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ALBANIA

Stabilisation and Association Report

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1. EXECUTIVE SUMMARY

Albania started its reform seriously adrift from the level of development in Western Europe. Early efforts to introduce democracy and build a market economy were severely undermined by the socio-economic crisis and generalised unrest which followed the financial collapse of 1997. The lack of a democratic culture, the absence of dialogue between different political tendencies and a limited understanding of the concept of national interest amongst political leaders have often prevented the development and implementation of sound policies to address the many issues that Albania faces. The tense situation in the region has also had an adverse effect on the country's stability. All this meant that the situation in early 1998 was little better than that prevailing in the early years of the reform.

Since 1998 Albania's reform efforts have been more productive : the adoption of a modern Constitution and legislative framework, an overall improvement in macro-economic stability and fiscal sustainability, effective implementation of the privatisation process, substantial strengthening of the customs and tax administrations, and improvement in terms of security and public order. Moreover, Albania has been constructive in response to the recent political crisis in the former Yugoslav Republic of Macedonia and Presevo. All this relative progress has brought Albania to the threshold of negotiating a Stabilisation and Association Agreement (SAA) with the EU.

However, the starting point against which all these achievements have been measured is extremely low and much more remains to be done to ensure further progress of Albania within the Stabilisation and Association process (SAP). The conclusion of an SAA itself is conditional on a sustained reform effort by Albania and on the strengthening of its administrative capacity in order to ensure the proper implementation of such an agreement.

Albania is still beset by a confrontational political culture, where individual interests prevail over general ones with the frequent result being political instability and poor governance. Elections are not yet up to international standards. The judiciary remains a major problem, as it is still ill-prepared to enforce legislation, legal reasoning is often weak and corruption is pervasive. Overall implementation of the legal framework is poor and legal security is insufficient to attract inward investments on a scale to contribute to sound and sustainable economic development. Public administration is weak and still subject to political and financial influence. In almost every area where Albania would take on obligations under a future SAA, there is a considerable lack of implementing capacity. Despite recent economic progress, the overall socio-economic conditions in Albania remain poor with almost one fifth of the population living on less than 1.2 €/day. The grey economy is still too large, prevents competition and discourages investment. The current energy crisis threatens prospects of continued economic growth. Widespread corruption and organised crime, particularly illegal trafficking of all types, remain very serious problems and undermine respect for the rule of law and the foundations of the state itself.

In order to make further progress in the Stabilisation and Association process, Albania urgently needs to guarantee a stable political environment, with fully functioning democratic institutions. The new Government should quickly re-focus on badly needed reforms and accelerate their implementation.

2. POLITICAL SITUATION

2.1. Democracy and the Rule of Law

Albania is a young and still rather unstable democracy. A more consensual democratic culture needs to develop. Confrontation and conflict is the norm in political life (including within political parties). This threatens stability and prevents constructive political positions which are needed to ensure that political and economic reform continues. Poor general socio-economic conditions further contribute to the radicalisation of political life.

Democratic institutions are weak at central and local level. Parties in the opposition have tended to resort to the boycott of democratic institutions as a means of political and social coercion. This prevents the proper functioning of the institutions at central (Parliament, parliamentary commissions, central regulatory bodies) and at local level (municipalities). Governments have often adopted autocratic approaches, particularly in the absence of a functioning opposition. Nepotism and corruption are frequent in the Government and public administration.

Albanian elections have often been unnecessarily protracted and poorly managed. Despite relative progress in the last Parliamentary elections, further efforts are still necessary by Albania to ensure fully free and fair elections in accordance with international standards. Albania's electoral system needs to be improved and the population better informed on electoral procedures. The participation of more women in political life needs to be further encouraged.

Civil society remains underdeveloped and largely ineffective. Continued efforts will be necessary to ensure that civil society develops so that it can usefully contribute to political, social and economic development.

Overall, respect for and implementation of the rule of law in Albania is weak. The Albanian law enforcement bodies will need time and hard work to be able to guarantee consistent implementation and enforcement of the law in accordance with international standards. Fraud, corruption and organised crime continue to be serious threats to the stability and progress of the country. The judiciary, a central element in ensuring the rule of law, suffers from serious deficiencies and is undermined by corruption.

2.1.1. Assessment of democratic institutions and of attitudes to the state.

Constitution. The adoption of a new, modern Constitution in 1998 was a significant step forward for the consolidation of democracy in Albania. It laid the basis for the proper development and implementation of democratic principles. The Constitution guarantees democratic freedoms, notably political pluralism, freedom of expression and religion. On that basis, Albania has been undertaking a major overhaul of its institutions and legal system with relative success.

Parliament. The Assembly of Albania (unicameral parliament) has 140 members : 100 are elected by majority and 40 by proportional representation.

The main political parties in Albania are the Socialist Party (left, currently in power), and the Democratic Party (right). A third political force emerged in 2001, the New Democrat Party (centre-right, in opposition) created by dissident members of the Democratic party.

A number of smaller parties also exist. These tend to form alliances with the main parties and are currently present in both the ruling coalition and the opposition.

The last parliamentary elections were held in June 2001. The Socialist Party and its allies won 88 out of 140 parliamentary seats, or more than 62 %. The opposition coalition “the Union for Victory” led by the Democratic Party won 46 seats. The New Democrat Party (opposition, but not in the Union for Victory coalition), holds 6 seats.

Political life in Albania continues to be highly confrontational. During the 2001 election period, the results of 37 out of 100 electoral zones were challenged by both the right and the left in the Constitutional Court. The opposition coalition boycotted Parliament during several months, until 31 January 2002. Moreover, an internal power struggle within the ruling Socialist Party (SP) has further paralysed the Albanian legislature : SP factions have boycotted some key parliamentary sessions to defend their own interests or to exert pressure on the Government. This situation has had an adverse influence on the reform process : political forces have been distracted from the important reforms that Albania urgently needs, and the Parliament has been prevented from adopting the necessary legislation. The inability to pass key pieces of legislation needed to complete the constitutional framework, namely the Law on the High Council of Justice and laws on property and restitution, are examples of this.

Although the 2001 parliamentary **elections** marked a relative progress over those in the past in terms of the conduct of the campaign, media and election administration, Albania still needs to make further efforts to meet international standards. These elections took nearly two months and five rounds to complete. Isolated but serious irregularities were noted by the International Election Observation Mission (cases of ballot box stuffing and use of pre-marked ballots, irregular interventions by the police, inadequate handling by the competent bodies of some key complaints about electoral practice and lack of consistency by the courts when handling complaints). In addition, the SP in power exploited the electoral law beyond acceptable limits and political pressure at times appeared to compromise the independence of the Central Electoral Commission and the Constitutional Court. The OSCE/ODHIR report on the elections concludes that these “isolated but serious” irregularities were due more to insufficient political will than technical deficiencies in the electoral code.

In line with the OSCE/ODIHR recommendations, the Albanian political forces and relevant electoral bodies should now concentrate on finding fair solutions for past problems, and to act rapidly to avoid similar situations in the future. In particular, they should simplify the election system, improve the electoral code and electoral procedures, strengthen electoral administrations at central, zone and local level, improve the appeal system, and complete accurate voting lists. Action to increase public understanding of electoral procedures and to encourage greater participation of women is also necessary.

The executive. Since 1998, the governing Socialist Party has been working hard to stabilise Albania and to promote Euro-Atlantic integration. The actions carried out by the Socialist-led governments have, overall, yielded relatively good results and have been central to Albania’s progress in the Stabilisation and Association process.

The work of the Government issued from the June 2001 elections was severely affected by the internal conflict within the SP between the party chairman and the Prime Minister. This crisis led to serious accusations of corruption against that Government, and provoked the resignation of several key ministers and ultimately of the Prime Minister himself. After intense negotiations within the SP, a new Government was formed in February 2002. As in the past, the new Government identifies the European integration

process as a main priority for its mandate and the portfolio of Minister of State for European Integration established in September 2001 has been maintained. However, political manoeuvring within the ruling party is still frequent. This poses a threat for stability and slows down the reform process.

