be resolutely addressed, also in order to lower fiscal risks. (*See also Chapter 15 — Energy*). ***Overall, state involvement in the economy remains limited and is mainly concentrated in some sectors, such as energy which needs wide-ranging reform.***

Market entry and exit

Market entry is adversely affected by bureaucratic procedures and weaknesses in the regulatory environment. Although the time it takes to start a new business is relatively short, the associated costs can be high. In 2013, the number of registered new businesses declined

slightly by 1 %, following strong growth the year before. Bankruptcy procedures remain slow, while the recovery rate for debtors in most cases turns out to be low. As a result, the bankruptcy regime does not appropriately support efficient debt resolution. Under the bankruptcy regime, eight applications for restructuring were registered in the first half of 2014, compared with just four in the whole period 2008-2012 and one in 2013. The number of new liquidation cases also increased in the first half of 2014. Preparations for the revision of the bankruptcy law have started. ***Overall, both market entry and exit procedures should be further improved to facilitate an efficient allocation of resources.***

Legal system

The pace of property legalisation, restitution and compensation remains slow. The first registration of properties has yet to be completed in 470 land registry zones, of which 399 are rural. Parliament decided in December to postpone the deadline for processing the verification of titles concerning agricultural land until the end of 2015.

There was some progress on setting up administrative courts, which became operational in November. In March, the Ministry of Justice adopted guidelines on the fees to be paid to private bailiffs, allowing negotiation of payments upon successful completion of the collateral execution process, instead of a full upfront payment. This is expected to align incentives with creditors for a prompt execution of collateral. The Economy Ministry is conducting a survey of wrong and harmful procedures with a view to addressing regulatory weaknesses, while a cross-institutional working group has been set up to consider any necessary legal and procedural changes to improve the business environment. ***Overall, progress is needed on reforms to deal with uncertainties over property ownership, deficiencies in the regulatory framework and weaknesses in contract enforcement and the rule of law, which continue to be detrimental to the business environment.***

Financial sector development

The predominantly foreign-owned banking sector continued to dominate the financial system, accounting for 90.8 % of all financial system assets. Sluggish credit demand and banks' increased risk aversion caused the stock of outstanding loans to decrease by 2.1 % in 2013, with business loans contracting the most. Despite continued monetary policy stimulus, the downward trend in lending continued in the first half of 2014, but in July the stock of loans increased in annual terms for the first time in twelve months, albeit at a slow pace (0.5 %). Overall credit to the economy fell to 40.6 % of GDP at end-March from 42.8 % a year earlier, suggesting that there is significant scope for deeper financial intermediation.

The share of non-performing loans has begun to level off after almost five years of steady increase, but it remains high (24.1 % in June 2014) and is the main source of concern in the banking sector. In February, the Bank of Albania's Supervisory Council adopted a requirement for banks to write off, from January 2015, non-performing loans no later than three years after they had been classified in the 'loss' category. It also strengthened credit underwriting practices and non-performing loan recovery and resolution for large borrowers. Banks are also exposed to credit risk stemming from the currency mismatch of borrowers with foreign currency loans but with domestic currency income. Such loans make up more than 30 % of the total stock and are particularly sensitive to large exchange rate depreciations.

Despite very high NPLs, lingering credit risks and exposure to sovereign risk through significant holdings of government securities, the banking sector appears stable. Capital and liquidity ratios largely exceed requirements and deposits continued to be the main source of funding for banks, which have very limited reliance on external sources and parent bank credit lines. Loan losses are well provisioned, which has weighed on banks' earnings.

However, profitability indicators remain positive and have been improving since the fourth quarter of 2013.

The size of the non-banking financial sector has increased but remains small; its assets amount to 5.4% of GDP, up from 2.8% in 2012. It comprises the insurance and private pension segments, as well as investment funds. Their regulatory and supervisory framework requires further strengthening. ***Overall, the banking system is well capitalised and liquid. However, further measures are needed to address the issue of non-performing loans which hamper financial intermediation.***

3.2. The capacity to cope with competitive pressure and market forces within the Union

Human and physical capital

Despite significant improvements over the last decade, Albania still has considerable gaps to close in terms of years of schooling, secondary enrolment rates, education quality and the market relevance of qualifications. Public spending on education is low at around 3% of GDP, and is expected to stay at this level in 2014 as more spending allocations for primary and secondary education will be offset by cuts in higher education funding (mainly as regards capital expenditure). A draft national employment and skills strategy was unveiled in February; it will run until 2020 and aims to overhaul active labour market policies, improve vocational education and training, reform social safety nets and strengthen labour market governance.

Gross fixed capital formation as a share of GDP dropped again to around 26% in 2012; the downward trend was expected to continue in 2013. Public capital expenditure, at 4.8% of GDP in 2013, is often targeted by spending cuts when budget adjustments are needed. Public spending on research and development is set to increase by 4% in 2014, but it continues to represent only 0.01% of GDP. The foreign direct investment stock has reached € 4.5 billion, representing 46.5% of Albania's GDP in 2013.

The need for investment is evident in many areas, including the energy sector. An almost exclusive reliance on hydropower exposes Albania to large fluctuations in power generation, resulting in large electricity imports in low-rainfall years. Work to increase the capacity of transmission and interconnection networks achieved some results, notably a financial agreement for the construction of the Albania-Kosovo interconnection line. The imminent start of construction of the Trans-Adriatic Pipeline through Albanian territory may introduce gas to the energy mix in the longer term. Nevertheless, significant weaknesses in the electricity sector remain and need to be addressed. *(See also Chapter 15- Energy).* ***Overall, given the substantial need for investment in human and physical capital, it is necessary to rebuild fiscal space for growth-enhancing public expenditure, to improve education outcomes to meet labour market needs and to attract private investment, in particular foreign direct investment, by improving the overall investment environment.***

Sectoral and enterprise structure

The Albanian economy continues to be dominated by the services sector, which accounted for around 50% of gross value added (GVA) in 2013, followed by agriculture, providing more than a fifth of GVA, and industry (15%), comprising both manufacturing and the booming extractive industries (crude oil production increased by 18% in 2013). Manufacturing relies to a large extent on the low value-added textile and footwear industries. Following a deep contraction a year earlier, the construction sector recorded modest growth. Agriculture continues to provide a very large proportion of employment (around 45%), although this fell by almost 3 percentage points in 2013. The sectoral composition of merchandise exports remained highly concentrated, with 83% of total exports in 2013 accounted for by mineral

products (40%), textiles and footwear (28%) and construction materials and metals (15%). This lack of diversification exposes the economy to industry-specific shocks.

Small and medium-sized enterprises (SMEs) play a very significant role in the economy, providing 80% of employment and 68% of value added. Micro-businesses in particular make up a high proportion of the number of companies and account for more than 50% of all people employed by SMEs. Various state and donor-funded schemes exist to increase SMEs' competitiveness and help them access finance. ***Overall, agriculture continues to have a large role in the economy, suggesting that there is significant scope for productivity gains from sectoral shifts in employment. The sectoral composition of exports remains highly concentrated.***

State influence on competitiveness

Total state aid granted declined by 6% in 2013 and amounted to 1.5% of GDP. The share of less distortive horizontal (i.e. non-sector-specific) aid increased further to 89%. Similarly to previous years, the government provided loan guarantees worth €83 million or 0.8% of GDP to the state-owned power company KESH to help it survive financial difficulties and enable it to import electricity in late 2013 and early 2014. The unresolved problems of the electricity sector are an enduring drain on public resources.

Economic integration with the EU

Albania's openness to trade, defined as the ratio of total imports and exports to GDP, increased slightly to 88% in 2013. Imports exceeded exports by a margin of 18% of GDP, but the trade deficit has shrunk for the last two years, despite a more than 2% appreciation of the lek's real effective exchange rate since September 2013. Exports constituted 40.2% of GDP in 2013, up from 33.3% in 2012.

The EU remains by far Albania's largest trading partner. Exports of goods to the EU increased by 18% in 2013 and accounted for some 84% of total merchandise exports, while imports of goods from the EU made up 64% of the total. Although in recent years Albania has managed to diversify somewhat its client base away from Italy (notably to Spain, Turkey and Kosovo), Italy remains its single largest trading partner, purchasing more than half of Albanian merchandise exports and providing a third of its goods imports. The EU also remains the main source of inward investment in Albania. Trade links with fellow Central European Free Trade Agreement (CEFTA) countries loosened in 2013 on account of a 16% fall in merchandise imports from the bloc, partly reflecting weaker demand in Albania. CEFTA countries accounted for some 12% of Albanian merchandise exports and 7% of its imports of goods. ***Overall, Albania's openness to trade slightly increased. The EU remains its dominant trading partner, while trade links with CEFTA countries weakened.***

4. ABILITY TO TAKE ON THE OBLIGATIONS OF MEMBERSHIP

This section examines Albania's ability to take on the obligations of membership — that is, the *acquis* as expressed in the Treaties, the secondary legislation and the policies of the Union. It also analyses the country's administrative capacity to implement the *acquis*. The analysis is structured according to the list of 33 *acquis* chapters. In each sector, the Commission's assessment covers the progress achieved during the reporting period, and summarises the country's overall level of preparation.

4.1. Chapter 1: Free movement of goods

Some steps have been taken in the area of **horizontal measures**, mainly in the field of standardisation and conformity assessment.

As regards *standardisation*, Albania adopted an additional 1 413 European standards, mostly via the ‘cover page’ method, without translation. It also adopted 565 standards from the European Telecommunications Standards Institute, 248 ISO standards and 158 International Electro Technical Commission standards. The draft national strategy on consumer protection and market surveillance, covering also accreditation and metrology has not yet been adopted.

On *conformity assessment*, work is in progress towards signing the European Cooperation for Accreditation multilateral agreement on testing areas by the end of 2014. Five new conformity assessment bodies were accredited, bringing the total number to 30. The testing laboratory for fuel dispensers discontinued the accreditation process and one testing laboratory for water and two medical laboratories have applied for accreditation.

The Law on *Accreditation* was amended aiming at further approximation with the *acquis*. The General Directorate for Accreditation has started to implement the new standard ISO/IEC 17020:2012 for inspection bodies. The General Directorate continued its awareness-raising activities through public events and the publication of its decisions and activities on its website. Albania continued its efforts towards becoming a full member of the European Cooperation for Accreditation.

In the area of *metrology*, the General Directorate of Metrology has completed its calibration of etalons in four regional metrology centres and in the Metrological Inspection Department. The General Directorate conducted inspections in the hydrocarbon and trade sectors and issued fines for infringements of legislation. There has been an increase in verification activities by the General Directorate and in its collected revenue. The Law on Metrology, aiming at further approximation with the *acquis*, is yet to be adopted. Alignment with the Measuring Instruments Directive has yet to be achieved.

The legislation in the area of *market surveillance* needs to be better enforced. In December, an order on methods of risk classification and assessment of serious risk was adopted, aiming to align legislation with the *acquis*. An order on standard mandatory operating procedures for market surveillance was adopted in May. The market surveillance inspectorate has not been established.

Preparatory work for further alignment with the ‘**New and Global Approach**’ **product legislation** has continued, mainly through the revision of existing technical regulations.

In the area of **procedural measures**, the draft Law on Cultural Heritage, aiming to align legislation on the return of cultural objects, is still awaiting adoption.

Conclusion

There has been some progress in the area of free movement of goods, notably on standardisation. Overall, legislative approximation with the *acquis* requires further action. The national strategy on consumer protection and market surveillance, covering also accreditation, standardisation and metrology has not yet been adopted. A market surveillance inspectorate needs to be established. Overall, preparations are moderately advanced.

4.2. Chapter 2: Freedom of movement for workers

As regards **access to the labour market**, 17 pieces of implementing legislation for the Law on Foreigners were adopted in February, specifying procedures related to working conditions for foreign workers and aiming to guarantee equal treatment for EU workers in the Albanian labour market.

As regards **coordination of social security systems**, negotiations on bilateral agreements with Romania, Hungary and Luxembourg have been completed, but the agreements have yet

to be adopted. Negotiations with the Czech Republic, Canada and the former Yugoslav Republic of Macedonia are ongoing.

Conclusion

There has been some progress in the area of freedom of movement for workers, notably in establishing the legal basis for improving EU workers' access to the Albanian labour market. Overall, preparations in this area are still being initiated.

4.3. Chapter 3: Right of establishment and freedom to provide services

As regards the **freedom to provide cross-border services**, the pilot screening of the legislation in the area of mining has been finalised with a view to preparing for alignment with the Services Directive. Manuals on proportionality tests, which will be used by line institutions during further screening, have been prepared for the gambling, pharmaceuticals and taxation sectors. The institutional capacity for preparing for legislative alignment with the Services Directive needs to be further strengthened.

In the field of **postal services**, the new organisational structure of the Electronic and Postal Communications Authority has been put in place and a department for postal market regulation has been set up and staffed. The draft postal law has not been finalised yet. A working group has been set up for that purpose.

In the area of the **mutual recognition of professional qualifications**, legislative measures have been adopted to include the professions of social worker and psychologist to the list of regulated professions, whilst provisions on architects and engineers remain to be approved.

Conclusion

There has been some progress in the areas of right of establishment and freedom to provide services, mainly in the increased capacity of the Electronic and Postal Communications Authority. The capacity of other relevant institutions needs to be further strengthened. The legislation in the area of right of establishment and postal services has yet to be aligned with the *acquis*. Overall, preparations in this area are moderately advanced.

4.4. Chapter 4: Free movement of capital

In the area of **capital movement and payments**, preparations are at an early stage.

As regards the **payment systems** following the adoption of the Law on Payment Systems, the Bank of Albania issued a licence in October 2013 to the national card payment operator Paylink and adopted in June a regulation on the organisation and functioning of the National Committee of Payment Systems. During 2013, the number of transactions processed through the Albanian Inter-Banking Payment System increased to 86 350 or 12 % in comparison to 2012, while maintaining its upward trend in terms of volume/value. The number of transactions processed through the Albanian electronic clearing house marginally increased by 0.5 % in 2013, while the value of transactions rose by 8.6 %. The Ministry of Finance dominates the clearing house system, representing 73 % of total transactions, as well as some 25 % of total payments system transactions.

Regarding the **fight against money laundering**, Albania continued to implement recommendations by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval). In October 2013, a law on measures against the financing of terrorism was endorsed by parliament and the list of people declared to be involved in the financing of terrorism was updated in July. The number of fines imposed by the General Directorate for the Prevention of Money Laundering decreased, as did the total number of inspections conducted during 2013, while around 66 % of the volume of imposed fines was collected in 2013, as compared to 30 % in 2012. The total number of suspicious

transaction reports showed an increasing trend especially in the first half of 2014, when 546 reports were registered. In 2013, the banks and the General Directorate of Customs submitted an increased number of suspicious transactions reports, while there was a decrease in the number of these reports that were submitted by exchange offices, notaries, money transfer offices and the Central Office for the Registration of Immovable Property. The number of reports referred to police and the prosecutor's office in 2013 increased by 38% to 283. This upward trend continued during the first semester of 2014 with a total of 229 cases reported. The number of administrative sanctions increased from 13 in 2013 to 33 in the first half of 2014.

Conclusion

There has been some progress on the free movement of capital thanks to steps towards the implementation of the Law on Payment Systems, the licensing of the national card payment operator and the adoption of legislative measures to fight money laundering. Further work is needed on the enforcement of legislation. Overall, preparations are moderately advanced.

4.5. Chapter 5: Public procurement

In the area of **award of public contracts**, guidelines on public procurement procedures for social care services were adopted in September 2013. A Council of Ministers decision on conducting the bidding procedures for concessions and public/private partnerships electronically and additional clarifications to the guidelines on small-value procurement procedures were adopted in March. The Law on Concessions and Public-Private Partnerships was amended in July to exclude from its scope public works concessions on construction and maintenance of road infrastructure of particular importance, taking it farther away from the *acquis*. In July, a working group was established to promote public-private partnerships. The budget, public finance management system and public procurement system are not sufficiently integrated and the award of multi-year contracts has only taken place in specific sectors, such as infrastructure.

Public procurement activities dropped in 2013 by almost 23% to 5 120 contracts signed, compared with 2012. The number of unpublished negotiated procedures continued to increase in 2013, accounting for 33.6% of all procedures and 19% of the total value of tenders. In the first half of 2014, they increased by 12.9% comparing to the same period last year. The number of disciplinary measures for public procurement infringements taken by the Public Procurement Agency against contracting authorities fell from 55 in 2012 to 40 in 2013; the number of fines fell from 29 to 12, while reprimands rose from 15 to 26. In the first half of 2014, the administrative penalties increased by 27% as compared to the same period last year. The e-procurement system continued to function well and the number of users increased five times in 2013, reaching 13 248.

Financial loss from the state budget from public procurement and concessions decreased by 20% from 2012 to 2013, falling to €2.5 million according to the Supreme State Audit Institution. Substantial work is needed to increase transparency in public procurement procedures, including those for small-value purchases, in order to reduce corruption risks and improve competition. The new government cancelled 13 concessions in the energy sector in 2013 (*see Chapter 15 — Energy*). The legislative framework adopted in the first half of 2013 needs to be properly implemented.

