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**ALBANIA
2013 PROGRESS REPORT**

Accompanying the document

**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

Enlargement Strategy and Main Challenges 2013-2014

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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 Union.

This report covers the period from October 2012 to September 2013. 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 reports¹ and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Albania in its separate communication on enlargement,² based on the technical analysis contained in this report.

1.2. Context

The Stabilisation and Association Agreement between Albania and the EU entered 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 2012 that Albania be granted candidate status subject to the completion of key measures in the areas of judicial and public administration reform and revision of parliament's rules of procedure. In December 2012 with a view to deciding whether to grant candidate status, the Council invited the Commission to report to the Council as soon as necessary progress has been achieved, also taking into account the further action taken by Albania to fight corruption and organised crime, including by proactive investigations and prosecutions of such cases. Regarding the opening of negotiations, the Council stressed that sustained implementation of reforms and fulfilment of all key priorities would be necessary.

1.3. Relations between the EU and Albania

Albania is participating in the **Stabilisation and Association Process**.

¹ Until 17 September 2013, the rapporteur for Albania was Mr Nikolaos Chountis. The current rapporteur is Mr Nikola Vuljanic.

² Enlargement Strategy and Main Challenges 2013-2014, COM(2013) 700.

Overall, Albania has been implementing its obligations under the **Stabilisation and Association Agreement** (SAA) well. A Protocol to the SAA to take account of Croatia's accession to the EU has been agreed between the EU and Albania. The Protocol is currently under ratification and measures for its provisional implementation have been taken until the ratification process is completed on both sides.

Regular political and economic dialogue between the EU and the country has continued through the SAA structures. The Stabilisation and Association Committee and Council met in March and April 2013 respectively. Meetings of six subcommittees and a meeting of the special group on public administration reform were held. Albania participates 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.

Visa liberalisation for citizens of Albania travelling to the Schengen area has been in force since December 2010. In the framework of the post-visa liberalisation monitoring mechanism, the Commission regularly assesses progress made by the country in the implementation of reforms introduced under the visa roadmap. This also includes an alert mechanism to prevent abuses, coordinated by Frontex. Within this framework, the European Commission has regularly submitted its monitoring reports to the European Parliament and Council. The next report will be presented by the end of 2013. A **readmission agreement** between the European Union and Albania has been in force since 2005.

Pre-accession **financial assistance** is provided 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. In the period 2007-13, the EU allocated a total of approximately €594 million for Albania which includes approximately €81 million in 2012 and €82 million in 2013 for the national programme under IPA component I. The 2011-13 multiannual indicative planning document for IPA component I envisages a sectoral approach with the focus on justice and home affairs; public administration reform; transport; environment and climate change; social development; and agriculture and rural development. Assistance for this component is managed by the EU Delegation in Tirana.

Under IPA component II, Albania participates in the management and implementation of three programmes in the Western Balkans (with Montenegro, the former Yugoslav Republic of Macedonia and Kosovo*). It participates in one bilateral cross-border cooperation programme with an EU Member State (Greece); and three multilateral programmes (including EU Member States), i.e. the transnational programmes 'South-East Europe' and 'Mediterranean' and the Adriatic regional programme.

For the period 2014-2020, the government of Albania and the Commission are discussing needs and capacities for future assistance, under the new Instrument for Pre-Accession Assistance (IPA II).

Albania participates in the following **EU programmes**: the 'Seventh research framework programme'; 'Entrepreneurship and innovation' under the 'Competitiveness and innovation framework programme'; 'Lifelong learning programme'; 'Europe for citizens'; 'Culture'; and 'Customs 2013'.

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

* 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.

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

Despite a tense and often polarised political climate in the run-up to the general elections in the first half of 2013, Albania continued its efforts on reforms in all areas under the key priorities. The conduct of the elections of 23 June, which resulted in a clear victory for the opposition Socialist Party-led coalition Alliance for European Albania, was positively assessed by the international election observation mission. The then incumbent Prime Minister promptly conceded defeat, paving the way for a smooth change of government.

Elections

The tense and polarised political climate ahead of the June elections at times jeopardised the work of the election administration bodies. The elections themselves were competitive and conducted in an orderly manner overall. Voter turnout was 53.6%. Voting and counting proceeded well, with the exception of some isolated incidents and procedural irregularities which did not affect the generally smooth conduct of the elections. Overall, the elections marked tangible progress with respect to previous practice, therefore meeting the key priority on the conduct of elections. Further enhancing the independence of the election administration at all levels and implementing the OSCE/ODIHR recommendations following the elections are important for continued improvement in future elections.

Parliament

During the autumn 2012 parliamentary session, a substantial number of parliamentary acts were adopted with cross-party support. At the end of May, after a prolonged period of cross-party controversy, parliament adopted key measures required for progress on EU integration, namely the Law on the Civil Service, the Law on the High Court and parliament's rules of procedure. The new rules of procedure will contribute considerably to improving the proper functioning of the parliament, consolidating the progress made last year in addressing the relevant key priority.

In December, the former head of the High Inspectorate for Declaration and Audit of Assets was voted into office as the new General Prosecutor with the votes of the ruling majority. The opposition, while not passing judgment on the merits of the candidate, did not vote, asserting that the termination of the previous incumbent's mandate in November had been unconstitutional. The former General Prosecutor, who was dismissed in 2012, has still not been restored to her former position as a judge.

The transparency of the legislative process was increased. Minutes of committee meetings and plenary sessions are systematically published on parliament's website. The involvement of civil society and interest groups in the legislative process has improved. A growing number of interest groups have been asked for opinions on draft legislation. Deadlines for providing comments generally remain too short and there are no clear rules on public consultation. A more transparent and inclusive consultation process, further involving civil society and social partners, would increase public trust in legislative drafting. Draft laws have not always been published on parliament's website, and many of them have been put on the agenda at short notice without sufficient public consultation or proper time for scrutiny by members of parliament (MPs). Outreach by MPs to their constituencies remains an area for improvement.

Parliament's oversight role continued to be limited. In particular, it has not properly followed up with the executive all the findings of the reports of independent institutions such as the Ombudsman and the State Audit Office. Parliament's interaction with the various independent institutions needs to be further strengthened.

The Parliamentary Committee on European Integration has closely monitored the revised action plan addressing the key priorities of the Commission's Opinion. It also exercised its oversight role through hearings with the Minister of European Integration, the Minister of Foreign Affairs and the Minister of the Interior. European integration remained a focus of parliament's work.

The new Prime Minister has committed to involving the opposition closely in the process of European integration. Consolidating the political dialogue between the ruling majority and the opposition is needed to further strengthen parliament's democratic functioning.

Overall, the functioning of parliament improved. Transparency of the legislative process and involvement of civil society and interest groups increased. Albania needs to focus its efforts on a more inclusive consultation process and on strengthening parliament's oversight role. It is important that cooperation between the government and the opposition functions well to provide a solid basis for further reforms.

Government

The government continued to reiterate its commitment to EU integration. The implementation of the revised action plan to address the Opinion's key priorities continued, albeit at a slow pace. The adoption of important strategic documents such as the national strategy for development and integration for 2014-20 and the updated national plan for implementation of the Stabilisation and Association Agreement was postponed.

The Ministry of European Integration (MEI) has consolidated its role as key coordinator for EU affairs; e.g. line ministries have been tasked with institutional responsibilities for alignment with and implementation of the EU *acquis*. To manage the challenges of upcoming EU-related reforms, the ministry's institutional capacity needs to be strengthened. The functioning of the 35 interinstitutional working groups has not improved and they largely remain *ad hoc* fora.

Cooperation between the MEI and line ministries needs to be further improved, and the ministry's coordinating role systematically respected.

A government reshuffle took place in April, after the Socialist Movement for Integration (SMI), the Democratic Party's junior coalition partner, withdrew from the ruling coalition and formed an electoral coalition ('Alliance for European Integration') with the Socialist Party (SP). Following the general elections, a new coalition government led by the SP and with the participation of the SMI was appointed within the first week of the new legislature in early September. The transition to the incoming government was smooth. European integration is a key priority of the new government's programme.

Regarding *local self-government*, territorial administrative reform and decentralisation have only marginally evolved. The Law on Urban Planning was adopted in April with the aim of clarifying planning instruments, competences and relevant procedures. Implementation of the Law on Territorial Planning is slow. Local government units, especially those with low budgets and few human resources, have difficulties in implementing relevant legislation and development programmes.

Local government revenues have fallen by 21%. Local government's human resources management and financial control remain weak. The lack of strategically oriented and transparency-based central funding remains a challenge, as does the high percentage of temporary contracts in local government administration. The Council of Ministers' decision on the structure and organisation of public bodies has not been implemented at local level. The highly politicised debate on the composition of some regional and municipal authorities has hindered their effectiveness and limited the role of local authorities' associations in

strengthening coordination between local and central government. Local authorities need to develop an inclusive strategic dialogue with civil society.

Overall, the government continued its EU integration and political reform efforts, in the run-up to the elections, in the post-election period and after the new government took office. The implementation of the revised action plan to address the Opinion's key priorities continued, albeit at a slow pace. The new government will need to focus immediately on strengthening strategic planning and budgeting and on improving coordination at central level and/or with local level. Regarding EU-related reforms, monitoring of implementation, follow-up, and corrective action need to be intensified.

Regarding local government, local democracy and fiscal decentralisation need to be promoted. Even greater efforts are needed to enforce effectiveness, transparency, inclusiveness and strategic planning, fighting politicisation and corruption. Closer coordination between central and local government is needed, including strengthening the role of local government associations.

Public administration

Public administration reform is another key priority of the Opinion. The adoption in May of the Civil Service Law, one of the measures required for obtaining candidate status, was a major step towards de-politicising public administration. The law, entering into force in October, is essential for building a professional, effective and merit-based public administration. It aims to create a consistent legal framework comprising state administration, independent institutions and local government units. It provides a clear classification of civil servants, formally establishes a top-level management civil servants corps and provides the basis for a transparent recruitment and promotion system. The law abrogates existing legislation without providing the necessary transitory provisions until its implementing legislation enters into force; the government approved in September 2013 technical amendments to avoid this legal vacuum. Timely adoption of the secondary legislation compliant with the principles of the law and proper implementation is essential. The Law on General Administrative Procedures is still pending.

Implementation of the Law on Administrative Courts was delayed pending the entry into force of the Law on the High Court, one of the three laws needed to obtain candidate status. The implementation of the Law on the Organisation and Functioning of the Public Administration needs to be enforced. Implementation of the Law on Inspections progressed with the adoption, in February, of provisions aimed at reducing the length and cost of inspections. Further secondary legislation on the organisation, structure, and code of ethics of the staff of the General Inspectorate has been adopted. The number of inspectorates was reduced from 36 to 11.

The Council of Ministers' decision on the structure and organisation of public institutions has been implemented at central level. With a view to meeting the 2.5% target set in 2010, the proportion of temporary contracts in state bodies was further reduced to currently 4.8%. The Department of Public Administration is unable to fully enforce its decisions or to effectively coordinate with other institutions, partly because of budgetary constraints. The Human Resources Management Information System is not fully operational; its second pilot phase has faced considerable delays.

The Training Institute for Public Administration carried out its annual training plan despite financial constraints. A decision to set up a school of public administration was adopted in February. Further efforts are needed for the school to work properly, including providing the necessary funding.

The rate of implementation of Civil Service Commission decisions remains low. Under the new Civil Service Law, the Commission will be replaced by a Civil Service Commissioner, who will keep its monitoring tasks. The new institution needs to function properly and to demonstrate its independence.

The Supreme State Audit Institution improved its performance by adopting a new manual on auditing and performing more audit assignments. It submitted an annual report on its work to parliament in March. It conducted 177 audits and reported economic damage caused by improper functioning of state institutions of €97.3 million from €50 million in 2011. It submitted 40 requests for criminal investigations (involving 125 employees) to the prosecution office, twice as many as during the three previous years together, highlighting in particular the abuse of public property by high ranking public administrators. More than two thirds of recommendations by the Institution were implemented. Amendments to the State Audit Institution Law are pending and sustainable performance auditing has yet to be introduced.

Weak analytical capacity and high staff turnover in line ministries, together with insufficient transparency and consultation with relevant stakeholders, continue to hamper the legislative drafting process. Regulatory impact assessment and the implementation and monitoring of adopted legislation need to be improved.

Overall, progress has been made in public administration reform and a major step taken on this key priority with the adoption of the Civil Service Law. It now needs urgent implementation to enforce merit-based practice. Enforcement of existing legislation and administrative acts needs to be stepped up. The Department of Public Administration needs to be strengthened. Independent institutions need to be enhanced and their recommendations acted upon. Further efforts are needed to depoliticise the public administration, ensure continuity, fight corruption, strengthen meritocracy in appointments, promotions and dismissals, and increase its efficiency and financial sustainability.

Ombudsman

The Ombudsman has taken a number of very positive initiatives. He has actively promoted human rights, in particular those of the most vulnerable groups, and cooperated intensively with civil society. He submitted an annual report to parliament on the situation of specific vulnerable groups in society and made recommendations to tackle their exclusion. The follow-up to recommendations by the Ombudsman improved. For instance, the majority of recommendations on ill-treatment in detention centres— an issue covered by the key priorities—was addressed by prisons and by the State Police. The Ombudsman's special reports to parliament were not included in parliament's agenda, so they cannot be published and are not officially acknowledged. The Ombudsman was not properly informed and consulted by the government on draft legislation and reforms. The budget allocated to the Ombudsman's office remains insufficient and the institution needs further financial and political support from both parliament and the government to continue to carry out its duties.

Civil society

Civil society organisations remain fragmented and overly dependent on funding by foreign donors. The tax framework for civil society organisations still includes provisions that undermine their financial viability, particularly on VAT reimbursement. The Law on Non-Profit Organisations has been amended to require such organisations to report all their financial sources to the tax administration in order to prevent money laundering and the financing of terrorism.

Cooperation between state institutions and civil society remains weak, particularly at municipal level. One of the key challenges for the Albanian authorities is to make

consultation of civil society more systematic, transparent and timely. This applies to policy development, draft legislation and implementation. The capacity of these organisations to participate in public decision-making needs to be strengthened, particularly in rural areas. Local government lacks adequate capacity to ensure proper cooperation and funding of civil society. Further substantial efforts are required to develop community-based services.

The Agency for Support to Civil Society completed its fourth call for proposals in April and awarded grants.

Judicial system

The 2011-13 judicial reform strategy, a key priority of the Opinion, is being implemented. The Law on the High Court, one of the key measures in this area, and amendments to the Criminal Code, the Civil Code and the Code of Civil Procedure were adopted. The Law on Judicial Administration was adopted to provide a legal framework for the work of courts and court staff; the independence of court chancellors is an issue of concern. The Law on the National Judicial Conference and the Law on the Profession of Lawyer have started to be implemented. The memorandum of understanding on inspections between the Ministry of Justice and the High Council of Justice, which seeks to reduce the risk of overlapping responsibilities, continued to be implemented. Constitutional amendments and legislation essential to ensuring the independence, transparency and efficiency of the judiciary have yet to be adopted or finalised. The appointment procedure of members of the High Court needs to be changed. Efficient court organisation, clear and effective budget allocation, streamlined, expeditious and transparent court proceedings, and a system of appointment of judges based on a sound evaluation of candidates' performance need to be secured. Lifting judges' immunity as part of the fight against corruption has not yet led to any specific cases under the new constitutional provisions.

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

Anti-corruption Policy

There were improvements in the fight against corruption, a key priority of the Opinion. All recommendations of the third GRECO evaluation round were completed in a satisfactory manner. This concerned notably political party financing. Initial track records cover a variety of sectors and levels, including high-level corruption, and show an increase in convictions. Some measures taken in key sectors testify to increased awareness of corruption, an improved overall set-up and a more streamlined cooperation between law enforcement bodies. Provision of public services online and awareness-raising measures in various sectors have created conditions for more transparency and accountability of public administration. Corruption remains a particularly serious problem and is prevalent in many areas, including law enforcement institutions. There are still serious gaps, e.g. in monitoring local government corruption. An assessment needs to be undertaken, also regarding the role and operation of the relevant institutions and their coordination, to further strengthen the overall anti-corruption set-up. An anti-corruption coordinator with a strong mandate should be appointed to do this. There is also a need to improve cooperation with independent control bodies such as the State Audit Institution. Following the constitutional amendments limiting the immunity of judges and high officials measures are needed to clarify investigative procedures. The short-term challenge is to step up proactive investigations based on systematic risk assessment, as a prerequisite to building up a track record of effective prosecution at all levels, particularly in those areas where there is a strong public perception of corruption.

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

Progress was made in the fight against organised crime, a key priority of the Opinion. A new strategy and action plan on organised crime were adopted. International police cooperation has been strengthened. The numbers of asset investigations, seizures and cases sent to courts have increased. Risk analysis and the use of criminal intelligence have been enhanced, partly through international cooperation. Seizures of drugs have increased. The operational set-up for witness protection has been considerably enhanced. Moneyval recommendations regarding the fight against money laundering have been adequately addressed. Criminal Code amendments addressed the issue of internal trafficking in human beings, and criminalised the use of victims' services. Cooperation between prosecution officials, police and the judiciary on trafficking has been stepped up. A police unit to fight cybercrime has been set up. Joint training was held for police officers and prosecution officials on issues including asset seizures and cybercrime. Organised crime remains a serious concern and further significant efforts will be needed to improve Albania's track record. Amendments to the Criminal Procedure Code are pending. The number of confiscations of criminal assets and convictions for money laundering remains low. Proactive investigations into wealth acquired through criminal activity abroad but reinvested in Albania need to be substantially stepped up. Albania remains a source country for trafficking in adults and minors, including forced begging by children. The issue requires better coordination between law enforcement agencies and social services. Cultivation and trafficking of cannabis remains a serious threat.

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

Albania has taken some concrete steps to reinforce protection of human rights, and to effectively implement anti-discrimination policies — both areas are among the key priorities. It presents a mixed picture regarding human rights and the protection of minorities. Freedom of assembly and association, and freedom of thought, conscience and religion has generally been respected.

Regarding freedom of expression, progress has been made. The Law on Audiovisual Media was adopted in March, substantially improving the legislative framework for audiovisual media in Albania. The law fails, though, to provide a selection procedure for the governing bodies of the regulator and the public broadcaster that guarantees their independence. Further steps are needed to fully decriminalise defamation. Interference in the media by political and economic interests needs to be limited.

In the area of anti-discrimination policies, some legislation is in place — e.g. regarding the rights of lesbian, gay, bisexual, transgender and intersex (LGBTI) persons — and some is lacking, e.g. regarding the Roma community. The Albanian authorities need both to apply the existing legislation and to draft new legislation in the area of anti-discrimination. A number of concrete steps have been taken. An LGBTI action plan has been put in place, and the Criminal Code has been amended to take aggravating circumstances into account for offences relating to gender, race, ethnicity, gender identity, sexual orientation, political beliefs, religion, health status, genetic predisposition or disability.

In line with the national action plan on the Roma Decade, Albania needs to swiftly improve the living conditions of the Roma; coordination between central and local government is essential in this context. Another key area to focus on immediately is access to education and the inclusion of Roma children in the educational system — from pre-school level to higher education.

Public awareness of the Law on Protection from Discrimination and of the complaint mechanism remains low. The implementation of the law needs to be enhanced; victims of discrimination need to be encouraged to file complaints in order to establish solid case law. The roles of the offices of the Ombudsman and of the Anti-Discrimination Commissioner need to be clarified to render them more effective.