Albanian **public administration** remains weak. The reform of the public administration initiated in 2000 has not yielded concrete results and remains, in general, at its initial phase, with the exception of some specific areas such as the customs and tax administrations. The Civil Service Law, cornerstone of the system, is not yet fully implemented, particularly at local level. In many places, the old system continues to prevail with its strong tendency to nepotism and political nominations. The Civil Service Commission, established to monitor the implementation of the Civil Service Law, is not fully functional, and the implementation of its decisions has been poor. It has not yet approved its internal regulations (due by mid-2000) and no chairman has been appointed. The Training Institute for the Public Administration, a central instrument for the training of civil servants, is not yet operational. **Local government** and implementation of decentralisation is proceeding slowly and with difficulty due notably to shortages of qualified staff at local level and the lack of financial resources to implement local policies.

Human resources in the Albanian public administration are, in most cases, scarce and not adequately trained. One of the central issues is the current salaries and career prospects offered by the Albanian public administration which, despite recent improvements, are not yet attractive enough to secure the recruitment, motivation and retention of competent staff.

President of the Republic. The President of the Republic is the head of state and, according to the Constitution, plays only a limited executive role. The President is elected by the Parliament with a qualified majority (3/5 of 140 seats = 84 votes). The current President was elected in 1997 by the socialist parliamentary majority.

The number of seats won by the SP and its allies in the last elections (88 out of 140) allows them to determine the outcome of the Presidential elections scheduled for mid 2002 without needing to reach a compromise on a candidate with the opposition, as the Constitution had intended. This has been one of the main reasons which led to the boycott of the Parliament by the opposition (the extent of the victory of the SP and its allies is considered illegitimate by the opposition). The selection of a candidate for the Presidential elections is also a major element of the power struggle within the ruling Socialist Party.

Civil society. Civil society in Albania remains underdeveloped and does not contribute sufficiently to Albania's political, economic and social development. Dialogue between civil society representatives and the Government remains limited and needs to be enhanced. A new law on NGOs was adopted in May 2001, but adequate implementing measures need still to be developed. Despite some efforts by NGOs to organise activities in rural areas, civil society initiatives continue to be particularly rare outside Tirana.

The Armed Forces. The Albanian armed forces are accountable to the democratic institutions and under the ultimate responsibility of the President of the Republic. Albania is a candidate for NATO membership, but its armed forces are currently poorly equipped and trained. They comprise around 17 000 men, including 4 500 conscripts and 2 500 civilians. The number of officers is high (around 6 000) which is typical in a post-communist system which has not yet completed reform in this area. Restructuring plans aim to reduce the armed forces' size to around 14 000 men, notably through a strong

reduction in the number of conscripts. A bigger challenge will be to restructure the organisation and operation of the Albanian armed forces according to NATO standards, including the modernisation of equipment and infrastructures within existing budgetary constraints.

2.1.2. Assessment of judiciary, law enforcement and respect for the rule of law

Legal framework. Albania's legal framework has been developing during the last decade and can today be considered as broadly satisfactory, particularly if Albania's current level of development is taken into account. However, implementation and enforcement capacity remains weak. This constitutes a serious challenge for further progress of Albania in the Stabilisation and Association process.

The Judicial System. During the last four years, Albania has adopted a large number of laws and regulations designed to improve the functioning of its judicial system. However, implementation of the bulk of this legislation remains clearly insufficient due, amongst other, to a lack of basic infrastructure and equipment (dilapidated buildings, deficient postal and telephone services, power cuts, lack of filing and recording systems, ...). This situation has a serious adverse effect on the delivery of justice. The government is also currently experiencing difficulties in adopting a key piece of legislation, the Law on the High Council of Justice. Once adopted, it should lead to more efficient inspection and disciplinary procedures for judges.

A School of Magistrates has been established, but the number of sufficiently trained judges remains very limited. At an expected rate of around 25 graduates per year (judges and prosecutors together) it will take a long time to build up a modern, well-trained judiciary. The Albanian authorities should take further steps to accelerate this process. Appropriate training and working conditions should also be provided for administrative staff (auxiliaries, secretaries, archivists etc).

Corruption within the Albanian judiciary continues to constitute a serious problem, despite some attempts by the Albanian authorities to address this issue such as the revision of the Criminal and the Criminal and Civil Procedures Codes, and the adoption of a Code of Ethics for the Judiciary. In 2000 and 2001, the High Council of Justice took measures against 33 judges of whom 18 were dismissed. Disciplinary action was taken against 15 (out of a total of 347) on grounds of corruption or improper professional behaviour. However, much more needs to be done to eradicate corruption from the judiciary and to ensure that, where appropriate, judges are duly prosecuted.

Despite efforts in recent months, further action is needed to ensure the enforcement of court rulings, notably when the sentences are pronounced against State bodies. In 2001, out of a total of 12,182 rulings, 5,835 were executed and 6,347 have been carried over into 2002.

The Albanian prison population is 1,766, and is rising (1,583 in May 2001). Efforts have been undertaken by the Albanian authorities to develop a generally acceptable legal framework for the penitentiary system. However, Albania's prisons remain, overall, in a poor state and there is a problem of overcrowding (according the latest data, affecting around 340 inmates). The situation of prisoners on remand held in police stations over relatively long periods and in bad conditions has to be addressed quickly (the current population of prisoners on remand amounts to around 1 200).

Police. Albania has made good progress in defining the overall legislative framework for the police. However, implementation remains weak, notably because key implementing regulations have not been adopted yet. A good example is the Judicial Police law which,

although adopted in November 2000, still awaits secondary legislation and rules allowing its proper implementation.

Albania has also developed a police reform strategy, but implementation is proceeding slowly. More work is needed to reduce the size of the police both to make it more efficient and to allow more resources for the improvement of working conditions and salaries. The selection, qualifications and training of police, including in areas such as respect for human rights, needs to be improved. The fight against corruption within the police ranks and efforts to improve co-ordination between law enforcement bodies should be pursued vigorously.

In 2001, a number of new structures to combat trafficking in human beings have been set up. Recently, the Albanian police has been active in this field with political declarations, the preparation of new strategies and a number spectacular police operations. As a result, a number of boats and vehicles used for illegal traffic have been seized, and arrests have significantly increased. However, there has not been a corresponding increase in the number of prosecutions or sentences for these criminals. The issue of organised crime continues to be one of the Albania's basic problems and greater efforts will be necessary to achieve a significant reduction in criminal activity.

Although Albania has been equipping itself to fight its strong systemic **corruption**, actual progress in this area has been clearly insufficient. In April 2000, a revised Anti-Corruption Plan (ACP) was launched and an Anti-Corruption Monitoring Group has been established. The Criminal and Criminal Procedure Codes have been amended in order to better address corruption-related issues. A law on the functioning of Parliamentary Investigative Commissions, which could be used to fight against corrupt activities of high level officials, including MPs, is currently pending in Parliament. However, to really curb corruption, much more is needed, including the creation of efficient implementation mechanisms and strengthening co-operation between law enforcement bodies. Limited institutional capacity to investigate and prosecute corruption cases and lack of witness protection are serious problems. The Albanian authorities have not yet introduced legislative amendments to establish effective sanctions against companies to deter bribery of public officials. There has also been a distinct lack of progress in establishing a new law on the declaration of assets of public officials. Following the political row within the ruling Socialist party which led to the resignation of three ministers (Finance, Privatisation and Public Works) on charges of corruption, the Albanian authorities have publicly stressed their intention to make the fight against corruption one of its top priorities. Whatever is behind these declarations of intent, the government should ensure they result in clear shift away from endemic corruption.

In view of the above, it can be concluded that **general respect of the rule of law** in Albania remains deficient, notably due to weak law enforcement institutions, a generally poor public administration, and widespread corruption and organised crime.

2.2. Human Rights and Protection of Minorities

Basic human rights are guaranteed by Albanian legislation and generally respected. However, there is still room for improvement. In particular, law enforcement bodies should be better acquainted with their human rights obligations, and the judiciary should be able to address human rights cases properly. In the area of economic rights, property rights continue to be particularly problematic, notably as regards land and

property, and are the source of a considerable number of complaints by Albanian citizens.

The general attitude of the Albanian government regarding the protection of minorities is constructive. However, taking into account the sensitivity of this sector, Albania should complete its legislative framework and structures to fully meet international standards and to ensure their implementation. The Roma population faces social and economic difficulties which require attention.