The Public Procurement Agency has begun monitoring the selection process for unpublished negotiated procedures, but it has to enhance its policy coordination and regulatory role. Substantially more staff needs to be assigned to public procurement in the contracting authorities at both central and local government level. The effectiveness of the Concession

Treatment Agency remains limited and coordination between procurement and concessions systems should be improved. Expertise and monitoring has to be ensured.

In the field of **remedies**, the Public Procurement Commission received 561 complaints in 2013, of which 93% related to public procurement, 3% to concessions and mining permissions, and the rest to auction procedures, with an upward trend in the first half of 2014. The complaints constitute 13.5% of total procedures. Further action is needed to improve the transparency, quality and scope of its review decisions, inconsistencies, the high number of appeals and lengthy procedures. To that end the undertaking in 2013 of the second instance review by the administrative courts is encouraging. The commission's independence has to be ensured and its role as the main review body to be fulfilled.

Conclusion

There has been little progress in the area of public procurement, in extending the e-procurement system to concession contracts and public private partnerships. Substantial work is needed to develop qualified human resources, better integrate procurement and concessions systems, further decrease financial losses to the state and increase transparency in this area. The increasing use of unpublished and opaque procurement procedures and exceptions from the law on concessions and public private partnerships are issues of concern. Overall, preparations in the field of public procurement are moderately advanced.

4.6. Chapter 6: Company law

In the area of **company law**, amendments to the 2008 Law on Entrepreneurs and Companies, including provisions governing reporting and documentation requirements for mergers and divisions, remain to be adopted. A private e-certification service provider for e-signatures was licensed and started testing the issuance of certificates to businesses. Authentication certificates that can be used via the chip on the national ID card are not yet operational.

In the area of **corporate accounting**, new national accounting standards, to be implemented as from January 2015, were adopted in July. The National Accounting Council continued efforts to increase its capacity and adopted a manual of operating procedures and methodologies for transposing international accounting standards at national level, as well as its medium-term strategy. The Council continued to publish translated updates of international accounting standards on its website. However, its inspection role remains limited and its cooperation with the other state reporting institutions, in particular the National Registration Centre, should be strengthened. Further efforts are needed regarding public access to companies' annual financial statements.

In the field of **auditing**, the Public Audit Oversight Body conducted reviews and inspections to check the quality of the Institute of Authorised Chartered Auditors' audits of banks, insurance companies, state-owned companies, utility companies and telecommunications companies. Further effort is needed to increase the Public Audit Oversight Body's own capacity to allow it become a truly independent body. A working group has been set up for revising the Law on Audit and further aligning it with the *acquis*.

Conclusion

Some progress was made in the field of company law, through the adoption of new national accounting standards. Substantial work is needed to increase capacity in the National Accounting Council and the Public Audit Oversight Body. The latter's independence must be ensured. Albania will need to focus on enforcing accounting and auditing standards, and further increasing its inspection capacity as part of its work on building sound economic governance. Legislation must be further aligned with the *acquis*, in particular on auditing. Overall, preparations in this area are moderately advanced.

4.7. Chapter 7: Intellectual property law

Regarding **copyright and neighbouring rights**, the new copyright law has still not been adopted.

In the field of **industrial property rights**, the amendments to the Law on Industrial Property were approved in May, and legislation on protecting topographies of integrated circuits was adopted in June.

In the area of **enforcement**, the Copyright Office has continued its inspections and issued fines for infringements of the Copyright Law. The rate of collection of fines remains low. A legal amnesty that was promulgated by the President in March, allowed for the pardon of those sentenced to pay fines before the end of December 2013. The human and financial resources of the Albanian Copyright Office remained insufficient and its overall capacity needs to be increased. As a result of awareness-raising activities, the number of companies registering their trademarks with the General Directorate of Patents and Trademarks increased (697 since October as opposed to 617 in the previous year). The administrative capacity of the General Directorate of Patents and Trademarks needs to be reinforced.

The General Directorate of Customs continued its work on identifying and seizing counterfeit products at customs posts. The clear upward trend seen in 2013 of requests for action to protect trademarks continued during the first quarter of 2014. The General Directorate continued to face difficulties in getting reactions from right holders in relation to seized counterfeit products. The State Police made 47 arrests for offences related to intellectual property in 2013, which represents a 21.5% increase compared to the previous year. It also conducted, during December 2013 — January 2014, inspections on 36 broadcasting entities. As a result, 21 entities were prosecuted for infringements. Amendments to the Code of Criminal Procedure were made to allow for greater State Police involvement in investigating cases relating to intellectual property rights infringements. The market surveillance inspectorate has yet to be established and counterfeit products are still widespread in the market. Further action is needed to increase the capacity of the courts and to raise awareness, including among judges. The implementation of the national strategy on intellectual and industrial property rights, which has been assessed in June, remains a priority issue, and institutional coordination and cooperation need to be improved.

Conclusion

There was little progress regarding intellectual property rights. Albania has not met its commitments under Article 73 of the Stabilisation and Association Agreement. Urgent and determined action is required to adopt the new copyright law, strengthen inspection capabilities by, *inter alia*, establishing the market surveillance inspectorate, improve the collective management system and apply effective sanctions for infringements. On industrial property, the legislative framework was improved but administrative capacity should be increased. Further awareness-raising of intellectual property rights is key. Overall, preparations are not very advanced in this area.

4.8. Chapter 8: Competition policy

In the area of **anti-trust and mergers**, in November, the Albanian Competition Authority adopted a decision providing guidance on the assessment of horizontal agreements. The authority received 34 complaints, compared with 19 in the same period last year, which led to the opening of investigations in the areas of insurance, public transport services, the hydrocarbon sector and the maritime transport market. It also initiated and concluded investigations in the telephony, tobacco markets and the private security services. It issued five decisions on anti-competitive agreements, one decision on abuses of dominant market positions, and four decisions authorising mergers. The authority also issued three decisions on

assessment of complaints and exempted one restrictive agreement. It adopted three legal acts, issued five recommendations and initiated nine administrative procedures. No fines were imposed in 2013, compared with seven in 2012. In June, the authority imposed a fine to a company for procedural delays. It also issued recommendations to the regulator for telecommunications, the Authority for Electronic and Mail Services, the Financial Supervisory Authority and to the government for two concessions. As regards court cases, the Competition Authority lost one case before a first instance court, on which it submitted an appeal. It won two out of three appeal cases. Most of the fines imposed by the authority in the past have not yet been collected, as many court appeal decisions are pending. Its new structure has yet to be approved by parliament. Training for judges in competition policy needs to be further improved.

In the area of **state aid**, the government approved the new composition of the State Aid Commission in February. In April, the government adopted four state aid schemes aimed at promoting employment. The government continued to issue guarantees to second tier banks on behalf of the state-owned power generation company KESH, due to the latter's ongoing financial difficulties. State aid reached € 143.8 million in 2013, 6% less than in 2012, mainly comprised of subsidies, grants and tax relief. The number of state aid notifications by the government remains low and there were none by local authorities. The staff of the State Aid Sector was reduced to two officials.

Conclusion

Some progress was made in the area of competition policy, mainly in anti-trust and mergers, where the Competition Authority continued to build its enforcement record. Overall, preparations in the area of anti-trust and mergers are satisfactory. Further action is needed to strengthen the administrative capacity and operational independence of the state aid institutions. State aid rules have to be effectively implemented and legislation must be further aligned with the EU *acquis*. Overall, preparations in the area of state aid remain at an early stage.

4.9. Chapter 9: Financial services

In the field of **banks and financial conglomerates**, in February, the Bank of Albania adopted in a new supervisory policy, aiming to align this with the EU risk assessment system and a new risk assessment manual. It also adopted amendments to the regulation on credit risk administration that provides for some requirements for banks relating to the write-off process for non-performing loans, a new regulation on risk management of banks' large exposures to risk and a mandatory guideline on recovery plans, as well as regulations on the functioning of an analytical tool to improve the administration of foreign currency reserves and on the minimum compulsory reserves for the second tier banks. Albania continued to implement the Basel II principles in accordance with the relevant action plan. Preparations for Basel III are at an early stage. The bank has taken some initial steps to strengthen security and cash management systems after €5.1 million were lost from the stock reserves of the bank. Eight of the fifty posts in the bank's supervisory department are currently vacant.

With regard to the non-banking area, amendments to the Law on the Albanian Financial Supervisory Authority, aimed at increasing its financial and operational independence, were adopted in May. These included the exclusion of the authority's employees from the Civil Service Law. The number of non-banking institutions and the number of staff at the authority remained the same.

In the field of **insurances and occupational pensions**, the Law on Insurance and Reinsurance was adopted in May, with a view to further alignment with the EU *acquis*. The non-banking sector is dominated by 11 insurance companies, while the insurance market remains small,

accounting for 1.6% of GDP. Non-life insurance continued to dominate the insurance market. The bonus-malus system for motor insurance became operational in August. The ratio of paid claims to written premiums remained almost at the same level (31.7%) in 2013. About 81.5% of the total paid claims (€15.7 million) were on motor insurance. The Financial Supervisory Authority issued regulations on tariffs for the prospectus' approval and on determining the rules for the monetary reserve of claims covered by compulsory insurance premiums in the transport sector. Following price fluctuations in the non-life insurance market observed in February, the Albanian Competition Authority issued in July recommendations on the regulation of competition in the non-life insurance market.

In the area of **financial market infrastructure**, implementation of the Law on Payment Systems is ongoing.

As regards the **securities markets and investment services**, Albania's securities market is concentrated in the transaction of treasury bills. The investment fund continues to be operational and about 93% of total assets are in government securities. The number of licenced operators in the securities market remained the same. In the first quarter of 2014, the Financial Supervisory Authority approved prospects for four issues of bonds with private placement by two companies. It continued to closely monitor the financing of the Compensation Fund by insurance companies.

Conclusion

There has been some progress in the field of financial services, mainly regarding the legislative framework on the supervision of the banking and non-banking sectors. Preparations in the fields of securities markets and insurances remain at an early stage. Further work is needed to secure money stock reserves and to align legislation with the *acquis*. Overall, preparations in this area are moderately advanced.

4.10. Chapter 10: Information society and media

In the area of **electronic communications and information and communications technologies**, some steps have been taken towards legislative alignment with the *acquis* through the adoption of competitive safeguards that reduce mobile termination rates along a 'glide path' from April onwards. The award-procedure for the granting of the fourth UMTS/3G licence was re-launched following a legal action initiated by one of the current mobile operators. The frequency use plan, approved by the Agency for Electronic and Postal Communications (AKEP) in February, has only been partially implemented due to the pending completion of the digital switchover process. The administrative capacity and resources of AKEP have improved, but remain limited. Concerns remain about its operational independence. The new law on territorial planning, comprising certain provisions on the granting of rights-of-way under the public easement framework, was adopted in July. Albania should ensure that any measure requiring the storage of traffic data, such as International Mobile Equipment Identity numbers, is in accordance with the principles of EU law. The emergency number 112 is still not operational.

Mobile usage remains high with subscription penetration at 130% in 2013 and 3G and mobile broadband usage is growing strongly, while fixed broadband penetration remains low at 5.7%.

In the field of **information society services**, the number of services for citizens and businesses increased and now includes e-services for certificates, enrolment in higher education, job searches and administrative requests company registration and income tax. The implementation of the national plan on broadband for the period of 2013-20 is advancing slowly. This is planned to be an integral part of the new cross-sectoral strategy for information society 2014-20, which remains to be adopted.

As regards **audiovisual policy**, implementing legislation for the Audiovisual Media Law was adopted, including a broadcasting code, criteria on broadcasting authorisations and inspection procedures. Significant work is needed on Albania's international commitments on implementing the digital switchover strategy, due to be completed by June 2015. As a concession to the wish of operators to go beyond the internationally coordinated and agreed 'Geneva 2006' frequency distribution plan, a task force was set up. As a result of its work, all existing operators and their territorial reach were mapped, occupied frequencies were identified and antenna strength was measured. The need to coordinate with neighbouring countries on harmonising frequencies was also identified. Initial steps were taken to elect new members to the steering committee for the public service broadcaster (RTSH). However, the process was halted due to a lack of political agreement on the selection procedure. The public service broadcaster's editorial independence and fee collection system need to be improved. RTSH digitalisation has not progressed. The unauthorised use of frequencies by several broadcasters remains a problem. The licensing of existing multiplexes could not progress, due to an ongoing court case launched by broadcasting operators against the Audiovisual Media Authority. The vacancies on the authority's steering board remain unfilled and its ability to perform the assigned functions undermined. The delay in appointing steering committees for the Audiovisual Media Authority and the RTSH is hindering public broadcaster's reform and the timely implementation of the digital switchover strategy.

Conclusion

There has been some progress in the field of information society and media, particularly by increasing competition in the electronic communications market. Legal uncertainty on the rights-of-way regime persists and should be eliminated. Over the next year, Albania urgently needs to address identified priorities, particularly as regards strengthening the independence of the media regulatory authority and the public service broadcaster, and allowing for their proper functioning by filling vacant positions. The digital switchover strategy and the Audiovisual Media Law need to be swiftly and effectively implemented. Overall, preparations in this area need to be accelerated.

4.11. Chapter 11: Agriculture and rural development

As regards **horizontal issues**, the government in 2014 increased allocated funds for direct support and national investment schemes in agriculture and agri-processing from € 6.8 to € 12 million. According to the completed census of agricultural holdings, 98.2% of the 303 802 agricultural holdings in Albania are family farms. Census data should form the basis for the creation of a farm register. There were no further developments on putting in place an integrated administration and control system. A new structure and organisational chart in the Ministry of Agriculture has resulted in a reduction of staff in its central services. A rebalancing of resources is needed in order to ensure efficient policy implementation, ownership and absorption capacity in view of the significant sectoral assistance provided for under IPA II.

In the area of **common market organisation**, the implementing legislation for the new law on olive oil has not yet been adopted.

The adoption of the 2014-20 strategy for agriculture and **rural development** is still pending. Preparations to manage and control rural development funds under the rural development component of the Instrument for Pre-accession Assistance for Rural Development (IPARD) have continued. The capacity of the IPARD operating structures (paying agency and managing authority in the Ministry of Agriculture, Rural Development and Water Administration) has been strengthened. The draft 2014-20 IPARD programme, which includes additional measures and sub-sectors, has been submitted to the Commission for comments. The Agency for Rural Development and Agriculture (the paying agency) moved to

new and suitably equipped premises. Implementation of the IPARD-like scheme is progressing regularly. The capacity for decentralised IPARD management by other relevant structures, such as the National Authorising Officer and the National Fund at the Ministry of Finance, has not increased. Further action is needed to increase administrative and technical capacity and prepare them for the accreditation process.

In the field of **quality policy**, amendments to the law on industrial property rights referring also to geographical indications were enacted in May.

As regards **organic farming**, the provision of subsidies through direct schemes and training on organic production continued. The law on organic farming remains to be adopted.

Conclusion

There has been some progress in increasing the capacity of the operating structure (paying agency and managing authority) of the Ministry of Agriculture, Rural Development and Water Administration to manage IPARD funds. Further work is needed to build capacity in other structures relevant for the implementation of IPARD programmes, such as the NAO or NF, and to establish a sustainable and effective agriculture information system. Overall, preparations in this area are at an early stage.

4.12. Chapter 12: Food safety, veterinary and phytosanitary policy

In the area of **general food safety**, Albania's risk assessment capacity has still not been established, as the regulatory framework relating to the activities of the Scientific Committee has not yet been completed. Although the number of inspections of food establishments has increased, they continue to be carried out mostly on an *ad hoc* basis rather than on the basis of approved annual inspection plans. The internal procedures of the National Food Authority have not yet been endorsed. Food legislation is not fully compliant with the EU *acquis* and contains ambiguous and inconsistent provisions as regards the balance of responsibilities between implementing bodies.

As regards **veterinary policy**, mass vaccination campaigns have been carried out against brucellosis in small ruminants, anthrax in cattle and small ruminants, and rabies in foxes. Constraints persist as a result of the fragmentation of the veterinary service, unclear responsibilities and procedures, staff shortages at central level, scarce budgetary resources and low mobility of field veterinarians. Animal databases are not updated regularly, due to a lack of reporting. No measures have been taken with regard to animal waste management or improving animal market infrastructure.

With regard to the **placing on the market of food, feed and animal by-products**, the food establishments' database (AKUnet) is almost consolidated and validated. Data need to be used for the preparation of official inspection plans. The central veterinary and the nine regional food and veterinary laboratories were built with IPA support. Residue monitoring programmes for undesired substances such as veterinary medicines, mycotoxins and heavy metals/dioxin need to be consistently implemented. Lack of financial support for the official food safety laboratory network has resulted in fewer collected and analysed samples.

As regards **food safety rules**, regulations regarding food labelling, food contact material and contaminants need to be updated in line with relevant EU legislation. Microbiological monitoring of raw milk was conducted in June, but compliance with the procedures on sampling and assessment of microbiological safety should be improved. Regarding **specific rules for feed**, the 2011 regulation on hygiene conditions for feed and feed establishments has yet to be approved.

In line with the new organisational structure of the Ministry of Agriculture, Rural Development and Water Administration, **phytosanitary policy** is carried out by the

Directorate of Food Safety and Phytosanitary, which has a limited administrative and technical capacity in the field. The law for plant protection needs to be revised in line with relevant EU regulations.