The legal framework for economic and social rights has been improved, but implementation is slow, particularly regarding people with disabilities and children at risk of abuse. Major and systematic efforts are needed to address persisting problems in the area of property rights. Property restitution, compensation and illegal construction are issues that need to be tackled. Albania needs to adopt and communicate a credible plan for the enforcement of European Court of Human Rights judgments on property rights. Labour and trade union rights have generally been respected.

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 from the jurisdiction of the **International Criminal Court**. This does not comply with the EU Common Position on the integrity of the Rome Statute or with the related EU guiding principles on bilateral immunity agreements. The country needs to align with the EU position.

Regional cooperation and good neighbourly relations continue to be a major plank of Albania's regional policy. Albania continued to play an active part in regional initiatives, including the South-East European Cooperation Process, the Regional Cooperation Council, the Central European Initiative, the Adriatic and Ionian Initiative (AII), the Migration, Asylum and Refugees Regional Initiative, the Energy Community Treaty and the European Common Aviation Area Agreement. In 2012 Albania held the rotating presidency of the Central European Free Trade Agreement (CEFTA) and co-chaired activities in the framework of the South-East Europe Investment Committee. Since June Albania holds the one-year chairmanship of the AII.

Albania has continued overall to act as a constructive partner in the region, further developing **bilateral relations with other enlargement countries and neighbouring EU Member States**. A short-lived rise in nationalist rhetoric in late 2012 and early 2013 triggered concerns among neighbours and other partners but subsided thereafter. Albania, Bosnia and Herzegovina, Montenegro and Croatia signed a memorandum of understanding on support and cooperation on both the Trans-Adriatic Pipeline and Ionian-Adriatic Pipeline projects. A bilateral convention on regional cooperation under Article 13 of the SAA has not yet been concluded with neither Montenegro nor Serbia.

A Protocol on cooperation between the Ministries of Justice of Albania and *Bosnia and Herzegovina* was signed, enabling better exchange of information relating to legal issues and enforcement of legal reforms.

A bilateral agreement with *the former Yugoslav Republic of Macedonia* on mutual recognition of driving licences was signed and a new joint border crossing point was opened.

Agreements were signed in various fields with *Montenegro*, including mutual protection of classified information, education and electronic exchange of customs data. In December, parliament ratified an agreement between Albania and Montenegro on developing the cross-border railway.

The foreign minister of *Serbia* visited Tirana in October 2012 for the first such visit in eight years. Bilateral relations were strained at times, with each side blaming the other for declarations or actions which raised tensions.

Albania continued to have very good relations with *Kosovo*, with which it signed agreements on exchange and protection of classified information, on judicial assistance in penal cases, on extradition, on transferring sentenced persons and on cooperation of taxation and fighting tax evasion.

Albania continues to have good relations with *Turkey*.

In February, Albania, *Italy* and *Greece* signed an inter-governmental agreement confirming their support for the Trans-Adriatic Pipeline project.

Overall, Albania continued to play a constructive role in contributing to the stability of the region. Albania continued to implement the Stabilisation and Association Process conditions in this regard.

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.

3.1. The existence of a functioning market economy

Economic policy essentials

The main political parties agree on the key essentials of a market economy, despite a tense political environment. Macroeconomic stability was broadly preserved, but vulnerabilities remain. The budget deficit exceeded the target in 2012. This led to the statutory debt ceiling of 60% of GDP enshrined in the budget law being breached and abolished. The privatisation process suffered certain setbacks. Albania submitted its seventh Economic and Fiscal Programme, for 2013-15, in January. The programme's medium-term macroeconomic scenario is optimistic. Its coverage of risks to the macroeconomic and budgetary outlook is insufficient, and the approach to addressing structural obstacles to growth lacks a clear strategy and targeted policy measures. *Overall*, the consensus on the main fundamentals of a market-oriented economy has been maintained.

Macroeconomic stability

According to preliminary data, economic growth slowed to 1.6% in 2012 from 3.1% a year earlier. Financial constraints, low confidence among consumers and investors and the presence of spare production capacity held back private consumption and investment spending. Total gross fixed capital formation decreased by around 5% in 2012 compared with the previous year. Migrant workers' remittances increased slightly, by some 1.6% in 2012, but dropped by 33% on an annual basis in the first six months of 2013. Private consumption remained at low levels. Net exports were the main contributor to economic growth, with foreign sales holding up while imports declined. After falling in four consecutive quarters, economic sentiment indicators started to climb in late 2012 and early 2013, but real GDP only grew by 1.7% in the first quarter of 2013 in annual terms, reflecting still sluggish domestic spending. Foreign demand continued to contribute positively to growth. Per capita GDP in purchasing power standards was estimated at 30% of the EU-27 average in 2012, unchanged from 2011. *Overall*, while growth remained positive, Albania experienced a slowdown in 2012 due to weak private domestic spending, which also extended to the first quarter of 2013.

External imbalances improved, as exports proved resilient while weak domestic demand depressed imports. The current account deficit narrowed to 10.5% of GDP in 2012 from 13% a year earlier on the back of a contracting (but still large) trade deficit. Imports fell by 5.2% compared with the previous year. Exports grew by a marginal 0.9%, as an 8.5% increase in merchandise exports was largely offset by a fall in services export. The effect of the improved trade performance outweighed negative changes in the income and current transfer balances. The trend towards a narrowing trade deficit continued in the first seven months of 2013 when merchandise exports, driven by a buoyant energy sector, expanded by 18.4% in annual terms, while imports of goods declined by 5%. The current account deficit stood at 10.1% of GDP in the four quarters to June.

Net foreign direct investment (FDI) inflows remained at the same level in 2012 as in 2011 and financed some 70% of the current account deficit, up from 60% in 2011. Total capital account inflows fell by 11.3% on an annual basis in 2012, but the overall balance of payments was positive and the stock of international reserves increased by 4.2%, covering about 4.5 months of imports. In the first half of 2013, FDI inflows increased by 12.3% in annual terms. *Overall*, the current account deficit has been narrowing but remains a source of vulnerability, especially in view of the potential adverse impact of the volatile external environment on inflows of FDI and migrant workers' remittances.

Labour market conditions improved somewhat during 2012, but the registered unemployment rate remained high at 13% on average, down slightly from 13.4% in 2011. Employment grew by 2.8% both due to more private-sector, non-agricultural jobs and a higher estimated number of employees in the agricultural sector. In the first half of 2013, unemployment remained stable at 12.8%. Long-term unemployment accounts for around two thirds of total jobseekers, reflecting its structural nature. Labour market statistics continue to be weak and are distorted by a large informal sector. *Overall*, there was a slight improvement in the labour market but the informal sector remains large and unemployment is persistently high.

Macroeconomic stability continued to be enhanced by a sound monetary policy, which was successful in keeping inflation low and anchoring inflation expectations. The average inflation rate decelerated from 3.5% in 2011 to 2% in 2012, which corresponds to the lower end of the Bank of Albania's (BoA) target range of 2-4%. Low inflation reflected the negative output gap, well-anchored inflation expectations and the absence of supply-side shocks. Driven mostly by fluctuating food prices, annual inflation decelerated from 2.5% in the first quarter of 2013 to 2.2% in the second quarter. In the absence of inflationary pressures and in an effort to stimulate growth, the BoA undertook several cuts in the key interest rate, bringing it to a historic low of first 3.75% in January and subsequently to 3.5% in July. The rate cut was swiftly reflected in interbank rates, the primary market for government security and also in deposit rates. However, the pass-through to lending rates remains limited due to increased risk premia amid a growing share of non-performing loans.

The degree of euroisation of the financial system has slightly decreased but remains high. Foreign, mostly euro-denominated loans stood at 61% of total credit outstanding in July, down from 64% a year earlier, while the share of foreign currency-denominated deposits in the total deposit stock fell from 49% to 47% in the same period. Such high euroisation inhibits monetary policy's effectiveness and could expose banks to currency mismatches or indirect credit risks; it is therefore a potential source of instability in the financial system.

Albania maintains a floating foreign exchange regime, unchanged since 1992. The Albanian lek continued to remain stable in 2012, marking a slight appreciation by 0.9% against the euro. In the second quarter of 2013, the Albanian currency depreciated slightly against the euro by around 1% year-on-year. *Overall*, monetary policy remained sound, inflation decelerated and exchange rate stability was broadly preserved.

The government deficit reached 3.4% of GDP in 2012, exceeding the 3% target in the initial budget but remaining slightly lower than the 2011 deficit of 3.5%. Disappointing revenue performance meant that new budgetary targets had to be set by the November Normative Act. Overall, revenues underperformed by some 7% in 2012 compared with the initial budget, as the largest items, VAT and excise tax revenues, fell significantly short of the initial targets, reflecting sluggish domestic demand. Revenue slippages were only partly offset on the expenditure side, where the largest cuts affected capital spending, down by some 12% compared to the initial target and by the same order of magnitude compared with 2011. In the wake of weak revenue collection, the total-revenue-to-GDP ratio fell to 24.5% from 25.1% in 2011, while the total-expenditure-to-GDP ratio fell to 28.0% in 2012 from 28.6% a year earlier. Public capital expenditure accounted for just 4.6% of GDP compared to 5.4% in 2011.

The fiscal stance in 2013 is more expansionary. The 2013 budget envisaged a deficit of 3.5% of GDP, based on an optimistic assumed economic growth of 3.1%. The fiscal deficit (without the receipt from the privatisation of three hydro-power plants) in the first seven months was almost 130% higher than in the same period of the previous year, reaching some 98% of its full year target. In the period January to July, revenue from indirect taxes declined significantly, reflecting still fragile domestic demand, lower imports and the effect of recent VAT exemptions. Expenditure was 10.4% higher than in the same period the year before, mainly due to the rapid increase in capital expenditure. *Overall*, budgetary planning continues to be weak, reflecting optimistic revenue projections and leading to the need for rebalancing.

Public debt increased from 59.4% of GDP in 2011 to 62.9% by the end of 2012, exceeding the statutory ceiling of 60%, which was abolished in December. Some three fifths of the public debt is domestic but it continues to show a short-term bias (around half of it has a maturity of one year or less) which requires frequent re-financing. Households' share of purchases of public debt securities continued to increase, but the bulk of the domestic debt is still held by banks, which could pose a challenge if they decide to reduce their government debt holdings and also exposes banks to sovereign risk. Although the weighted average yield on domestic debt has been gradually decreasing, at such a high level, public debt remains a source of macro-financial vulnerability. The estimated large amount of public sector arrears continue to represent additional government liabilities, leading to financial difficulties along the credit chain and contributing to the high level of non-performing loans. *Overall*, the relatively high and increasing government debt and its short-term bias are a cause for concern, as they represent a source of macro-financial vulnerability, especially following the abolition of the statutory debt ceiling. The accumulation of public arrears reflects serious weaknesses in public finance management.

In the area of tax administration, there were improvements in the electronic tax payment and tax filing system, but the effects on tax collection remain to be seen. Measures have also been adopted to exempt imports of machinery, equipment and raw materials used for certain investments from VAT, and to introduce a non-taxable income limit for personal income tax. Delays in the VAT refund procedure continue to put an additional burden on businesses (*see also Chapter 16 - Taxation*).

Overall, macroeconomic stability has been maintained. Low inflation and anchored inflation expectations created room for monetary policy easing, but the pass-through to the economy remains limited. The fiscal stance in 2013 is expansionary, contributing to a further increase in the relatively high level of public debt, which remains a source of macro-financial vulnerability. Fiscal planning and predictability remain a concern, especially following the abolition of the debt anchor. Unemployment remains high. External imbalances have narrowed but are still high, reflecting persisting structural weaknesses.

Interplay of market forces

The private sector remains dominant and continues to account for about 80% of GDP. The privatisation process suffered setbacks with the unsuccessful sale of Albpetrol, a state-owned oil company, and of the remaining public stake in Albtelecom, a partly privatised telecommunication firm. No progress was made on the privatisation of INSIG, the state insurance company. The previously privatised power distributor CEZ Shpërndarje returned into state hands after the energy regulator revoked its distribution licence and appointed an administrator, on the grounds that the Czech-owned company had failed to meet contractual obligations. The dispute will be settled by international arbitration.

There has been some progress as regards attracting greenfield investment in the energy sector with 11 new agreements signed in 2012 to construct and operate hydropower plants (HPPs). The output of privately-owned small HPPs surged by 76% year-on-year in 2012, raising their share of total electricity generation to 5.6% in 2012, from 3.4% a year earlier. In February the privatisation of three small HPPs was completed, for a total of €109.5 million. *Overall*, state involvement in the economy remains limited and is mainly concentrated in water supply, transport and energy.

Market entry and exit

Business registration and licensing continued to perform well through the established network of one-stop shops. Some improvement was made to the business registration system by making the notarisation of incorporation documents optional. In 2012 the number of new businesses registered grew by 8% year-on-year; they make up 12% of all active enterprises.

A registry of certified bankruptcy administrators was set up and 23 bankruptcy administrators were licensed until April. However, the time taken and procedures for market exit remain slow. In 2012 the number of requests for voluntary business closures went up by 14% from a year earlier. *Overall*, Albania has made incremental improvements to its well-functioning procedures for starting a business. Market exit procedures remain slow.

Legal system

In the area of property rights implementing legislation on registration of immovable property has been adopted. However, first registration of properties is yet to be completed. Further efforts are also needed in the area of property restitution and compensation and in the legalisation of buildings that did not have permission. Amendments to the Civil Procedure Code were adopted in April to allow easier recovery of collateral. Cases of collateral recovery rose significantly in 2012, along with the number of private bailiff offices. However, the full impact of the new legal measures has yet to be assessed. *Overall*, there has been some progress in the legal system but proper implementation needs to be ensured. Uncertainties over property ownership, delays in court procedures and weaknesses in the rule of law continue to be detrimental to the business environment.

Financial sector development

The banking sector continued to dominate the financial system, accounting for 93.6% of all financial system assets and 87.9% of GDP — 3 percentage points higher than in 2011. It is dominated by foreign capital and remains highly concentrated, with the five largest banks holding about 68% of the total credit portfolio and 74% of total deposits. Total credit to the economy amounted to around 41% of GDP, suggesting that there is significant scope for deeper financial intermediation. Credit growth fell to 7.4% in 2012 from 11.7% in 2011, and has recently fallen faster, with annual credit growth at 1.6% in the first quarter of 2013 and just 0.7% in the second quarter.

Weak lending, affecting both households and investors, reflects tighter credit standards applied by banks amid a high and rising share of non-performing loans and subdued credit demand due to economic uncertainties. In an effort to reinvigorate lending, the BoA adopted specific regulatory changes in March aiming at releasing financial resources for banks and channelling them towards lending to the private sector, but so far credit growth has not picked up.

In general, the Albanian banking system remained well capitalised and liquid. The net results of the banking system in 2012 amounted to €26.71 million, reflecting a significant increase compared with the previous year. The capital adequacy ratio increased to 16.7% in May from 15.6% at the end of 2011, with each individual bank remaining above the 12% regulatory minimum. The ratio of liquidity assets to short-term liabilities as of the end of December 2012 increased to 36.7%, comfortably exceeding the minimum regulatory requirement of 25%. Deposits were the main source of financing and parent-bank credit lines were significantly lower than at the end of 2011, strengthening the banking system's resilience to foreign shocks. However, banks' exposure to credit risk has increased, as the ratio of non-performing loans rose further to 24.4% in the second quarter of 2013 compared to 21.2% a year earlier. This has led to a surge in loan loss provisioning, up by 24.3% in June on an annual basis.

Total assets of the non-banking financial sector stood at 2.8% of GDP. The insurance market, in which foreign capital has a 50% stake, increased its gross written premium revenues by some 9% in 2012 but its share of GDP remains low. The securities market focused on government bonds and saw two new investment funds start up. The voluntary pension market grew by 83% in 2012 from a very low base and is still in the very early stages of development.

The BoA continued to strengthen the regulatory and supervisory framework. It adopted regulations on the core management principles of banks and foreign bank branches; on the licensing of non-banking financial institutions; on risk-management of non-banking financial institutions; and on e-payment instruments.

Overall, the banking system remains well capitalised and liquid. However, non-performing loans remain a cause for concern, while the sharp deceleration of credit growth is detrimental to the economy.

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

Existence of a functioning market economy

Macroeconomic stability was maintained. The economic slowdown resulted in a shrinking current account deficit, but external imbalances are still large, reflecting a narrow production base. Low inflation reflects the lack of inflationary pressures and well anchored inflation expectations. Fiscal policy remains constrained by the relatively large and growing public debt, much of which is short-term and thus reinforces vulnerability. Fiscal planning continues to be weak and its predictability has deteriorated following the abolition of the debt anchor.

Structural bottlenecks are an obstacle to growth. Despite some progress, weaknesses in property rights and law enforcement continue to be detrimental to the business environment. The labour market is characterised by persistently high unemployment. The privatisation process is advanced but not yet complete. The diversification and competitiveness of the economy are still low. *Overall*, although some progress was made on establishing a functioning market economy, Albania needs to consolidate its public finances and reduce the relatively high level of public debt, further bolster governance, enhance labour market performance, provide protection for property rights and strengthen the rule of law and the fight against corruption.

Human and physical capital

Public expenditure on education is estimated to have accounted for around 3.2% of GDP in 2012 and is expected to be unchanged in the 2013 budget. New learning standards and syllabuses were introduced in secondary education. Public spending on research and development remained at low levels, at 0.03% of GDP in 2012 and 2013. The number of science laboratories increased in 2012. The level of collaboration between industry and universities remains weak.

Public capital expenditure bore the burden of the budget rebalancing and shrank by 12.8% in 2012, accounting for just 4.6% of GDP compared to 5.4% in 2011. It is projected to make up 5% of GDP in 2013. The authorities identified education, healthcare, infrastructure, and agriculture as priority areas, but spending plans project a decline in public investment in these sectors in 2013. Road infrastructure remains the main beneficiary of public investment. According to estimates, total investment spending in the economy declined by around 5% in 2012 and decreased as a share of GDP from about 32% in 2011 to 29.3%.

Albania remains highly dependent on hydroelectric resources to ensure security of power supply. No progress was made in increasing interconnection capacity with other countries. Preparations for the construction of the interconnection with Kosovo were re-launched in January. Albania was able to export electricity at the beginning of 2013 due to favourable weather conditions but continues to be a net importer of electricity. The number of concessions signed in the energy sector increased, while several irregularities in concession procedures were identified by the Supreme State Audit Institution.

Overall, there is significant scope for redirecting investment into growth-enhancing areas such as telecommunications and human capital, and for better-focused policies promoting innovation initiatives and cooperation between the education sector and industry.

Sectoral and enterprise structure

The Albanian economy continues to be dominated by the services sector, which accounted for around 60% of gross value added (GVA) in 2012, followed by agriculture, providing around a fifth of GVA, and industry (11%), comprising both extractive industries and manufacturing. Manufacturing relies to a large extent on the low value-added textile, garment and leather industries. Following a deep contraction by about 13% in 2012, the construction sector's share of GVA fell to below 9%. Agriculture continues to provide a very large proportion of jobs (around 50%), suggesting that there is still significant scope for productivity gains from sectoral shifts in employment.

The sectoral composition of merchandise exports remained highly concentrated in 2012, with 84% of total exports accounted for by minerals, fuels and electricity (36%), textiles and footwear (29%) and construction materials and metals (19%). The minerals, fuels and electricity sector increased foreign sales by some 31% compared with 2011.

Small and medium-sized enterprises (SMEs) play a very important role in the economy, providing 71% of official employment, although weaknesses in their operational environment persist. In the non-agricultural sector, SMEs account for 47% of exports and 68% of value added.

Significant weaknesses continued to prevail in the electricity sector in terms of a lack of financial viability, high levels of losses in the electricity network and distribution, low bill collection rates and tariffs below cost-recovery level. Dependence on hydropower continues to pose a substantial risk to the country's electricity supply.