2.2.1. Civil, political, economic and social rights

Human rights, including civil, social, economic and political rights, are guaranteed by the Albanian Constitution of 1998. The Albanian Government is taking steps to strengthen further respect for human rights through new legislation and structures, and has made efforts to comply with the international requirements in this area. In autumn 2001, Albania published its “Report on the compatibility of Albanian legislation with the requirements of the European Convention on Human Rights”. However, implementation of human rights-related legislation is not always adequate. Judges and prosecutors are not properly briefed on the application of human rights legislation. The Albanian police authorities need to be better informed of their obligations to uphold human rights and how to implement them.

In September 2000, Albania abolished the **death penalty** in peacetime.

The **right of assembly and demonstration** is generally respected. Opposition rallies normally take place without major incidents. The **right to seek redress, a fair trial or protection against arbitrary arrest or detention** exist in law. However, they are often not applied in practice.

There is **freedom of expression** in Albania but the **media** need, in general, to become more professional. Media-related legislation needs to be improved. The independence of radio and television should be reinforced and the transformation of the state TV and radio into an independent public broadcasting institution should be completed. Generally, public TV provides fair coverage of political views, including those of the opposition. Foreign ownership of broadcasting media is not restricted in Albania and Tirana has several TV stations owned by foreigners. As regards the Albanian printed media, none is financially viable without outside assistance and regional newspapers are disappearing. These financial difficulties represent a threat to media independence.

The **right to property** is legally guaranteed, but implementation is deficient and the source of numerous complaints. The current situation continues to represent a serious impediment to the creation of a functioning property market. Until action is taken, the lack of clarity over property ownership will discourage investment and hold back the development of agriculture. In accordance with the 1998 Constitution, the Government was due to pass new legislation on property rights and restitution before the end of November 2001, but this has not yet been done. This new legal framework is expected to resolve a number of shortcomings in the present legislation and allow for a better implementation of property rights in Albania.

The organisation and independence of **trade unions** remain very weak and they are largely dependent on political parties.

The **Ombudsman’s** office began its work in August 2000 and is gradually becoming fully operational. In a country with no tradition of such an institution, the progress made over the past years has been significant. The most common complaints examined by the

Ombudsman concern police behaviour and lack of enforcement of court decisions. One of the main challenges ahead lies in further promoting the role of the Ombudsman as a proactive defender of human rights.

2.2.2. *Minority rights and refugees*

Albania has three recognised national **minorities** (Greek, Slav-Macedonian and Montenegrin) and two “cultural minorities” (Vlach and Roma). The most important minority group in Albania is the Greek minority (officially around 50 000, according to the 1989 census), represented through a civic association called Omonia. At political level, minorities are mainly represented through the Human Rights Union Party, which holds a Ministerial post (Minister of Justice). At the local level, representatives of the Greek minority hold posts in local government administrations.

The rights of minorities in Albania are guaranteed by the 1998 Constitution. According to the Constitution, minority groups enjoy the same civil, economic, social and political rights as the Albanian majority. Albanian framework legislation on elections, political parties, media, education, as well as the Civil and Penal codes spell out the rights of minorities and contain provisions against discriminatory treatment. In September 1999, Albania ratified the Convention on the Protection of National Minorities of the Council of Europe, which entered into force on 1 January 2001, and in July 2001 presented its first report under this Convention.

The Roma population is considered as a cultural minority and enjoys certain rights linked to this status. However, the socio-economic situation of Roma remains clearly below acceptable standards and concrete plans to support this community need to be implemented. The Albanian Government is working on an Action Plan to support the Roma community which should be finalised in 2002.

Albania should continue its efforts to ensure that minority rights are effectively respected throughout the country and that no limitation to the exercise of minority rights based on geographic criteria is applied in Albania. It also needs to develop a comprehensive legislative framework on minorities capable to adequately protect minority rights and to respond to international requirements, and to strengthen the administrative structures relevant for the protection and integration of minorities. Moreover, Albania should rapidly gather accurate statistics on the number of national and cultural minority members actually living in Albania, and adopt and implement the Action Plan regarding the Roma population.

At present, the number of **refugees** in Albania is small and does not constitute an issue. Albania is currently developing an asylum system in accordance with international standards.

2.3. **Regional co-operation**

Albania has been a WTO member since September 2000. Albania is also an active member of the Council of Europe (CoE) and OSCE, and is contributing to the main initiatives for regional co-operation in South-east Europe. However, international requirements in the framework of the CoE and OSCE have not always been met due to the general Albanian difficulty in implementing and enforcing legislation, as well as in properly addressing specific issues such as the organisation and conduct of elections.

Albania has had a constructive attitude as regards conflicts in the region (the former Yugoslav Republic of Macedonia, Kosovo, Presevo Valley) and has aligned itself with EU positions. However, Albanian efforts to efficiently control its borders to prevent arms and other help going to armed ethnic Albanian groups in the former Yugoslav Republic of Macedonia and Southern Serbia need to be strengthened. Relations with neighbouring countries have improved, including with the Federal Republic of Yugoslavia. In the commercial area, Albania is attempting to conclude FTAs with the countries of the region. Negotiations with the former Yugoslav Republic of Macedonia have been completed and an FTA was initialled at the beginning of 2002.

Memorandum of Understanding for Trade Liberalisation and Facilitation signed in June 2001 with the objective of creating, by the end of 2002, FTAs between the countries participating in the Stability Pact.

Traditionally, the grievances voiced by the important Albanian minority in the **former Yugoslav Republic of Macedonia** have not contributed to promote good relations between both countries. These relations have been occasionally tense during the recent violent conflict in the former Yugoslav Republic of Macedonia between the Albanian minority and the majority. However, dialogue between Skopje and Tirana has been maintained, as demonstrated by the Free Trade Agreement negotiated between both countries and initialled at the beginning of 2002. Albania has maintained a moderate and constructive policy throughout the conflict, but more needs to be done to improve the control of Albania's borders in order to prevent trafficking activities, notably in weapons.

Relations with the **FRY** have improved, with the re-establishment of diplomatic relations, increased dialogue at political level, and preparations to initiate FTA negotiations. Albania has stepped up its relations with Montenegro with a view to improving cultural and economic relations, as well as enhancing co-operation in the field of Justice and Home Affairs. Contacts with Kosovo have also been developing in the context of the 1244 resolution. As regards Montenegro and Kosovo internal affairs, Albania has been maintaining a prudent and moderate official position. It has notably hailed the adequate conduct of elections in those entities and supported the settlement of institutional issues through constructive dialogue.

Relations with **Croatia** have never raised particular problems and negotiations for a FTA have started recently.

There are no particular issues in the relations between **Bosnia and Herzegovina** and Albania, but there is little dialogue, either at political or at economic level. Some preliminary steps have however been undertaken to prepare the ground for the negotiation of a FTA.

Relations with **candidate countries** continue to be positive, but visa restrictions introduced by Romania and Bulgaria (due to "Schengen" requirements) have apparently had a negative impact on the free flow of persons and trade. Trade relations with these two countries (as well as with other non-EU countries of the region) continue to be, in any event, at traditionally low levels. Little progress has been made regarding the negotiation of a FTA with Bulgaria and Romania as required by the June 2001 Memorandum of Understanding.

The EU is the source of most Albanian imports and the destination for almost all Albanian exports. **Italy** is the first Albanian partner in terms of trade and FDI. Relations between Albania and Italy continue to be good and there have been several contacts at political and technical level aiming at increasing co-operation within the framework of the Three-year Co-operation Protocol (2001-2003) signed by both countries.

Relations with **Greece** have intensified recently. Greece is Albania's second economic partner in trade terms and is the second largest investor in Albania. Similarly to Italy, co-operation with Greece is wide-ranging, covering numerous fields such as energy, agriculture, tourism, transports, finance, telecommunications and culture. The two countries signed a Co-operation Protocol for Euro-Atlantic Integration and a Programme for Cultural Co-operation for the period 2001-3.