Conclusion

There has been little progress in the area of food safety, veterinary and phytosanitary policy. Risk assessment capacity has not yet been established and systematic inspection plans have not yet been adopted. The proper functioning of relevant services is hampered by overlapping responsibilities and by the lack of communication, properly qualified staff and financial resources. A comprehensive strategy clarifying the legal, institutional and administrative framework needs to be adopted. Overall, preparations remain at an early stage.

4.13. Chapter 13: Fisheries

In the field of **resource and fleet management**, the fisheries sector, including the inspection service, was transferred from the Ministry of Environment to the Ministry of Agriculture, Rural Development and Water Administration. However, the sector continues to suffer from a lack of institutional coordination and capacity. The law on aquaculture remains to be adopted. Monitoring of fish stock is still not taking place.

In the area of **inspection and control**, positive steps were taken to deter illegal fishing in Shkodra lake, through good inter-service cooperation. In accordance with the law on fisheries, the ban on the sale of date mussels (*Lithophaga lithophaga*) was enforced. No steps have been taken to prevent the catch and sale of fish smaller than the minimum size allowed for in law. The new Directorate for Fisheries Services and Aquaculture lacks the appropriate technical and administrative capacity to ensure effective deterrence of illegal fishing practices. The Vessel Monitoring System established in 2011, became operational only recently after a long interruption period. Viable and long-term solutions for its maintenance and operation are needed.

As regards **state aid**, direct government support for aquaculture was introduced in 2014, aiming to subsidise up to 25 % of the amount paid for fingerlings and feed.

As regards **international agreements**, Albania is cooperating with the International Commission for the Conservation of Atlantic Tunas (ICCAT) and has provided information; the country has participated regularly in the meetings of the General Fisheries Commission for the Mediterranean (GFCM).

Conclusion

Little progress has been made on fisheries. The sector needs to be further consolidated under a single structure within the Ministry of Agriculture, Rural Development and Water Administration. A sound sector strategy in line with EU fisheries policy needs to be developed. The institutional and legal framework needs to be strengthened, ensuring regular monitoring of fish stocks and preparing implementing regulations on management plans for fish species and types of fishing. The necessary financial resources need to be allocated to ensure adequate monitoring and control of fishing activity. This is essential to ensure sustainable development of the sector. Overall, preparations are at a very early stage.

4.14. Chapter 14: Transport policy

In the area of **road transport**, Albania adopted a package of road safety measures in March. Albania should focus on its enforcement, as road safety remains a serious concern. Further efforts are needed in the areas of vehicle inspection and education and training of road users, including professional drivers. The administrative capacity in the General Directorate of Road Transport Services needs to be further increased. Implementing legislation regarding

dangerous goods has not yet been adopted. Alignment with the *acquis* on admission to the occupation of road transport operator and access to the road haulage market remains insufficient.

In the field of **rail transport**, the Railway Law has not yet been adopted and independent railway institutions, infrastructure managers and rail operators have not yet been established. The resources allocated for developing and maintaining the railway infrastructure are insufficient, resulting in further deterioration and reduction of passenger transport services.

As regards **air transport**, implementing rules on the airworthiness and environmental certification of aircraft and related products, parts and appliances, and on the certification of design and production organisations were adopted in April. Albania made progress as regards the Safety Assessment of Foreign Aircraft (SAFA) programme and on qualification of inspectors. Yet, there is a lack of expertise on oversight duties for any future Albanian airline. The administrative and technical capacity in the air transport sector requires further strengthening. More work is needed to meet the requirements under the first transitional period of the European Common Aviation Area Agreement.

In the area of **maritime transport**, the Law on Security of Ships and Ports, regulating the legal framework for maritime security, was adopted in December. A regulation on registration of ships and seafarers was approved aiming at aligning with the *acquis*. Further action is needed in legislative alignment on reporting formalities for ships. The detention rate of vessels flying the Albanian flag was improved and Albania moved from the black list to the grey list of the Paris Memorandum of Understanding on Port State Control. Albania has not yet applied for membership in that organisation.

Regarding **intermodal transport**, further efforts are required to develop a balanced intermodal environmentally friendly and competitive transport and mobility system.

Conclusion

Very little progress has been made on transport policy. Alignment with the *acquis* is slow and was at a standstill as regards road and rail transport. Over the next year, Albania will need to make substantial efforts to improve the railway sector, in particular adopting the Railway Law, working on the road safety, progressing in implementation of the European Common Aviation Area Agreement, joining the Paris Memorandum of Understanding on Port State Control and strengthening administrative capacity for all modes of transport. Overall, preparations are at an early stage.

4.15. Chapter 15: Energy

The new energy strategy is still under preparation.

In the area of **security of supply**, the 400 KV interconnection line project between Albania and Kosovo was launched. The construction of a 110 KV South-Ring transmission line in the south of the country started. Electricity generation capacity increased by 19 MW with 9 small hydro-electric plants coming online. New allocation rules were adopted by the Energy Regulatory Entity to improve electricity import procedures. In April, a decision by ENTSO-E allowed for the permanent synchronous functioning of Albanian electricity transmission with the continental European system. Preparations for the development of the Trans-Adriatic Pipeline project continued: in April, the National Territorial Planning Council issued a compound development permit for the project. The new government investigated the lawfulness of the concession procedures in the energy sector during 2013 and cancelled some of the concessions. Institutional capacity for dealing with the hydrocarbon sector was increased and a policies and development directorate was set up. Amendments to hydrocarbon legislation were adopted, aiming at strengthening quality control in the fuel sector.

Preparations for the development of the gas master plan are at an early stage. Albania remains highly dependent on hydropower and vulnerable to hydrological conditions. The Vlora thermal power plant is still not operational. Albania has contributed to the energy security stress test carried out by the European Commission in the framework of the European Energy Security Strategy.

As regards the **internal energy market**, the Power Sector Law has not yet been amended. The dispute between the government and the power distribution company CEZ was resolved in June. The Ministry of Energy and Industry increased its administrative capacity and an inter-ministerial task force on improving bill collection rates and reducing losses in the power distribution network was set up in December. Amendments to the Criminal Code classifying electricity theft as a criminal offence were adopted. The level of losses and bill collection rates continues to be unsustainable. The generation company KESH experienced serious financial difficulty and continued to depend on government guarantees for electricity imports, accumulating arrears to third party operators. Like the Power Sector Law, the Law on the Natural Gas Sector also needs to be aligned with the EU Third Energy Package by 1 January 2015. The gas transmission and distribution licences issued to Albpetrol by ERE in 2012 infringe upon the EU Second Energy Package. Albpetrol still does not meet the requirements on legal and functional unbundling.

Regarding **renewable energy**, the national renewable energy action plan, aiming to meet the 38% target for share of energy from renewable sources in 2020, has yet to be finalised. A law on renewable energy was adopted in May, with partial entry into force planned in January 2015. Legal measures to address barriers to the licensing and authorisation of renewable energy investments, and the connection of renewable energy producers to the grid, are awaiting the adoption of the Power Sector Law and its implementing legislation.

In the field of the **energy efficiency** the draft Law on Energy Efficiency is still being prepared. The lack of financial resources and a lack of clarity on the roles of the different institutions involved in energy efficiency hamper implementation of the national energy efficiency action plan. The second NEEAP is still being prepared.

In the area of **nuclear energy, nuclear safety and radiation protection**, Albania's National Nuclear Agency completed the 2013 programme on nuclear safety and a feasibility study was prepared on future long-term energy (including electricity) scenarios. In the field of radiation protection, in March, the government adopted a decision on the establishment, composition and form of the organisation, operation, and remuneration of the Radiation Protection Commission. This was restructured, keeping the same number of staff.

Conclusion

There has been little progress in the field of energy. The power sector remains fragile and dependent on hydro sources with a high level of losses, unsustainable bill collection rates and serious financial debt. Settling the dispute between the government and CEZ contributed to pave the way for further sector reforms. Over the next year, Albania should focus on aligning its legislation with the EU Third Energy Package, attracting new investments, establishing its energy market model in line with EU standards and laying the foundations to ensure the economic viability of the electricity sector. Overall, preparations are not very advanced in this area.

4.16. Chapter 16: Taxation

In the area of **indirect taxation**, the *value added tax* (VAT) Law was amended in December to exempt the supply of medical services and medicines, set out the procedures to process refund claims and centralise claims payments through the treasury system. A new, more *acquis* compliant VAT Law was approved in July. This law, which will enter into force in

2015, retains some exemptions which are not in line with the *acquis*. The backlog of VAT refund arrears has been reduced. More efforts in this respect are needed as delays still persist.

The law on *excise* was amended in December, bringing the rates on alcoholic beverages closer to the *acquis*. A plan for excise increases on tobacco products over the next three years was adopted. The General Directorate of Customs increased its monitoring and seizure of illegal excise products on the market. Further work is needed to align legislation and monitor the implementation of excise, particularly on fuels.

As regards **direct taxation**, the Personal Income Tax Law was amended, replacing the 10 % flat rate with progressive tax rates. Corporate income tax was amended to provide for a two-tier tax based on the company's turnover. New legislation on transfer pricing has been adopted, aiming to bring this in line with EU and international standards. The draft Law on Mergers and Savings has not been adopted. Further work is needed to align tax legislation with the *acquis* on direct taxation.

The Law on Tax Procedures was amended, halving the limit for cash transactions and allowing taxpayers to provide a bank guarantee in lieu of payment when appealing against fines. The business community increased its involvement in the legislative process through its participation in the National Economic Council and the National Taxation Council.

As regards **administrative cooperation and mutual assistance**, Albania has revised its Double Taxation Convention with Kosovo and has expressed interest in participating in the Fiscalis EU programme.

As regards **operational capacity and computerisation**, the General Directorate of Taxation increased the number of investigations into VAT evasion and fraud schemes and referred some cases to the prosecutor's office. The General Directorate must continue to improve its administrative capacity. The Tax and Customs Academy provided training on tax procedures and the code of ethics for new tax officials. Yet, concerns continue regarding instances of corruption and misapplication of tax legislation. The new IT system is not yet operational and the electronic filing of personal income tax returns is not integrated in the tax information system.

Conclusion

There has been some progress, notably in the field of tax legislation. Direct and indirect taxes were raised, with a view to increasing revenue and a more *acquis*-compliant VAT law was adopted. The capacity of the tax administration to fight corruption, tax evasion and informal economy needs to be strengthened. Albania should adopt robust administrative procedures to check and carry out VAT refunds. Further action is required to upgrade the tax administration's IT system and improve exchange of information. Overall, preparations are moderately advanced.

4.17. Chapter 17: Economic and monetary policy

In the field of **monetary policy**, the Bank of Albania maintained the policy of targeting price stability by keeping inflation within the target range of 2-4 % under a free-floating exchange rate. The average inflation rate in 2013 was 1.9 %, slightly below the bank's target range. The Bank of Albania cut the key interest rate several times, bringing it down to a new historic low of 2.5 %. Monetary policy remains constrained by the relatively high degree of euroisation of the financial system. The Law on the Bank of Albania still needs to be aligned with the EU *acquis* with regard to the personal independence of council members and the bank's accountability.

As regards **economic policy**, Albania adopted in January its 2015-17 macroeconomic fiscal framework and the 2014-16 economic and fiscal programme. The programme's

macroeconomic framework, albeit optimistic, is sufficiently comprehensive and complements baseline assumptions with alternative scenarios. Links between the macroeconomic scenario and the structural reform measures are not sufficiently clear. The fiscal framework is detailed and well integrated with the policy objectives. The National Economic Council and a government delivery unit were established during the last quarter of 2013, improving inclusiveness and effectiveness. The budget was finalised with a delay due to negotiations with the IMF, which limited parliamentary discussions. Full compliance with European System of Accounts (ESA) 95, respectively ESA 2010, standards remains to be ensured. Further action is needed to improve the analysis of external sustainability and increase the capacity for economic policy planning, coordination and implementation. Significant work is needed to align with Directive 85/2011 on requirements for budgetary frameworks including the introduction of a fiscal rule.

Conclusion

There has been some progress on defining and implementing monetary and economic policy. Further action is needed to strengthen economic policy planning and implementation, including budgetary planning and public finance management. Overall, preparations are moderately advanced.

4.18. Chapter 18: Statistics

In the area of **statistical infrastructure**, the independence of the National Institute for Statistics (INSTAT) should be strengthened and expertise in statistics, its methods and concepts should be ensured through specific recruitments of staff, based on professional competence criteria for statistical issues. Following the disbandment of the Statistical Council in September 2013, a new council was appointed in February in accordance with the current statistical law. Its new head was appointed by the Council of Ministers in March. In November 2013, the General Director of the National Institute for Statistics was dismissed and replaced before the end of her mandate. Interinstitutional cooperation in many statistical sectors needs to be improved.

As regards **classifications and registers**, the statistical farm register was finalised. It needs to be updated to include data from the census of agriculture holdings. The quality of administrative data and national registers such as the Albanian civil registration system needs to be improved to increase their use for statistical purposes. Quality reports on the business register need to be improved.

In the area of **sectoral statistics**, in May, INSTAT published a data analysis of the population and housing census, in preparation for thematic publications in several areas. The results for analyses for the population census have been disseminated. A census atlas and a report on census data quality assurance were also produced. In November and December 2013, INSTAT conducted a full-scale labour cost survey for the first time. The methodology used for the labour force survey needs to be improved and INSTAT staff's technical capacity for data analysis and dissemination needs to be increased. The revision of all annual labour market indicators was published in May. Data on employment and unemployment have been published on a quarterly basis and data on occupation were published annually, for 2012 and 2013. Quarterly national accounts have been published regularly.

Conclusion

There has been progress towards alignment with EU standards in the field of statistics. Further substantial efforts are needed, in particular in the field of national accounts. The Albanian civil registration system and the methodology used for the labour force survey need to be improved. INSTAT's independence and professional expertise need to be ensured. Overall, preparations in this area are moderately advanced.

4.19. Chapter 19: Social policy and employment

The ministry in charge of social policy and employment changed its name to Ministry of Social Welfare and Youth. New management was appointed at the State Labour Inspectorate, the National Employment Service, the National Agency for Vocational Education and Training Qualification, and the Department of Occupational Safety and Health, including at regional level.

In the field of **labour law**, amendments to the labour code to align it with the *acquis* have not been adopted yet.

As regards **health and safety at work**, the International Labour Organisation Conventions on safety and health in construction, and on the promotional framework for occupational safety and health, were ratified in January and February respectively. Seven new regulations on occupational safety and health (OSH), aiming at alignment with the EU *acquis*, have been approved. The 2014-20 national strategy on OSH and its 2014-15 action plan are under preparation. 30 labour inspectors were trained, particularly focusing on procedures and inspection methods, the code of ethics and the new EU health and safety legislation. The State Labour Inspectorate is improving its collection of statistics and its monitoring of inspections. Four cooperation agreements have been signed in this area, with the former Yugoslav Republic of Macedonia, Kosovo, Romania and Bulgaria. The number of reported accidents at work decreased to 86 in 2013 from 94 in 2012. The number of accidents resulting in death still raises concerns. Monitoring and reporting of work accidents needs to be improved. Overall, health and safety conditions at work remain poor. Labour inspections need to be further improved. At present, the number of inspectors in Albania is 155, of which 118 are local inspectors.

In the field of **social dialogue**, the new National Labour Council held meetings in December, April and June. However, work is still needed to make collective bargaining possible at all levels and to increase social partners' autonomy and capacity to negotiate collective agreements.

As regards **employment policy**, the 2014-20 national jobs and skills strategy and action plan have been prepared and are awaiting adoption. The strategy aims at overhauling active labour market policies, improving vocational education and training, reforming social safety nets and strengthening the governance of the labour market. A monitoring mechanism for the implementation of the strategy has yet to be prepared. A new 2014-20 strategy for youth, covering education, employment, social inclusion and health, is under preparation. Unemployment remains high, especially among young people and people with disabilities. The unemployment rate estimated by the labour force survey (LSF) rose to 17% in the fourth quarter of 2013 from 14.4% in the same period the year before. Administrative data recorded an unemployment rate of 13.4% in 2013, compared to 13% in 2012. Labour market participation is declining, as is the employment rate and substantial gender gaps remain. According to the LSF, the employment rate decreased to 48.5% in the fourth quarter of 2013, in comparison to 54.5% in the same period 2012. The proportion of youth who are not in employment, education or training exceeds 30%, and has increased by 2.3% in 2013 compared to 2012. In 2013, the long-term unemployment represented 72.8% of total unemployment.

Eight new employment offices have been established at regional and local level. In May 2014, a set of youth employment offices opened in Tirana and other cities. Labour market statistics need to be further improved. The informal economy remained a significant source of jobs, accounting for around 40% of employment in the non-agriculture sector. A comprehensive approach to inspection of informal employment activity is not in place.

As regards **social inclusion**, the 2014-20 strategy on social inclusion and social protection is under preparation. There has been no recent data on poverty levels, since the living standards measurement survey of 2012. Basic services are provided by the Ministry of Social Welfare and Youth to all Albanian residents.

As regards people with disabilities, the framework law on inclusion of and accessibility for people with disabilities was adopted in July. The new law covers all groups of people with disabilities and provides for the establishment of a multidisciplinary commission responsible for examining and evaluating the disability of each applicant. It also foresees the set-up of a State Committee for Persons with Disabilities to be composed of representatives of different ministries and civil society organisations. Implementation of the new framework law will require significant improvements in infrastructure and access to services. Training was provided to school and kindergarten teachers to promote the inclusion of children with disabilities. However, people with disabilities continue to face difficulties in accessing education, employment, healthcare and social services.