The sizeable informal sector remains a substantial problem and is detrimental to the business environment. The number of fiscal devices (cash registers) installed by businesses increased,

but the system for monitoring their use in practice needs to be strengthened. The number of suspected corruption cases referred to the prosecutor's office by customs and tax investigation units increased. *Overall*, the structure of the economy remained unchanged. Albania's production base lacks diversification in terms of both sectors and export markets, leaving the economy vulnerable to industry-specific shocks. Malfunctioning persists in the electricity sector. The size of the informal sector remains a challenge.

State influence on competitiveness

The ratio of state aid to GDP increased to 1.6% in 2012 from 1.3% the year before, with less distortive horizontal (i.e. non sector-specific) aid continuing to account for the bulk of state aid granted. Similarly to the previous year, the government provided a loan guarantee to the state-owned power generation company KESH to help it survive financial difficulties in late 2012 and early 2013. The unresolved problems of the electricity sector are an enduring drain on public resources.

Economic integration with the EU

Albania's openness to trade decreased somewhat in 2012, as the sum of total imports and exports accounted for 87% of GDP in 2012 as compared with 92% in 2011, mainly on account of declining imports following the economic slowdown. The EU remains Albania's main trading partner. Exports of goods to the EU increased by 13.4% compared with 2011 and accounted for some 75% of total merchandise exports, while imports of goods from the EU fell by 5.1% and made up 62% of total imports. From January to July, the trend towards a narrowing trade deficit with the EU continued as exports of goods to the EU surged by 18.8% over the previous year, while in the same period merchandise imports from the EU declined slightly. Italy remains the single most important trading partner, drawing more than half of Albanian merchandise exports and providing a third of its imports. The EU also remains the main source of inward investment in Albania, although its share of total FDI stock has declined in the last four years. The pace of the increase in trade with CEFTA countries slowed, from some 27% in 2011 to around 3% in 2012, reflecting the overall deceleration of economic activity in the region. CEFTA countries accounted for some 13% of Albanian merchandise exports and 8% of its imports.

The positive trend in net exports was supported by recent changes in the real effective exchange rate (REER), showing a moderate depreciation of the lek both in the last quarter of 2012 (by 0.91%) and the first quarter of 2013 (by 0.55%). *Overall*, the EU remained Albania's leading trade and investment partner. The pace of trade integration with CEFTA countries slowed.

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 Albania'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 progress achieved during the reporting period, and summarises the country's overall level of preparations.

4.1. Chapter 1: Free movement of goods

In the area of **horizontal measures**, Albania has a good level of preparation.

In the area of *standardisation*, adoption of European standards (EN) continued and Albania adopted 1158 more ENs, mostly by the 'cover page' method, without translation.

In March, the General Directorate for Standardisation (GDS) became a full member of the European Telecommunications Standards Institute (ETSI). A technical committee covering

analogue and digital telecommunication systems was set up, but ETSI standards have not yet been adopted. The database of the GDS was improved with regard to registration and updating published standards. There is no national strategy on standardisation yet.

In the area of *conformity assessment*, technical regulations on essential requirements and conformity assessment of medical devices were adopted.

A new organisational structure for the General Directorate for Accreditation (GDA) was adopted in October 2012. The number of accredited conformity assessment bodies increased to 24. Laboratories conducting tests of air, water and noise and laboratories testing electric meters were accredited. The laboratory testing fuel dispensers in the legal metrology field applied for accreditation. The GDA adopted a new policy document on traceability, with guidelines for implementation, to meet the preconditions for full membership of European Co-operation for Accreditation (EA). Albania is not yet a full member of EA. The draft Law on Accreditation of Conformity Assessment Bodies, aiming to bring the legislation into line with the *acquis*, still awaits adoption.

The General Directorate for *Metrology* (GDM) adopted a communication strategy on metrology in September 2012. The GDM moved to new premises and its laboratories acquired new equipment for pressure, humidity and volume. The GDM's calibration and measurement capabilities were accepted for mass measurements in the Key Comparison Database of the International Bureau of Weights and Measures. Albania aligned its legislation with the Non-Automatic Weighing Instruments Directive. Alignment with the Measuring Instruments Directive is still outstanding and approximation of the Law on Metrology to the *acquis* is at an early stage.

Implementing legislation for the law on inspectorates, including the *market surveillance* inspectorate, was adopted. Standard operating procedures for market surveillance were drafted to implement the law on general safety of non-food products. The market surveillance inspectorate is not yet operational.

As regards '**Old Approach**' product legislation, in the area of chemical fertilisers legislation was adopted on production requirements, labelling, packaging, procedures for entering the market and criteria for setting up the reference laboratory for analysis.

In the area of '**New and Global Approach**' product legislation, technical regulations on energy labelling for household appliances and on toy safety were adopted to approximate the legislation to the *acquis*. Regulations were adopted with regard to enforcement of legislation in the field of medicaments for human use.

In the area of **procedural measures**, legislation on the return of cultural objects still awaits adoption. There were no developments on firearms.

Conclusion

There has been some progress in the area of free movement of goods, particularly in standardisation. Effective market surveillance needs to be introduced and further efforts are required overall to bring Albania's legislation into line with the *acquis*. Overall, preparations are moderately advanced.

4.2. Chapter 2: Freedom of movement for workers

As regards **access to the labour market**, amendments to the Law on Foreigners, aiming at facilitating EU citizens' access to the Albanian labour market and guaranteeing equal treatment, were adopted in March.

The creation of an e-portal including databases of job-seekers and employers registered in the 12 regional and the 24 local employment offices is a progress with a view to future participation in the EURES (European Employment Services) network.

As regards **coordination of social security systems**, negotiations on bilateral agreements with Hungary, the Czech Republic, the former Yugoslav Republic of Macedonia and Romania have continued. Negotiations with Luxembourg have started.

Conclusion

There has been some progress in the area of freedom of movement for workers, notably in improving EU citizens' access to the Albanian labour market. Overall, preparations in the area of freedom of movement for workers are at an early stage.

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

In the area of the **right of establishment**, steps were taken with regard to preparations for simplifying procedures and shortening the process for obtaining building permits.

As regards the **freedom to provide cross-border services**, an inter-ministerial working group was set up and a roadmap for aligning legislation on cross-border services with the Services Directive was adopted in April. As regards the Services Directive, human resources of relevant institutions need to be strengthened.

In the field of **postal services**, the postal strategy was adopted in July. Liberalisation of postal services advanced with the reduction of the reserved postal area from 100gr to 50gr in August. The finalisation of the draft Postal Law, determining tariffs and weights, as well as the new organisational structure of the Electronic Postal Communications Authority are still pending.

In the field of **mutual recognition of professional qualifications**, implementing legislation was adopted to allow exemptions from state examinations for the regulated professions for people who have successfully passed the state exam in one of the EU Member States, the EFTA countries, the United States of America or a number of other countries. Further efforts are needed to fully align the legislation in the field of regulated professions with the *acquis*.

Conclusion

There has been some progress in the area of the right of establishment and freedom to provide services, particularly in postal services. Further efforts are required to align the legislation in this field with the relevant *acquis*. Overall, preparations are moderately advanced.

4.4. Chapter 4: Free movement of capital

In the area of **capital movements and payments**, restrictions on the acquisition of real estate by foreigners have not been removed.

The Law on **Payment Systems** was adopted in April with the aim of liberalising the market and providing stability and efficiency. Some amendments to the Civil Code and the Civil Procedure Code were also adopted to make repossession easier. The Law on Securing Charges was amended in April. The volume and the value of transactions processed through the Albanian Inter-Banking Payment System increased by 2.4% and 65% respectively in 2012 with the same trend in the first quarter of 2013. As regards the Albanian Electronic Clearing House, the volume of payments fell by 7%, while the value of transactions increased by 5% in 2012 and the first half of 2013. The main user of the clearing house remains the Ministry of Finance.

As regards the **fight against money laundering**, implementing legislation was adopted for the Law on Prevention of Money Laundering and Terrorism Financing, which had been

amended earlier in 2012. Instructions on methods and procedures for reporting, including reporting by non-financial professionals, were adopted. The General Directorate for the Prevention of Money Laundering increased its capacity by employing three additional experts, reaching a total number of 28 employees. It continued to provide training for its staff and other institutions such as banks, currency exchanges, notaries, construction companies, accounting experts, lawyers and car dealers. The number of inspections carried out as of the end of 2012 was 347 of which 18% were on-site inspections, mainly of currency exchanges and construction sites. Twenty-two administrative measures were imposed but only 30% of fines were collected, as the remaining decisions were appealed against in court. A similar trend continued in the first half of 2013 with 139 inspections and 13 administrative measures of which 38% of fines were collected. There were 556 reports of suspicious transactions in 2012, 44% more than in 2011. Leasing companies and lawyers submitted reports of suspicious transactions for the first time. Some 36% of cases reported were passed on either to the prosecutor's office or to the police. Most of the reports came from banks or money transfer and exchange offices. The number of reports from the Immovable Property Registration Office and the General Tax Department increased significantly.

Conclusion

Some progress was made in the area of free movement of capital, with the adoption of the law on payment systems and further legislative and reporting measures taken to combat money laundering. Overall, preparations are moderately advanced.

4.5. Chapter 5: Public procurement

As concerns **general principles**, there have been improvements in the public procurement review system and legislation in the field of concessions has been adopted.

In the field of the **award of public contracts**, the Public Procurement Law was amended in December with the aim of further aligning it with the *acquis*. It includes provisions on the coordination of procedures for awarding public works, supply and services contracts and now covers the utilities sector. Implementing legislation adopted in the first half of 2013 covered public procurement procedures, definitions of small purchases and anomalous bids, and the procedures to be followed by contracting authorities. Fines and administrative penalties for infringements have also been redefined with the aim of giving the members of tender commissions more responsibility. The number of unpublished, negotiated procedures increased slightly during 2012, accounting for 26.4% of all procedures and 14% of the total value of tenders. This trend continued during the first half of 2013. This increase was partly due to delays in releasing procurement funds to the contracting authorities, combined with tight deadlines and weak planning.

The adoption of the new Law on Concessions and Public Private Partnerships in April, followed by implementing legislation and a concessions strategy in June, was important. Concessions for hydropower plants were excluded from the law for a transitional period of four years.

The Public Procurement Agency took further measures to ensure transparency of public procurement procedures. E-procurement continued to work well. The e-procurement implementing legislation was amended to extend its scope to contracts above €72 and to limit scope for interpretation by the contracting authorities. The number of disciplinary measures taken by the agency against contracting authorities increased from 27 to 55 and the number of reprimands from 3 to 15 in 2012, as compared with 2011, while the number of fines fell from 40 to 29. In the first half of 2013, 26 disciplinary measures and eight fines were imposed. Half of these cases were enforced by the agency after relevant reports by the Supreme State Audit Institution. The agency started to conduct more comprehensive monitoring of procurement

procedures. Public procurement and concessions are still one of the main sectors in which the audit institution has found financial violations. The audit institution reported in March 2013 that violations by both central and local authorities regarding public procurement for the period 2008-2011 caused damage to the state of €3.1 million. The agency has continued to provide awareness-raising and training on the amended Public Procurement Law. The agency's staff increased from 20 to 23 and two new experts cover concessions. The capacity of the agency and contracting authorities needs to be strengthened to ensure that recent legislation is implemented effectively.

In the field of **remedies**, the amended Public Procurement Law abolished the office of public procurement advocate, leaving the Public Procurement Commission to deal with reviewing and handling complaints from economic operators. This has helped to clarify institutional responsibilities and is expected to streamline procedures. The commission's administrative capacity was increased from 18 to 20 employees. The commission received 270 complaints and took 214 decisions. Its professional independence needs to be guaranteed.

Conclusion

There has been good progress in further aligning legislation on public procurement, concessions and public private partnerships with the *acquis*. Review mechanisms have also been streamlined. Further work is needed to improve the professionalism of contracting authorities and to reduce financial violations in the sector. Overall, preparations in the field of public procurement are moderately advanced.

4.6. Chapter 6: Company law

In the area of **company law**, the Law on Cross-border Mergers of Companies, aiming at alignment with the *acquis*, was adopted in November. The National Registration Centre has applied the law in connection with registering privately held companies. Preparations for bringing Albanian legislation into line with the *acquis* as regards reporting and documentation requirements in the case of mergers and divisions are on track.

There was some progress as regards the establishment of technical infrastructure for electronic signature. In January, the National Agency for the Information Society was accredited by the National Authority for Electronic Certification to provide the public administration with certificates enabling it to process electronic documents as from September. The first application, to be used by the General Directorate of Customs, is being set up. Licensing of a second private e-certification service provider is ongoing. The number of businesses that have been given e-certification increased to about 500. The implementation of e-signature by the state authorities has yet to be verified.

In the area of **corporate accounting**, preparations for aligning legislation on accounting and national accounting standards with the *acquis* have started. The National Accounting Council increased efforts to strengthen its capacity by training its staff and working on a series of internal guidelines. The membership of the Council's board was revised in May.

In the field of **auditing**, the Public Oversight Body continued its monitoring activities and was involved in a direct review of the quality of auditing of public interest entities. The roadmap for the reform of accounting and auditing for the period 2013-2015 was approved in August. The independence of the Public Oversight Body and its funding remain to be addressed as part of the reform.

Conclusion

Some progress was made in the field of company law through the adoption of legislation in the area of cross-border mergers. Some progress was made in the areas of corporate

accounting and auditing, but legislation remains to be aligned with the *acquis*. The Public Oversight Body needs to be strengthened. Overall, preparations are moderately advanced.

4.7. Chapter 7: Intellectual property law

In the area of **copyright and neighbouring rights**, the new law on copyright has not been adopted yet. Some amendments to the current Copyright Law were adopted, including an increase in the level of administrative fines for infringement of copyright, and a definition of the legal status of collective management agencies.

In the field of **industrial property rights**, the Law on Industrial Property was amended in February to provide for a Market Surveillance Inspectorate, which has not yet been set up. Further amendments to the law are pending. In April, Albania adopted the Law on Adherence to the London Agreement for the Implementation of Article 65 of the Convention on European Patents. Albanian legislation is not yet in line with the *acquis* on protecting topographies of integrated circuits.

As regards **enforcement**, the rate of collection of fines for copyright infringements remains very low. Royalties have reportedly not been paid to several right holders. The Interinstitutional Monitoring Group set up to implement the national strategy on intellectual and industrial property rights has met only once. In March, the General Directorate for Customs adopted its sectorial intellectual property rights strategy. It approved more requests for action to protect trademarks against counterfeiting, piracy and other infringements of intellectual property rights in 2012 than in 2011, and the number was higher again in 2013. However, fake products are still present in the market (*See Chapter 29 — Customs union*). Businesses complain of weak enforcement of legislation on intellectual property rights. The Copyright Office recommended that the licences of two collective management agencies be suspended for failing to comply with their obligations. The government has not yet taken a decision. There were some improvements in administrative capacity, mainly through staff training for the Copyright Office and the General Directorate for Patents and Trademarks. Alleged management problems at the Copyright Office led to key members of staff resigning or being replaced. The General Directorate for Patents and Trademarks drafted a manual on intellectual property infringement cases and upgraded its IT system. Awareness-raising events and training sessions with right holders, judges, tax and customs officials, academics, the police and prosecution officials were held. There is still a low level of understanding and awareness on copyright and related rights provisions and especially on collective management systems, including among judges.

Conclusion

There was little progress in the field of intellectual property law. Some steps were taken to further align the legislation on industrial property rights with the *acquis*. The Law on Copyright has to be adopted. Efforts are needed to effectively enforce intellectual and industrial property rights and to set up the Market Surveillance Inspectorate. Serious shortcomings in the payment of royalties to right holders need to be overcome. Albania has not yet met its commitments under the SAA. Overall, preparations are not very advanced.

4.8. Chapter 8: Competition policy

In the field of **anti-trust and mergers**, the Albanian Competition Authority adopted five by-laws, aligning with the *acquis*. In September 2012, the authority reduced the filing fees by almost half for small businesses with an annual turnover of between €1.4 million and €7.1 million.

The authority adopted six decisions on prohibited agreements and two on abuse of dominant position, and authorised 14 mergers and acquisitions. It received 19 complaints, five more than the same period last year, due to enforcement activity and advocacy.

The authority concluded investigations in the field of compulsory third-party motor insurance and fined eight companies for fixing market prices. After conducting investigations, the authority concluded that competition in maritime transport at Vlora port, in sugar and rice imports and vegetable oil trade had not been restricted. It also started in-depth investigations into potential abuse of a dominant position in oils, cement, mobile telephony and Tirana road transport services.

The authority increased the number of fines from one in 2011 to seven in 2012 and the number of decisions issued from 43 in 2011 to 48 in 2012. As regards appeals cases, the authority won 15 out of 26 appeal cases brought before the First Instance Court and 11 of the 18 which went to the Appeal Court in 2012. In the first half of 2013, the authority won two and lost one case before the First Instance Court. Many court decisions are pending, which has resulted in considerable delays in the collection of 73% of the fines imposed. Further efforts are needed to increase the judiciary's knowledge of competition law.

The new structure of the authority still needs to be approved by parliament. Its administrative capacity was increased by employing two additional experts, bringing the number of employees to 36 including 24 experts. Its officials have received training in various fields of competition law. Further efforts are needed to increase officials' knowledge of econometric analysis and use of ICT.

As regards **state aid**, €15.34 million were granted in state aid in 2012, 30% more than in 2011. In September 2012 the State Aid Commission authorised a 'de minimis' aid scheme for a three-year period to create an innovation fund. The commission examined the normative act of December 2011 on loan guarantee to the state-owned power company KESH and concluded in September 2012 that the measure did not constitute state aid. The number of notifications by the government remains very low, and there have been no notifications by regional or local authorities. The 2012 State Aid Report was adopted in July. The State Aid Sector in the Ministry of Economy still lacks the necessary administrative capacity to enforce state aid rules.

Some progress was made on completing secondary legislation for state aid control to bring it into line with the *acquis*. No progress was made in confirming the operational independence of the State Aid Commission and the Sector.

Conclusion

Limited progress has been made in the area of competition. The Competition Authority improved its overall performance and increased its administrative capacity. The independence and administrative capacity of the State Aid Commission and Sector need to be enforced. Overall, preparations for the revision of state aid legislation are at an early stage.

4.9. Chapter 9: Financial services

In the area of **banks and financial conglomerates**, in November the Bank of Albania (BoA) adopted a regulation on the management principles of banks and branches of foreign banks and criteria for approving their administrators. New regulations were adopted in January on electronic payment instruments and in July on capital adequacy, on credit risk administration and on liquidity risk administration. In March, the BoA adopted a new strategy for 2013-15 which included developing banking supervision in accordance with Basel I, II and III principles and EU Directives. The BoA's Supervisory Department employed three additional experts increasing its capacity. Four posts out of 50 remain vacant.

As regards the non-banking area, in December the Albanian Financial Supervisory Authority (AFSA) adopted implementing regulations on inspection procedures at financial non-banking institutions, and on licensing and the conduct of their activities, and on the organisation and functioning of a multilateral trading facility. The non-banking institutions remain 21. The

AFSA's administrative capacity increased slightly with the recruitment of two more staff reaching a total of 52. Its operational and financial independence needs to be guaranteed.