2.4. Priority Areas Needing Attention in the Next 12 Months

- Better functioning of the democratic institutions, notably through the active and constructive participation of the opposition in the Parliament, parliamentary commissions, municipal councils and relevant public bodies (National Council on Radio and Television, etc.);
- Implementation of OSCE/ODIHR recommendations regarding the electoral process;
- Increased capacity and improved functioning of the Judiciary and other law enforcement bodies. The Law on the High Council of Justice should be adopted, and further progress should be made regarding the enforcement of Court rulings;
- Adoption of the implementing regulations necessary to implement the Judicial Police Law. Adequate implementation of this law;
- Ensuring full implementation of the Civil Service Law. In this context, it is particularly important: 1) Civil Service Commission and Training Institute for the Public Administration to become fully operational, 2) implement fair and professional selection procedures, 3) find imaginative solutions to improve salaries and career prospects of civil servants;
- New legislation on property rights and restitution should be adopted to address the existing legislative shortcomings in this area and to ensure a better implementation of property rights in Albania;
- Continued efforts to improve minority rights, notably through the development of a comprehensive legislative framework and the strengthening of the relevant institutions to ensure the implementation of minority rights in accordance with international standards, as well as through the adoption and initial implementation of the Action Plan for the Roma minority;
- Continuing the efforts to enhance regional co-operation and implementation of the requirements of the Stability Pact Initiative for Trade Liberalisation and Facilitation in order to create a FTA Regional Framework by the end of 2002.

3. ECONOMIC SITUATION

3.1. Current Economic Situation

Over the last four years, Albania has made significant progress in economic stabilisation. Macro-economic indicators have improved: economic growth, although starting from a very low basis, has been significant, inflation has reached a level comparable to EU figures, and both fiscal and current accounts deficits have been kept within targets.

Despite these achievements, growth sustainability is not ensured. The grey economy represents an important share of real GDP and legal security for business is weak. Remittances from Albanians abroad still largely contribute to the financing of the current account, which nevertheless shows an important deficit. The budget depends to a large extent on foreign financing. The ongoing energy crisis puts an additional, serious strain on economic prospects. A further consolidation of the country's economic base is therefore essential.

Despite disruptions in production caused by energy shortages, **real GDP growth** in 2001 is estimated to have reached the target of 7.3%. This level is broadly in line with the growth registered in the previous three years (average of 7-8% GDP growth). However, **GDP per capita** remains one of the lowest in Europe (around 1,400 €) and the overall impact of economic growth remains limited on the poorest layers of the population. As in 2000, construction and services mainly contributed to this increase, with expected growth rates of respectively 17% and 12%. Industrial production is estimated to have grown at a satisfactory rate, around 6%. Agriculture, which still accounts for slightly more than 50% of Albania's GDP, has grown by around 3.5%. More generally, it is admitted that growth estimates are not fully reliable, since official accounts do not exist yet, and the official figures provide inadequate coverage of private sector activity. Future growth may be seriously undermined by the ongoing , severe energy crisis.

Albania's strong growth performance in recent years has also had a positive impact on the **unemployment** rate. Registered unemployment declined from about 17% in December 2000 to around 15% in September 2001, possibly also because of increased controls on enterprises and the grey economy. The number of unemployed receiving benefits decreased even faster. Although the official data underestimate the extent of unemployment due to incomplete registration, they provide a good indication of underlying trends.

A relatively restrictive monetary policy, coupled with significant increases in productivity, contributed to keeping **inflation** under control. In spite of inflationary pressures caused by the crisis in neighbouring former Yugoslav Republic of Macedonia, as well as by election-related public expenditure, inflation was limited to 3.5% in December 2001 (year-on-year basis).

Taking into account the amendments to the 2001 budget resulting from the energy crisis and involving additional subsidies of about € 19 million for electricity imports, **fiscal performance** in 2001 is broadly on track, however, with lower than projected revenue and expenditure. The **overall deficit** is projected to reach around 9% of GDP, in line with the 2000 figure. Foreign financing of the deficit, which predominantly took the form of grants or concessional borrowing, accounted for about 4% of GDP, domestic financing for about 3%, privatisation receipts accounting for the remaining 2%.

The reduction in the deficit in recent years, more particularly the **primary deficit**¹ which declined from 8% of GDP in 1996 to only 1% in 2001, was made possible primarily by a significant revenue effort, mainly due to continuing improvement in tax and customs administration, as well as by the decision by the government to end support to state-owned enterprises in the form of subsidies and soft loans. Further substantial revenue consolidation will however be necessary in order to reduce the still large overall deficit, more particularly in light of badly needed improvements in basic public services and infrastructure.

On the **external side**, imports expanded strongly as a result of increased investment activity and shortages in domestically-produced electricity. On the other hand, export performance was poor, especially in the second half of 2001, as Albania appeared to be suffering from a general downturn in import demand in the EU, which is by far its main commercial partner. This led to a widening of the **trade deficit**, which is expected to have reached around € 1 billion in 2001 (€ 890 million in 2000). As it has been customary since the beginning of the transition, strong inflows of remittances from

¹ Defined as revenue minus expenditure, excluding foreign-financed capital and interest payments.

Albanians living abroad – estimated at about € 520 million in 2001 - partly compensated for the trade deficit. Overall, the current account deficit is expected to have slightly increased (7.4% of GDP in 2001, compared to 7% in 2000). **Foreign direct investment** accelerated in 2001, which contributed to a new increase in foreign exchange reserves (€ 820 million or 4.7 months of imports as of end-2001, compared to € 676 million or 4.3 months of imports as of end-2000).

The combination of low inflation and a fairly comfortable level of foreign exchange

Concerning **enterprise privatisation and restructuring**, further progress was achieved in 2001. Following the sale in July 2000 of the mobile phone company AMC, a second GSM licence was attributed in August 2001 to a British-Greek consortium (thus contributing to FDI), and has already become operational. Further progress was registered in some important sectors. Following the adoption by Parliament in December 2000 of the necessary law, and after restructuring measures had been taken, the privatisation of the oil company Servcom started. In May 2001, the Albanian Parliament approved a law for the privatisation of the fixed-line telecom operator, Albtelekom, which is expected to be completed in late 2002. As of December 2001, progress with the implementation of the restructuring of the power sector, including the electricity company KESH, was broadly in line with the action plan agreed in December 2000. A new two-year action plan covering the 2002-2003 period was adopted by the Albanian Government in January 2002. The privatisation or liquidation of all small and medium-size enterprises was completed in 2000, and some of them have been sold to foreign investors.

Regarding **financial sector reform**, the privatisation of the National Commercial Bank in October 2000 created the preconditions for the privatisation of the remaining state-owned – and largest - bank in the country, the Savings Bank. Following the adoption by Parliament of the necessary privatisation law, the auditing of the accounts by an international audit company, and the re-capitalisation by the State to cover the negative capital of the bank, the opening of an international tender for its privatisation was announced in June 2001. However, the privatisation process has been delayed. The revised timetable includes a short list selection of interested banks by the end of March 2002 and the selection of the buyer by May/June.

Meanwhile, efforts have been made to reduce the Saving Bank's dominant position in the market. However, although the remaining state-owned enterprises have been encouraged to open accounts in private banks, the Saving Bank still accounts for 60% of total banking assets and 70% of household deposits.

In spite of a rapid expansion of the banking sector in recent years, the financial system remains underdeveloped. The credit activity of the Savings Bank remains limited for prudential reasons, owing to the size of its portfolio of bad loans, and lending from private banks is constrained because of their small size. Moreover, lending suffers from structural constraints, such as borrowers' inexperience in obtaining and using credit. On the other hand, prospects for a greater access of the population to the banking and financial sector in Albania – including the opening of the T-bills market to households and the development of a stock market - are improving. Increased competition between private commercial banks and improvements in the legal and institutional framework for lending have already contributed to a substantial expansion of credit in 2001.

Some steps have been carried out in order to improve the Albanian **business environment and investment climate**. A Bankruptcy Law, consistent with the Law on Securing Charges, was adopted in 2001, as well as a Law on Deposit Insurance. The registry for movable property is now operational. Steps are being taken to further improve the legal framework and to stimulate domestic and foreign investments : an agency expected to provide “one-stop” facilities for investors and a credit information point are planned for 2002. The law for the execution of court decisions was approved in January 2001. However, despite these initiatives, the current deficiencies of the Albanian judiciary and business-related administrations, as well as repeated corruption cases, prevent a serious boost of investments. Key legislation such as the commercial law remains to be improved in order to facilitate its adequate implementation and enforcement.