In the area of **social protection**, delays in disability and pension payments were addressed. Preparations for pension reform have advanced, with basic legislation amended accordingly in July. The ongoing social reform needs to be closely coordinated with the territorial and administrative reform already underway. The state social service launched a pilot project to provide financial benefits for vulnerable groups and poor families electronically, to reduce abuse of these funds. Its country-wide deployment would require significant improvements to existing infrastructure and cooperation between central and local authorities.

In the area of **anti-discrimination**, the number of cases handled by the Commissioner for Protection against Discrimination rose from 107 cases in 2012 to 256 cases in 2013, while the number of inspections initiated *ex officio* by the commissioner increased from 16 in 2012 to 31 in 2013. Of the 131 decisions issued by the commissioner in 2013, 21 concern cases of discrimination on grounds of ethnicity and disability. The commissioner's recommendations to amend the labour code have not yet been followed up. Training and awareness campaigns have taken place, including at local level. Public awareness of the law on protection against discrimination and of the complaint mechanism remains low. (*See also Chapter 23 — Judiciary and fundamental rights*).

In the area of **equal opportunities**, the National Council on Gender Equality held its first meeting in March. No measures were taken to address the gender pay gap or access to entrepreneurship and credit. The representation of women in the labour market needs to be increased, including through mainstreaming women's employment in the strategies of all municipalities. (*See also Chapter 23 — Judiciary and fundamental rights*)

Conclusion

There has been some progress in the field of social policy and employment. Efforts were made towards alignment with the EU *acquis* on health and safety at work, but further action is needed to ensure effective implementation. New legislation on people with disabilities was adopted. The amended labour code remains to be adopted. The employment rate and labour market participation remain low and the informal economy is still a significant job provider. Several new strategies remain to be implemented and a monitoring mechanism needs to be put in place. Key reforms in the area of social protection have not started yet. Labour market statistics need to be further improved. Overall, preparations in this area are starting.

4.20. Chapter 20: Enterprise and industrial policy

In the area of **enterprise and industrial policy principles**, Albania continued to implement the principles of the Small Business Act. In April, the law on late payment was adopted, aiming at further alignment with the *acquis*. Cooperation between the national registration

centre for business and the National Accounting Council needs to be strengthened. The Central Inspectorate has put in place an ‘e-inspection’ portal and has equipped its inspectors with portable inspection equipment. However, the inspection system remains to be strengthened. The draft 2014–20 Strategies on Industrial Policy and Enterprises and on Business Development and Investment have not been adopted.

As regards **enterprise and industrial policy instruments**, financing and support for SMEs was provided through the Western Balkans Enterprise Development and Innovation Facility and the European Fund for Southeast Europe. An additional credit line of €15 million was agreed for the SME loan scheme concluded with the Italian government. However, access to credit for SMEs remains an issue. The Albanian guarantee fund of €2.5 million has not been used, due to the insufficient quality of the applications and their high potential risk. The Albanian Investment Development Agency continued to support business promotion and coordinate participation in the European enterprise network. However, the agency’s capacity requires further strengthening. In 2014, the Creative Entrepreneurship Fund became operational, providing support to the handicraft sector.

With regard to **sector policies**, the government launched reforms in the fields of tourism, energy and agriculture. A new agency for the coastal area was established in January. Legislation regulating ownership of State property land in tourism-oriented areas was adopted in July. The new draft law on tourism and the 2014-20 draft strategy on tourism development have not yet been adopted.

Conclusion

There has been some progress in the area of enterprise and industrial policy, particularly with regard to legislation on late payment and on financing instruments for businesses. Further action is needed to improve the business environment and stimulate access to financing. Overall, preparations are moderately advanced.

4.21. Chapter 21: Trans-European networks

In the area of **transport networks**, Albania continued to participate in the South-East Europe Transport Observatory and to implement the memorandum of understanding on the development of the South-East Europe Core Regional Transport Network. Albania should focus on developing the routes defined in the indicative extension of the TEN-T to the Western Balkans region. There have been some improvements to the road network. As regards road corridor VIII, construction of the Tirana-Elbasan road is progressing, while construction of the Fier by-pass is still at an early stage and work on the Rrogozhna by-pass has been delayed. On the north-south corridor, works on the Damës-Tepelenë segment and the Shkodra ring road are almost completed. The railway network has further deteriorated and the section from Librazhd to Pogradec is no longer operational due to a lack of maintenance. The detailed design for the Tirana-Durres railway and the economic appraisal study for the rest of the national rail network have yet to be completed. As regards port infrastructure, the Durres ferry passengers’ terminal is now operational and the contract for the construction of the infrastructure and superstructure at Vlora port was signed in April. Full resources for dredging the port’s access in Shengjin need to be secured.

As regards **energy networks**, Albania completed a feasibility study on the development of the Ionian Adriatic Pipeline and continued preparations for the development of the Trans-Adriatic Pipeline project.

Conclusion

Some progress was made in the area of trans-European networks, where the development of road infrastructure and interconnecting energy networks continues. Transport infrastructure

maintenance and expropriation issues remain a challenge. Overall, preparations in this area are not very advanced.

4.22. Chapter 22: Regional policy and coordination of structural instruments

As regards the **legislative framework**, further steps need to be taken to secure multi-annual sector programming, budget flexibility and co-financing capacity for EU projects at national and local level.

As regards the **institutional framework**, in March the Commission conferred management powers for indirect management under the 2007-13 IPA component I to the competent national authorities, who are implementing projects in the framework of the IPA 2013 national programme. The preparatory works to manage IPA funds in the area of agriculture and rural development have not yet been completed (*see also Chapter 11 — Agriculture*).

In the field of **administrative capacity**, further action is needed to ensure appropriate and competent staff for all IPA structures in view of the workload stemming from indirect management responsibilities.

As regards **programming**, institutional capacity in line ministries and coordination with the Ministry of Finance need to be improved in order to create and implement realistic sector policies, meeting the needs stemming from the sector approach envisaged in the 2014-20 IPA programme. The national strategy for development and integration for 2014-20 has not yet been adopted. A mature project pipeline of investments for regional development has yet to be developed. Local governments should significantly increase their capacity to generate mature projects in order to benefit from national and IPA support.

As regards **monitoring and evaluation**, the existing set-up of sector working groups needs to become an effective system to monitor policy developments and provide strategic advice.

In the area of **financial management, control and audit**, the audit authority's technical and administrative capacity needs to be further strengthened and its Director still needs to be re-appointed.

Conclusion

Some progress was made on regional policy, notably the conferral of management powers for IPA indirect management. Nevertheless, this management system needs to be further strengthened to minimise risks of delays and funding decommitments. Programming capacity has to improve with the preparation of a mature projects pipeline at national level and the design of mature projects at local level. Overall, preparations in this area are moderately advanced.

4.23. Chapter 23: Judiciary and fundamental rights

Judicial system

In January, Albania sought the support of the Venice Commission for a comprehensive and inclusive structural reform of the judicial system. Engagement with the Venice Commission must continue in order to comprehensively address concerns relating to the independence, accountability and professionalism of the judiciary. This should be fully reflected in the new judicial strategy for 2014-20 which is being prepared. The functioning of the judicial system continues to be affected by politicisation, limited accountability, poor interinstitutional cooperation, insufficient resources, lengthy proceedings and backlogs. Corruption in the judiciary also remains a concern.

In March, amendments to the Code of Criminal Procedure implementing the 2012 constitutional changes on restrictions to the immunities enjoyed by judges, MPs and other senior officials were approved. A broad review of the code is still underway. In March, the

Law on Judicial Administration was repealed following a decision by the Constitutional Court which found, *inter alia*, that a qualified majority, as opposed to a simple majority, would have been required for parliament to approve the law in 2013. In July, amendments to the Law on the High Council of Justice, the Law on Administrative Courts and the Law on the School of Magistrates were adopted in an expeditious manner, outside a comprehensive and inclusive reform process based on wide consultations and under the guidance of the Venice Commission. Key legislation on reforming the Constitutional Court, the High Court, the High Council of Justice, and the Prosecution Office still needs to be adopted.

Regarding the **independence** and **impartiality** of the judiciary, no measures were taken towards integrating the High Court into the judicial system. The status of the High Court and the process of appointing its members remain of concern in terms of possible politicisation, as long as the relevant constitutional provisions are not amended. The independence and impartiality of the High Court is still not fully guaranteed. Since January, parliament has rejected presidential decrees appointing three members of the High Court and the seats concerned have yet to be filled. In July, the Constitutional Court repealed some of last year's amendments to the Law on the High Court providing for stricter criteria for the selection of judges and aimed at increasing the court's professionalism.

The amendments to the Law on the High Council of Justice provide for only a limited and fragmented reform of this judicial body. They address *inter alia* the mandate of members of the Council, who will now be suspended upon being indicted in criminal proceedings and dismissed if found to have violated the law or the Constitution, and who are not allowed to be promoted or transferred during their term in office nor to exercise a range of activities considered incompatible on conflict of interest grounds. They also provide for mandatory quarterly evaluations of the High Council of Justice, as well as for strict timelines for some of its procedures.

With regard to the evaluation of judges, the process of assessing judges' performance during the period 2005-06 was completed in January and the evaluation for 2007-09 has begun. The evaluation criteria need to take better account of the workload of judges at all levels. Some steps were taken towards increasing transparency in the appointment, promotion and transfer of judges. Additional measures are nevertheless required to ensure that these procedures are clearly based on applicants' merits and other objective criteria. In January, a working group was set up to review these procedures.

The amendments to the Law on the School of Magistrates define more closely the selection criteria for the appointment of the School's director, governing board and academic staff and curtail the powers of the High Council in the appointment process. Under transitional provisions, the present incumbents should lose their positions at the end of the current academic year if their respective profiles are not considered to be in compliance with the new criteria. The students' admission process has been suspended until the 2015-16 academic year.

The unified electronic case management system ICMIS, ensuring a random and transparent allocation of cases to judges, is not yet used by the Tirana district and appeal courts, the Serious Crimes Court, the Serious Crimes Court of Appeal and the newly established administrative courts. As a result, the overwhelming majority of cases are still allocated by a lottery system under the control of the respective court presidents. This system should be phased out. Moreover, audio recording, currently used in a significant number of courts, should be further extended.

Some measures have been taken regarding the High Court's role in unifying jurisprudence, including two decisions clarifying the competences of civil and administrative courts. Full harmonisation and unification of jurisprudence still need to be ensured. Court rulings are not

systematically published; when they are published, the relevant reasoning is not always provided and deadlines are not always respected. Court rulings should be made available to all practitioners and the general public through a searchable database, with their reasoning and within a reasonable deadline. They should also comply with the recommendations of the Commissioner for Data Protection. The electronic database at the Judicial Documentation Centre needs to be updated.

In relation to **accountability** in the judiciary, the memorandum of understanding between the Ministry of Justice and the High Council of Justice continued to be implemented smoothly. However, the risk of overlapping inspections remains. The Minister of Justice remains solely responsible for opening disciplinary proceedings, which runs contrary to EU standards. Since October 2013, the minister initiated proceedings against 20 judges. As a result, to date, the High Council of Justice has dismissed 2 judges, transferred another judge to a court of a lower level for 2 years, and issued a warning to 8 judges, as well as a reprimand to 2 others. The disciplinary system for magistrates needs to be substantially improved, including through a more transparent and efficient inspection system. The Minister of Justice's role in this process also needs to be reviewed and a track record of sanctions established.

The General Prosecutor has issued warnings to 4 prosecutors and assigned another prosecutor to less important duties; disciplinary proceedings are ongoing against one prosecutor. The lack of accountability of the General Prosecutor's Office remains of concern. Procedures for the appointment and dismissal of key personnel in this office should be transparent and impartial, and the role of the Council of Prosecutors reinforced.

Allegations of corruption within the justice system remain a serious concern. Recommendations of the GRECO June evaluation report on corruption prevention in respect of judges and prosecutors should be implemented. The High Council of Justice dismissed one judge in July and suspended another judge pending a final ruling on corruption-related charges. The new amendments to the Code of Criminal Procedure introduce procedures regulating the lifting of immunity. The High Council of Justice can authorise the deprivation of liberty of judges and personal or house searches at the request of the prosecution, while for the judges of the High and Constitutional Courts it is the General Prosecutor who must request that the High Court authorise the lifting of immunity. Under the amendments to the Law on the High Council of Justice, members of the Council have to convene within 24 hours to decide on the prosecution's request for arrest and search. Corruption cases for ordinary judges and prosecutors are to be handled by the Serious Crimes Court, while such cases for members of the High and Constitutional Courts remain under the jurisdiction of the High Court. These procedures must ensure in practice the full accountability of judges and prosecutors under criminal law.

Magistrates still do not have adequate working and security conditions. Protection for judges against threats and pressure remains inadequate. Hearings continue to be held on occasion in judge's offices, which allows for the exercise of undue influence.

As regards the **efficiency** of the judiciary, the 2012 territorial reorganisation of courts has not yet been fully implemented. In particular, the process of adjusting the number of judges assigned to each court remains to be completed. To cope with the growing workload in prosecution offices and the courts and to address disruptions caused by lack of judges in some courts, the resources available need to be reviewed and increased.

Following the March decision of the Constitutional Court declaring unconstitutional the 2013 Law on Judicial Administration, provisions to regulate the work of courts and their staff are needed. Under current legislation, chief court clerks have only limited managerial responsibilities, while court presidents carry out a significant number of administrative tasks; this undermines the efficiency of the court system. There is still no accurate address registry

guaranteeing that parties and witnesses are duly informed of court proceedings, although e-notification is increasing.

The IT centralised database, which has been installed in prosecutors' offices in Tirana, needs to be extended across the country so as to improve the transparency and efficiency of the prosecution's case-handling system.

The budget for the overall justice sector was higher (+7.2%) than in 2013 and amounted to €82.5 million, which represents 0.83% of GDP and 2.48% of the state budget. It covers the Ministry of Justice (+1.5%), the General Prosecution Office (+22%), the Office for the Administration of the Judicial Budget (+19%), the School of Magistrates (+6%), the High Council of Justice (+17.8%) and the Constitutional Court (+12.4%).

Implementation of the 2012 Law on Administrative Courts began in November. Six administrative courts, the Administrative Court of Appeal and the Administrative College of the High Court were set up. Nevertheless, with the exception of Tirana, these courts operate with only 50% of their allocated staff numbers, and judges are seconded from other courts to meet panel requirements. A number of premises need to be allocated or improved and legal assistants have yet to be appointed in line with the procedures laid down in the July amendments to the law. Nine vacancies for judges have not yet been filled. In this respect, an incentive-oriented recruitment process should be put in place to counter the lack of participation to date in the admission test. Most of the courts' current workload is made up of cases on the dismissal of public servants and property disputes; the impact of establishing administrative courts on ensuring better and specialised legal protection in all cases involving state action and responsibility needs to be evaluated.

Draft amendments to the Codes of Civil and Criminal Procedure that have been assessed by the Venice Commission are expected, once adopted, to reduce the workload of courts and thereby increase their efficiency. These include allowing judges to impose fines on lawyers who are repeatedly absent in civil and criminal judicial hearings, and limiting the types of cases that can be filed to the High Court. Further measures are necessary to rationalise the High Court's procedures and reduce its significant current backlog, including through modifying the composition of panels reviewing criminal cases; the High Court needs to be transformed into a cassation court. The impact of the 2012 provisions enabling the disciplinary committee of the Chamber of Lawyers to penalise lawyers for contempt of court and misconduct is still to be assessed. The backlog of cases has increased by 7% (32972 cases pending before district and appeal courts in January 2013, as compared to 30972 cases in January 2012) and remains an issue of concern. A school for lawyers, providing for one-year compulsory education following university level law studies, was set up in September 2013 by the Chamber of Lawyers. The School of Magistrates continues to face problems due to limited budgetary resources, despite a 6% increase in its annual budget compared to 2013. The School of Magistrates has taken steps to introduce good quality curricula; the overall level of training provided still needs to be assessed.

In May, the government submitted an action plan to the Council of Europe's Committee of Ministers. This aims to create, by June 2015, an effective mechanism to enforce decisions on restitution of, or compensation for, property nationalised during the communist regime. The government has also approved decisions implementing European Court of Human Rights judgments in property cases, providing for financial compensation to four out of six remaining individual applicants. Enforcement of national courts' decisions, in particular those involving state institutions, remains slow and continues to undermine legal certainty.

Since March, the functioning of the private bailiff system has been adversely affected by changes in the regulatory framework governing working practices, tariffs, fees and fiscal obligations. Regional offices have been closed down and there has been a considerable

reduction in the demand for private bailiff enforcement. Moreover, an effective system for monitoring both private and public bailiffs is still not in place. Data gathering capacity needs to be strengthened. The 'ALBIS' bailiff case management system is not yet linked to the system used by the courts.

Regarding the implementation of the Law on Mediation, there are 285 individuals (as well as 2 legal entities) with mediator licences, as opposed to 141 in 2013. A code of ethics for mediators was approved in December. Further work is still needed on promoting alternative dispute-resolution methods. A draft law on arbitration remains under consideration.