In the area of **insurance and occupational pensions**, the Albanian Competition Authority issued a regulation in March on the implementation of the Law on Competition Protection, promoting individual price-setting with regard to insurance premiums. Amendments to the Law on Compulsory Insurance in the Transport Sector were adopted in July, while the Law on Insurance and Reinsurance Activity is still pending. The insurance market remains small. Non-life insurance continued to dominate the insurance market and the ratio of claims to premiums has decreased to 34.6% in the first half of 2013, compared to 37% in the same period of 2012. The majority of the claims were on motor insurance. The AFSA licensed several agents in the non-life insurance market. Regulations on the technical provisions of compulsory insurance in the transport sector, on calculating the net asset value of voluntary pension funds and on time limits for disclosing information were adopted in September 2012. The AFSA also took further steps to prohibit the free use of insurance company assets. The compulsory motor insurance database centre is fully operational. An e-fine system is available.

As regards **financial market infrastructure**, the Law on Payment Systems was adopted in April and a regulation on licensing and supervision of operators in the national card payment scheme was adopted in June.

In the area of **securities markets and investment services**, the AFSA took measures to strengthen supervision and management of securities market and collective investment undertakings. The number of licensed operators in the securities market rose to 10. In the area of investment services, the AFSA issued a decision on setting up a compensation fund for insurance companies in 2013. A new investment fund, representing a new investment alternative in foreign currency, was licensed. The AFSA approved the respective prospectus filed for issuing bonds offered through a private placement.

Conclusion

There has been some progress in financial services, in the field of banking. Additional efforts are needed to align legislation with the *acquis* in the areas of insurance and occupational pensions, financial market infrastructure and securities market and investment services. Supervisory capacity needs to be strengthened. Overall, preparations are moderately advanced.

4.10. Chapter 10: Information society and media

Alignment with the *acquis* in the area of **electronic communications and information and communications technologies (ICT)** has progressed; amendments to the Law on Electronic Communications were adopted in October 2012. Competition has been enhanced by reducing the fees paid by companies to operate in the market. The Agency for Electronic and Postal Communications (AKEP) completed the third round of tariff reductions for mobile networks. Further progress has been made with implementing competitive safeguards: fixed number portability was introduced in September 2012 and the incumbent published its wholesale broadband access reference offer in early 2013. A third UMTS/3G licence was granted at the end of 2012.

The draft law on rights of way remains to be adopted. The emergency number 112 has not been implemented due to a lack of funds for setting up an integrated model for the 112 number and public safety answering points. AKEP's administrative capacity and resources remain weak.

Mobile usage remains high with subscription penetration at 119% in July, while mobile broadband is at an early stage of development. Penetration of fixed telephone and broadband

are among the lowest in the region. The fixed broadband penetration per population reached 7.6% according to the latest available data.

In the field of **information society services**, the GovNet network infrastructure has been extended and ‘public key’ infrastructure, providing trusted communication between government systems and users, has been set up. Amendments were made to the law on electronic commerce to further align it with the E-Commerce Directive. Alignment with the *acquis* on conditional access has progressed, with the adoption of the audiovisual media service law in March 2013. A national plan on broadband was adopted in May. The National Agency for the Information Society has improved its technical capacity by building a public data centre and setting up a new e-government portal and an interoperability platform to help provide e-government services for citizens and business. Electronic identity management for businesses has not yet been standardised but is different for each e-service (e.g. procurement, tax), hampering the development of e-services.

In the field of **audiovisual policy**, a law on Audiovisual Media Services, aimed at the alignment of the media legal framework with the *acquis*, was adopted in March 2013. The appointment procedure of the members of the media regulatory authority - Audiovisual Media Authority (AMA), provided for by the law, does not fully guarantee their independence. Implementation of the digital switchover strategy has halted, due to a court case of broadcasting operators. Efforts should be put into the timely implementation of the digital switchover strategy due to be completed in June 2015. Further efforts are required to free illegally used frequencies. AMA still lacks sufficient capacity and concerns remain over its independence. The public service broadcaster’s editorial independence and fee collection system have not improved.

Conclusion

There has been some progress in the field of the information society and media, particularly in aligning legislation on audiovisual media services and electronic communications with the *acquis* and enhancing competition in the electronic communications market. Legal uncertainty on the rights-of-way regime continues. The independence of the media and of its regulatory authority still gives rise to concern, and the digital switchover has been further delayed, putting at stake the timely implementation of the process. Overall, preparations are moderately advanced.

4.11. Chapter 11: Agriculture and rural development

As regards **horizontal issues**, the government allocated about €6.8 million in 2013 for direct support and national investment schemes in agriculture and agro-processing. Agricultural production in 2012 increased slightly, mostly due to improved production in fruit trees and olives. Part of the growth is linked to the government direct support schemes that have encouraged the planting of new trees. While exports increased, the trade balance has improved marginally. There has been good progress with agricultural statistics. Since the beginning of 2013 the National Statistics Institute (INSTAT) has been responsible for agricultural statistics. The Census of Agricultural Holdings was conducted in October 2012. According to preliminary results, the total number of agricultural holdings is 324 013, compared to 350 654 in 2010. The share of holdings keeping livestock fell from 84% in 2010 to 71% in 2012. The work on setting up a functional land cadastre continues to progress very slowly. Under the Law on agricultural cooperation companies, new cooperatives have been registered for the production of oil, cereals and vegetables. The work on creating a functioning electronic agricultural information system (farm register, animal register, etc.) must intensify in order to create a basis for sound financial management of national and EU assistance.

In the area of the **common market organisation**, a new law on olive oil was approved by parliament. It aims to align with the *acquis* on marketing standards.

The adoption of the 2014-20 strategy for agriculture and **rural development** is pending. Preparations to manage and control rural development funds under the rural development component of the Instrument for Pre-accession Assistance (IPARD) have continued. The first call for proposals under an IPARD-like scheme took place from December to February, followed by a second call launched in April. The expected results of the project will need to be closely monitored.

An assessment of the preparedness of IPARD operating structures (paying agency and managing authority in the Ministry of Agriculture and other bodies involved, such as the National Authorising Officer (NAO) and the national fund at the Ministry of Finance) to manage funds of IPA component V was carried out in March. The main weaknesses identified include the lack of progress made by the NAO and the national fund in managing pre-accession assistance in agriculture, the lack of appropriate office space and equipment, including checking tools, in the paying agency and the lack of a clear policy to retain trained staff both at the managing authority and the agency. Efforts are needed to further train staff on the appropriate procedures and in order to build up the administrative capacity of all structures involved in the accreditation process.

In the field of **quality policy**, amendments to the Law on industrial property referring to geographical indications have still to be adopted.

As regards **organic farming**, subsidies through direct schemes and training on organic production have been provided. The adoption of a law on organic farming is pending.

Conclusion

There has been limited progress in the area of agriculture and rural development. The agricultural statistics have been improved. While the administrative structure to implement IPARD schemes has been established at the Ministry of Agriculture, all involved elements of the management and control system need to be substantially strengthened in order to carry out their respective functions, in particular the NAO and the national fund. Overall, preparations in this area are not very advanced.

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

In the area of **general food safety**, risk assessment capacity has still not been established although a first step has been made with a decision by the Ministry of Agriculture to set up a dedicated Scientific Committee. The regulatory framework relating to the Scientific Committee needs to be completed with clear rules and internal procedures that govern the activities of this body, including relations with the National Food Authority, risk communication, risk assessment methodology, and the allocation of an adequate budget. The quality of inspections of food facilities has gradually improved. However, the organisational and administrative framework of the inspection system lacks appropriate procedures and inspection plans, including for import controls.

As regards **veterinary policy**, progress has been made with the identification and registration of sheep and goats. Official veterinarians at regional level were assigned the role of data managers. The ear tagging and data entry into the animal database are close to completion. Two mass vaccinations against brucellosis in sheep and goats have been carried out in conformity with required standards, including the use of certified vaccines, fully controlled vaccine cold chain, enhanced awareness campaign and monitoring of the process. Vaccination against classical swine fever has started. Most of the data on vaccination of animals have been recorded in the animal information system.

Field epidemiology officers were provided with job descriptions and operational manuals. Nevertheless, due to intra- and inter-institutional fragmentation of the veterinary service, a clear definition of competencies, responsibilities, procedures and communication is lacking. Staff levels at the central veterinary office remain inadequate. The role of the Chief Veterinary Officer is only technical. Although a good animal information system exists, no steps were taken with regard to animal waste management or improving of physical infrastructure in animal markets.

In the area of **placing on the market of food, feed and animal by-products**, the pace of progress is slow, with the exception of the updating and validation of the food establishments database (AKUnet) that now records 17 800 units. There has been no progress in ensuring food traceability due to the lack of enforcement of rules, timely reporting and updating of information on animal movements. Resources for monitoring contaminants, hormones, veterinary medicines, pesticide residues, etc. are insufficient. It is necessary to ensure that national residue monitoring plans are carried out in accordance with procedures. Introduction of new procedures and standards in order to align with the *acquis* has to be accompanied with intensive awareness and information campaigns for food business operators.

As regards **food safety rules** there is a need for progressive compliance with EU requirements as regards bacteriological criteria for raw milk.

There have been few significant developments in the area of **phytosanitary policy**. Inspection tasks have been assigned to the National Food Authority. The Plant Protection Section of the Ministry of Agriculture will be responsible for drafting legislation, with regional staff having an advisory function.

Conclusion

There was little progress in the area of food safety, veterinary and phytosanitary policy. The capacity of the inspection system needs to be increased and systematic inspection plans have to be introduced. Risk assessment capacity remains to be established and the regulatory framework relating to the Scientific Committee needs to be completed. Overall, preparations remain at an early stage.

4.13. Chapter 13: Fisheries

Amendments to the Fisheries Law were adopted in December, providing that fishing boats of more than 12 metres must install a mobile transceiver unit, as required by Council Regulation 1224/2009/EC. Implementing legislation on the rules for the collection and use of data in the fisheries sector and support for scientific advice on national fisheries strategy, as well as on management measures for the sustainable exploitation of fishery resources in the sea was adopted. The legal framework needs to be properly enforced.

In the area of **inspection and control**, implementing legislation on prevention of illegal, unreported and unregulated fishing and establishing a catch certification scheme, as well as a control system for ensuring compliance with the rules of the fisheries management policy was adopted. Despite recent amendments to the Fisheries Law, through which observers have been assigned to assist inspectors in carrying out their duties, the capacity of the Fisheries Directorate to collect information on landing of catches, which is necessary for the preparation of the multi-annual fisheries management plans and in particular for meeting reporting obligations under international agreements, remains limited. Prohibited species are still placed on the market, along with fish smaller than the allowed minimum size. The Vessel Monitoring System, which has been idle since August 2012, needs to be reactivated.

As regards **international agreements**, Albania has been attending the General Fisheries Commission for the Mediterranean and re-established its collaboration with the International Commission for the Conservation of Atlantic Tunas (ICCAT).

Conclusion

There has been very little progress in the area of fisheries, mainly in adopting new legislation in the area of data collection and the prevention of illegal, unreported and unregulated fishing. Further efforts are needed to ensure enforcement of the legal framework, clarify administrative responsibilities and strengthen capacity, particularly in policy making and inspection. Overall, preparations are not very advanced.

4.14. Chapter 14: Transport policy

As regards **road transport**, the Law on transport of dangerous goods, aimed at aligning with the *acquis*, was adopted in December. Legislative alignment with the *acquis* in the field of admission to the occupation of road transport operator and access to the road haulage market has not progressed. Relevant impact assessments and public consultations have not been carried out systematically. There have been no developments as regards roadworthiness tests, driving licences, vehicle inspections and the introduction of speed limiters. New technical standards for road transport are still awaiting adoption. There have been no improvements with regard to road safety; the number of road accidents and the death toll remain high with pedestrians making up a high share of the casualties. Implementation of the 2011-20 national strategy and action plan for road safety is at an early stage. No effective road safety campaigns have been carried out.

In the field of **rail transport**, the border crossing agreement with Montenegro was ratified in December. A network statement has been finalised and was published in March. The new Railway Law is still awaiting adoption. No progress has been made towards setting up independent railway institutions, infrastructure managers and rail operators. Resources allocated for the development and maintenance of railway infrastructure remain extremely low, resulting in further deterioration.

As regards **air transport**, further steps were taken towards fulfilling the requirements under the first transitional period of the European Common Aviation Area Agreement. Implementing legislation, aiming to achieve further alignment with the *acquis* on air service operations, air carrier liability, working time for mobile workers in civil aviation and insurance regulations, has been adopted. One limited self-service license on ground handling contributed to some extent to liberalisation of airport charges, which remain overall excessive. Legislation on allocation of slots at airports has not improved. The National Agency for Air Traffic was certified in November. Qualifications of Civil Aviation Authority staff have improved through training. The safety situation improved significantly but there is lack of evidence of recurrent training for Flight Operations Inspectors. There is still an over-reliance on external experts for safety oversight duties. The administrative and technical capacity in the air transport sector requires further strengthening.

In the area of **maritime transport**, the detention rate of vessels flying the Albanian flag has improved due to the fact that a number of vessels have been removed from service, but it still remains high. A new law on the accession of Albania to the Protocol on Preparedness, Response and Cooperation to Pollution Incidents by Hazardous and Noxious Substances was adopted in September. Albania still does not participate in the Paris Memorandum of Understanding on Port State Control and remains on the black list of that organisation.

Conclusion

Little progress has been made in transport policy. Further efforts are needed to align legislation with the *acquis* and to strengthen administrative capacity in all modes of transport. Road safety remains a serious cause of concern and has to be urgently addressed. Air safety oversight capacities have improved but still rely excessively on external experts. Overall, preparations in the area of transport are not very advanced.

4.15. Chapter 15: Energy

The new energy sector strategy is still being developed.

As regards **security of supply**, electricity generation capacity improved with the operation since September 2012 of the new Ashta hydro-electric plant. The government adopted a regulation on the identification, assessment and granting of concessions for hydro-electric plants. An intergovernmental agreement with Italy and Greece on the Trans-Adriatic Pipeline (TAP) project and the Host Government Agreement between the TAP consortium and Albania were ratified in March and April respectively. In June the TAP project was selected to bring Azeri gas of the Shah Deniz 2 field from the Turkish border via Greece and Albania to Italy. This pipeline will allow Albania to have access to natural gas resources. Albania has adopted a national sectoral plan for the development of the TAP project and has signed a joint agreement with the energy regulators of Italy and Greece. Albania remains over-dependent on hydropower and vulnerable to hydrological conditions. There was no progress with regard to increasing the capacity to monitor the implementation by economic operators of the legal obligation on emergency oil stocks.

In the field of the **internal energy market**, adoption of the new Power Sector Law is still pending. Substantial adaptation of the market model, including cost-reflective pricing and a clear legal framework is urgently needed to ensure the viability of the sector. The role and responsibilities of the different actors on the electricity market need to be clarified and their accountability strengthened. There has been no progress as regards the unbundling of the generation and wholesale supply operations of the state-owned power company KESH. KESH's financial difficulties during 2012 undermined its capacity to import electricity and to pay small local power generators and created a need for increased commercial loans, which had to be guaranteed by the state. The situation improved during the first half of 2013 due to heavy rainfall, allowing Albania to increase its electricity exports. However, the low financial liquidity of the entire electricity sector remains a concern. Losses and bill collection rates remain at an unsustainable level. The dispute between the distribution company CEZ Shperndarje (CEZ Sh) and KESH resulted in the Energy Regulatory Entity (ERE) withdrawing CEZ Sh's distribution licence and putting the company under public administration for a one-year period. CEZ Sh subsequently started an international arbitration procedure. New electricity tariffs approved by the ERE in May are in place. ERE's administrative capacity and operational independence remain weak.

Amendments to the Law on Natural Gas, aiming at further alignment with the *acquis*, have been adopted. ERE issued licenses for gas transmission and distribution to Albpetrol, the Albanian oil and gas company. Albpetrol has yet to fulfil all the legal requirements of a transmission system operator.

The Law on **renewable energy** was adopted aiming at further alignment with the *acquis*. Implementing legislation for the new law remains to be adopted. The development of the National Renewable Energy Action Plan is delayed. Rules concerning access to the grid for renewable energy installations are to be included in the new Power Sector Law. Administrative barriers for licensing and authorisation of renewable energy investments and connection of renewable energy producers to the grid have not been reduced. The law on biofuels remains to be amended in order to approximate it to the *acquis* on the use of renewable energy in transport.

Training was provided to auditors in the field of **energy efficiency** of buildings. The Law on energy efficiency has still not been adopted. Implementation of the national energy efficiency action plan is hampered by a lack of political commitment, administrative capacity and financial resources. The preparation of the second national energy efficiency action plan is delayed

In the areas of **nuclear energy, nuclear safety and radiation protection**, Albania ratified the amendments to the Convention on the Physical Protection of Nuclear Material in April. Amendments to the Law on protection against non-ionising radiation and implementing legislation on public safety standards for exposure to non-ionising radiation were adopted. Guidelines on the procedure for recognition of a medical physicist by the Radiation Protection Commission were also adopted. The Radiation Protection Office increased its capacity, hiring two additional staff.

Conclusion

There has been little progress in the field of energy. There have been some improvements as regards the supply of energy, but diversification of electricity sources is still lacking. The conditions for a competitive electricity market are not yet in place. The high level of losses and low bill collection rates need to be urgently addressed. Overall, preparations are not very advanced.

4.16. Chapter 16: Taxation

In the area of **indirect taxation**, there is a positive trend concerning the volume of *Value Added Tax* (VAT) refunds processed and the rate of VAT refund requests approved. The implementation of tax legislation still requires significant improvements, with special regard to VAT refund procedures as delays persist. Legislation adopted exempting from VAT certain imports for investment purposes is not in line with the *acquis*. A VAT law which is more in line with the *acquis* needs to be adopted.

Albania began implementing the new (2012) *excise* legislation. Further efforts are required to align the excise structure and rates with the *acquis*. Technical difficulties with the implementation of excise stamps persist.

In the field of **direct taxation**, the number of first-time personal income declarations (PID) increased. Legislative alignment with the *acquis* requires further efforts. The draft Law on mergers and savings has not yet been adopted and transfer pricing practices are not in line with EU and international standards.

As regards **administrative cooperation and mutual assistance**, Albania signed an agreement with Kosovo on cooperation on taxation and fighting tax evasion and an agreement with the United Kingdom to avoid double taxation. It also ratified the Convention on Mutual Administrative Assistance in Tax Matters, a multilateral agreement developed jointly by the Council of Europe and the OECD.

In the area of **operational capacity and computerisation**, a new structure of the General Directorate of Taxation (GDT), including the Risk Management Directorate and the Unit on Transfer Pricing, was approved in December with a view to improving tax collection and the fight against tax evasion.

The Tax Investigation Department (TID) stepped up its efforts in tackling tax evasion and the number of cases referred to the prosecutor's office increased. Penalties for tax evasion were increased. Enhanced internal cooperation in the area of internal auditing and fighting corruption resulted in more proposals for disciplinary actions and cases referred to the prosecutor's office. However, corruption in the tax administration and tax evasion remain a concern.

The Tax and Customs Academy started working in May. The TID received training on detection of tax evasion and on investigation of tax crimes. Human resources and capacity need to be further enhanced and interinstitutional cooperation for the monitoring of PID files requires strengthening. The involvement of the business community in the legislative and policy-making processes remains low.

As regards computerisation, electronic systems for filing personal income tax declarations and giving access to taxpayers' data through mobile devices were introduced, although the level of electronic payment of taxes remains low. Preparations for upgrading the IT system, including a risk analysis system, have started.

Conclusion

There was limited progress in the field of taxation. The fight against corruption and tax evasion needs to be strengthened as, although some measures were taken, these issues remain a concern. Further efforts are required in legislative alignment with the *acquis*, tax investigation, including exchange of information with EU countries, VAT refunds and IT. Overall, preparations are moderately advanced.