3.3. Management of Public Finances

Progress has been made by Albania as regards the management of public finances. Revenue collection has continuously increased during the last four years, mainly due to improved tax and customs management, but remains weak. There is still considerable room for improvement.

The development of the Medium Term Expenditure Framework, together with the preparation of the Growth and Poverty Reduction Strategy, have also been important steps in the control and use of public finances.

However, the establishment in Albania of a public internal financial control system has been slow. The law on internal audit still needs to be enacted and internal audit structures are not yet operational. External audits are performed by the Supreme Audit Institution, but this body has still room for improvement as regards its internal functioning and lacks legitimacy. Most of its findings and recommendations are not followed up by the relevant state bodies, or by the judiciary when appropriate.

Revenue generation is one of the major elements of Albania's fiscal consolidation. Between 1996 and 2001, revenue collection increased by 5 percentage points of GDP. Both the reform of VAT in July 1996 and the reform of the tax and customs administrations have contributed to this substantial increase. According to the IMF, corruption and smuggling in the customs area have significantly declined, contributing to increased import tax revenues (VAT, customs, excise duties). An increase in the number of registered taxpayers and the adoption of a modern tax legislation contributed to this consolidation. However, fiscal evasion remains pervasive, which also means that the potential for higher revenue collection remains considerable. In 2001, tax revenues increased by half a percentage point to slightly less than 16% of GDP, a ratio still among the lowest in Eastern European countries with comparable tax rates.

The adoption in December 2000 of the Medium Term Expenditure Framework (MTEF) covering the period 2001-2003 was an important step towards improving **public expenditure management**. The MTEF was updated and improved in June 2001 for the 2002-2004 period within the framework of the World Bank-sponsored Growth Poverty Reduction Strategy (GPRS). The MTEF and the GPRS provide a strong framework for the preparation of the annual national budget with a clear prioritisation of expenditure. Further improvements are being put in place to strengthen public expenditure management and the quality of policy making. They include: improved reporting of disbursement and expenditures for foreign financed capital expenditure, in collaboration with donor agencies; a regulation requiring improved reporting by Project Implementation Units in line Ministries with penalties for non compliance; accelerated computerisation of regional treasury offices to improve reporting.

As regards **financial control and audit**, in 2000 the government adopted a decree creating a central Public Internal Financial Control Department (PIFC) in the Ministry of Finance and decentralised units in other ministries and public institutions. The development and functioning of this department is now contingent upon the adoption of the Financial Control and Internal Audit law, which will provide the necessary legislative framework for its activities. This new legislation is expected to be adopted in the first half of 2002. The Supreme Audit Institution (SAI, named High State Control in the Constitution), in charge of external audit, should improve its internal functioning and still needs to gain legitimacy. There is currently no judiciary process ensuring the

implementation of SAI decisions and recommendations, and the relevant state bodies tend to ignore them.

3.4. Priority Areas Needing Attention in the Next 12 Months

- Continued increase in revenue collection, notably by fighting fraud and fiscal evasion more efficiently;
- Completion of the financial sector restructuring, including the privatisation of the Savings Bank;
- Substantial progress in the privatisation of Albtelecom and Servcom;
- Completion of the Albanian public internal financial control system, notably through the adoption of the Financial Control and Internal Audit Law, and the strengthening of internal financial control structures;
- Ensuring that due account is taken of the decisions and recommendations of the Albanian Supreme Audit Institution (external audit institution). Establishment of the necessary judicial procedures to prosecute the institutions incriminated as necessary.

4. IMPLEMENTATION OF THE STABILISATION AND ASSOCIATION PROCESS

4.1. General Evaluation

Albania has made progress in the framework of the Stabilisation and Association process. Steps have been taken to address the shortcomings identified in the Commission's 1999 Feasibility Report and to bring reforms forward. In 2001, the Commission recommended the opening of the negotiations for a EU/Albania Stabilisation and Association Agreement. However, Albania is just in the first stages of a long process. Considerable additional efforts are necessary to ensure the implementation of challenging reforms which are fundamental for further progress in the Stabilisation and Association process. Albania needs, in particular, to strengthen the foundations it has started to build and to 1) consolidate a strong and functioning democracy, where fully free and fair elections are held, where all political forces are represented in the democratic institutions, where integrity prevails in the political arena, and where opposing parties present their programmes constructively and properly play their democratic roles ; 2) ensure implementation of the rule of law through a strong judiciary, well trained law enforcement bodies, fully integrated into Albanian society, and a public administration that can cope with the challenges of reform ; 3) combat fraud, corruption and organised crime which threaten the stability of the Albanian state and ultimately of Albanian society; 4) ensure economic stability and socio-economic progress.

4.1.1. Status

Current relations between the Community and Albania are based on a non-preferential Agreement on Trade and Economic Co-operation which entered into force on 1 December 1992. Since September 2000, Albania is benefiting from very generous EC autonomous trade measures (ATMs) under which it is granted free access to the EU market for all industrial products and improved access for agricultural products including agricultural and fishery products.

Albanian attempts to enhance its contractual relationship with the EU in 1995 and 1999 failed due to the insufficient preparedness of the country. Following the Zagreb Summit of November 2000, an EU/Albania High Level Steering Group (HLSG) was set up, with the objective of stepping up co-operation between the EU and Albania, and identifying and supporting the reforms to be carried out by the latter in preparation for the negotiation of a Stabilisation and Association Agreement (SAA).

On the basis of the works of the HLSG, the Commission concluded in June 2001 that, taking political, regional, economic and SAA-related technical factors into account, it was appropriate to proceed with a Stabilisation and Association Agreement with Albania. Draft negotiating directives have therefore been submitted to the Council of the EU for adoption, and an EU/Albania Consultative Task Force has been set up with the objective to assist Albania to prepare for the negotiation of a SAA. In the perspective of SAA negotiations, it is crucial for Albania to urgently re-focus on the reform process and to seriously accelerate the implementation of reforms. Taking into account the considerable reform effort that Albania will need to carry out in the short/medium term to be in the position to properly implement the obligations resulting from a SAA, the above-mentioned draft negotiating directives stress that negotiations will only be concluded once Albania has developed the necessary administrative capacity and structures to ensure compliance with its SAA commitments.

Albania has been participating in the Stabilisation and Association process since its very beginning and has benefited from its overall co-operation framework, including preferential trade concessions, financial assistance and the prospect of an enhanced, far-reaching contractual relationship with the EU. Albania has been making steady progress, although the starting point was very low. Main achievements include the improvement of macro-economic stability and fiscal sustainability, the development of a relatively modern legislative framework, implementation of the privatisation process, strengthening of the customs and tax administrations, improvement in terms of security and public order, constructive position regarding the conflicts in the region and progressive development of co-operation with neighbouring countries.

However, further progress is required notably in : implementing and enforcing the existing legal framework, intensifying fight against fraud and corruption, further strengthening security and public order, intensifying the fight against organised crime and illegal trafficking, strengthening the judiciary, further improving tax collection, strengthening public administration, reducing the large black economy, improving the electoral process and reinforcing democracy, completing the privatisation process in all strategic sectors, restructuring public utilities -particularly the energy sector- and developing an efficient land market.

4.1.2. *General assessment of administrative capacity*

Overall, Albanian public administration is weak and, in most cases, not yet in the position to ensure adequate implementation of the central instruments of the Stabilisation and Association Process. Equipment and infrastructures are limited, and human resources scarce and not always properly trained and motivated.

In view of the forthcoming negotiations for a SAA, Albania should aim at a rapid, substantial strengthening of those bodies which will be directly involved in the implementation of key provisions of a future SAA. Attention should be notably devoted to trade and trade-related areas (customs, phyto-veterinary services, standards and certification, border management), public procurement, competition, intellectual industrial and commercial property rights, and the sector of justice and home affairs.