National courts have completed their examination of the 'Gërdec' case but the complainants have lodged an application at the European Court of Human Rights. The case related to the events of 21 January 2011 is pending at the High Court.

As regards **access to justice**, the functioning of the State Commission for Legal Aid should be improved and recent provisions on Legal Aid providing for the establishment of regional legal aid offices implemented. Judicial fees deter many citizens and application procedures are too cumbersome. Free legal aid continues to be provided mainly by non-governmental organisations with donor funding.

Anti-corruption policy

In November, the Minister of State for Local Government was appointed as the National Anti-Corruption Coordinator and a network of anti-corruption focal points was established in all line ministries. The administrative and budgetary capacity of the coordinator's office needs to be increased, and the new structures have yet to show their effectiveness. The assessment of the overall set-up of the institutions involved in the prevention of and fight against corruption is yet to be finalised. The 2014-20 anti-corruption strategy remains to be adopted, together with related action plans, impact indicators, budget allocation and a coordination and oversight mechanism. Reporting, policy coordination and monitoring at central level need to be improved.

As regards the legal anti-corruption framework, in March, amendments to the Criminal Procedure Code transferred the jurisdiction of cases involving active and passive corruption by judges, prosecutors, justice officials, high-level state officials and locally elected representatives to the Serious Crimes Prosecution Office and the Serious Crimes Court. The Anti-Mafia Law was amended in March, extending the seizure or confiscation of illicit assets deriving from corruption offences to all crimes that fall under the new competences of the Serious Crimes Court. The Law on the State Police was amended in September, to provide for the creation of a National Bureau of Investigation, tasked with investigating corruption-related offences. Appropriate training for Serious Crimes Court judges and prosecutors needs to be provided. In March, the Criminal Procedure Code was also amended to clarify the procedure for lifting the immunity for high level public officials and judges from searches of their house and person, and from arrest. Amendments to the laws on asset declaration and conflict of interest were adopted in May. The revised law extends the number and frequency of checks by the High Inspectorate for Declaration and Audit of Assets and Prevention of Conflict of Interest (HIDAACI) and requires public officials to deposit assets exceeding €10700 in a bank. The submission of false information was made a criminal offence, although sanctions have so far not been a deterrent. New legislation on protection for whistle-blowers is yet to be adopted. The new law on access to information has been adopted in September. Unified rules and procedures for handling public complaints are being finalised.

The number of investigations of cases of active and passive corruption, including corruption by public officials, has increased. The number of corruption cases referred to the prosecution by the State Police increased by 33% in the period from October 2013 to June 2014,

compared to the same period in the previous year. Convictions by District Courts decreased by 5% in the same period, while convictions by appeal courts increased by 23%. Six corruption investigations within the judicial system are ongoing. Regarding high state and locally elected officials, five cases involving 25 defendants are pending before the court and four cases are being investigated for abuse of office and other related allegations. However, investigations continue to be reactive, rather than proactive, and the number of final convictions remains low at all levels.

In July, the General Prosecutor launched the pilot phase of a new case management system. More work is needed to increase the efficiency of investigations and make these more proactive, including for financial and high-level corruption investigations, corruption in the judicial system, conflicts of interest and asset declaration fraud. A number of legal obstacles to efficient investigations remain, such as provisions related to interceptions and surveillance, time limits for investigations, lack of registers for bank accounts and telephone subscribers, and issues of admissibility of evidence before a court. The current legal framework should include provisions that allow the State Police to obtain information for investigative purposes from public institutions and private bodies delivering public services, and allowing for deterrent sanctions in case of non-compliance. In line with Article 20 of the United Nations' Convention Against Corruption, Albania should consider criminalising inexplicable wealth. The capacity for investigation in law enforcement agencies needs to be increased, and risk assessments should be carried out systematically. Sufficient resources, training and specialised staff need to be provided to improve efficiency of investigations and to develop a convincing track record of investigations, prosecutions and convictions at all levels. The quality of corruption statistics needs to be improved.

Regarding internal control mechanisms, inspections carried out by the Internal Control and Anti-Corruption Unit have continued. However, there is a need to substantially increase capacity in this area. Cases involving abuse of office or public tenders referred by the High State Audit have led to very few investigations and no convictions. Internal control by the Ministry of Interior needs to be strengthened. It should be ensured that the external audit performed by the High State Audit applies to all state institutions equally. Internal audit processes in the public administration need to be strengthened.

Regarding interinstitutional cooperation, monthly meetings began in May, chaired by the General Prosecutor and the director general of the police, to improve proactive investigations. An assessment of the implementation of existing interinstitutional memoranda of understanding (MoUs) was completed. The MoU between the HIDAACI and the High Council of Justice is still pending. Interinstitutional communication, cooperation and coordination need to be improved and further work is needed on sanctioning processes if MoUs are not complied with. The digitalisation of information provided by the Immovable Property Registration Office has not yet been completed.

The HIDAACI detected an increasing number of cases of suspicious asset declarations. However, the overall number of investigations and cases referred for prosecution remains low. The HIDAACI's audit capacity needs to be significantly improved and the number of inspectors increased. It would be advisable for the HIDAACI to do both full audits of assets disclosure and checks based on suspicion of unjustified enrichment. Deterrent sanctions should be applied, including confiscation of unjustified enrichment and criminal or disciplinary sanctions. In a step towards increased transparency, the HIDAACI published the asset declarations for senior officials for 2012-13.

In February, the Inspector General of the HIDAACI was replaced and in May the procedure for the nomination of the Inspector General was modified. The institution remains at high risk of political and other undue influence, and its independence and accountability need to be

strengthened in view of its significant potential contribution to strengthening the prevention of and fight against corruption. Regarding conflicts of interest and asset declarations, the Council of Europe's Group of States against corruption stated in its fourth evaluation round report that regulations remain highly complex, and that legal certainty has been undermined by frequent amendments, which are often subject to contradictory interpretation.

The use of proactive investigations and risk assessment in the tax and customs services needs to be increased. Reports of corruption in the tax administration, especially in Tirana, remain an issue of concern. The administrative capacity in the tax office's internal audit service needs to be increased.

Regarding political party funding, the audit processes provided for in the legislation have yet to be effectively implemented. The Central Election Commission needs to launch substantial inspections, going beyond a purely formal approach towards checking the statements of political parties, and establish internally clear responsibilities for oversight of party finances. The vacancies on the commission's board should be filled to allow the institution to exercise its normal supervisory and monitoring functions.

Inspections of higher education establishments continued. The 2014-20 anti-corruption strategy foresees the development and pilot implementation of an anti-corruption module in high school curricula. An anti-corruption monitoring unit was established in the Ministry of Health as a focal point for corruption complaints in the health sector. However, corruption in educational establishments and the health sector remains of great concern. The lack of transparency in the way property rights agencies work remains a problem. The National General Inspectorate does not function properly. The participation of civil society organisations and their monitoring role in the fight against corruption need to be strengthened. The planned National Consultative Forum to coordinate anti-corruption policies, with participation by civil society organisation, has not yet been established. Overall, institutions involved in the fight against corruption remain vulnerable to political pressure and other undue influence. Corruption remains prevalent in many areas, including the judiciary, and remains a particularly serious problem.

Fundamental rights

Regarding **international human rights instruments**, Albania adopted the Sixteenth Protocol to the Council of Europe Convention for the Protection of Fundamental Human Rights and Freedoms. Although Albania has ratified most international human rights conventions, further action is needed to ensure their implementation.

Delays continued in the application of judgments of the **European Court of Human Rights**, with particular regard to property rights, judicial proceedings, the right to a fair trial and inadequate medical care in custody. In 2013, the court delivered eight judgments on nine applications, four of which found at least one violation by Albania of the European Convention on Human Rights. A total of 70 applications have been submitted to the Court since September 2013. The total number of pending applications decreased to 359.

In the area of **prevention of torture and ill-treatment**, the national mechanism for the prevention of torture at the Ombudsman's Office has been fully staffed. It conducted 27 inspections and received 29 complaints, of which 15 were resolved in favour of the plaintiff. In 2013, prosecution requests were filed against 13 police officers; of these, the prosecution considered two cases to be torture. This represents a 60% decrease in torture cases compared to 2012 and an increase of more than 60% of legal actions against police officials. Out of 79 Ombudsman's recommendations relating to the prevention of torture and ill-treatment, and detention standards, 36 recommendations were addressed by prisons and the State Police.

Preparations have begun for the establishment of a medical institute for the treatment of detainees with mental illnesses. Concerns remain over the lack of appropriate health care services for people with mental illnesses. Community-based mental health services need to be further developed.

As regards the **right to life**, the blood feud phenomenon is still prevalent in the north of Albania. Certain cases have been reported also in the Tirana region, mainly due to rural migration. Figures on the number of victims of blood feuds as well as of families affected vary widely. Numbers seem to be stabilising, though, rather than increasing. While it is key to develop a homogenous and reliable database to keep track of the cases and families concerned, it is even more important that the rule of law is strengthened to ensure this phenomenon is eradicated. This would also put a stop to the fraudulent use of blood feud as an argument for unfounded asylum claims in member states.

As regards the **prison system**, the total number of offenders in the probation service rose from 700 in 2009, when the service was established, to about 11300 in March 2014. The number of staff increased from 104 to 134 employees. Since February, there have been local probation offices in all 22 judicial districts. An electronic monitoring system, as an alternative to custody, is not yet operational.

Most of the recommendations issued by the Ombudsman and civil society organisations on prisons were addressed. The new pre-detention centres and prisons in Berat and Fier have not been opened yet; construction works at the prison in Shkodra are progressing. The full functioning of the new facilities is essential, as overcrowding remains a major problem. Poor infrastructure and problems with maintenance of recently built infrastructure persist. Issues of privacy and lack of confidentiality for sentenced inmates' conversations need to be addressed. Inmates continue to depend on food, equipment and medicines from their families. The legal framework for employment scheme payments needs to be improved. Anti-corruption measures and the internal audit system need to be strengthened. The high turnover of prison staff and prison police staff limited the effectiveness of training.

In the area of **freedom of expression**, the implementation of the Law on Audiovisual Media has been slow, mainly due to the lack of political agreement on filling the vacancies in the media regulatory authority, the Audiovisual Media Authority. There have been no reported cases of defamation lawsuits by politicians against journalists and media outlets. Further action is needed to ensure the proper implementation of amendments on defamation and guidelines on setting damages at a reasonable level, in particular through training for the judiciary. The subscription fee collection system and editorial independence of the public service broadcaster need to be improved. The broadcaster's steering committee has not yet been elected and the preparations for drafting its statute have been slow.

Two cases of violence against journalists have been reported since October 2013, which remains a concern. The lack of transparency of media financing remains a major challenge. The media continued to be used as a tool to promote political and private economic interests. Further action is needed to ensure the proper enforcement of labour rights, especially media staff's right to be covered by a formal employment contract. Protection from arbitrary dismissal needs to be provided for journalists to prevent self-censorship. The journalists' trade union has intensified its efforts to protect their labour rights, but its capacity remains weak. Professional and ethical standards in journalism need to be strengthened. New rules on public complaints against the media have been set by the Law on Audiovisual Media, but further action is needed to ensure their implementation and to establish bodies and initiatives that address reader/viewer complaints effectively.

Freedom of assembly and association has generally been respected. In November, peaceful protests were held across the country against the potential destruction of the Syrian regime's chemical weapons on Albanian soil.

Freedom of thought, conscience and religion was generally respected and religious tolerance prevailed.

As regards **women's rights and gender equality**, an online system to report and monitor cases of gender violence was launched in July and made operational in 29 out of 61 municipalities. The number of reported serious offences and cases of domestic violence against women increased. The national shelter for victims of domestic violence has treated 132 cases of domestic violence since September. It improved its cooperation with the employment office and provided training to victims. However, the shelter continues to apply unnecessarily restrictive criteria for admission. A free 24-hour national helpline for victims of domestic violence is yet to be established. The referral mechanism for domestic violence has been established in just 24 municipalities and is operational in very few of those. Coordination between local and central government needs to be significantly improved and structures that are lacking need to be set up. Further work is needed to remove the remaining gender-discriminatory provisions in legislative acts, and to tackle gender bias in court decisions and law enforcement institutions.

Coordinators on gender issues were appointed in all line ministries. Female representation in the new government increased, with six female ministers out of 19. With the change of government in 2013, the number of female MPs increased slightly to 17%. However, political parties failed to respect the 30% gender quota requirement in candidate lists. Overall, women remain underrepresented in public office. Gender provisions in the Electoral Code need to be strengthened further and a more enabling environment created for women to advance in political and public positions.

In the area of **children's rights**, the parliamentary committee on minors, domestic violence and gender equality, in cooperation with civil society organisations, adopted a children's rights resolution with general principles and objectives, and a one-year action plan. Regular hearings on children's rights were held with civil society organisations. Civil society organisations provided training for child protection units (CPUs). The number of CPUs rose to 189; however, many children in rural areas still lack access to CPUs. Of the 189 CPU specialists, only 31 worked full-time in child protection, while the others were primarily social services workers covering a wider range of issues. There is no framework for monitoring CPUs and coordination at local level remains poor. In April, a new director of the state agency for children's rights was appointed. However, the child protection system continues to lack sufficient budgetary means, staff continuity and minimum standards of operation. Further action is needed to ensure its effective functioning, make it more accessible to children and raise public awareness. The national child helpline is still run by a non-governmental organisation with donor funding. Further work is needed on deinstitutionalisation, expanding foster care and ensuring special protection for children in residential institutions. The emigration of unaccompanied minors from Albania to the EU remains a matter of concern. An in-depth analysis of the push factors for emigration by unaccompanied minors towards the EU is needed. Cases of children confined to their homes for fear of retribution in blood feud conflicts persist. No measures have been taken to provide specialised services to sexually abused children and protect them from violations of personal data protection by the media.

As regards *juvenile justice*, education programmes were put in place for detainees in the juvenile correctional institution in Kavaja. The strategy and action plan on juvenile justice have yet to be adopted. There are still no specific chambers in police stations for children

under 14 and the assistance of a psychologist is not provided during interrogations that take place in the evenings, at weekends and on public holidays. Juveniles are still being detained longer than provided for in the Criminal Procedure Code's provisions on detention and pre-trial detention for minor offences. Cases of ill-treatment of juveniles in detention were frequently reported, and one investigation was launched against a prison police official for torture. A lack of coordination persists between the justice and protection systems for juveniles coming out of the justice system, who need support to reintegrate into society.

Regarding *child labour*, the number of children, mainly Roma and Egyptians, who were working or begging in the streets and who were subjected to the worst forms of exploitation and extreme marginalisation remained very high. An action plan to address the situation of children living and/or working in the street was prepared, but has yet to be adopted. The Ministry of Social Welfare and the Ministry of the Interior have set up a task force to address the situation of children living in the street, which is, however, not yet operational. The results of the 2010 national child labour survey have not been updated; statistics in this field remain very poor and rely on data from civil society organisations. The use of children to cultivate and harvest cannabis is an issue of serious concern. Some measures have been taken to prevent child trafficking with the introduction of mandatory notarised declarations for children exiting the country in the presence of only one of their parents. However, Albania remains a source country for trafficked children and forced child labour.

As regards **socially vulnerable and/or persons with disabilities**, the framework law on inclusion of and accessibility for people with disabilities was adopted in July, covering all groups of people with disabilities. In December, an inter-ministerial working group was set up to look at the implementation of accessibility guidelines and legislation in state institutions, at central and local levels. The appointment of a wheelchair user as deputy minister was a step towards promoting the rights of people with disabilities. Some steps were taken towards the recognition of the Albanian sign language as an official language for deaf people. Training was provided to teachers in schools and kindergartens in order to promote the inclusion of children with disabilities. However, according to a recent study conducted by a civil society organisation, 64% of children with disabilities do not attend schools. People with disabilities continue to face difficulties in accessing education, employment, healthcare, social services and decision-making.

In the area of **anti-discrimination** policies, the Commissioner for Protection against Discrimination imposed three fines on public institutions in 2013. Complaint procedures and the commissioner's role in court proceedings need to be further clarified. Solid anti-discrimination case-law has not yet been established and the implementation of the law on protection against discrimination needs to be improved. Outreach work and awareness-raising carried out by the commissioner resulted in an increase in complaints in 2013 and should be continued.

As regards the rights of **lesbian, gay, bisexual, transgender and intersex (LGBTI)** persons, cooperation between the state authorities and civil society organisations on this issue improved. The International Day Against Homophobia was celebrated in May by Tirana's third pride parade and a number of other activities throughout the country. There were no cases of homophobic speech by politicians or state officials. Draft amendments to revise the family code and provide legal recognition of the cohabitation of same-sex couples remains to be adopted. An inter-ministerial working group to ensure implementation of the action plan on the rights of LGBTI people has still not been set up and public awareness of LGBTI rights remains very low.

Labour and trade union rights are generally respected. The new National Labour Council held its first meeting in December and met again in April and June. The council is comprised

of seven representatives of the Council of Ministers as well as 10 representatives from each employer's and employee's organisations. However, two-way social dialogue remains to be improved and social partners' autonomy needs to be increased. Until the revised labour code is adopted, several gaps remain regarding the conformity with international labour standards.