4.17. Chapter 17: Economic and monetary policy

Overall, **monetary policy** has been prudent, maintaining price stability with inflation within the Bank of Albania's target range of 2-4%. However, monetary policy is constrained by the relatively high degree of euroisation of the financial system. The effective management of monetary policy by the bank should be maintained, and the Law on the Bank of Albania should be further aligned with the *acquis* to enhance the bank's independence.

As regards **economic policy**, Albania adopted its 2013-15 economic and fiscal programme (EFP) in January. It is based on the 2013 Budget Law adopted in December and on the macroeconomic and fiscal programming for 2013-15 which was adopted in January. The main fiscal targets for the years 2013-15 concern a decrease in total net borrowing as a percentage of GDP from 3.5% in 2013 to 2.2% in 2015, while maintaining in each year the level of capital expenditures not less than the overall fiscal deficit. In December, Albania repealed the official ceiling of 60% of GDP for public debt, which is estimated by the current EFP to reach 63.8% in 2013, failing to meet one of the targets of the 2012-14 EFP. Fiscal data are not in full compliance with ESA95 standards. The macroeconomic and fiscal frameworks seem rather optimistic and macroeconomic projections are not supplemented with alternative scenarios in the light of uncertainty. Almost all the relevant data are covered in accordance with the EFP methodology but weaknesses persist, especially with regard to labour market and wage statistics. Links between the macroeconomic scenario and structural reforms are not explicit enough. The framework for structural reforms is not coherent and comprehensive and lacks clear timeframes and budgetary paths for implementation. The capacity for economic policy coordination and implementation remains insufficient.

Conclusion

There was little progress with regard to improving the quality of economic policy documents. Further efforts are required as regards the policy planning and implementation process. The policy drafting capacity of institutions involved in the preparation of the EFP has to be increased. Overall, preparations are not yet sufficient.

4.18. Chapter 18: Statistics

In the area of **statistical infrastructure**, the new structure of the National Statistics Institute (INSTAT) was approved in December. It includes two new Directorates on European Integration and on Agricultural Statistics, reflecting the transfer of statistical domains from the Ministry of Agriculture. INSTAT's capacity has been increased with the recruitment of 36 employees, while regional offices have been reduced from 36 to 12 to make INSTAT more operational. The 2012-15 programme of official statistics was adopted in February. The Law on Statistics was amended in February, introducing the role of INSTAT as coordinator of national statistics, ensuring broader representation in the Statistical Council and laying down the procedure for the recruitment and dismissal of the Director General of INSTAT, allowing for two five-year mandates. The latter's mandate was reconfirmed in June. Proper enforcement of

this law needs to be ensured. Further efforts are required to enhance the professional independence of INSTAT. Interinstitutional cooperation at national level in many statistical sectors remains weak.

As regards **classifications and registers**, work on the statistical farm register is progressing, including tests on the databases.

In the area of **sectoral statistics**, INSTAT improved national accounts estimates and their methodology. There has been progress in the production of quarterly Gross Domestic Product statistics. Further efforts are needed to improve access to micro-data and datasets and to develop an inventory of systematic processes and data.

INSTAT conducted the Census of Agricultural Holdings in October 2012. Preliminary results were published in March and final results are expected in December 2013. INSTAT published the final results of the 2011 Population and Housing census at national level in December and at regional and local level in May. Data on employment, unemployment and occupation have not yet been published.

Efforts are needed to improve several areas of sectoral statistics, especially agricultural, social, labour, tourism and macroeconomic statistics, and to ensure that statistical data are available to the general public.

Conclusion

Progress has been made in the area of statistics. Implementation of the amendments to the Law on statistics is important. The credibility and independence of INSTAT has to be ensured. Overall, preparations are moderately advanced.

4.19. Chapter 19: Social policy and employment

As regards **labour law**, amendments to the Labour Code are still awaiting adoption. Child labour remains an important challenge. The first national child labour survey conducted in May 2010 (published in May 2013) estimates that 7.7% of all Albanian children aged 5-17 work. The statistical distribution of child labourers per age group needs to be improved, taking also into account international standards and provisions of the Labour Code on the minimum age for working.

As regards **health and safety at work**, several awareness-raising campaigns on occupational health and safety, risk prevention and working conditions of employees have been carried out. The number of accidents at work in 2012 was lower than in 2011 but the number of accidents resulting in death still raises concerns. Overall, health and safety conditions at work remain poor. The State Labour Inspectorate (SLI) has been reorganised and operates at the central and regional levels. Inspectors were also trained, notably on EU health and safety legislation. The impact of the reorganisation on administrative capacity needs to be carefully monitored.

In the field of **social dialogue**, the mandate of the National Labour Council expired at the end of March. The Ministry of Labour, Social Affairs and Equal Opportunities (MLSAEO) has proposed a new composition of the Council, partially aligned with the representativeness criteria as defined by ILO standards, which is still being discussed by the social partners. Bipartite social dialogue remains very weak, especially in the private sector.

As regards **employment policy**, an employment strategy for 2014-20 is being drafted and is awaiting adoption. The official unemployment rate fell slightly in 2012 to 13%, but long-term unemployment (51% of the unemployed in 2012) and youth unemployment are very high. The number of registered employees in 2012 shows a slight increase of 0.6% compared to 2011. However, labour market participation and employment rates remain low, especially for women, while the informal economy remains an important provider of jobs. Labour market statistics need to be improved.

Unemployment benefit coverage remains low, at an estimated 6% of the total number of registered unemployed. Altogether 969 unemployed job-seekers were involved in employment promotion programmes, out of which around 70% were women job-seekers. National funds available for employment programmes have further decreased and are largely insufficient to cover the needs of the most vulnerable groups among the unemployed. A new Vocational Training Centre was opened in Kukes in March. The MLSAEO has launched an e-portal which covers 12 regional employment offices and 24 local employment offices and serves as a platform for both job-seekers and employers to exchange labour market information. Further efforts are needed to modernise the National Employment Service, in particular with a view to increasing its attractiveness and performance levels. Some efforts have been made to fight *undeclared work*.

There were no developments as regards preparations for the **European Social Fund**.

As regards **social inclusion**, the new draft strategy for social protection and social inclusion 2013-2020 was drafted and widely consulted. The strategy incorporates a new community-wide approach where anti-discrimination is an important driver in achieving social inclusion. The last living standards measurement survey (LSMS) shows that poverty levels have risen in 2012, reversing the decreasing trend of 2002-2008. According to the benchmarks of the survey, poverty rose from 12.4% in 2008 to 14.3% in 2012. The Ministry of Education and Science adopted quotas for the enrolment of Roma, Egyptians and vulnerable students in public universities in the academic year 2012-13. Accession to and retention in the education system remains challenging for Roma, Ashkali and Egyptian children. Implementation of the social inclusion policies targeting Roma remains slow.

As regards *people with disabilities*, the Convention on the rights of people with disabilities was ratified and the National Action Plan 2012–2021 was published in November 2012. The Minister of Labour, Social Affairs and Equal Opportunities adopted three guidelines on adjusting disability and caretaker allowance payments to the inflation rate (increased consumer price index). The employment offices and vocational training centres were trained on the Law on employment promotion, including the quota for persons with disabilities. Awareness-raising activities took place on the need to integrate sign language in schools. The draft framework law on inclusion of and accessibility for persons with disabilities was not finalised.

In the area of **social protection**, no specific measures were taken to tackle delays in disability and pension payments. In July a decision of the Council of Ministers on increasing the salaries and pensions entered into force. The pension reform is not moving ahead due to a lack of political will. The level of contributions for old-age pension increased by 60% in 2012 due to the higher number of private sector contributors. The 2012 published Social Insurance Institute data show that there were 554 102 recipients versus 651 613 contributors. Preliminary data show that the number of contributors went down to 561 306 in the first half of 2013.

In the area of **anti-discrimination**, the Commissioner for Protection against Discrimination (CPD) has focused on raising awareness, providing legal recommendations and signing cooperation agreements with central/local government institutions and some civil society organisations. Compared to last year, the number of complaints submitted to the CPD increased as did the number of investigations it initiated ex officio. The CPD imposed five fines on public institutions for not implementing its decisions and provided legal assistance in two cases. Implementation and enforcement of the Law on protection against discrimination remains insufficient. The level of public awareness of the law and of the complaint mechanism remains low. More cases need to be brought to a final conclusion with, if

necessary, adequate penalties for the perpetrators. (*See also Chapter 23 – Judiciary and fundamental rights*)

In the area of **equal opportunities** between women and men, some employment programmes have been undertaken to support women's access to employment. No specific measures were taken to address the gender pay gap, access to entrepreneurship and credit. In line with the 2012-15 strategy for gender equality, the capacity of the administration dealing with gender issues at state and municipal level has been strengthened through training. Additional financial and human resources are necessary to ensure the proper implementation of the strategy. Representation of women in the labour market, particularly in political and economic decision-making, remained insufficient. Further efforts are required to foster cooperation with civil society in this area. (*See also Chapter 23 – Judiciary and fundamental rights*)

Conclusion

There has been little progress in the field of social policy and employment. Further efforts are needed to improve health and safety conditions at work, and amendments to the Labour Code are still awaiting adoption. Labour market institutions and data remain weak. Some efforts were made as regards anti-discrimination and equal opportunities but more financial and human resources need to be invested in the implementation of the respective policies at central and especially local level. Overall, preparations in the area of social policy and employment are not very advanced.

4.20. Chapter 20: Enterprise and industrial policy

As regards **enterprise and industrial policy principles**, Albania continued implementing the principles of the Small Business Act (SBA). The legal and regulatory framework continued to improve with some progress in the areas of bankruptcy and second chance for SMEs and of company registration and business start-up. Some steps were taken to implement the inspectorate reform by adopting amendments to sector laws, implementing legislation on the organisation and structure of the General Inspectorate and the code of ethics of its employees. The Business and Investment Development Strategy for 2014-20, which takes into consideration the principles of the SBA, has not yet been adopted. There was no progress as regards legislative alignment on late payment.

In the area of **enterprise and industrial policy instruments**, financing to SMEs continued through the credit guarantee fund and the European Fund for South-East Europe but SME access to finance remains an issue. The Albanian Investment and Development Agency (AIDA) promoted the business relay innovation centre and the Innovation and Competitiveness Funds. AIDA's capacity to implement SME promotion mechanisms needs to be further increased.

Under the Competitiveness and Innovation Programme 2007–13, Albania joined the European Network of Female Entrepreneurship Ambassadors and the European Network of Mentors for Women Entrepreneurs.

As regards **sector policies**, the Law on tourism was amended, clarifying the legal status and scope of activity of the Tourism Service Offices. Albania adopted in February the 2013 mining plan, and legislation on mining was amended.

Conclusion

There was some progress in SME policy implementation and policy convergence towards EU standards and practices, particularly as regards company registration and business start-up. Albania should continue focusing on improving the business environment, moving towards the introduction of a full regulatory impact assessment for all legislation with direct implications on business operations. 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.

Improvements continued throughout the road network. Construction work began on the Fier by-pass on road corridor VIII, while construction of the Tirana–Elbasan road is progressing and the Damës-Tepelenë segment is still not completed. On the north-south corridor, the section from Shkodra to the border with Montenegro has been completed with the exception of Shkodra ring road which is delayed. Expropriation problems and lack of funds continue to slow down some projects. Often works are not finished and roads are left without signs and marking. Comprehensive environmental impact assessments are not carried out systematically. The tender for the maintenance concession for the Milot-Morine motorway, which was launched in February 2012, has not yet been finalised. The road maintenance asset management scheme has been updated. Funds allocated for maintenance are still insufficient. As regards port infrastructure, works in Durres are progressing well, while procurement procedures started for works planned in Vlora. Resources for dredging of port access need to be secured in order not to jeopardise investments. Overall maintenance of transport infrastructure remains an important challenge.

As regards **energy networks**, the new Ashta Hydro Power Plant came into operation. Investments in rehabilitation and modernisation of monitoring of the 220 kV substations at Fier, Tirana, Elbasan and Burrel were completed. A feasibility study for the construction of a 200 Kv interconnection with the former Yugoslav Republic of Macedonia has been finalised. Preparations for the construction of the 400 kV interconnection with Kosovo were re-launched in January following a delay due to disputes regarding the outcome of the first tender procedure. In June the Trans-Adriatic Pipeline (TAP) project was selected to bring Azeri gas of the Shah Deniz 2 field from the Turkish border via Greece and Albania to Italy (*See also chapter 15— Energy*). A national sectorial plan for the development of the TAP project was adopted.

Conclusion

Some progress was made in the area of trans-European networks. Development of road infrastructure is continuing. There has been no progress in developing the rail network. Transport infrastructure development and maintenance remain a challenge. Overall, preparations in the area of trans-European networks are not very advanced.

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

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

As regards the **institutional framework**, national structures required for the decentralised management of IPA component I are in place. Following submission of the accreditation package to the Commission, two auditing missions have taken place to assess the readiness of the structures. Albania has addressed most of the recommendations to manage IPA component I funds. In relation to IPA component II, the implementing and operational agreements between the national authorising officer, the head of the operating structure and the programme authorising officer for component II have not yet been adopted. Preparation for decentralised management in the area of agriculture and rural development is ongoing (*see also Chapter 11 - Agriculture*).

In the field of the **administrative capacity** of all IPA structures, a workload analysis was completed in December for the main IPA bodies and an updated training needs plan for 2013

was finalised in February. Further steps need to be taken to ensure adequate staffing within IPA structures.

As far as **programming** is concerned, administrative capacity needs to be significantly enhanced in order to be able to frame and implement realistic sector policies and strategies. The development of a mature projects pipeline remains an important issue to be addressed, particularly in relation to future EU assistance under IPA 2. Adoption of the national strategy for development and integration for 2014-20, which *inter alia* addresses regional policy, has been postponed to the first quarter of 2014.

As regards **monitoring and evaluation**, the monitoring and evaluation procedures have been revised and a segregation of monitoring functions across the IPA structures has been established.

In the area of **financial management, control and audit**, the procedure for requesting IPA funds from the national fund has been shifted from a forecast basis to an invoice basis. The management board of the audit authority (AA) has been appointed. The staff of the AA received training in auditing procedures. Capacity needs to be further strengthened and staff numbers need to be increased.

Conclusion

Some progress was made in the area of regional policy and coordination of structural instruments. In view of the accreditation, management and control systems of IPA structures need to be further strengthened to minimise risks of delays and decommitments. Programming capacity needs to be improved, with particular regard to the preparation of a solid projects pipeline. Overall, preparations in this area are moderately advanced.

4.23. Chapter 23: Judiciary and fundamental rights

Judicial system

There has been some progress in completing the legal framework for judicial reform, which is a key priority of the Opinion. Implementation of the 2011-13 judicial reform strategy and the relevant action plan was pursued. Some measures are still pending, and a comprehensive assessment of the reform is hampered by the absence of specific indicators. Poor interinstitutional cooperation, lack of human resources and weak budget planning and allocation remain a concern. Albania needs to update its judicial reform strategy and further promote the independence, efficiency and accountability of its judicial institutions.

The Law on the High Court was adopted in May, thus paving the way for implementation of the 2012 Law on administrative courts. The Law on judicial administration was adopted in April and a significant number of amendments to the Civil and Civil Procedure Codes and to the Criminal Code were introduced in April and May respectively. The ongoing review of the Code of Criminal Procedure has yet to be completed, in particular as regards the adoption of provisions aimed at rationalising the High Court's competences and procedures, and reducing its workload. Important legislation on the reform of the Constitutional Court and the High Council of Justice still needs to be adopted. The role of the Minister of Justice in the High Council of Justice should be reviewed.

Regarding the **independence and impartiality** of the judiciary, the Law on the High Court, which entered into force on the 1st of October, increases the number of judges from 17 to 19 with a view *inter alia* to setting up an administrative chamber and dealing more efficiently with the Court's workload. The law also introduces stricter conditions and criteria for the selection of judges and reduces the non-judiciary component of the Court's membership to a maximum of one quarter, thereby reinforcing the professional character of the High Court. Further, the President of the Republic is henceforth required to motivate his choice of

candidates for any vacant seats on the Court. The status of the High Court and the process of appointing judges to this Court remain, however, issues 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.

The evaluation of judges — which has not yet been completed — is a crucial requirement for a merit-based and transparent process of appointments, transfers and promotions. There is an overall trend to give increased weight to applicant's merits and other objective criteria. The July round of appointments, transfers and promotions of judges showed that the margin of discretion enjoyed by the High Council of Justice is still too wide and should be reduced. The procedure for the appointment of the new administrative judges has not been finalised.

The School of Magistrates continued to provide good quality curricula and the candidate admission process is reported to have been transparent and merit-based. The School continues to face problems due to scarce budgetary allocations.

Random allocation of cases under the unified case management system, which has not yet been extended to courts in Tirana except for the Serious Crimes Court, needs to be ensured. Audio recording, which is already being used in 19 district and appeal courts, should be further extended.

Publication of court rulings - which is still not fully ensured - should take into account all aspects relating to the protection of personal data. Relevant recommendations of the Data Protection Commissioner need to be followed up. There has been no progress in updating the electronic database at the Judicial Documentation Centre.

In relation to **accountability** in the judiciary, the memorandum of understanding between the Ministry of Justice and the High Council of Justice on inspections has been implemented smoothly. However, as long as the Law on the High Council of Justice is not changed, the risk of overlapping remains. A manual on good practice on inspections was published at the end of 2012 and the High Council of Justice inspection service is being re-organised, but new rules on inspections are still to be drafted. Disciplinary proceedings against judges and prosecutors have been applied in only a few cases. The power to open and close a disciplinary procedure is still the exclusive competence of the Minister of Justice, which goes against EU standards.

The fight against corruption in the judiciary has made limited progress. A modest increase (around 7% for appeal court judges and 20% for first-instance court judges) in magistrates' remuneration was adopted in April. Concerns about corruption in the judicial system remain. Implementation of the 2012 constitutional reform limiting the immunity of judges has still to be ensured. Amendments to the Code of Criminal Procedure making the arrest of judges and house and personal searches possible have not yet been adopted. The code of ethics was cited in some disciplinary proceedings against judges but its implementation remains to be fully ensured. The impact of the online procedure allowing citizens to lodge complaints against judges and court proceedings is still to be assessed. There was no progress on improving the drafting of court decisions, in particular as far as their reasoning is concerned. Further, court decisions are generally delivered without their reasoning, which in most cases is only issued after a significant delay.

The lack of accountability of the General Prosecutor's Office is 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 the Prosecutors reinforced.

As regards the **efficiency** of the judiciary, a territorial reorganisation of courts and a reallocation of the number of judges were approved in November by the President following a proposal by the Ministry of Justice and a favourable opinion from the High Council. The new provisions have not yet been implemented in many respects. The new Law on judicial

administration introduces a long-awaited legal framework regulating the work of courts and court staff. The law does not guarantee the independence of court chancellors, in particular because it does not provide them with civil servant status. Implementing legislation needs to be finalised and adopted. Adequate training of court staff remains to be ensured. Some progress was made regarding working conditions in courts but hearings continue to be held occasionally in judges' offices. There is still no accurate civil registry containing a proper address system. The budget allocated to courts and court staff remains insufficient.

The 2013 budget for the overall justice sector was slightly higher than in 2012 and amounted to €77 million, which represents 0.8% of GDP and 2.6% of the state budget.

The Criminal Code was amended by introducing new offences and heavier penalties for some crimes, and aligning the Albanian code with several European standards and international conventions, including on the protection of women and children. The amended Code of Civil Procedure reformed procedures applied at the High Court by establishing a panel of only three judges for most cases. It also limits the Court's civil competence by excluding appeals on procedural grounds. The applicability of these amendments to cases already pending before lower courts is still under deliberation; if the amendments do not apply to such cases, this will significantly delay their positive impact. Further amendments to the Code provide for electronic notification, electronic minute taking, and streamlined enforcement procedures. A simplification of inheritance procedures was introduced through amendments to the Civil Code. Overall, the reform of the Civil Code and the Code of Civil Procedure should help reduce the backlog of cases and expedite court proceedings, thereby improving efficiency.