Enhancing the Albanian administrative capacity to ensure adequate implementation of EC financial assistance is also badly needed. Proper use of financial resources would have a double positive effect: 1) it would contribute to reform and to the overall progress of the country; 2) it would be a clear indicator of progress of Albania in terms of increased administrative capacity.

Some initial steps have been taken at Governmental level by establishing in September 2001 a Ministry of State for European Integration. The Government has also made efforts to develop co-ordination structures among the main Ministries involved in the Stabilisation and Association Process. However, much more will need to be done at all levels of the Albanian public administration to achieve good results in the negotiation and subsequent implementation of a SAA, as well as to ensure the successful implementation of EC financial assistance.

4.1.3. Impact of the prospect of an SAA on reform

The perspective of negotiating a Stabilisation and Association Agreement has been acting as a powerful motor for reform in Albania. In 2001, the EU/Albania High Level Steering Group was able to verify that most of the issues raised by the 1999 Feasibility Report prepared by the Commission had been addressed in some way.

It is expected that the perspective of negotiating and concluding a Stabilisation and Association Agreement will continue to be an incentive for Albania's reform process. However, recent political turmoil in the country has shown that, occasionally, specific, short term interests of political leaders may prevail over the longer term, strategic vision of a continued rapprochement to Europe, and put reform at risk.

4.2. Internal Market and Trade

Albania has made progress as regards the preparation of internal market-compatible legislation and has developed a rather comprehensive legal framework. However, implementation and enforcement of laws remain insufficient and must be improved.

As regards the movement of goods, services, capital and the conditions for establishment, Albania appears to be opening up. But again, the lack of sufficient administrative capacity has an adverse effect on the implementation of these freedoms, and makes trade hazardous.

The situation of key sectors of the Albanian economy is bad, and substantial efforts will be necessary for their restructuring. The current development perspectives for agriculture are meagre. Water and transport infrastructures are underdeveloped and in poor state. Environmental conditions have worsened during the last ten years and need attention. Lack of investment, maintenance, strategic vision and proper management in the energy sector has led to a serious energy crisis which is threatening economic growth prospects and, even, social peace.

4.2.1. Movement of goods

Albania has made considerable progress during recent years to introduce a liberal and open **trading system**. In September 2000, it became a member of the WTO and is therefore committed to trade liberalisation. Albanian exports are normally free of restrictions. Tariff duties on imports are being progressively reduced. The highest rate of customs duty is now 15% (having been reduced to 20% in 1999, to 18% in 2000, to 15%

in 2001). Albania has also abolished quantitative restrictions or measures having an equivalent effect on imports.

Albania has an important, growing trade deficit with the EU (€ 626 million, 2000 data). The EU is Albania's main commercial partner, representing over 70% of its total imports and around 90% of its total exports. Industrial products represent the bulk of EC/Albania bilateral trade. Albanian industrial products have duty free access to the Community. However, to date, Albania has not been able to take real advantage of the generous autonomous trade preferences granted by the EU, mainly because of deficient commercial networks and inability to meet the quality requirements of EU markets.

Agriculture (including fisheries) is a very important sector of the Albanian economy and has a considerable growth potential, both in terms of production and trade. Most of the Albanian agricultural products exported to the EU enjoy a very preferential trade regime, granted by the Community on an autonomous basis. In practice, however, Albanian exports remain limited due to production, distribution and quality problems. Only 10% of all Albanian exports to the EU are agricultural products (while these products represent over 30% of imports from the EU).

Albania has already adopted basic legislation in the field of **standards and certification** and Albania's progress in adopting standards according to the European Norms (EN) has been significant : today 38% of the European standards have been adopted, and the Albanian authorities aim at reaching 56% by the end of 2002 -which seems very ambitious. According to the Albanian authorities, the adoption of standards necessary for the implementation of the New Approach directives constitutes a priority. In accordance with Community practice, the functions of standardisation, accreditation and certification, currently under the responsibility of a single body, the Albanian General

As regards legal immigration into the country, Albania needs to develop an appropriate legal framework. In the context of a future SAA, Albania will also need to ensure that the principle of non-discrimination of EU workers legally working in Albania is respected, in line with reciprocal measures that will be taken by the EU Member States in this regard.

Albania is a relatively open country in terms of **establishment**. EU firms can already establish themselves following similar procedures to those required for Albanian companies and, according to the Albanian authorities, there is no discrimination between foreign and Albanian firms. This open approach seems also to apply to sensitive sectors such as the financial and transport sectors. However, some limitations remain when it comes to liberal professions: there is an exclusion on the basis of nationality for legal professions, and activities of a number regulated liberal professions are subject to specific requirements, for example the need to associate local professionals in the case of dentists or doctors. Steps will also need to be taken in view of future mutual recognition of diplomas and professional qualifications.

Foreigners can purchase real estate and private non-agricultural land to carry out economic activity. However, state owned non-agricultural land can only be purchased if the investment planned is three times the price of the land. Agricultural land cannot be purchased by foreigners : it can only be rented for a maximum period of 99 years.

4.2.3. *Movement of capital*

Albania is progressively introducing legislation for the liberalisation of capital movements. The Albanian legal framework already provides for protection of investments and the possibility of repatriation of both investments and profits. Inward capital transfer has already been fully liberalised and, according to the Albanian authorities, current restrictions as regards outward capital transfers are expected to be removed within the next three years. Continued reform of the Albanian financial sector, and improvement of the monetary policy instruments and banking supervision are central to allow for a complete liberalisation of current payments and movement of capital.

4.2.4. *Customs*

Albania has made progress in the field of customs. Customs legislation in conformity with EC standards has been approved. This includes a new Customs Code and its implementing provisions. A customs enforcement division comprising anti-smuggling, intelligence and investigation units has been set up and is now operational. Thanks to a more efficient operation of the Albanian customs services, total customs revenue (including customs duties, VAT and excises) has been increasing since 1998, despite the progressive reduction of customs tariffs. However first signs of stagnation have recently appeared regarding customs duty collection. In 2001, the amount of customs duties collected decreased slightly as compared with that of 2000 (€ 99 million in 2000, € 96 million in 2001).

Personnel policy applied by the Albanian customs administration has been successful. Recruitment is based on open and transparent procedures and the salary system, partly based on performance criteria, appears to be a good support for motivation, efficiency and the fight against internal corruption. It could be a model for the rest of the Albanian Public Administration.

Customs co-operation with third countries (in particular neighbouring countries) exists and Albania is seeking accession to various international conventions in the field of customs (Nairobi, Kyoto). Mutual assistance agreements are in force with Italy, Greece, the former Yugoslav Republic of Macedonia, Turkey and FRY-Kosovo. Two customs

laboratories are operational and a third one is under construction. IT development is proceeding and a system for the computerised treatment of customs declarations and data (ASYCUDA) is being installed.

Despite progress to date, the Albania customs administration will need to continue its efforts to ensure adequate implementation of the liberalisation measures resulting from WTO commitments and from a future SAA. Actions should particularly focus on ensuring efficient customs management, establishing adequate cross-border infrastructure, developing interconnection between the transit systems of the Community and Albania, ensuring improved revenue collection, simplifying inspections and formalities in respect of the carriage of goods, and introducing modern customs information systems.

4.2.5. *Competition and state aids*

The development of **competition** policy in Albania remains at an early stage, despite the existence of basic legislation since 1995. Implementation is weak, due in particular to the clearly insufficient resources devoted to this area. Although the law provides for the establishment of an independent Competition Office, this structure does not yet exist and competition issues are dealt by the Department for Economic Competition within the Albanian Ministry of Economy. This department remains poorly staffed and, as a result, enforcement of the law is extremely limited. Moreover, the concept, type of operations and other usual procedures (notification, monitoring, reporting) regarding **state aids** are relatively unknown in Albania. A serious effort will be necessary in this field if Albania is to take on and implement obligations under an SAA.

The “de facto” situation in Albania, where the grey economy remains significant, does not allow fair competition between companies belonging to the formal and the “informal” economy. This has a serious detrimental effect on companies’ willingness to invest and legally operate in Albania. Albania will need to make considerable efforts in this area in order to be able to properly implement the provisions of a future SAA.