Reform of **property rights** is a cross-cutting issue for consolidating the rule of law and for fostering investment and economic development. The 2012 property reform strategy and related action plan need to be reviewed to ensure that they remain coherent and sustainable in terms of targets and sources of funding. The government communicated its action plan for the establishment of an effective compensation mechanism, enforcing the judgments of the European Court of Human Rights (ECtHR) on property rights. The government approved four decisions for the execution of ECtHR judgments, providing for financial compensation to claimants. The electronic immovable property registration system has been extended to a total of 10 branches of the Immoveable Property Registration Office. The Property Restitution and Compensation Agency's (PRCA) mandate and the deadline for finalising property restitution and compensation were both extended by one year to deal with some 8000 pending claims from former owners of property confiscated during the communist regime. PRCA established a new electronic register identifying all decisions issued since its establishment and listing them in chronological order in view of facilitating its work and ensuring effective remedies. The resolution of claims for restitution or compensation by former owners needs to be speeded up. Working groups were set up to examine legislative changes, identification of compensation mechanisms and estimation of financial costs, and the setting up of an inventory of available state assets and property with which to physically compensate owners whose property was expropriated. However, the restitution and compensation framework should be reviewed with the aim of creating a realistic, transparent and sustainable framework for compensation. Amendments to the Legalisation Law were adopted in May to facilitate the process by reducing fees and administrative procedures, and setting out legal solutions to problematic cases. The deadline for registering properties constructed before January 2009 was extended, and discounts made available to citizens paying the registration fee. Very few measures have been taken to finalise the first registration of properties in order to ensure certainty of ownership. Cooperation on policymaking and legislation between institutions has improved, but overall it needs to be strengthened and responsibility for the sector among different ministries and agencies to be clarified. Significant efforts continued to be devoted to the digitalisation of information held by the Immoveable Property Registration Office, but coordination with databases of other public institutions is still lacking. No steps have been taken to integrate the electronic land and property databases. Further action is needed to prevent the eviction of vulnerable groups as a result of implementing the normative act on the restitution of buildings to their former owners, so that the right to housing for vulnerable people is also taken into consideration.

As regards the respect for and protection of **minorities**, inter-ethnic relations remained good. A working group has been set up to evaluate the existing legal and policy framework and to prepare and adopt improvements to the legislation on minorities. Adopting comprehensive legislation would help to address legal gaps that have been identified and clarify state policies towards minorities. This legislation should follow a broad consultation process, and take into account the February 2014 Resolution by the Committee of Ministers of the Council of Europe on the implementation of the Framework Convention for the Protection of National Minorities. Steps need to be taken to abolish any grounds for different treatment between national and ethno-linguistic minorities, and ensure equal access in practice to rights for people from all minorities.

The implementation of policies on **Roma** inclusion remains inadequate overall, including implementation of the operational conclusions from the December 2011 seminar on the

inclusion of Roma and Egyptian communities. A second seminar on Roma and Egyptian inclusion took place in February, whose operational conclusions should feed into formulating Albania's further Roma policy. Roma families evicted from their settlements in August 2013 were transferred to a transition centre, which was quickly set up, in October. A sustainable long-term housing solution for these evicted people has not yet been identified. Roma and Egyptian people continue to face very difficult living conditions and frequent social exclusion and discrimination, particularly regarding access to health care, social protection, education, employment and housing. The new law on property legalisation was adopted in May without prior consultation with relevant stakeholders and has increased the risk of further evictions of Roma families from their informal settlements, which remain a particular concern. As local government units do not have sufficient budget and administrative capacity for Roma and Egyptian inclusion policies, cooperation between central and local government should be improved. Data collection on Roma and Egyptian people needs to be improved, and data should be analysed and used effectively to define policy and actions at state and local levels.

As regards **cultural rights**, the use of and access to education in minority languages needs to be increased. Albania has not yet adopted the European Charter for regional and minority languages.

In the area of **protection of personal data**, the number of complaints submitted to the Commissioner for Data Protection slightly increased, from 22 in 2012 to 26 in 2013. Most of the cases are related to the use of personal data by public institutions during last year's electoral campaign. The commissioner approved the 2014-17 strategy and action plan on personal data protection, and new guidelines for the use of video surveillance by private agencies. The freephone number for citizens' complaints is operational. The commissioner's cooperation with relevant institutions, such as the Prosecution Office and the National Authority for Electronic and Mail Communication, has improved. The number of inspections and awareness-raising activities continued to increase. The new law on access to information transferring responsibility for related complaints to the commissioner has been adopted in September. Capacity in the commissioner's office needs to be strengthened accordingly. The commissioner is still not listed among the institutions to be consulted when legislative proposals are being drafted. Data protection requirements have to be ensured when developing IT systems in the public administration. The right to personal data protection is frequently violated by the media, while the publication of court decisions is not always in line with data protection requirements.

Conclusion

Overall, Albania has made some progress in the area of judiciary and fundamental rights.

As regards the judiciary, some progress can be reported. The functioning of the judicial system continues, nevertheless, to be affected by politicisation, limited accountability, poor interinstitutional cooperation, insufficient resources and backlogs. The disciplinary system for magistrates needs to be substantially reinforced. Corruption in the judiciary remains a concern. Over the next year, Albania will need to vigorously pursue judicial reform, through constructive cooperation with all stakeholders and continued engagement with the Venice Commission, the approval of provisions replacing the repealed Law on Judicial Administration, the phasing out of the system allocating cases to judges by court presidents, and the adoption of constitutional amendments and legislation to ensure the independence, accountability and efficiency of the justice system.

There has been some progress in the area of anti-corruption; however corruption remains a serious concern in many areas. Albania will have to intensify its anti-corruption efforts, adopt the anti-corruption strategy and action plans, enforce the amended legislative framework, and strengthen cooperation between law enforcement agencies. It will also need to remove

obstacles to conduct proactive, efficient investigations of inexplicable wealth and corruption-related offences, including via the effective use of financial investigations, leading to a credible and solid track record of prosecutions and final convictions in corruption cases, notably at high levels.

In the area of fundamental rights, some progress has been made. Over the next year, Albania will need to implement the operational conclusions of the second seminar on Roma and Egyptian inclusion, prevent the forced evictions of vulnerable groups and identify a sustainable long-term housing solution. The preparation of comprehensive legislation on minorities should follow a broad consultation process. The protection of women against all forms of violence needs to be considerably strengthened. Regarding children's rights, Albania should allocate concrete budget lines for the child protection system, and focus on guaranteeing staff continuity and minimum standards of operation. Albania will also need to review the 2012 property reform strategy and ensure the protection of property rights, by developing technical standards of legal ownership that end conflictual or unclear cases.

4.24. Chapter 24: Justice, freedom and security

In the area of **migration** policy, implementing legislation was introduced regarding the issue of residence and work permits to foreign citizens. Implementation of the readmission agreement continued smoothly. During 2013, 11 946 refusals of entry of Albanian citizens to the Schengen area were recorded. Agreements for exchanging information on asylum and migration have been signed with Austria and the UK. Reception capacity close to the border needs to be increased, as do the technical and financial resources of the Border and Migration Police, in order to address the growing irregular migration flow to Albania. Work on preparing a new national migration strategy has not started yet. Further action is needed to ensure the effective implementation of the strategy and action plan for returned migrants.

A new law on **asylum** was adopted in September 2014. By July, Albania had granted asylum to 286 people, mainly from Iran and Syria, with 250 applications pending. Interpretation services were provided with state budget funds, but sufficiently qualified interpreters are lacking. However, Albania's reception system needs to be strengthened to cope with the increasing number of asylum-seekers. Access to the asylum procedure is not always possible. The conditions for the issuance of ID and travel documents to refugees and persons granted complementary protection have been completed, but no such documents have been issued yet. The pre-screening process at borders needs to be strengthened to provide access to effective international protection to asylum-seekers. To date, Albania has no specialised structures for collecting country of origin information. Procedures to determine international protection status, including access to legal assistance and representation, need to be further improved.

As regards **visa policy**, Albania is yet to align its legislation with the EU positive and negative lists. The visa-free travel regime between Albania and the EU continued unhindered, but irregular migration flows from Albania increased considerably in 2013. The number of asylum applicants from Albania grew by 47% between 2012 and 2013, the second highest figure in the region. An increasing trend of asylum requests lodged by Albanian nationals was reported in a number of EU Member States and Schengen associated countries. Albania must take immediate action in the framework of the post-visa liberalisation monitoring mechanism to address asylum abuse through closer operational cooperation and information exchange with EU Member States, carrying out investigations of facilitators of irregular migration, more effective border controls, information campaigns for travellers and, most importantly, by providing sustainable assistance for minority communities. Efforts in these areas need to continue systematically and through proper allocation of resources.

In the area of **external borders and Schengen**, the joint police cooperation centres, established at the border points with Kosovo and the former Yugoslav Republic of

Macedonia, are fully operational, and a police cooperation centre with Montenegro is currently being set up in Muriqan. Their activities include the exchange of statistical reports, risk analysis, cases of drugs and forged documents, and information on vehicles and people. Practical cooperation with Frontex in joint risk analysis is consolidated and the first ever Frontex joint return operation under the method of self-collection was organised with the cooperation of the Albanian authorities in May. In October 2013, a readmission agreement was signed with the Republic of Moldova. A new integrated border management strategy and an action plan covering 2014-20 were approved. Cooperation and coordination among the institutions involved in managing the blue border has improved through the work of the Interinstitutional Maritime Operations Centre. Connection to the MEMEX criminal intelligence information system and to the civil registry system has been ensured. Maritime surveillance, monitoring, identification and communication systems have improved, and are now fully operational, with the radar and communication surveillance systems covering the entire blue border area. IMOC risk assessments began taking into account the expiry of the speedboat ban by increasing maritime surveillance coverage. IMOC's operational capacity and the financial and technical sustainability of its surveillance systems still need to be ensured through appropriate planning of budgetary resources.

In the area of **judicial cooperation in civil and criminal matters**, the Fourth Additional Protocol to the European Convention on Extradition entered into force in June. Albania has adopted three agreements with Kosovo on mutual legal assistance, extradition and transfer of convicted persons. In view of concluding a cooperation agreement, Eurojust has been assessing the level of data protection in Albania from a legal and administrative point of view.

In the field of **police cooperation and the fight against organised crime** there has been some progress. Cooperation between the Albanian police and the prosecutor's office with EU Member States continued, leading to good results. However, law enforcement institutions need to step up coordination and information exchange to maximise their capacity to investigate serious and organised crime. Continuous specialised joint training activities involving police officers, prosecutors and judges remain necessary. Albania needs to develop and introduce strategic threat assessments relating to organised crime in its territory, in close cooperation with Europol. There is a need to improve proactive and intelligence-led investigations. There is no systematic use of special investigative techniques and financial investigations.

Key legislation was adopted, covering police organisation and the control of firearms. The new Law on the State Police provides for the creation of a National Bureau of Investigation, tasked with investigating organised crime and high-level corruption cases. The Albanian State Police (ASP) budget increased by 10% compared to the previous year. Since October, several organisational changes were introduced, resulting in significant staff turnover. Internal control standards to fight corruption and mismanagement should be further improved. The new Law on the Service for Complaints and Internal Affairs in the Ministry of Interior should be fully implemented and external and independent oversight of the police activities should be provided.

Amendments to the Criminal Procedure Code, enacted in July, introduced prison sentences of up to twenty years for persons who possess or transport explosives for criminal purposes. Measures have been taken to improve the quality of asset investigations through increased monitoring and special analysis conducted by the police and the serious crimes prosecution office. In April, the joint investigation units in Tirana, Vlora and Durres were provided with additional prosecutors. However, the efficiency of investigations is often jeopardised by frequent changes of responsible judicial police officers. Further work is needed on improving cooperation between the police and prosecutor's office during investigations. Internal

procedures and methods relating to collecting evidence and telecommunications interceptions need to be improved. The harmonisation of statistics across institutions on the track record of investigations, prosecutions and convictions needs to be improved. The capacity of the forensic laboratory, especially regarding DNA interpretation and the DNA database, is limited. Evidence collection, reporting, and the use of special investigative techniques need to be upgraded.

ASP officers have participated in the European Police College (CEPOL) exchange programme on the basis of a cooperation agreement. CEPOL has provided expertise for reforms to police training curricula. In May, an operational agreement with Europol was ratified, providing for joint operations and exchange of strategic and operational information, including personal data on known and suspected criminals. Albania needs to actively implement the agreement and intensify the exchange of information. There has been progress in implementing the action plan against the trafficking of stolen vehicles, through participation in international operations organised by Europol and the South-East European Law Enforcement Centre.

As regards the fight against *money laundering*, the number of investigations has slightly increased. However, the number of convictions remains low. The fight against illegal gambling activities intensified. Amendments to the Anti-Mafia Law are being prepared. Further efforts are needed to ensure the correct legal interpretation and effective implementation of the legal framework, in particular on separating the money laundering offence from the predicate offence and the possibility of using circumstantial evidence. Problems persist in implementing the Anti-Mafia Law, in particular as regards confiscation of seized assets. Proactive investigations into inexplicable wealth need to be stepped up. Interinstitutional cooperation and technical skills in the field of financial investigations need to be strengthened. A track record of high-level cases has yet to be developed.

As regards *trafficking in human beings*, the 2014-16 national strategy for the fight against trafficking is being finalised. The Office of the National Anti-Trafficking Coordinator (ONATC) was given its own annual budget for the first time. The national referral mechanism has been revitalised, with the setting up of a task force and the intensification of activities on prevention and awareness-raising. Three mobile units were established in Tirana, Vlora and Elbasan, resulting in increased identification of victims and potential victims. Regional meetings were held on a regular basis. Joint inspections by the Labour Inspectorate and the ASP have been carried out in Tirana to tackle forced labour and internal trafficking. A special helpline became operational in March. Albania remains a source country for trafficked adults and minors, including children forced into begging. Internal trafficking remains a concern and proactive investigations need to be further stepped up. Analysis capacity should be improved, taking into consideration the contributions of civil society. The ONATC needs to be further strengthened. Despite amendments to the Criminal Procedure Code in 2013 to criminalise internal trafficking of adults, no such cases have been investigated to date. These amendments do not cover the internal trafficking of minors. A comprehensive, multidisciplinary and victim-oriented approach to trafficking in human beings is not yet in place and identification of victims needs to be improved. Further action is needed to improve the coordination and referral mechanism and ensure that victims, especially minors, have unhindered access to assistance, support and protection, including re-integration upon return. It is essential that work on prevention and addressing the demand for trafficking in human beings is stepped up. The number of convictions is still very low and no asset investigations have been undertaken to date. Albania should fully transpose the standards set up in the Palermo Convention and relevant EU Directives into the Albanian Criminal Code and Criminal Procedure Code in order to ensure the efficiency of investigations and the protection and compensation of victims.

As regards the fight against *cybercrime*, a working group tasked with drafting a policy document on cybercrime has been set up. Police and prosecution officials need to receive specialised training. The number of prosecutions for cybercrime increased, but is still low.

Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems.

Albania continued to implement the strategy and action plan on the **fight against terrorism**. In July, amendments to the Criminal Code and Criminal Procedure Code allowed for the imprisonment of up to 15 years of any Albanian citizen involved in and/or recruiting others to participate in armed conflicts outside of the Albanian territory. The adoption in October 2013 of a new law on measures against terrorist financing and of guidelines on rules and procedures for allowable expenses from the funds and other assets seized from designated people allowed for further alignment with the international standards set by the Financial Action Task Force (FATF). However, certain strategic deficiencies remain, in particular relating to the terrorist asset freezing programme and the framework for international cooperation to counter terrorist financing. Albania will need to step up its capacity to prevent radicalisation, including developing adequate measures to address the phenomenon of foreign fighters.

Regarding **cooperation in the field of drugs**, there is good cooperation with the European Monitoring Centre for Drugs and Drug Addiction. A national action plan to tackle the cultivation of narcotic plants is under implementation. Compared to the last reporting period, prosecutions and arrests increased significantly. There has been a significant increase in the amount of cocaine and marijuana seized, but a slight decrease in the amount of heroin seized. For the period September 2013 to July 2014, successful police operations resulted in the seizure of 61.1 kg of heroin, 23.1 kg of cocaine and 99 tons of marijuana (in comparison to 61.8 kg of heroin, 3.3 kg of cocaine and 20 tons of marijuana for the period from September 2012 to July 2013). Security of seized drugs' storage and effective destruction procedures need to be ensured. Albania continues to be used for transit and storage of different types of drugs and remains a significant producer and exporter of cannabis. More robust action is needed to effectively address this problem in a sustainable manner. Work needs to be stepped up and risk assessment and international cooperation need to be improved.

The authorities have taken serious steps to fight against the cultivation of cannabis, which remains a serious concern. A major police operation in the village of Lazarat, in the southern region of Gjirokastra, resulted in numerous arrests, the seizure of 65 tons of marijuana and the destruction of over 133 000 cannabis plants. Another major police operation in the Dukagjin area in Northern Albania resulted in the destruction of 136 000 cannabis plants. Cooperation with Italian authorities has increased on the mapping of cultivation areas through aerial surveys. It is crucial that further steps continue to be taken to eradicate large-scale production of cannabis.

As regards **customs cooperation**, the 24-hour digital camera monitoring system is operational. The number of investigations of customs officials increased compared with previous years. (*see Chapter 29 — Customs union*).

For measures against **counterfeiting the euro**, *see Chapter 32 — Financial control*.