Implementation of the 2012 Law on the profession of lawyer is ongoing: the director of the new school of lawyers has been appointed and the disciplinary committee has begun to operate. The issue of empowering judges to effectively punish lawyers for contempt of court, including repeated absences during hearings in civil and criminal cases, has not yet been addressed. Inefficient and lengthy court proceedings and backlogs (27 623 and 24 415 cases pending before district and appeal courts by January 2012 and January 2011) remain an issue of concern.

In June, the Committee of Ministers of the Council of Europe adopted a Resolution calling upon Albania to prepare an action plan with a view to establishing an effective compensation mechanism so that decisions relating to restitution of or compensation for property nationalised during the communist regime can be enforced. Non-execution of court decisions, in particular those involving state institutions, remains a serious problem.

Private bailiffs currently deal with enforcement in most civil cases. No precise information is available as regards the rate of effective enforcement of court decisions or the time required for enforcement. The bailiff case management system is not yet connected with the system used by the courts. Regarding the Law on mediation, the Chamber of Mediators was established in July. Amendments to the Law on arbitration are still pending.

In February, the Tirana Court of Appeal confirmed the 2012 District Court convictions in the so-called Gërdec case (the 2008 explosion that killed 26 people and injured over 300) but further reduced the sentences given to some of the 29 defendants, while placing others on probation. Both the prosecution and the defendants appealed to the High Court against this ruling. In parallel, the charges against a former Defence Minister were dismissed at the end of 2012 following a general amnesty granted on the 100th anniversary of Albania's independence. An application filed by relatives of the victims contesting this decision was brought before the European Court of Human Rights in May.

In relation to the death of four demonstrators during the events of 21 January 2011, the District Court of Tirana acquitted in February the three defendants accused of being involved

in the incident. The Court considered that the way in which the prosecution had formulated the charges did not justify a verdict of ‘intentional homicide’, which was the core of the accusation. This decision, which has sparked strong controversy, has been appealed by the General Prosecutor’s Office. In September, the Tirana Court of Appeal reversed the acquittal decision and imposed prison sentences, of respectively one year and three years, on two of the defendants for manslaughter, whereas the Prosecution had sought sentences of respectively 21 and 23 years.

As regards **access to justice**, the Law on legal aid was amended in May, introducing possible exemptions from judicial fees for victims of trafficking and domestic violence, and establishing local legal aid offices. The State Commission for Legal Aid called on lawyers to apply to be listed as free legal aid lawyers. Implementation of the law has been very slow and the budget allocation insufficient for local offices to be set up in the short term. Despite the amendments of May, access to justice was hampered by high judicial fees. Applicants requesting free legal aid still need to submit many documents, from various state institutions. Most free legal aid was provided by civil society.

A group of former political prisoners went on hunger strike last autumn, claiming shortfalls in the implementation of the 2007 Law on compensation and the right to restitution and rehabilitation of former political prisoners and persecuted persons.

Anti-corruption policy

Implementation of the anti-corruption strategy progressed. Albania completed implementing all recommendations of the third-round evaluation of the Group of States against Corruption (GRECO), in particular by strengthening the legal framework on transparency of the funding of political parties.

Initial track records have been established. During the first six months of 2013, convictions at district courts increased by 21% to reach 94 cases compared to the same period in 2012, and convictions at the appeal courts more than doubled to reach 56 cases. A variety of sectors was covered, such as health and education. Regarding high-level corruption, four defendants were convicted during the first six months of 2013. Following the constitutional amendments to restrict the immunity of high-level public officials and judges, the Criminal Procedure Code needs to be amended to clarify the relevant investigative procedures.

Inspections carried out by the Department of Internal Control and Anti-Corruption (DIACA) have continued. Nevertheless, there is a need to clarify the role of DIACA and to enhance capacity in this area. An assessment of the over-all set-up of the institutions involved in the prevention and fight against corruption, including the role, operation and impact of the relevant institutions and their coordination, needs to be undertaken. There is a need to ensure effective reporting, policy coordination and monitoring at central level.

The memorandum of understanding (MoU) between the High Inspectorate for Declaration and Audit of Assets (HIDAA) and the High Council of Justice is still pending. An assessment of the implementation of existing MoUs remains to be made. The impact of the amendments to the Law on the prevention of conflicts of interest in the exercise of public functions and the Law on the declaration of assets and audit of assets should be evaluated.

Implementation of the agreement on exchange of information with the customs service and the Directorate General of Road Transport Services is progressing smoothly. An electronic registry for notaries has been launched for the registration of acts in a centralised national system. The digitalisation of information provided by the Immovable Property Registration Office has not yet been completed.

The number of corruption cases investigated by the Joint Investigative Units increased by 28% in 2012 compared to 2011, whereas the proceedings sent to court increased by 52% in

2012. HIDAA also continued detecting cases of suspicious asset declarations. However, overall, the number of investigations and convictions remains low. There is a need to improve HIDAA's audit capacity. Coordination among institutions and further investigation of these cases needs to be stepped up. Overall, investigations continue to have a reactive, rather than proactive, nature and risk assessments for corruption are not carried out systematically.

State institutions dealing with the fight against corruption remain vulnerable to political pressure and influence. It is particularly important to ensure transparent and merit-based criteria for appointments and dismissals. The role of civil society is still limited despite a recent increase in the use of social media as a means of drawing attention to complaints and reporting abuses.

The use of a 24-hour camera monitoring system has been extended to all customs border points. In 2012 disciplinary investigations were conducted against 28 customs employees, mostly for small-scale bribery. The use of proactive investigations and risk assessment in the tax service needs to be enhanced. Corruption in the tax service remains an issue of concern.

A track record of disciplinary measures against judges has started to be built. However, there is no effective system of asset declarations and verifications. Risks of corruption and undue influence over the transfer and promotion of judges have not been addressed sufficiently. Corruption in the judiciary remains a particularly serious problem.

Inspections of higher education establishments continued. Online procedures for the 'State Matura' examination were further developed and a new code of ethics for teachers was introduced. Measures centralising drugs procurement have recently been taken to tackle problems of corruption in the health sector. A 'green line' was set up in order to allow citizens to lodge complaints against corruption concerning medical personnel. The effectiveness of these measures needs to be assessed. Corruption in the health sector remains an area of concern.

The number of contact points (green lines, e-mail addresses) for citizens to provide information on corruption cases has increased. There is a need to evaluate their effectiveness and the action taken on the information provided.

Fundamental rights

Regarding **international human rights instruments**, Albania ratified the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence, the UN Convention on the Rights of Persons with Disabilities and the Third Optional Protocol to the UN Convention on the Rights of the Child concerning a communications procedure. Delays in application of and non-compliance with judgments of the **European Court of Human Rights**, with particular regard to property rights and the right to a fair trial, remained a concern. The Court delivered judgments on 6 applications finding that Albania had violated rights guaranteed by the European Convention on Human Rights.

A total of 143 applications have been submitted to the Court since September 2012, bringing the total number of pending applications to 446.

Measures have been taken to strengthen the **prevention of torture and ill-treatment**, another area covered by a key priority of the Opinion. In 2013, the State Police signed a cooperation agreement with a third civil society organisation on monitoring places of deprivation of liberty, including unannounced visits. All police officers have been trained on human rights; this has not been extended to civilian staff such as doctors or psychologists working within the police force. The Istanbul Protocol on documentation of cases of ill-treatment is used in all prisons and was introduced in district police directorates. The guidelines and protocols on hunger strike management were approved by the General Directorate of Prisons in 2013. The National Mechanism for the Prevention of Torture increased the number of inspections by

41%, from 98 to 138. The number of its recommendations increased from 37 to 53. The Ombudsman received 107 complaints against the State Police and the General Directorate of Prisons, which represents a 48% decrease. Most of the Ombudsman's recommendations on ill-treatment were addressed by prisons and the State Police.

Non-compliance by state-institutions with recommendations and insufficient budget, in particular for enlisting specialist expertise and for enabling monitoring visits to places of detention, hampered the mechanism's operations. Infrastructure standards for detention cells were met in only seven police commissariats. The Commissioner for Protection against discrimination also issued a decision against a State Police employee in the first half of 2013.

Following the adoption of the 2012 Law on mental health, the Ministry of Health, responsible for specialised treatment of mentally ill persons in penitentiaries, has not recruited additional psychiatric and psychological staff, nor has it allocated a budget to improve living conditions. Concerns remain regarding the distribution to and sufficiency of medicines, particularly in prisons outside the capital. Little progress has been made on the establishment of a specialised institution for treating mentally ill detainees under obligatory treatment. Mentally ill persons in the Kruja Institute continued to be kept in detention, meaning that the prevention of ill-treatment or degrading treatment was not guaranteed.

As regards the **prison system**, the area covered by the Probation Service was extended to four further districts and the number of staff was increased. In March, a pilot of the electronic monitoring system as an alternative to custody started, with a target national capacity of 300 offenders. A debit card system and a sentence management system have been introduced for prisoners. Issues of privacy remain, especially as regards visit areas on a single bench system or lack of privacy hoods to prison pay phones.

To guarantee the right to education for juveniles in detention, education staff was appointed in all penitentiary institutions. New education centres were opened in prisons and new programmes for 18-21 year olds have been introduced for both adult male and female prisoners. Budget and didactic material is still needed to provide compulsory education to all juveniles. Human and financial resources for civil society organisations certified to supervise work with juveniles need to increase; so does the budget to guarantee the effectiveness of the probation service.

Poor infrastructure and problems of maintenance of recently built infrastructure remained a concern in many prisons, including pre-trial sections. Overcrowding has been reduced, but still persisted in some pre-trial sections. Inmates depended on food, equipment and medicine supplies from their families. Judges and prosecutors need to increase use of alternatives to detention. Working inmates, albeit in small numbers, have their sentences remitted instead of receiving remuneration. The legal framework for employment scheme payments needs to be improved. Anti-corruption efforts in prisons need to be strengthened.

In the area of **freedom of expression**, the Law on audiovisual media was adopted in March, improving substantially the legislative framework for audiovisual media in Albania. The law fails to provide a selection procedure for the governing bodies of the regulator and the public broadcaster that would guarantee their independence. The moratorium on the use of defamation suits by government officials has been observed. Further efforts are required to ensure proper implementation of amendments on defamation and guidelines on setting damages at a reasonable level, in particular through training of the judiciary. The public service broadcaster's subscription fee collection system has not been revised and concern remains over its editorial independence.

Some cases of violence against journalists have been reported. Media continue to be used as a tool to promote political and private economic interests. Public advertising is still not

regulated in a way that guarantees transparent and non-discriminatory allocation of funds. The lack of transparency of media financing remains an important challenge. Further efforts are needed, particularly by the State Labour Inspectorate, to ensure proper enforcement of labour rights, particularly the right for media workers to be covered by a formal employment contract. Protection from arbitrary dismissal is crucial to prevent self-censorship. The capacity of journalists' trade unions remains weak. Professional and ethical standards in journalism require strengthening. Privacy concerns in reporting need to be addressed, including in the case of minors and vulnerable groups. Further efforts are needed to ensure that reader/viewer complaints are dealt with in an effective and impartial manner.

Freedom of assembly and association has generally been respected.

Freedom of thought, conscience and religion was generally respected.

A positive step regarding **women's rights and gender equality** was taken in May, when the Criminal Code was amended to introduce rape and sexual violence in the marriage as a criminal offence. The referral mechanism for domestic violence needs further consolidation, coordination between central and local institutions needs to be improved, and the missing structures need to be established, namely public shelters and relevant social services for victims. Gender-discriminatory provisions remain in some codes and laws. Court decisions showed evidence of gender bias. Implementation of policies to protect women against all forms of violence needs to be strengthened. As many as 50% of women who had filed for court protection withdrew their petitions subsequently. Reports of serious cases of domestic violence increased substantially. A national toll-free line for survivors and a system of victim compensation need to be established. The national shelter for victims of domestic violence applies unnecessarily restrictive criteria for admission and provides few facilities for emergency needs. Neither CSO-run shelters nor victims receive financial aid from the state. The reintegration programme for victims is minimal.

Women continued to be under-represented in public office. In the run-up to the 2013 general elections, the three largest political parties were fined for not meeting the gender quota requirement in their candidate lists. The gender quota is respected in the composition of the new government with six ministers. Further efforts are required to enforce laws and policies on women's rights. Some local governments initiated gender mainstreaming in the preparation of their local development strategies. At central level, four ministries made gender mainstreaming efforts.

In the area of **children's rights**, the Criminal Code amendments adopted in May introduce possession of child pornography and trafficking of children as criminal offences. There are 155 child protection units (CPUs) in municipalities and communes. Out of 155 CPU specialists, 25 worked full-time while others were primarily social service workers. The number of CPU needs to be substantially increased in order to meet the child protection needs of the country's vulnerable children in a meaningful way. The capacity of the state agency for children's rights increased. The child protection system lacks sufficient budgetary means, staff sustainability and minimum standards of operation, in particular protocols, and legal requirements. The national child helpline that provides an emergency and referral service is run by a non-governmental organisation with donor funding. Deinstitutionalisation has not progressed. Foster care has not expanded. Special protection for children in residential institutions was not systematically enforced. The emigration of unaccompanied minors, particularly Roma, from Albania to the EU continued to be a challenge. The cases of children confined to their homes for fear of retribution in blood feud conflicts persist.

The strategy and action plan on *juvenile justice* have not been adopted. Cases of ill-treatment of juveniles in places of detention were reported. There were no special chambers in police commissariats for children under 14 who have committed crimes and a psychologist was not

regularly present during evening or night interrogations. Limited progress has been made regarding the treatment of juveniles in police commissariats. No specific measures were taken to address long detention periods of juveniles. Psycho-social assistance and rehabilitation programmes to juveniles were donor provided. After-care support for juveniles' reintegration has not been established.

Regarding *child labour*, the number of children (mainly Roma) working or begging in the streets and subjected to the worst forms of exploitation and extreme marginalisation remained very high. The first national child labour survey conducted in May 2010 (published in May 2013) estimates that 7.7% of all Albanian children aged 5-17 work. The report estimates that over 5% of all children aged 5-17 are child labourers, working in hazardous economic activities, for excessively long hours or under dangerous conditions. The statistical distribution of child labourers per age group needs to be improved, taking also into account international standards and provisions of the Labour Code on the minimum age for working.

No effective measures were taken by the state to address child labour and exploitation. A child protection system is needed that provides specialist support services for children at risk of abuse or exploitation focusing on stronger support for families with difficulties and community-based services. Adequate action has not been taken to provide specialised services to sexually abused children.

Implementation and monitoring mechanisms need to be in place to guarantee protection for **socially vulnerable and/or persons with disabilities**. The needs of persons with disabilities were not considered in programmes and budget plans of line ministries. Differentiated status for certain disabilities remained. Delays in payment of the disability benefit have been reported. Persons with disabilities continued to face difficulties in accessing education, employment, healthcare, social services or decision-making. Full access and vote secrecy for disabled people in the June elections was not guaranteed.

Albania has taken a number of important steps in the area of **anti-discrimination policies**. The Anti-Discrimination Commissioner dealt with a number of cases, and in June, the District Court of Fier issued the first-ever court decision on a discrimination case, ruling in favour of a female employee who had been treated in a discriminatory manner at the workplace. Public awareness of the Law on protection against discrimination and of a complaint mechanism remained low. The implementation of the law needs to be further strengthened; in this context, victims of discrimination need to be encouraged to file complaints in order to establish solid case law. A clarification of the roles of the office of the Ombudsman and the office of the Anti-Discrimination Commissioner is needed — to render both offices more effective. Discrimination against the Roma minority and other vulnerable groups remained.

In December, the Ministry of Labour, Social Affairs and Equal Opportunities launched the action plan on the rights of **lesbian, gay, bisexual, transgender and intersex (LGBTI)** persons. Amendments to the Criminal Code introduce an aggravating circumstance for offences relating to gender, race, ethnicity, gender identity, sexual orientation, political beliefs, religion, health status, genetic predisposition or disability. In May, Prime Minister Berisha and then opposition leader Rama met with representatives of the LGBTI community, thus setting an unambiguous example for an anti-discriminatory approach within Albanian society. First steps have been taken to review compulsory education textbooks in order to eliminate stereotypes fostering discrimination. There were cases of homophobic speech without judicial follow-up. An inter-ministerial working group needs to be established to ensure implementation of the action plan on the rights of LGBTI persons.

Labour and trade union rights have been generally respected. Amendments to the Labour Code are still awaiting adoption. The tripartite social dialogue has been interrupted since the

mandate of the National Labour Council ended in March 2013. Bipartite social dialogue remains weak, particularly in the private sector.

In the area of **property rights**, a key priority of the Opinion, a property reform strategy approved in 2012 is under implementation, although very little progress has been made with regard to the implementation of key strategic objectives such as finalisation of property registration, property restitution, compensation and legalisation. The related action plan needs to be reviewed to ensure that it is realistic and sustainable in terms of targets and sources of funding. The government established three monitoring and consultative structures dedicated to its implementation. Cooperation between institutions remained very weak. Initial property registration has shown limited progress. No progress has been made as regards the integration of the electronic land and property databases. Significant efforts were devoted to the digitalisation of information held by the Immovable Property Registration Office (IPRO), but there was no coordination with databases of other public institutions. The government took some legislative measures to speed up the process of legalising buildings, but legalisations did not progress in practice. A new methodology for land evaluation and a land value map for each region were adopted. The Property Restitution and Compensation Agency (PRCA) started the process of financially compensating owners expropriated due to the legalisation process. The government approved a number of decisions on criteria and procedures allowing the transfer of ownership of agricultural land and land belonging to the former agricultural cooperatives. A normative act on the evacuation of buildings and their return to their former owners was adopted and enforced without properly taking into consideration the right to housing for vulnerable people. Claims by former owners for compensation and restitution of property confiscated during the communist regime remain unresolved. The government has yet to communicate a clear plan and timetable for enforcement of judgments of the European Court of Human Rights regarding property rights.

As regards the respect for and protection of **minorities**, inter-ethnic relations remained good overall. A series of measures still need to be taken to guarantee respect for human rights, integration and social inclusion in practice — such as clearly defining minorities in Albanian legislation. The mandate of the State Committee for Minorities has not been enhanced. The adoption of comprehensive legislation, following a broad consultation process, and taking into account the recommendations of the Advisory Committee of the Framework Convention for the Protection of National Minorities, would help to address legal gaps that have been identified and clarify state policy towards minorities. Short-term measures ensuring equal access in practice to rights for persons belonging to all minorities throughout Albania, abolishing any ground for differentiated treatment between the categories of national and ethno-linguistic minorities and enhancing the representativeness and consultative role of the State Committee on Minorities, would be steps in the right direction. The results of the Population and Housing Census were contested by minority representatives, including some Roma and Egyptian associations, as not reflecting the reality on the ground. Data collected through the Census should not constitute the exclusive source of information for the development of the legal and policy framework on minorities. Regarding **cultural rights**, the traditional minority name of one municipality has been restored with cross-party parliamentary support, but the use of minority languages needs to be further enhanced. Albania has not adopted the European Charter for regional and minority languages and the right of persons belonging to minorities to receive instruction in their language is still not available for all.