4.2.6. *Public procurement*

The basic legislative framework for Public Procurement in Albania entered into force in 1996. This framework has been recently amended in an attempt to simplify procedures, to better combat irregularities and to ensure further compatibility with EC requirements. However, a new Public Procurement Law, fully in line with EU standards, has not been adopted yet.

According to the current legislation, the Public Procurement Agency (PPA) is the central

Albania will need to ensure adequate, fair access by EU companies to Albanian public procurement operations.

4.2.7. *Intellectual, industrial and commercial property rights*

In the framework of the existing EC/Albania Trade and Co-operation agreement, Albania has already committed itself to take measures to guarantee protection of intellectual, industrial and commercial property rights to a level similar to that existing in the Community and to adhere to the relevant international conventions. Progress has been made, notably as regards the basic legislative framework. Albania, a member of the World Intellectual Property Organisation (WIPO) since 1992, has already signed a considerable number of international conventions in the field of copyright and related rights (Berne Convention, Rome Convention, Geneva Convention, TRIPs and WIPO Performances and Phonograms Treaty), as well as the Paris Convention for the Protection of Industrial Property and the Madrid Agreement for the International Registration of Trademarks. There is on-going co-operation between Albania and the European Patents Office (EPO) and Albania's formal accession to the EPO is foreseen for 2004. Moreover, in the framework of its accession to WTO, Albania has undertaken to fully implement TRIPs, and copyright legislation in Albania has been amended to meet TRIPs requirements.

Implementation of the overall legal framework remains however problematic due to the

have not adjusted to the new reality of thousands of smallholdings. In order to develop the internal market (and stem the flow of agricultural imports), Albania needs to apply more modern production technologies and improve production quality. This would help Albania to develop an export capacity to benefit from the favourable commercial terms offered by the Community.

Albania is making attempts to improve animal health and veterinary services, phytosanitary services and food safety controls, and to develop agro-industry. However, progress is very slow, often without a clear-cut strategy. Apart from one draft law on the intellectual property rights of plant breeders, it is hard to discern any concrete progress. Albania will need to make serious efforts if it wants to develop an efficient agriculture able to compete in European markets. In this context, it is also of paramount importance to facilitate the access of farmers to credit, since the Albanian banking system is not responsive to such needs.

4.3.3. Environment

Citizens in general remain largely ignorant of environmental health risks, yet Albania has serious environmental problems. Albania is the privileged habitat of a number of species, but these are beginning to be lost. There are a number of ecosystems and habitats in danger across the country, including notably dunes, estuaries, coastal lagoons and wetlands. Forests still cover a large proportion of the surface area of Albania, but they are under threat from illegal cutting and overgrazing. There are a number of environmental hotspots throughout Albania following the collapse of heavy industry after the change in regime in 1991, which need to be addressed.

Although there are not generalised problems of air pollution in Albania, CO₂ emissions per unit of GDP are already ten to twelve times higher than the average for industrialised countries.

Waters are often highly polluted, notably in urban areas, due to the lack of sewage systems and water treatment infrastructure. Urban solid waste is dumped in landfill sites, situated generally in suburban areas, usually without any treatment. The capping of user charges for solid waste services means that municipalities are unable to develop better services.

In August 2001 the National Environmental Agency became the Ministry of Environment and, in January 2002, a new National Action Plan for the Environment elaborated in consultation with line ministries and civil society was approved by the Council of Ministers. However, the new Ministry has not yet full control of the overall environment policy as environment-related competencies remain scattered among other ministries. Institutional responsibilities are unclear and environmental policy is, on the whole, poorly co-ordinated and implemented. Compliance, monitoring and enforcement of environmental law remain extremely limited. The recent signs of the government's intention to take concrete action against well identified polluting factories has still to be translated into facts.

4.3.4. Infrastructure

Albanian infrastructure is poor and needs to be substantially improved. As regards **transport**, the main priorities for the Albanian government are the completion of the East-West (Dures-Varna, through Tirana and Sofia) and North-South corridors (connecting Greece to Montenegro). In addition to international support, the Albanian Government is starting to allocate funds to the transport sector, notably to support the

costs of expropriation for road construction and to intervene directly to finance roads in the North of the country.

However, to achieve a sound development of transport infrastructure, Albania should pay particular attention to the development and enforcement of adequate urban and regional planning, as well as to ensure a good co-ordination in transport planning policy between key actors such as the General Roads Directorate, the ports and the customs authorities. Albania should also promote the adoption of overall technical design standards for transport infrastructure, as well as the development of a comprehensive national transport plan. Although the Albanian Urban Planning Law stipulates that building permits shall only be issued in accordance with urban or regional development plans, illegal construction persists along new roads, with serious implications both for road maintenance (drainage ditches get filled in to allow access to the illegal constructions) and road safety (regulations governing the construction of private access points on to neighbouring roads remain to be implemented).

Water supply infrastructure is also inadequate, particularly in the large cities and suburban areas which have grown up around Tirana, Durrës, Shkodra and other important municipalities. In urban areas, around 80% of the population has access to piped water, with running water only available on average only 2-3 hours/day/household. Water quality is poor. It is estimated that 50% of Tirana's water is leaked and illegal connections proliferate. Only about 40% of the urban population has a sewerage connection, and that existing infrastructure which exists at all is completely outdated. Sewage treatment is virtually non-existent.

Albania lacks a clear water/waste water infrastructure development policy. Although there are attempts by the Government to improve the deficiencies of the sector through decentralisation and privatisation of utilities, there is no clear governmental action plan for the implementation of this strategy. For water and waste water, the importance of urban and regional planning is also paramount, as well as is the need to develop national standards.

The current **energy** crisis is a serious threat to economic stability and could ultimately have public order repercussions. There have been practically no investments in the electricity sector since 1986, even if total demand has been increasing at an average of 6%/year since 1995. The power grid is outdated and its capacity limited. Technical losses are high: 40% of electricity is dissipated through the transmission and distribution networks. In addition, electricity production in Albania is basically of hydroelectric origin with production capacity depending on rainfall. Albania needs today 22 million kWh/day of electricity but is only able to produce 13 m kWh/day. Imports remain insufficient. As a consequence, there are frequent power cuts, mainly hitting households and small businesses.

Some action has been undertaken by the Albanian Government in line with the restructuring plan adopted in December 2000 with the support of the international community (this plan was updated in January 2002), but much more needs to be done to prevent power cuts. Plans also exist to upgrade thermal power plants in Elbasan and Fier, to better use the current hydroelectric capacity and to build three new plants. It is envisaged to increase import capacity from Greece, Montenegro and the former Yugoslav Republic of Macedonia, and to build a completely new interconnection line in the south-eastern part of the country. Efforts are also being made to diversify energy sources : fiscal measures have been taken to encourage diversification into liquid gas, particularly for heating (30-40% of household electricity consumption is used for heating) and funding is

also being sought to develop a gas distribution network (oil and electricity together account for 80% of energy use, while gas stands at only 1-2%).

Nevertheless, the energy situation remains a matter of serious concern. Huge and continued efforts will need to be devoted in the medium term to put the sector in order. In the meantime, power cuts will continue, threatening economic growth and provoking discontent amongst the population.

In the **telecommunications** sector, mobile penetration has more than doubled during 2000 and continues to grow, but it remains at a very low level of less than 1 per 100 inhabitants. Fixed line penetration has remained more or less static. This suggests an unsatisfied demand for services which the government should seek to address by reform of the regulatory framework in support of fair competition and its enforcement by an independent regulatory authority.

4.4. Co-operation in Justice and Home Affairs

Albania has made some progress in the area of Justice and Home Affairs, but it is not yet sufficient. Additional and continued efforts are necessary. Of particular importance is to reinforce the fight against organised crime, notably regarding all types of trafficking (human beings, drugs, weapons,...) and money laundering, as well as to improve border management, particularly the green and blue borders and to ensure continued co-operation with the international community in the fight against terrorism.

4.4.1. Visa, border control, asylum and migration

which favours illegal trafficking and smuggling. An integrated border management strategy, taking into account the need to better co-ordinate the activities of the various law enforcement bodies operating at the borders and to find the right balance between efficient controls and border crossing facilitation, should be prepared.