Conclusion

Albania has made further progress in the area of justice, freedom and security, in particular in border management, judicial cooperation and the fight against organised crime. Proactive police operations have led to large seizures of drugs and destruction of cannabis plants. Cooperation between law enforcement institutions needs to be strengthened to increase the efficiency of investigations. Adequate budget planning and allocations are essential. The increased level of unfounded asylum requests from Albanians in EU Member States is a

matter of concern, and measures to combat this will need to be continued and intensified. Albania will also have to focus on stepping up its efforts in the fight against trafficking of human beings and in the field of money laundering, including implementing the Anti-Mafia Law and carrying out proactive criminal and financial investigations and prosecutions, resulting in convictions at all levels. Drugs trafficking in general, and the cultivation and trafficking of cannabis in particular, remains a cause for serious concern.

4.25. Chapter 25: Science and research

There was a very limited increase in the number of entities participating in calls for proposals for the EU **framework programme** for research (FP7), with an overall success rate of 14.4%, compared to the EU average of 21.6%. The agreement associating Albania to the new EU research and innovation programme Horizon 2020 (covering 2014-20) was signed in July 2014, allowing for retro-active participation of entities from the country as from 1 January 2014. The necessary administrative measures for participation, i.e. nomination of national contact points and representatives in programme committees, have been put in place. The Agency for Research, Technology and Innovation (ARTI) generally lacked the means to be more active in promoting cooperation on research and innovation, although it organised technical workshops in preparation of Horizon 2020.

As regards the integration into the **European Research Area**, no actions were taken and the level of investment in research is still very low (less than 0.4% of Albania's GDP). Due to a lack of reliable statistics it is difficult to measure the exact level, in particular the expenditure on research by the private sector. Albania nominated a representative in the European Research Area Committee.

With respect to the **Innovation Union**, the national strategy for research and innovation 2016-20 envisages some measures to boost innovation, but still needs to be adopted together with an action plan on implementation. Albania has been active in cooperating at regional level and co-signed the Western Balkan Regional R&D Strategy for Innovation adopted in October 2013.

Conclusion

There has been limited progress in the area of science and research. Further capacity building and investment in research are required to ensure integration into the European Research Area and contribute to the Innovation Union. Increased efforts for successful participation in the new research framework programme Horizon 2020 will also be necessary. Overall, preparations are not sufficiently advanced.

4.26. Chapter 26: Education and culture

In the area of **education, training and youth**, Albania increased its participation in the Tempus programme and, for the first time, an Albanian university was selected for a Jean Monnet Chair. An agreement was signed with the EU in June 2014 for Albania's partial participation in the new 'Erasmus+' programme. An independent commission for higher education and scientific research reform was established with the aim of reforming governance of the education system, including the finalisation of the draft law on higher education. A new accreditation process for all public and private universities started in May, including accreditation of particular courses. This led to the revocation of licences and suspension of activity for a number of higher education institutions. The transparency and inclusiveness of the recruitment procedure of teachers and school directors needs to be improved. Education is an area at high risk of corruption. Further progress has to be made in the development of the Albanian qualifications framework. Albania's results in the latest PISA study, published in December, slightly improved.

Regarding vocational education and training (VET), a draft 2014-20 national strategy for jobs and skills and a related action plan were finalised and are awaiting adoption, while a monitoring plan still needs to be prepared. All responsibilities for VET have been brought under the responsibility of the Ministry of Social Welfare and Youth.

Quotas for the enrolment of Roma, Egyptians and disadvantaged students in public universities continued to be applied for the academic year 2013-14. Roma and Egyptian children are still not fully integrated in the education system which occasionally leads to segregation and exclusion.

In the area of **culture**, participation in the Culture and Europe for Citizens programme has increased. An agreement for Albania's participation in the culture strand of the new Creative Europe programme was signed in July, but an agreement for the 2014-20 Europe for Citizens programme remains to be signed. As a result of the adoption in March of amendments to the 2011 Law on Arts and Culture, the National Centre for Art and Culture was dissolved and its responsibilities for financing artistic and cultural activities were transferred to the Ministry of Culture. The number of Regional Culture Directorates was reduced from nine to six, reducing administrative costs but not staff numbers. Their geographical areas of responsibility were also revised to ensure better coverage of the country.

Conclusion

Some progress has been made in the field of education and culture. Further action is needed to improve the quality of educational provision at all level. Strengthening the capacity of teachers is key in this regard, as is improving the transparency and quality of the appointment procedure of teachers, school directors and regional directorates. Overall, preparations in this field are moderately advanced.

4.27. Chapter 27: Environment and climate change

In the area of **environment** further work is needed on aligning the *horizontal legislation*, in particular with the Directives on Environmental Impact Assessment and Environmental Crime. A more effective system to prosecute and penalise environmental crimes needs to be implemented. Environmental impact assessments are still not carried out systematically prior to the launch of infrastructure projects. Public access to information and consultation remains limited. Cooperation with civil society organisations needs to be strengthened. The lack of implementation of environmental legislation is a major problem.

As regards *air quality*, the National Strategy for Air Quality, the Law on Ambient Air Quality and implementing legislation on air quality assessment have not yet been adopted. Overlap and fragmentation of responsibilities between the National Environment Agency and the Institute of Public Health still persist regarding air quality monitoring. There are no plans at local level to ensure ambient air quality and no measures have been undertaken to combat known breaches of the standard values.

As regards *waste management*, amendments made in October 2013 to the Law on Integrated Waste Management are not in line with the *acquis*. A national advisory body on waste was set up in July. In October, a waste management committee was set up to plan and coordinate the implementation of policies in this field, but the capacity in waste management authorities remains very limited. Waste separation is almost non-existent and recycling rates are very low. Most waste continues to be disposed of unsafely in legal and illegal dumpsites, or burned. Waste management remains a serious cause for concern.

In the area of *water quality*, the law on integrated water management came into force in December. The water supply and sewerage strategy has not yet been adopted. A new wastewater treatment plant was put into operation in Shiroka (Shkodra lake), bringing the

total number of functioning wastewater treatment plants to five. Three other plants are completed, but not yet operational and two are under construction. Implementation of the *acquis* in the area of water quality remains at a very early stage.

In the field of *nature protection*, in January, parliament enacted a law banning hunting, but hunting continues. Effective protection for designated protected areas still needs to be guaranteed. Illegal activities such as hunting, fishing, logging, natural resources extraction and construction remain frequent in protected areas.

In the area of *industrial pollution control and risk management*, the law transposing the EU Directive on the control of major-accident hazards (the ‘Seveso II’ Directive) has not yet been adopted. Effective checks to reduce the discharge of pollutants from industrial plants are not yet in place. Self-monitoring by industries is rarely enforced. A framework law on *chemicals* management aiming at bringing Albania in line with the EU *acquis* and at regulating the import and export of chemical substances is awaiting adoption. There have been no developments in the area of environmental *noise*.

As regards **civil protection**, the National Strategy for Disaster Risk Reduction and Civil Protection 2014-18 is yet to be adopted.

Regarding **climate change**, Albania associated itself with most of the formal EU positions in the international context. It has also associated with the Copenhagen Accord, but it has not yet put forward a mitigation commitment by 2020. Albania needs to put forward by the first quarter of 2015 its intended nationally determined contribution to the 2015 Climate Agreement, consistent with those of the EU and its Member States. Albania should focus on developing and adopting a comprehensive climate policy and strategy in line with the expected EU 2030 policy framework on climate and energy. Substantial efforts are needed to fully integrate climate considerations into all relevant sectoral policies and strategies.

No progress can be reported as regards alignment with the climate *acquis*. Priority should be given to the establishment of a monitoring, verification and reporting system for greenhouse gas emissions in line with the EU Monitoring Mechanism legislation.

Albania participated regularly in the Environment and Climate Regional Accession Network (ECRAN) project. Climate awareness at all levels remains low. The establishment of an inter-ministerial working group on climate change aims at improving the cooperation between all relevant stakeholders. The administrative and technical capacity in the climate sector remains limited, while allocated resources and funding remain largely insufficient. The administrative set-up on climate change requires considerable strengthening in order to achieve progress in the alignment with EU climate *acquis*.

The former Environment and Forests Agency was re-organised in January and renamed National Environment Agency. Its administrative capacity was strengthened. A State Inspectorate of Environment Forests and Waters (SIE) was also established in January. Yet, the environmental inspection system is only partly aligned with the EU *acquis*, and its limited resources do not provide a credible guarantee that infringements are being properly monitored and punished. Particular efforts are needed in terms of inspection planning, effective cooperation between environmental inspectors and other supervisory authorities, and improvement to reporting procedures and the evaluation mechanism of the SIE’s work.

Conclusion

There has been little progress in the fields of environment and climate change. Significant further efforts are needed in all areas to strengthen administrative capacity and to ensure proper implementation and enforcement of legislation and its further alignment with the *acquis*. Waste management is particularly poor and the quality of water and air is low.

Overall, resources remain limited and substantial investments are needed. Systematic strategic planning needs to be established. The country needs to put forward by the first quarter of 2015 its intended contribution to the 2015 Climate Agreement. Overall, preparations are at an early stage.

4.28. Chapter 28: Consumer and health protection

Regarding *horizontal aspects* in the area of **consumer protection**, guidelines setting out the procedures for handling consumer complaints were adopted in September. Further action is needed to empower consumers by providing information, conducting awareness-raising activities and through consumer education. The strategy on consumer protection and market surveillance 2014-2020 has been finalised.

In the area of *product safety-related issues*, guidelines on methods of risk classification and on serious risk assessment were adopted in December. The standard operation procedures for market surveillance inspectors were approved in May, but the market inspectorate is not yet in place.

In the area of *non-safety-related issues*, Albanian authorities assessed how second tier banks enforce consumer protection legislation on consumer credit and issued their confidential report to the banks in December on follow-up actions to be undertaken.

As regards *horizontal aspects* in the area of **public health**, amendments to the Law on Healthcare Insurance, adopted in December, introduced changes to the calculation of healthcare contributions, including the removal of the maximum salary threshold. Corruption remained widespread in the healthcare system and the public hospital sector was underdeveloped. Primary healthcare continued to lack appropriate funding, human resources, and the coverage of insurance-based care remained very low. The national electronic health record system and the e-health strategy have yet to be adopted.

In the area of *tobacco control*, the Law on Health Protection Against Tobacco Products, to more effectively enforce the tobacco ban in public places, was amended in February. Further efforts are needed for its proper implementation. Smoking remained widespread in public places and tobacco products continued to be sold in the streets, in particular by minors.

With regard to *communicable diseases*, the drafting of the 2015-20 national strategy for HIV/AIDS control is ongoing. Implementing legislation ensuring the right to health for people and children living with HIV/AIDS, and people at risk of HIV/AIDS, has not yet been adopted. Integrated mosquito control has advanced. The new Law on the Control of Infectious Diseases has not yet been adopted and the national guidelines on antimicrobial resistance are still being prepared. Public health and microbiology laboratories of hospitals need further improvement and additional human resources.

In the area of *blood, tissues, cells and organs*, blood safety, transfusion practices and voluntary non-remunerated donations were improved through the implementation of the prevention of infection transmission through safer blood and components project. Work has been done on promotional actions for voluntary blood donations and blood donor management practices. A working group has been established to review and draft regulations on blood transfusions.

In the area of *patients' rights in cross-border healthcare*, preparations have not yet started.

Implementing legislation in the field of *mental health services* was adopted in October, setting out the responsibilities of mental health professionals and the physical restraint standards for mentally ill patients. In the area of *drug abuse prevention*, a new specialised drug treatment centre was established at the Tirana University Hospital Centre. The action plan on drugs control and a data system for reporting on drugs has not yet been adopted. As regards *health*

inequalities steps were taken to improve access for Roma people to healthcare through community nurses and home visits. Delivery of health cards to Roma families remains slow and further work is needed to ensure access to good and safe quality healthcare for the most vulnerable groups, especially in rural areas. *Nutrition* education programmes have continued, but child malnutrition remains a matter of serious concern. In the field of *cancer screenings*, for the first time, collection of data on breast cancer started, showing a near ten-fold increase compared to 2012 estimates. Preparations continued on establishing cervical cancer, breast and colorectal screening. A structure for cancer screening services and a cancer registry system remain to be established.

Conclusion

Little progress has been made in the area of consumer protection and some progress in the field of health. The healthcare sector remains substantially underfunded, understaffed, and lacks adequate healthcare management. This hampers the proper implementation of public health legislation and policies. Substantial work is needed to build sustainable market surveillance, including offsetting up a market inspectorate, training inspectors, and building capacity in the Consumer Protection Unit and Consumer Protection Commission. Overall, preparations are being initiated.

4.29. Chapter 29: Customs union

In the field of **customs legislation**, a new Customs Code which aims at further approximation to the *acquis* was adopted in July with partial entry into force planned in 2015. National nomenclature has been aligned to the 2014 EU nomenclature. In the framework of CEFTA, since 1 April 2014, Serbia, Albania, Montenegro and the former Yugoslav Republic of Macedonia started applying the regional Convention on Pan-Euro-Med Preferential Rules of Origin. Transaction value is increasingly being used for valuation purposes although complaints concerning the use of reference prices persist.

As regards **administrative and operational capacity**, the 24-hour camera surveillance system at border crossing points is operational. The customs laboratory is operational but lacks the necessary information management system. The General Directorate of Customs (GDC) serves as the national focal point for the EU chemical, biological radiological and nuclear centre of excellence. ATA Temporary Import Convention Carnet procedures have been regularly implemented. Further action is required to prepare for interoperability of the GDC's IT systems with the EU.

Albania and Kosovo signed a joint agreement on transit facilitation in June. The GDC increased its investigative action and reported several cases of fraud and internal corruption to the prosecutor's office. The customs authorities continued to identify and block counterfeited products entering Albania, but enforcement of intellectual property rights legislation must be improved. Concerns remain over irregular practices and corruption in the customs administration.

Conclusion

There has been some progress on customs union. A more *acquis*-compliant Customs Code was adopted and administrative capacity was strengthened. IT interoperability with the EU requires further action. Overall, preparations are moderately advanced.

4.30. Chapter 30: External relations

In the area of **common commercial policy** Albania has continued coordinating its trade policy with the EU in the World Trade Organisation. Administrative capacity for developing trade policy and ensuring interinstitutional coordination needs to be strengthened. The 2013 training plan on trade policy and EU common commercial policy was only partly completed.

There were no developments on *export credits*. As regards export controls on *dual-use goods* Albania is taking part in an EU regional outreach programme to increase the effectiveness of export-control systems for dual-use items. Further action is needed to align export control legislation with the *acquis*.

In the area of **bilateral agreements with third countries**, in March, Albania ratified the Third Additional Protocol to the Agreement on Amendment of and Accession to the Central European Free Trade Agreement. In January, the Council of Ministers adopted, in principle, an agreement for economic and technical cooperation with the Republic of China. Albania is negotiating bilateral agreements for the reciprocal promotion and protection of investments with the United Arab Emirates, Canada, Iceland, Turkey, Slovakia, Morocco and Lebanon. Negotiations are ongoing for agreements on economic and technical cooperation with Bosnia and Herzegovina, Montenegro, Brazil, South Korea and Kosovo.

Conclusion

There has been little progress in the area of external relations. Albania has maintained good cooperation with the EU within the World Trade Organisation and the Central European Free Trade Agreement and is participating in a regional programme to strengthen the export control of dual-use goods. Administrative capacity for dealing with trade policy matters needs to be increased. Overall, preparations are moderately advanced.

4.31. Chapter 31: Foreign, security and defence policy

The regular **political dialogue** between the EU and Albania on foreign and security policy issues continued. (For more information on relations with other enlargement countries and EU Member States, *see Political criteria — Regional issues and international obligations.*)

As regards the **common foreign and security policy (CFSP)**, Albania aligned itself, when invited, with all relevant EU declarations and Council decisions (100% alignment). (As regards the International Criminal Court, *see Political criteria — Regional issues and international obligations.*)

Albania aligned itself with and implemented *restrictive measures* introduced by Council decisions, including EU restrictive measures in the context of Russia's illegal annexation of Crimea and events in eastern Ukraine. Albania voted in favour of the UN General Assembly Resolution on Ukraine's territorial integrity.

Regarding *conflict prevention*, Albania has declared its support for the EU programme for the prevention of violent conflicts.

In the field of *non-proliferation of weapons of mass destruction and disarmament issues*, Albania has made some progress in implementing the action plan for the destruction of surplus weaponry. The destruction of surplus conventional ammunition is well on track. The online register of weapons and ammunition under the management of the Albanian State Police has not yet been set up. With regard to chemical, biological and radio-nuclear threats (CBRN), a national CBRN team has been set up to support the drafting of the national security strategy. Albania ratified the UN Arms Trade Treaty in June 2014.

Albania continued to engage actively in *cooperation with international organisations*. In March, Albania deployed four observers to two OSCE Missions in Ukraine. Albania marked the fifth anniversary of its NATO accession.

As regards *security measures*, the security agreement with the EU on the exchange and mutual protection of classified information is still being negotiated.

Albania continued to participate in *civil and military crisis management* operations under the **common security and defence policy (CSDP)**. Albania continued to take part in the EUFOR

ALTHEA military mission in Bosnia and Herzegovina (contributing one officer). Albania's participation as from July in the EU training mission in Mali was confirmed. Amendments to the Criminal Code, adopted in August, made it a criminal offence for Albanian citizens to volunteer to fight in foreign military conflicts.