Regarding **Roma** inclusion, the implementation of policies, including the operational conclusions of the December 2011 seminar on inclusion of the Roma and Egyptian communities in the framework of Albania's EU integration, remained inadequate overall. Roma and Egyptian continue to face very difficult living conditions and frequent

discrimination, particularly regarding access to education, social protection, health, employment and housing. In line with the national action plan Albania needs to swiftly improve the living conditions of Roma; coordination between the public administration at central and local level is essential in this context. Evictions of Roma families from their settlements in August 2013 have been of particular concern. Another key area to focus on immediately is access to education and integration of Roma children in the education system — from pre-school level to higher education. The state authorities' response mechanism to protect Roma children is insufficient.

New instructions on data security were adopted in the area of **protection of personal data**. The Data Protection Commissioner is still not listed among the institutions to be consulted when legislative proposals are being drafted. In practice its involvement in the process grew. The Commissioner issued numerous recommendations on corrective actions. The number of inspections and awareness-raising activities increased. A toll-free number for citizens' complaints was launched.

Conclusion

Overall, Albania has made some progress in judicial reform by adopting various policies aimed at addressing the key priorities. Significant gaps remain in terms of both the legislative framework and the implementation of legislation. Further constitutional reform is necessary. Progress has also been made in the fight against corruption. Inter-institutional cooperation and exchange of information has improved. Albania completed implementing all recommendations of the third-round evaluation of the Group of States against Corruption (GRECO), in particular by strengthening the legal framework on transparency of the funding of political parties. Initial track records cover a variety of sectors and levels, including cases of high-level corruption, and show an increase in convictions. An assessment of the overall institutional set-up, including the role and operation of the relevant institutions and their coordination, needs to be undertaken. Independent institutions need to be strengthened. Resource allocation needs to be reviewed and the efficiency and operational capacity of the competent law enforcement agencies at central level need to be strengthened. A track record of effective prosecutions needs to be further developed at all levels. In some areas of fundamental rights, the legal framework has improved and some encouraging practical steps have been taken. Implementation generally lags behind, in particular regarding persons with disabilities, children at risk of abuse or exploitation and the Roma community. Major efforts are necessary to address persisting problems in the area of property rights through credible and coherent measures. Albania needs to adopt and communicate a credible plan for the enforcement of judgments of the European Court of Human Rights regarding property rights. Most of the Ombudsman's recommendations on ill-treatment were addressed by prisons and the State Police; the key priority regarding the treatment of detainees was met.

4.24. Chapter 24: Justice, freedom and security

In the area of **migration** policy, progress continued on gathering and publishing analytical information on legal and irregular migration. Implementation of the readmission agreement has continued. In 2012, 10 129 return cases were recorded, continuing the declining trend that began after the entry into force of visa liberalisation. However, the technical and financial resources of the Border and Migration Police (BMP) need to be strengthened in order to control growing irregular migration flows to Albania. Work on the preparation of a new national migration strategy has not started yet. The strategy and action plan for returned migrants should be implemented and its institutions supported. Preparations in this area are at an early stage.

A new Law on **asylum** has been prepared. By May 2013, Albania had granted asylum to 89 individuals, with 150 applications pending. No ID documents are yet issued to refugees and

persons granted complementary protection. The pre-screening process at the border needs to be strengthened in view of the growing migratory pressures and to provide effective international protection to asylum seekers. Preparations are moderately advanced.

As regards **visa policy**, a new Law on foreigners was adopted in March, aiming to approximate the *acquis* on short-term visa policy. However, the country has only partially aligned its legislation with the EU positive and negative lists contained in Regulation 539/2001. Implementation of the visa-free regime with the EU continued smoothly overall. Although the majority of travellers to the Schengen areas are bona fide, a number have abused the visa-free regime by lodging manifestly unfounded asylum applications. As in the previous periods, seasonal peaks of asylum seekers continued to be registered. This confirms that targeted measures have to be further pursued and be intensified, among others: public campaigns, investigations on facilitators, long-term policies to improve social and economic inclusion of the most vulnerable groups of the population most likely to migrate, including Roma. Further efforts in these areas need to continue systematically and be properly funded. The Commission will submit its regular report to the European Parliament and Council by the end of 2013. Preparations in this area are moderately advanced.

In the area of **external borders and Schengen**, three joint border control agreements were signed in April with Kosovo. A Joint Police Cooperation Centre was established and started its operations at the Morina border crossing point in June. Regular joint and synchronised BMP patrols are operated with Kosovo. The problems stemming from the lack of an information exchange interface between the Kosovo (BMS) and Albanian (TIMS) Border Police IT systems have been solved. An agreement with the former Yugoslav Republic of Macedonia was signed in November to establish a new joint border control point. The ban on speedboats expired in March. The risk assessment capacity of the BMP has improved at local and central level. Practical cooperation with Frontex in the field of border management and security is consolidated, in particular the Western Balkans Risk Analysis Network (WBRAN), trainings and joint operations. Cooperation and coordination among the institutions involved in managing the blue border should be stepped up. The financial sustainability of surveillance mechanisms still needs to be ensured. A new integrated border management strategy 2014-20 and action plan are being finalised. The Interinstitutional Maritime Operations Centre (IMOC) is now connected to the MEMEX criminal intelligence information system. Coordination and cooperation among institutions which are part of IMOC needs to be strengthened and its operational capacity should be ensured through appropriate planning of budgetary resources. IMOC risk assessment needs to take account of the expiry of the speedboat ban. Preparations in this area are advancing.

In the area of **judicial cooperation in civil and criminal matters**, implementation of the Third Additional Protocol to the European Convention on Extradition has started. Cooperation agreements were signed with Austria and the United Kingdom. Preparations for concluding a cooperation agreement with Eurojust have not progressed maybe re-phrase it then – currently it sounds rather negative, but the data protection legislation is currently under assessment. Albania ratified the Convention of 23 November 2007 on the international recovery of child support and other forms of family maintenance, which has entered into force on 1 January 2013. Preparations in this area are at an early stage.

In the field of **police cooperation and the fight against organised crime** — one of the key priorities set in the Commission's Opinion — there has been progress. International police cooperation has continued to provide good results in terms of police operations, arrests and cooperation in investigations, including on criminal assets. Albanian police and the prosecutor's office have been involved in increased cooperation, including with regard to criminal intelligence.

In January, a memorandum to strengthen cooperation between the institutions involved in the fight against organised crime and financing of terrorism was concluded. The number of assets investigations and cases sent to the prosecutor has increased. Joint training activities for police officers and prosecution officials were held, including on issues relating to asset seizures and cybercrime. Cooperation between the Financial Investigative Units (FIUs) and the police has improved. A new strategy on organised crime 2013-2020 and the Action Plan 2013-2016 were adopted in July. Nevertheless, organised crime remains a serious concern in Albania. Problems persist regarding the implementation of the 'anti-mafia law', in particular with the confiscation of seized assets. Proactive investigations into wealth originating from criminal activities abroad but re-invested in Albania need to be stepped up. Cooperation between the police and the General Prosecutor's Office (GPO) needs to be improved and the capacity of the police to respond appropriately and in due time to prosecutors' requests for the use of special investigative techniques should be strengthened. The number of prosecutors in the Serious Crimes Prosecution Office needs to be increased and technical skills in specialised areas such as cybercrime and financial investigations upgraded. The harmonisation of statistics across institutions for the track record of investigations, prosecutions and convictions needs to be improved. The operational capacity of the forensic laboratory, especially regarding DNA interpretation and the DNA database, needs to be enhanced. The capacity to obtain the best evidence possible for court convictions by improving the capacity of the police and law enforcement agencies to draft quality reports should be improved.

A cooperation agreement with CEPOL was signed in May. An Albanian liaison officer, responsible for supporting contacts between the Albanian Ministry of the Interior and Europol and for facilitating the exchange of information, is assigned to Europol headquarters. An operational agreement with Europol is awaiting signature.

The organisational set-up for witness protection in the police has been considerably enhanced by the creation of a flexible operational unit, the streamlining and stricter regulation of protection programmes and measures to ensure the financial autonomy and confidentiality of operations. A comprehensive training programme has been carried out.

As regards the fight against *money laundering*, the recommendations of the last Moneyval evaluation round have been adequately addressed and the 'compliance-enhancing procedure' has been lifted. A technical manual on how to conduct money laundering investigations was published and delivered to all bodies involved in the investigation cycle. There has been an increase in the number of registered money laundering cases. During the first six months of 2013 convictions doubled to reach 12 at first instance courts compared to the same period in 2012; 5 convictions were passed at second instance courts compared to 3 during the same timeframe in 2012. However, the number of convictions for money laundering remains low. The implementation of the law on anti-money laundering is weak and a track record of high-level cases is still to be ensured.

With regard to the fight against *trafficking in human beings*, recent amendments to the Criminal Code address the issue of internal trafficking, and criminalise the use of services of the victims. The Office of the National Anti-Trafficking Coordinator (ONATC) was actively engaged within the joint working group established between the Ministry of Interior, the General Prosecutor's Office and the Ministry of Justice to discuss concrete trafficking cases in order to improve investigations and trial proceedings. Further strengthening of the ONATC is required. Police investigations and the use of special investigative means against trafficking in adults and minors show a positive trend. Yet, Albania remains a source country for trafficked adults and minors, including forced begging of children. Internal trafficking remains a concern and proactive investigations need to be further stepped up. A comprehensive, multi-disciplinary and victim-oriented approach to trafficking in human beings still needs to be developed and the identification of victims needs to be improved. Albanian authorities should

strengthen the coordination and referral mechanism and ensure that victims have unhindered access to assistance, support and protection, including re-integration upon return. It is essential that efforts on prevention and addressing demand of trafficking in human beings be stepped up. Transposition of international conventions relating to the fight against human trafficking should be completed.

As regards the fight against *cybercrime*, the Albanian Cyber Incident Response Agency (ALCIRT) was established in January. A cybercrime unit within the police has been established. However, a cybersecurity strategy has not yet been finalised and there is a need for training and specialisation of the police and prosecution officials in this area. The number of prosecutions for cybercrime increased in 2012 but is still low.

Regarding the human resources of the police, gender balance has continued to improve through increased recruitments of female police officers. Human resource management based on transparent and merit-based criteria needs to be further improved. Internal control standards to fight corruption and mismanagement should be further enhanced.

Albania has continued to implement the strategy and action plan on the **fight against terrorism**. Albania should address the Financial Action Task Force recommendations on terrorist assets and international cooperation related to terrorism financing.

Regarding **cooperation in the field of drugs**, cooperation with EMCDDA has continued and Albania actively participated in the different training sessions organised. Seizures and prosecutions increased due to effective use of new equipment and tools, effective risk analysis and international cooperation. For the period September 2012 to May 2013, successful police operations resulted in the seizure of 70 kg of heroin, 2.27 kg of cocaine and 20 674 kg of marijuana (in comparison to 58 kg of heroin, 4.5 kg of cocaine and 11 685 kg of marijuana for the much longer period from September 2011 to August 2012). Green and blue border control has improved, leading to several high-profile seizures and arrests. These efforts need to be enhanced, including by stepping up threat assessments and international cooperation. A national action plan and an operational plan to address in particular the cultivation of narcotic plants, including cannabis, were adopted in March. These need to be fully implemented to achieve sustainable results in the fight against cultivation and trafficking of cannabis, which remains a serious threat.

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

For details of measures against **counterfeiting of 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, and in the fight against organised crime, money laundering and drugs trafficking. More efforts are needed to enhance cooperation between law enforcement institutions, and to establish a solid and convincing track record of proactive criminal and financial investigations, prosecutions and convictions. Appropriate budget planning and allocations are crucial to sustain all institutions involved in border control and the fight against organised crime. A migration strategy has not yet been adopted. Overall, preparations in this field are advancing.

4.25. Chapter 25: Science and research

As regards **research and innovation policy**, some actions to stimulate innovation and to strengthen human capital building have been taken. The Agency for Research, Technology

and Innovation (ARTI) has stepped up the actions to promote participation in EU research programmes but overall the success rate is still very low. The national budget for research slightly increased but the level of investment in research and technological development is still very low. Increased financial resources are required in particular to strengthen the capacities and modernise infrastructure.

With respect to Albania's participation in the EU Seventh research **Framework Programme** (FP7), ARTI has increased the promotion efforts and support for the scientific community but the overall level of participation and success rate (13%) is still very low. Due to budgetary constraints, ARTI's participation in EU networking events has decreased. ARTI engaged in bilateral cooperation with Italy, Greece, Montenegro, the former Yugoslav Republic of Macedonia, Slovenia and Turkey. For the first time information day on the Joint Research Centre took place in Tirana. ARTI started preparations for participation in the EU's next research framework programme Horizon 2020. As regards integration into the **European Research Area** (ERA), some steps have been taken to build up human capital, mainly through increasing the resources of the Fund for Excellence and extending the Brain Gain programme in cooperation with the UNDP. ARTI is successfully implementing the Euraxess portal. Funding research on Albanian language and history has been recognised as a priority theme. Due to the lack of reliable statistics it remains difficult to establish the level of investment in research as a share of GDP which is around 0.35% of GDP. The contribution of the private sector and SMEs in research and technological development in particular is very limited. With respect to the Innovation Union, the Business Relay and Innovation Centre within the Albanian Investment and Development Agency (BRIC/AIDA) continued to stimulate innovation by entrepreneurs with an increasing number of technology audits and measures targeting SMEs.

Conclusion

There has been very little 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 contributing to the Innovation Union. Increased efforts for successful participation in the EU's next 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**, legislation implementing the Law on pre-university education remains to be adopted. Teachers have been given additional training and the National Inspectorate for Pre-University Education has continued its inspections in kindergartens, elementary schools and secondary schools. New learning standards and syllabuses were introduced in secondary education and the state 'matura' procedure was made more transparent.

A strategy for vocational education and lifelong learning needs to be adopted. The number of students enrolled on vocational and educational (VET) courses in the year 2012-13 increased by 23% compared to the previous year. Existing VET schools are not properly maintained due to the lack of financial resources. Participation of the private sector, which is a key factor for a successful VET reform, is still insufficient. The low participation in VET contrasts with the economic demand for skilled workers.

The accreditation agency has continued to evaluate and inspect higher education institutions and programmes. While enrolment levels in higher education have increased in the last decade, the qualifications provided do not match the country's economy; a skills needs analysis is required. No progress has been made with regard to the higher education reform,

the performance and ranking scheme and development of the Albanian Qualifications Framework (AQF). Alignment in this area is uneven.

Educational provision at all levels requires to be improved and meet labour market needs. As demonstrated by the PISA results, the education system requires reform, including teacher training, quality assurance measures, transparency, practical learning experiences and links with the business sector.

In July 2013, Albania signed a memorandum of understanding for its participation, in the budget year 2013, in the Centralised Actions of the EU Lifelong Learning Programme.

In the area of **culture**, the Ministry of Education and Science has promoted the Culture Programme, in particular through public information sessions. Participation in the Europe for Citizens programme has increased. Rehabilitation of important cultural heritage sites took place in Shkodra, Elbasan, Berat and Korca. The new 2012-20 strategy on cultural heritage remains to be adopted.

Conclusion

There was little progress in the field of education and culture, in particular as regards participation in European programmes. Overall, preparations are moderately advanced. Improvement in the overall quality and relevance of education provision needs to be pursued.

4.27. Chapter 27: Environment and climate change

As regards the **environment**, in the area of *horizontal legislation* the government prepared a new cross-cutting environmental strategy for 2013-17; a solid budgetary allocation is necessary for its implementation. The Law on strategic environmental assessment, aimed at aligning with the Strategic Environmental Assessment Directive, was adopted in February. The Law on environmental impact assessment and the Law on environmental permits are not aligned with the Environmental Impact Assessment Directive. Non-implementation of the environmental legislation continues to constitute a major problem. Environmental impact assessments are not systematically carried out or followed before infrastructure projects are launched. Public access to information and participation in decision making are not properly ensured.

A draft Law on ambient *air quality* and implementing legislation on air quality assessment and requirements on certain related pollutants have not yet been adopted. An amendment to the Law on national taxes adopted in April 2013, which reduces taxes on used cars, is not in line with the *acquis* on environmental protection. There is still no reliable air quality monitoring programme, except in Tirana. The maintenance of the air quality stations in other cities is not fully ensured. The Tirana air management plan needs to be adopted.

Implementing legislation on *waste management* was adopted and management plans were prepared in Tirana, Lezha and Shkodra. Waste management remains a serious cause of concern in Albania. Separation of waste has not yet started with few exceptions and recycling rates are very low. The recycling industry is nascent and has to import most of the required raw materials from outside the country. Municipalities have very weak capacities to manage waste, including at the end destination. Most of the waste is still disposed of unsafely in legal and illegal dumpsites or burned. To date, only two sanitary landfills complying with EU standards exist. The construction of one landfill in Korça is under way. There are still no facilities for hazardous, medical and construction waste, and no clear procedure for the management and control of landfills. New investments in the area of waste should focus more on waste separation and recycling. In the area of *water quality*, the Law on integrated water management was adopted in November and a water supply and sewerage master plan was finalised in April. Implementation of the *acquis* remains at a very early stage. Centralised wastewater collection only exists in the larger cities. Four wastewater treatment plants are

functioning while three other plants are completed but not yet operational and two more are under construction. Current financial and human investments are not sufficient to ensure the proper functioning and maintenance of existing wastewater treatment plants. The capacity of public water companies to manage basic services in delivering drinking water and waste water treatment is weak. Development of river basin management plans, including at regional level, is at an early stage.

In the field of *nature protection*, the proportion of protected territory was increased by 0.75% to reach 15.83%. However, the protection of those areas still needs to be guaranteed. A new Ramsar site was designated in June. The rules adopted in 2011 for the establishment of zones of specific protection in the framework of Natura 2000 have not yet been implemented. Only a few steps have been taken following the acceptance by the Bern Convention in 2011 of the candidate sites proposed by Albania for the Emerald Network. Illegal activities such as hunting, wood cutting and construction are quite frequent in the protected areas and the administrative capacity of the inspectorates to fight them remains weak.

As regards *industrial pollution control and risk management*, Albania ratified in September 2012 the Protocol on Preparedness, Response and Cooperation to Pollution Incidents by Hazardous and Noxious Substances (OPRC-HNS).

As regards environmental *noise* policies, a permanent task force has been established to deal with noise pollution in urban centres and costal tourist areas but enforcement of its decisions remains challenging. There were no developments in the chemicals and civil protection sectors.

Regarding **climate change**, a comprehensive country-wide climate policy and strategy are lacking. Albania regularly associated itself with EU positions in the international context. While having associated itself with the Copenhagen accord, it has not yet put forward a mitigation commitment by 2020. Albania should consider taking mitigation commitments consistent with those of the EU and its Member States for the purpose of the post-2020 climate agreement to be reached by 2015. In line with the EU Green Paper 'A 2030 framework for climate and energy policies', the country needs to start reflecting on its climate and energy framework for 2030.

As regards alignment with the climate *acquis*, legislation has been adopted in the field of fuel quality. The country identified 13 stationary installations for the purpose of future implementation of an emissions trading system. Significant efforts are still required to enhance the country's monitoring, reporting and verification capacity. Albania participated regularly in the climate component of the Regional Environmental Network for Accession (RENA). Climate awareness at all levels remains low and cooperation between all relevant stakeholders requires further strengthening.

As regards **administrative capacity** in the environment sector, the number of staff in the National Environmental Agency and the State Environmental Inspectorate was increased. The Environment Ministry's capacity for programming and implementation remains weak. Further efforts are required to strengthen law enforcement, including training of judges, prosecutors and police on environmental issues. Local authorities have scarce financial and administrative resources to develop the required infrastructure and services. The limited resources of the inspection service do not provide a credible guarantee that infringements are properly monitored on the ground and punished. Sufficient funding for the environment sector is not provided in the budget and coordination between ministries and the local government is weak. As regards climate change, the limited administrative capacity and weak interinstitutional cooperation are delaying the preparation and implementation of a climate policy in line with the *acquis*. The administrative set-up on climate change requires considerable strengthening in order to address the significant capacity, cooperation and coordination needs.