The current Albanian **visa regime** determines the countries for which a visa is not required upon arrival in Albania, and those for which a visa is necessary. Amongst the countries for which a visa is required, a further differentiation is made between countries for which the visa can be obtained on arrival in Albania (land borders, sea ports, airports) and those for which the visa can only be obtained at Albanian consular offices abroad. Albania has 33 consular offices abroad issuing entry visas. Notification of visas issued is made by the Consular Office to the Ministry of Foreign Affairs, which in turn informs the border authorities. However, there is no computerised network so this will need to be progressively developed.

Albania has concluded **readmission** agreements with Italy and Switzerland. A bilateral readmission agreement, not covering third country nationals, was signed with Belgium in April 2001. With Hungary, a readmission agreement has also been signed, but has not yet been ratified. Readmission operates also with Greece, although not through a formal Readmission Agreement, but just on the basis of a readmission clause included in a police co-operation agreement. Negotiations for readmission agreements are being conducted with Bulgaria, Germany, the former Yugoslav Republic of Macedonia and Moldova. Overall, the current and planned readmission agreements provide adequate guarantees for asylum seekers and refugees, in conformity with the provisions of the 1951 Geneva Convention. However, there are concerns about Albania's capacity to implement readmission agreements, notably when these include provisions regarding the readmission of third country or stateless nationals.

4.4.2. Money laundering

Albania has established basic legislation on the prevention of money laundering. In February 2002, the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime entered into force. This Convention aims at countering laundering of the proceeds of all types of crime, including arms dealing, terrorist activities, fraud and drug trafficking. Secondary legislation to implement framework legislation is now under preparation and a co-ordination structure within the Ministry of Finance is being established.

However, although it is not possible in Albania to open anonymous accounts, and control of significant or suspicious financial movements is currently foreseen by Albanian legislation, Albania is not yet in the position to combat money laundering efficiently. Legislation and structures will need to be consolidated and co-ordination substantially enhanced between the various law enforcement bodies, the financial sector and the judiciary. It is relevant in this context that, to date, no sentence has been pronounced in Albania on money laundering-related charges.

4.4.3. Drugs

Albania, although primarily a transit country for illicit drugs, is also starting to experience the problem of drugs consumption. Some cannabis plantations exist in the south-west and centre of Albania. There is no legislation on precursors, and public awareness is limited. It is believed that a substantial share of the heroin reaching Europe travels through Albania, but in-country heroin seizures remain extremely limited.

More needs to be done in order to fight drug trafficking. Albania should develop a clear legal framework, including on precursors, strengthen border management capacity, including the blue and green borders, increase co-ordination between law enforcement bodies and enhance international co-operation in this area

4.4.4. *Fighting organised crime and terrorism*

Albania has made progress in preventing and combating **organised crime**, but efforts need still to be enhanced. It has signed a considerable number of international conventions, has revised the Penal Code and has established new legislation aimed at fighting organised crime and its main activities. New structures have been created (i.e. special units to combat the smuggling of weapons, drugs and trafficking of human beings, and a specialised unit including police, prosecutors, judges with a specific mandate to fight against organised crime), but their capacity to operate properly remains questionable due to a systematic lack of sufficiently trained human and technical resources.

Efforts to control trafficking in human beings have been made, including specific raids against traffickers. The Ministry of Public Order has created an anti-trafficking police unit of 86 officers, and the Government adopted an anti-trafficking strategy at the end of 2001. The Vlora Anti-trafficking Centre was inaugurated on 15th October 2001 as an information exchange centre; its operating strategy is under development and will be completed by the spring 2002.

However, further and more concrete results are necessary. There is a pressing need for the Albanian authorities to enforce and implement existing legislation on trafficking in human beings. Emphasis should be placed on making a clear differentiation between victims and traffickers, increasing efforts to prosecute traffickers and organised crime, re-directing resources to assist victims, securing protection for victims and potential witnesses, taking radical measures against members of the police involved in trafficking, and strengthening border management (border-crossing points and blue/green borders).

Albania is fully committed to the fight against **terrorism** and has fully supported EU and US positions in this respect. However, its contribution is limited due to the lack of the necessary intelligence, and human and technical means. Albania has always denied the existence of possible training camps for Albanian extremists operating in neighbouring conflict areas. In the short term, Albania's efforts should be devoted to increasing air and airport security, to adhering to all relevant UNSC Resolutions and UN Conventions and following and combating any kind of extremism.

4.5. Priority Areas Needing Attention in the Next 12 Months

- Substantial strengthening of the public administration and its implementation capacity, in particular : trade and trade-related areas (customs, phyto-veterinary services,...), public procurement, competition, intellectual, industrial and commercial property rights, standards and certification, and justice and home-affairs related issues. The main European Integration structures and particularly the Ministry of State for European Integration need reinforcement;
- Substantial strengthening of the Albanian administrations involved in the management and implementation of Community and other financial assistance, notably the Ministry of State for European Integration, and units in other Ministries involved in project implementation;

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Commission efforts to improve project implementation include streamlining procedures through **de-concentration**. This process implies the strengthening of the Commission Delegation in Tirana in terms of human resources, as well as increased powers for the Delegation to deal with implementation.

In accordance with the CARDS regulation, a **Country Strategy Paper** for Albania has been developed by the Commission which defines the main areas for co-operation until 2006. This strategy establishes a number of priorities for EC financial support: 1) justice and home affairs, notably through the strengthening of the judiciary, ensuring public order, improving border management, and fighting organised crime, fraud and corruption; 2) administrative capacity building, notably through enhancing the overall implementing capacity of the Albanian public administration; 3) economic and social development, notably through providing support to certain key areas such trade, education and local infrastructures; 4) environment and natural resources, notably through institutional strengthening, improved monitoring and better urban and regional planning; 5) democratic stabilisation, notably through the strengthening of civil society.

On this basis, a **Multi-annual Indicative Programme** (MIP) has also been developed. The 2002-2004 MIP, for a total of € 143.9 million, aims to help Albania in consolidating its foundations as a democratic state, based on the rule of law, offering sufficient legal security and public order, efficiently fighting organised crime, fraud and corruption and with a substantially improved implementation and enforcement capacity. A successful consolidation of this basis will be central to Albania's socio-economic development.

6. PERCEPTION OF THE EU

Albania's progressive integration into EU structures is currently the main Albanian political aspiration. This is often reflected by the attitude of the political and administrative elite in general, and the Government in particular. Close contacts between the Community and that "elite" have favoured the development of a relatively good understanding of the integration process. There is a clear official policy in favour of EU integration, which is frequently presented as a reform facilitator.

The Albanian population is certainly influenced by its political leaders, and generally share with them the importance of EU rapprochement. Public attitudes towards the EU are generally positive, but these remain difficult to quantify as it does not feature as a question in regular or Government opinion polls. It is however certain that Albanians do not yet have a clear picture of what the EU really means and of the implications of EU integration. Ideas of advantages and constraints required by progressive integration are only vague : Albanians know the importance of EC financial support for the country's development but, in general, are not aware of the assistance's specific objectives nor of the concrete direct or indirect benefits it brings. Similarly, they do not have a clear perception and understanding of the reasons behind the steps and efforts demanded from Albania on its way towards Europe.

Media coverage on the European Community and Community's activities has increased since 2000 and is fairly comprehensive, covering the main events concerning bilateral relations between the Community and Albania, including financial support-related issues. There is an effort to analyse and disseminate the most important EU-related events. The Ministry of State for European Integration, established in September 2001, has also contributed to dissemination by publishing articles explaining, in technical but clear terms, the evolution of the Stabilisation and Association process. However, the current limitations of the Albanian media (certain lack of professionalism and independence,

limited knowledge of the Community institutions and their functioning), together with the temptations to “politicise” EU-related events, regularly provoke distorting effects.

The Albanian authorities and the Community should enhance efforts to provide Albanian society with precise information on the values, principles, objectives, activities and functioning of the EU, as well as on the implications for Albania and its population of the integration process, including constraints and efforts required. Public opinion in Albania on EU matters should be monitored through regular opinion polls. A particular effort should be devoted to informing journalists and opinion-makers on the main EU issues affecting the country, notably the Stabilisation and Association process. Moreover, Albania and the Community should work closely to develop co-ordination mechanisms aiming at ensuring proper dissemination of information.