Conclusion

Albania continued to participate in civil and military crisis management operations. The country continued its full alignment with EU declarations and Council decisions in the field of foreign and security policy. There has been no progress towards the completion of the online register of weapons and ammunition under the management of the Albanian State Police. Overall, preparations in this field remain well on track.

4.32. Chapter 32: Financial control

In the area of **public internal financial control**, the Central Harmonisation Unit for Financial Management and Control (CHU/FMC) has continued to provide training on FMC requirements to budget spending units. However, application of the managerial accountability principle remains a challenge. The CHU/FMC should therefore focus on measures which will lead to greater commitment from senior management. An effective FMC system in Albania will depend upon the support of committed authorising officers and skilled finance directors in budget spending units. Although improvements are required both in the administrative capacity of internal audit units within budget spending institutions and in the quality of their reports, the Central Harmonisation Unit for Internal Audit (CHU/IA) is mostly focusing on the training and certification of internal auditors. Its primary purpose should be to provide strategic guidance and act as a mentor for internal audit units. As concerns centralised budget inspection, the Public Financial Inspection Directorate within the Ministry of Finance is still not fully staffed and is awaiting the adoption of implementing legislation on procedures to conduct financial inspections. Their full operation is necessary for an effective fight against fraud and for detecting irregularities.

In the field of **external audit**, the 2013-2017 Strategic Development Plan of the High State Control (HSC) was adopted in 2013. Amendments to the HSC law, making it fully compatible with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI), are still awaiting parliamentary approval. The operational capacity of the HSC needs to be further strengthened to achieve full audit coverage. Parliament's review of HSC reports remains limited with no systematic follow-up.

As regards the **protection of the EU's financial interests**, staff in the Ministry of Finance's Public Financial Inspection Directorate, which will serve as the anti-fraud coordination service (AFCOS), regularly participated in meetings with the Commission and other anti-fraud coordination services. However, administrative capacity in this area needs to be further strengthened.

With regard to the **protection of the euro against counterfeiting**, the Bank of Albania's National Analysis Centre checked an increasing number of counterfeit domestic and foreign currency banknotes, including euro banknotes. The forensic laboratory became fully operational.

Conclusion

There has been some progress in the area of financial control. The Albanian government is preparing a comprehensive public financial management strategy and an action plan for the period 2014-20, which will include reforms also in this area. Further efforts are needed in PIFC implementation. The legislation and performance of the High State Control need to be

further aligned with INTOSAI standards and Parliament needs to ensure proper follow-up of audit reports. Overall, preparations in this area are moderately advanced.

4.33. Chapter 33: Financial and budgetary provisions

There have been limited developments in the fields of **traditional own resources**, the **value added tax-based resource** and the **gross national income-based resource**. Concerning the VAT-based resource, the National Institute of Statistics (INSTAT) has initiated a preliminary analysis to define the methodology for estimating VAT fiscal evasion. As regards the GNI resource, Albania has continued to produce the GDP indicator according to ESA 95 standards and to publish it on the INSTAT website. Preliminary work has started on complying with ESA 2010 standards. (*For developments in the underlying policy areas, see Chapters 16 — Taxation; 18 — Statistics; 29 — Customs union; and 32 — Financial control.*)

Albania has put in place the main **administrative infrastructure** for the underlying policy areas that indirectly affect the own resources system. In due course, work should be done to set up the institutions and the coordinating body in charge of preparing the administrative conditions for applying the own resources rules. Effective tools to fight tax evasion and fraud need to be further developed. Despite steps taken to strengthen the public finance management system, the informal economy remains widespread.

Conclusion

In the area of financial and budgetary provisions, Albania will need to set up a coordinating body in due course to steer pre-accession preparations in the own resources field. Overall, preparations in this field are at an early stage.

STATISTICAL ANNEX

STATISTICAL DATA

Albania

Basic data	Note	2001	2009	2010	2011	2012	2013
Population (thousand)	1)	3 063e	2 936e	2 919e	2 907e	2 902e	2 899e
Total area of the country (km ²)		28 750	28 750	28 750	28 750	28 750	28 750

National accounts		2001	2009	2010	2011	2012	2013
Gross domestic product (GDP) (million national currency)	2) 3)	583 369	1 143 936 b	1 239 645	1 300 624	1 335 488 p	1 180 823 be
Gross domestic product (GDP) (million euro)	2) 3)	4 541	8 661b	8 999	9 268	9 608p	8 419e
GDP (euro per capita)	4)	1 482	2 958b	3 089	3 191	3 312p	2 904s
GDP (in Purchasing Power Standards (PPS) per capita)		:	7 023e	7 089e	7 409e	7 513ep	:
GDP (in Purchasing Power Standards (PPS) per capita), relative to the EU average (EU-28 = 100)		:	27	26	30	30	30
Real GDP growth rate: change on previous year of GDP volume (%)	3) 4)	7.9	3.4b	3.7	2.5	1.6	1.4be
Employment growth (national accounts data), relative to the previous year (%)		:	:	:	:	:	:
Labour productivity growth: growth in GDP (constant prices) per person employed, relative to the previous year (%)		:	:	:	:	:	:
Unit labour cost growth, relative to the previous year (%)		:	:	:	:	:	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2005 = 100)		:	:	:	:	:	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-27 = 100)		:	:	:	:	:	:
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)	2)3) 5)	23.6	19.4b	20.7	21.0	21.8p	22.2e
Industry (%)	2)3) 5)	7.3	11.6b	14.3	14.3	14.4p	15.3e
Construction (%)	2)3) 5)	10.4	17.1b	14.6	14.4	12.2p	12.3e
Services (%)	2)3) 5)	58.6	51.9b	50.4	50.4	51.6p	50.2e
Final consumption expenditure, as a share of GDP (%)	2)	80.9	91.6b	88.9	88.9	88.5p	:
Gross fixed capital formation, as a share of GDP (%)	2)	38.4	32.7b	28.4	29.4	25.8p	:
Changes in inventories, as a share of GDP (%)	2) 6)	1.3	1.8b	1.9	2.0	2.8p	:
Exports of goods and services, relative to GDP (%)		18.4	29.6	32.4	34.0	33.3p	40.2ps
Imports of goods and services, relative to GDP (%)		39.0	53.8	53.0	56.7	51.9p	60.7ps

Industry	Note	2001	2009	2010	2011	2012	2013
Industrial production volume index (2010 = 100)		:	84.4	100.0	111.9	118.7	135.1

Inflation rate and house prices	Note	2001	2009	2010	2011	2012	2013
Consumer price index (CPI), change relative to the previous year (%)	7)	3.5	2.3	3.6	3.4	1.9	1.9
**Annual change in the deflated house price index (2010 = 100)		:	:	:	:	:	:

Balance of payments	Note	2001	2009	2010	2011	2012	2013
Balance of payments: current account total (million euro)		-316	-1 330	-1 019	-1 225	-978	-1 035
Balance of payments current account: trade balance (million euro)		-1 149	-2 304	-2 083	-2 242	-1 999	-1 720
Balance of payments current account: net services (million euro)		100	174	232	135	213	-16
Balance of payments current account: net income (million euro)		150	-138	-90	-25	-72	21
Balance of payments current account: net current transfers (million euro)		583	938	922	906	880	680
of which government transfers (million euro)		31	27	45	29	33	17
**3 year backward moving average of the current account balance relative to GDP (%)		:	-13.9	-14.1	-13.3	-11.6p	-11.9e
**Five year change in share of world exports of goods and services (%)		:	:	:	:	:	:
Net inward foreign direct investment (FDI) (million euro)		230.7	688.7	788.5	608.9	647.8	923.2
Foreign direct investment (FDI) abroad (million euro)		0.0	28.2	4.8	21.4	17.9	30.0
of which FDI of the reporting economy in the EU-28 countries (million euro)		:	:	:	:	:	:
Foreign direct investment (FDI) in the reporting economy (million euro)		230.7	716.9	793.3	630.4	665.8	953.2
of which FDI of the EU-28 countries in the reporting economy (million euro)		:	:	:	:	:	:
**Net international investment position, relative to GDP (%)		:	:	:	:	:	:

Public finance	Note	2001	2009	2010	2011	2012	2013
General government deficit / surplus, relative to GDP (%)		-6.9	-7.1	-3.1	-3.5	-3.4e	:
General government gross debt relative to GDP (%)		58.5	59.9	57.7	59.3	62.0	:

Financial indicators	Note	2001	2009	2010	2011	2012	2013
Gross foreign debt of the whole economy, relative to GDP (%)	8)	17.2	41.3	46.2	52.5	56.5	:
Gross foreign debt of the whole economy, relative to total exports (%)	8) 9)	93.1	142.4	140.2	152.1	166.5	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		1 113	2 154	1 999	1 973	2 023	2 109
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		2 376	4 378	4 387	4 611	4 816	4 942
Money supply: M3 (M2 plus marketable instruments, million euro)		3 069	6 599	7 114	7 626	8 080	8 192
Total credit by monetary financial institutions to residents (consolidated) (million euro)		217	3 335	3 506	3 862	3 990	3 906
**Annual change in financial sector liabilities (%)		:	:	:	:	:	:

**Private credit flow, consolidated, relative to GDP (%)		:	:	:	:	:	:
**Private debt, consolidated, relative to GDP (%)		:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:
Lending interest rate (one year), per annum (%)	10)	11.90	12.46	11.29	11.17	10.28	9.52
Deposit interest rate (one year), per annum (%)	11)	7.80	6.78	6.40	5.87	5.38	4.17
euro exchange rates: average of period (1 euro = ... national currency)		128.47	132.06	137.79	140.33	139.04	140.26
Trade-weighted effective exchange rate index (2005 = 100)		:	:	:	:	:	:
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		:	1 646	1 905	1 912	1 972	2 015

External trade in goods	Note	2001	2009	2010	2011	2012	2013
Value of imports: all goods, all partners (million euro)		1 486	3 261	3 472	3 876	3 798	3 675
Value of exports: all goods, all partners (million euro)		340	780	1 169	1 400	1 532	1 756
Trade balance: all goods, all partners (million euro)		- 1145	-2 481	-2 303	-2 477	-2 266	-1 919
Terms of trade (export price index / import price index * 100) (number)		101	73	72	78	83	86
Share of exports to EU-28 countries in value of total exports (%)		91.3	84.8	70.2	72.9	75.6	76.7
Share of imports from EU-28 countries in value of total imports (%)		81.6	65.9	66.5	65.3	63.2	64.2

Demography	Note	2001	2009	2010	2011	2012	2013
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		11.2e	4.7e	4.8e	4.9e	5.0	5.3
Infant mortality rate deaths of children under one year of age (per thousand live births)		17.4	10.3	9.6	8.7	8.8	7.9
Life expectancy at birth: male (years)		:	73.7e	74.7e	75.3e	75.5e	76.0
Life expectancy at birth: female (years)		:	78.7e	79.4e	79.8e	79.7e	80.3

Labour market	Note	2001	2009	2010	2011	2012	2013
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)	12)	72.3	69.6be	69.7e	75.6e	73.2e	68.0e
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)	12)	55.5	60.4be	60.3e	64.9e	63.4e	57.2e
Male employment rate for persons aged 20–64 (%)	12)	70.6	73.2be	71.5e	72.8e	71.4e	65.1e
Female employment rate for persons aged 20–64 (%)	12)	40.6	48.9be	49.8e	57.2e	55.4e	49.9e
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)	12)	27.5	48.9be	48.3e	54.7e	57.7e	52.4e
Employment by main sectors							
Agriculture, forestry and fisheries (%)	5)	50.6	44.1be	41.8e	45.4e	51.1e	44.6e
Industry (%)	5)	7.1	10.0be	11.0e	10.6e	10.9e	9.8e
Construction (%)	5)	6.6	9.9be	9.9e	8.2e	6.5e	7.3e

Services (%)	5)	35.7	36.0be	37.3e	35.8e	31.6e	38.2e
Unemployment rate: proportion of the labour force that is unemployed (%)	12)	22.8	13.8be	14.0e	14.0e	13.4e	15.6e
Male unemployment rate (%)	12)	18.8	12.2be	12.6e	13.6e	14.5e	17.5e
Female unemployment rate (%)	12)	28.4	15.9be	15.9e	14.4e	12.1e	13.2e
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)	12)	35.5	27.2be	30.5e	23.6e	27.9e	30.2e
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)	12)	:	9.1be	10.6e	10.2e	10.8e	11.4e

Social cohesion	Note	2001	2009	2010	2011	2012	2013
Average nominal monthly wages and salaries (national currency)		17 218	40 874	44 375	46 665	50 093	52 150
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2000 = 100)		111.6	209.8	216.1	223.5	238.2	243.0s
*Early leavers from education and training: proportion of the population aged 18–24 with at most lower secondary education who are not in further education or training (%)		:	35.5e	31.9e	35.2e	31.6e	30.5

Standard of living	Note	2001	2009	2010	2011	2012	2013
Number of passenger cars relative to population size (number per thousand population)		43.5e	88.2	104.4	106.3p	106.6	122.0
Number of mobile phone subscriptions relative to population size (number per thousand population)		120.6e	1 444.0e	1 584.4	1 841.8	2 015.0	1 828.2s

Infrastructure	Note	2001	2009	2010	2011	2012	2013
Density of railway network (lines in operation per thousand km ²)		14.3	13.9	13.9	13.9	13.9	12.0
Length of motorways (kilometres)		:	:	:	:	:	:

Innovation and research	Note	2001	2009	2010	2011	2012	2013
Public expenditure on education relative to GDP (%)		3.3	3.4	3.5	3.3	3.4	:
*Gross domestic expenditure on R&D relative to GDP (%)		:	:	:	:	:	:
Percentage of households who have internet access at home (%)		:	:	:	:	14.1	:

Environment	Note	2001	2009	2010	2011	2012	2013
*Index of greenhouse gas emissions, CO ₂ equivalent (1990 = 100)		:	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2000 constant prices)	13)	386.5	:	:	:	:	:
Electricity generated from renewable sources relative to gross electricity consumption (%)		:	:	:	:	:	:
Road share of inland freight transport (based on tonne-km) (%)		:	:	:	:	:	:

Energy	Note	2001	2009	2010	2011	2012	2013
Primary production of all energy products (thousand TOE)		933	1 263	1 643	1 494	1 676	:

Primary production of crude oil (thousand TOE)		335	577	744	895	1 031	:
Primary production of hard coal and lignite (thousand TOE)		15	3	3	2	2	:
Primary production of natural gas (thousand TOE)		8	8	13	15	15	:
Net imports of all energy products (thousand TOE)		1 001	895	552	668	320	:
Gross inland energy consumption (thousand TOE)		1 934	2 104	2 106	2 162	2 014	:
Electricity generation (thousand GWh)		3.7	5.2	7.7	4.1	4.8	7.0

Agriculture	Note	2001	2009	2010	2011	2012	2013
Agricultural production volume index of goods and services (at producer prices) (previous year = 100)		:	102.0	107.3	103.9	104.5	:
Utilised agricultural area (thousand hectares)		1 139	1 138	1 201	1 201	1 201	1 190
Livestock numbers: live bovine animals (thousand heads, end of period)		708	494	493	492	498	468
Livestock numbers: live swine (thousand heads, end of period)		106	160	164	163	159	112
Livestock numbers: live sheep and live goats (thousand heads, end of period)		2 933	2 540	2 581	2 517	2 619	2 734
Production and utilisation of milk on the farm (total whole milk) (thousand tonnes)		984	1 045	1 070	1 101	1 105	1 155
Harvested crop production: cereals (including rice) (thousand tonnes)		502	630	662	701	697	662
Harvested crop production: sugar beet (thousand tonnes)		38	0	0	0	0	0
Harvested crop production: vegetables (thousand tonnes)		677	730	860	890	914	867

: = not available

b = break in series

e = estimated value

p = provisional

s = Eurostat calculation

* = Europe 2020 indicator

** = Macroeconomic Imbalance Procedure (MIP) indicator

Footnotes:

- 1) Based on retro projection made by INSTAT.
- 2) In 2014, data for reference year 2008 and more recent reference years were revised as a result of implementing the latest versions of the SNA and ESA. Earlier years have not been revised.
- 3) 2013: flash based on quarterly estimation, gross value added and not GDP at basic prices.
- 4) In 2014, data for reference year 2009 and more recent reference years were revised as a result of implementing the latest versions of the SNA and ESA. Earlier years have not been revised.
- 5) Based on NACE Rev. 1.1.
- 6) 2001: change in inventories and statistical discrepancy.
- 7) 2001 and 2009: variation between December of one year compared with December of the previous year.
- 8) Data disseminated by the Bank of Albania.
- 9) 2001: Debt Outstanding Disbursed cumulative stock covering external public debt and external publicly guaranteed debt, but excluding IMF credit. Exports are calculated according to national accounts concepts.
- 10) Average weighted rate applied on new 12-month loans over the respective month, on 12-month maturity.
- 11) Deposit interest rate represents the average weighted rate for newly accepted deposits over the respective month, on 12-month maturity.
- 12) 2001: census data.
- 13) Kg of oil equivalent per thousand euro at 2004 constant prices.