Conclusion

There has been little progress in the fields of environment and climate change. Alignment with the *acquis* has progressed but further efforts are urgently needed to ensure proper implementation and enforcement of legislation. Resources remain limited and substantial investments are needed. Public consultation on public investments and participation in legislative initiatives need to be fostered. Substantial efforts and political will are required to develop a more strategic approach for the country and to strengthen administrative capacity and interinstitutional cooperation. Preparations in the fields of the environment and climate change are at an early stage.

4.28. Chapter 28: Consumer and health protection

In the area of **consumer protection**, with regard to *horizontal aspects*, the 2013-20 consumer protection and market surveillance strategy is awaiting adoption. The Consumer Protection Commission (CPC) has held regular meetings and has handled complaints in the fields of university education, the electricity sector and telecommunications. A gap analysis on the alignment of Albanian legislation with the *acquis* in the field of consumer protection was finalised, including components on health protection. The CPC and the Consumer Protection Unit continued their consumer awareness activities. The online complaint handling system has not generated effective complaints due to the poor information provided to users. Information on the CPC official website is not regularly updated.

In the area of *product safety-related issues*, in March, amendments to several laws were adopted with the aim of aligning legislation with the new provisions of the Inspection Law, including on the general safety of non-food products, marketing and market surveillance, and metrology. Implementing legislation has been prepared to regulate the organisation of the Inspectorate. Technical regulations aimed at aligning with the *acquis* on child-resistant lighters and novelty lighters were adopted. Efforts were also made to align with the *acquis* in the field of dangerous imitations. The market inspectorate is not yet in place.

There were no developments as regards *non-safety related issues*.

The lack of capacity in healthcare management, low public spending and corruption has slowed down progress in the area of **public health**. Primary healthcare lacks appropriate funding and human resources. The coverage of insurance-based care is still very low. The public hospital sector remains underdeveloped whereas the private sector is growing without proper regulation. The Ministry of Health signed a contract in January for the establishment of a National Electronic Health Record (NEHR) system but the necessary financial resources still need to be secured. The draft e-health strategy has not yet been adopted.

In the area of *tobacco control*, the Law on health protection against tobacco products, aimed at enforcing more effectively the tobacco ban in public places, was amended in February. A national anti-tobacco communication campaign was carried out in schools. The State Sanitary Inspectorate continued to perform inspections in the country. But the ban on smoking in public places and institutions is not respected and tobacco products continue to be sold in the streets, in particular by minors.

With regard to *communicable diseases*, a new draft Law on the control of infectious diseases remains to be adopted and national guidelines on antimicrobial resistance are being drafted. At the national level, reported immunisation coverage for 2012 was over 98%. The Ministry of Health established a national committee and a secretariat for reactions after vaccination. Awareness-raising activities, mainly targeting Roma, were carried out. Implementing legislation ensuring the right to health for persons and children living with HIV/AIDS and people at risk is still awaiting adoption. Laboratory capacity requires improvement.

In the area of *blood, tissues, cells and organs*, a regulation on the functioning of tissue, cells and organ banks, including the activities of procurement, selection, testing, storage and distribution of substances of human origin for medical treatment, was adopted in September 2012. A new two-year project on ‘Prevention of infection transmission through safer blood and components’ started in 2013.

A national strategy and action plan 2013–22 for the development of *mental health* services was adopted in February. The lack of doctors specialised in treating persons with intellectual disabilities remains a challenge. There has been no progress towards the development of community-based mental health services.

As regards *drug abuse prevention*, an action plan on drugs control and data system for reporting on drugs is being developed. The National Information Centre for Drugs has completed a national overview on drugs, based on European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) standards. The Institute of Public Health has signed a MoU with relevant drug treatment units. Some steps were taken to reduce *health inequalities*, with patronage nursing for Roma children and home visits to Roma families. Access to healthcare improved through registration of Roma children and women and the adoption of a joint action plan between the Municipality of Tirana and the Ministry of Health. The pace of delivery of health cards to Roma families is slow. Equal access to healthcare in rural areas is not ensured, especially for the most vulnerable groups. *Nutrition* education programmes have been initiated and healthy eating habits for children promoted, nevertheless child malnutrition remains a serious matter of concern. Steps have been taken to reduce *alcohol*-related harm with the adoption of the Audiovisual Law, which regulates the broadcasting of commercial communications on alcoholic beverages. In the field of *cancer screening*, several awareness-raising campaigns and training activities for the health workforce have taken place and guidelines have been adopted for establishing palliative care services. Preparations started to establish cervical cancer screening. Administrative capacity requires considerable strengthening to ensure proper implementation.

Conclusion

There has been some progress in the area of consumer and health protection. The establishment of a proper market surveillance system has been delayed. The health sector remains substantially underfunded and understaffed, hampering the proper implementation of the public health legislation and policies, especially in the field of primary healthcare. Overall, preparations are starting.

4.29. Chapter 29: Customs union

In the field of **customs legislation**, Albania updated its nomenclature of goods in line with the 2013 version of the EU Combined Nomenclature. It ratified the Regional Convention on Pan-Euro-Med preferential rules of origin and implemented the ATA Convention on Temporary Importation. The capacity for implementing and overall awareness of the procedures of the ATA Convention should be enhanced. The rate of use of transaction value increased but still remains low by EU standards. Further efforts are required on introducing simplified procedures, security measures and the concept of authorised economic operator. Unified procedures should be implemented throughout the country to reduce the scope for interpretation by customs officials. The new Customs Code has not yet been adopted.

As regards **administrative and operational capacity**, Albania started participating in the EU Customs 2013 programme. The Tax and Customs Academy started working in May with the customs’ training strategy as part of its programme. The new Tirana customs terminal was inaugurated and the infrastructure at border crossing points is being improved. The capacity and efficiency of the customs laboratory were enhanced. The General Directorate of Customs

(GDC) stepped up its cooperation with other institutions, including as regards the detection of radioactive materials.

An internal regulation on security policy for the customs IT system was adopted. Electronic payments of customs dues and fees and online declarations of excise were introduced. Electronic exchange of data with the Kosovo customs was made operational. Further efforts are required to enhance the online interoperability of the GDC, including with the EU customs and excise systems. The IT strategy is not yet aligned with the business strategy.

The GDC adopted the internal strategy on intellectual property rights and stepped up its efforts to prevent fake products entering Albania (*see also Chapter 7 — Intellectual property*). The Internal and Anti-corruption Investigation Directorate increased its activities and reported breaches of the ethical code by customs officials to the disciplinary committee. The 24-hour camera surveillance system at border crossing points was extended.

Conclusion

There has been some progress in the area of customs union, particularly as regards tariff, origin and temporary importation. The customs administration stepped up its internal investigation activities and the IT system was improved. Further efforts are required as regards IT compatibility with the EU and trade facilitation and simplified procedures. The adoption of the new Customs Code should be speeded up. Transaction value needs to be used more extensively in line with EU standards. Overall, preparations are moderately advanced.

4.30. Chapter 30: External relations

In the area of the **common commercial policy**, Albania has continued to coordinate its policies with the European Union positions towards third countries, among other things in the WTO and during Doha Development Agenda negotiations.

Administrative capacity for dealing with trade policy issues has increased. A legislative gap analysis was adopted and training was delivered to relevant line institutions. Training curricula on trade-related matters, including the EU common commercial policy, the WTO and international law, were finalised and are now included in the programme of the Training Institute for Public Administration. However, further efforts are required in order to improve coordination among state institutions involved in trade policy matters.

In the area of **bilateral agreements with third countries**, Albania held the CEFTA chair during 2012. Bilateral agreements on economic cooperation were signed with Azerbaijan and Bulgaria. Albania adopted an agreement on trade facilitation with Kosovo.

Conclusion

There has been some progress as regards training on the EU common commercial policy, mainly with regard to administrative capacity and interinstitutional coordination on trade policy. Albania maintained good cooperation within WTO and CEFTA. Overall, preparations are moderately advanced.

4.31. Chapter 31: Foreign, security and defence policy

Albania has continued to pursue the regular **political dialogue** with the EU on foreign security policy issues. (*Concerning relations with other enlargement countries and Member States, see Political criteria, 2.3 — 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). Albania also aligned itself with EU positions at the United Nations, and co-sponsored EU resolutions. (*As regards the International Criminal Court, see Political criteria, 2.3 — Regional issues and international obligations.*)

Albania implemented the EU's *restrictive measures* applied to third countries, introduced by Council Decisions.

On *non-proliferation of weapons of mass destruction and disarmament issues*, Albania has continued implementing the action plan for the destruction of surplus weaponry and has endorsed an EU-Western Balkans joint declaration on enhancing the fight against illicit trafficking of firearms and ammunition in the Western Balkans. A new Law on weapons, aimed at aligning with the *acquis*, was adopted in March. The online register of weapons and ammunition under the management of the State Police is not yet operational. In June, Albania signed the UN Arms Trade Treaty.

Albania has engaged in *cooperation with international organisations* (UN, OSCE, Council of Europe, etc.). From May to October 2012, it held the rotating chairmanship of the Committee of Ministers of the Council of Europe. Albania was elected a member of the UN Economic and Social Council for the period 2013-15.

On *security measures*, the security agreement with the EU on the exchange and mutual protection of classified information has not yet been signed.

Albania continued to participate in *civil and military crisis management operations* under the **common security and defence policy**. The Framework Agreement on the participation of Albania in EU crisis management operations entered into force on 1 February. Albania has continued to take part in the EUFOR Althea mission in Bosnia and Herzegovina (one general staff member). Participation of Albania in the EU Training Mission in Uganda was confirmed in May.

Conclusion

Albania continued its alignment with the *acquis* in the field of foreign, security and defence policy. Efforts are still needed to complete the online register of weapons and ammunition under the management of the Albanian State Police. Overall, preparations in this field remain on track.

4.32. Chapter 32: Financial control

In the area of **public internal financial control** (PIFC), the Central Harmonisation Unit for Financial Management and Control (CHU/FMC) has further trained budget users on FMC implementation in line with the legal requirements. Reform of the government financial information system and the creation of a finance director role are ongoing on a pilot basis. There is, however, little delegation by senior officials and, consequently, budget users continue to understand managerial accountability and principles such as risk management in a narrow sense. Procedures for financial inspection have still to be adopted. The Public Financial Inspection Directorate in the Ministry of Finance is staffed on a need basis and inspectors should be further trained. The Central Harmonisation Unit for Internal Audit (CHU/IA) has continued to focus primarily on the implementation of the internal audit certification programme. In relation to Internal Audit training, the CHU/IA should oversee and steer training policy and provide quality assurance, rather than act as a training provider.

In the area of **external audit**, organisational changes and new procedures have been introduced to boost the efficiency of the State Audit Institution (SAI). Training and public relations activities have increased and bilateral cooperation with other countries has been enhanced. Performance audit work has restarted. The 2013-17 strategic development plan is in preparation. However, the amendments to the SAI Law are since 2012 under scrutiny of the parliament and remain to be adopted by a three-fifths majority. Currently, there is no systematic parliamentary follow-up to the SAI's reports.

In the area of **protection of the EU's financial interests**, the recruitment of staff for the Public Financial Inspection Directorate, which serves as the contact point for cooperation with the European Commission, has not been completed. Administrative capacity still needs to be developed.

As regards the **protection of the euro against counterfeiting**, the Bank of Albania has adopted a regulation on authenticity assurance of Albanian banknotes and it has set up a forensic laboratory that will examine all banknotes suspected of being counterfeit, including euro banknotes.

Conclusion

There has been some progress in the area of financial control. The legal framework for PIFC is in place, but further efforts are needed to increase capacity for implementation. In the area of external audit, amendments to the SAI Law need to be adopted. Overall, preparations are moderately advanced.

4.33. Chapter 33: Financial and budgetary provisions

There were no developments in the fields of **traditional own resources, the Gross National Income (GNI) resource** or the **VAT-based resource**. (*For progress in the underlying policy areas, see Chapters 16 — Taxation; 18 — Statistics; 29 — Customs union; and 32 — Financial control.*)

As regards **administrative infrastructure**, Albania has in place the main infrastructure for the underlying policy areas indirectly affecting the own resources system. However, the institutions and the coordinating body in charge of preparing the administrative conditions for applying the own resources rules are not yet in place and will need to be established in due course. In addition, effective tools to fight tax evasion and fraud and to shrink the informal economy need to be further developed.

Conclusion

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

Statistical Annex

STATISTICAL DATA

Albania

Basic data

	Note	2001	2008	2009	2010	2011	2012
Population (thousand)	1)	3 068e	2 927e	2 898e	2 870e	2 843e	2 816e
Total area of the country (km ²)		28 750	28 750	28 750	28 750	28 750	28 750

National accounts

	Note	2001	2008	2009	2010	2011	2012
Gross domestic product (GDP) (million national currency)	2)	583 369	1 089 293	1 148 082	1 222 462	1 282 255p	1 302 799ep
GDP (million euro)		4 541	8 870	8 694	8 872	9 137	9 370ep
GDP (euro per capita)	3)	1 482	3 045	3 014	3 106p	3 229	3 344ep
GDP (in Purchasing Power Standards (PPS) per capita)		:	6 980e	7 154e	7 385e	7 584e	:
GDP per capita in PPS (EU-27 = 100)		:	26	28	30pb	:	:
Real GDP growth rate (growth rate of GDP volume, national currency, % change on previous year)	4)	7.9	7.5	3.3	3.7p	3.1p	1.6ep
Employment growth (national accounts, % change on previous year)		:	:	:	:	:	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		30.3	19.0	4.4	:	:	:
Real unit labour cost growth (national accounts, % change on previous year)		:	:	:	:	:	:
Labour productivity per person employed (GDP in PPS per person employed, EU-27 = 100)		:	:	:	:	:	:
Gross value added by main sectors (%)							
Agriculture and fisheries		23.6	18.7	18.7	19.3	19.5	20.6
Industry		7.3	9.8	10.1	11.7	12.0	11.3
Construction		10.4	14.9	14.2	11.0	10.7	8.6
Services		58.6	56.6	57.0	58.0	57.8	59.5
Final consumption expenditure, as a share of GDP (%)		80.9	89.5ep	90.1ep	86.1ep	85.7ep	:
Gross fixed capital formation, as a share of GDP (%)		38.4	40.9ep	37.9ep	31.2ep	31.2ep	:
Changes in inventories, as a share of GDP (%)		1.3	-3.8ep	-2.9ep	3.5ep	6.2ep	:
Exports of goods and services, relative to GDP (%)		18.4	29.4	28.4	32.9p	34.5p	33.9p
Imports of goods and services, relative to GDP (%)		39.0	56.0	53.6	53.8p	57.6p	53.2p

Industry

	Note	2001	2008	2009	2010	2011	2012
Industrial production volume index (2010=100)	5)	:	135.2	152.8	182.2	212.5	218.7

Inflation rate

	Note	2001	2008	2009	2010	2011	2012
Annual average inflation rate (CPI, % change on previous year)		3.5	2.2	2.3	3.6	3.4	1.9

Balance of payments

	Note	2001	2008	2009	2010	2011	2012
Balance of payments: current account total (million euro)		-316	-1 381	-1 330	-1 019	-1 185	-1 021
Balance of payments current account: trade balance (million euro)		-1 149	-2 431	-2 304	-2 083	-2 242	-1 999
Balance of payments current account: net services (million euro)		100	69	174	232	135	195
Balance of payments current account: net income (million euro)		150	44	-138	-90	23	-89
Balance of payments current account: net current transfers (million euro)		583	937	938	922	899	872
of which government transfers (million euro)		31	31	27	45	21	25
Net foreign direct investment (FDI) (million euro)		231	610	689	788	715	727
Foreign direct investment (FDI) abroad (million euro)		0	-55	-28	-5	-30	-18
of which FDI of the reporting economy in EU-27 countries (million euro)		:	:	:	:	:	:
Foreign direct investment (FDI) in the reporting economy (million euro)		231	665	717	793	745	745
of which FDI of EU-27 countries in the reporting economy (million euro)		:	:	:	:	:	:

Public finance

	Note	2001	2008	2009	2010	2011	2012
General government deficit/surplus, relative to GDP (%)		-6.9	-5.0	-4.9	-3.1	-3.5	-3.4e
General government debt relative to GDP (%)		58.5	54.7	59.5	58.5	60.2	63.5

Financial indicators

	Note	2001	2008	2009	2010	2011	2012
Gross foreign debt of the whole economy, relative to GDP (%)	6)	17.2	37.6	41.3	46.2	52.5	56.5
Gross foreign debt of the whole economy, relative to total exports (%)	7)	93.1	128.0	142.4	140.2	152.1	166.5
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		1 113	2 303	2 154	1 999	1 973	2 023
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		2 376	4 520	4 378	4 387	4 611	4 816
Money supply: M3 (M2 plus marketable instruments, million euro)		3 069	6 643	6 599	7 114	7 626	8 080
Total credit by monetary financial institutions to residents (consolidated) (million euro)		217	3 227	3 335	3 506	3 862	3 990
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:
Lending interest rate (one year), per annum (%)	8)	11.9	11.8	12.5	11.3	11.2	10.3

Deposit interest rate (one year), per annum (%)	9)	7.8	6.9	6.8	6.4	5.9	5.4
euro exchange rates: average of period - 1 euro = ... national currency		128.470	122.800	132.060	137.790	140.331	139.040
Effective exchange rate index (2005=100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		834	1 694	1 650	1 905	1 912	1 972

External trade	Note	2001	2008	2009	2010	2011	2012
Value of imports: all goods, all partners (million euro)		1 486	3 790	3 259	3 328	3 867	3 797
Value of exports: all goods, all partners (million euro)		340	684	780	1 169	1 400	1 531
Trade balance: all goods, all partners (million euro)		-1 145	-3 106	-2 479	-2 160	-2 467	-2 267
Terms of trade (export price index / import price index)		101.5	96.0	97.6	98.4	108.3	105.8
Share of exports to EU-27 countries in value of total exports (%)		91.2	75.8	79.2	70.2	72.7	75.4
Share of imports from EU-27 countries in value of total imports (%)		80.3	63.0	64.3	64.9	64.0	61.9

Demography	Note	2001	2008	2009	2010	2011	2012
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		11.1e	4.3e	4.7e	4.9e	5.0e	5.1e
Infant mortality rate: deaths of children under one year of age per 1000 live births		17.4e	11.1e	10.3e	9.6e	8.7e	8.8e
Life expectancy at birth: male (years)		:	73.0e	73.7e	74.6e	75.1e	75.3e
Life expectancy at birth: female (years)		:	78.4e	78.7e	79.0e	79.7e	79.6e

Labour market	Note	2001	2008	2009	2010	2011	2012
Economic activity rate (20-64): share of population aged 20-64 that is economically active (%)	10)	72.3	69.3e	69.6e	69.7e	75.6e	73.2e
* Employment rate (20-64): share of population aged 20-64 in employment (%)	10)	55.5	60.8e	60.4e	60.3e	64.9e	63.4e
Employment rate male (20-64) (%)	10)	70.6	72.1e	73.2e	71.5e	84.0e	83.3e
Employment rate female (20-64) (%)	10)	40.6	51.0e	48.9e	49.8e	67.3e	63.3e
Employment rate of older workers (55-64): share of population aged 55-64 in employment (%)	10)	27.5	44.0e	48.9e	48.3e	54.7e	57.7e
Employment by main sectors (%)							
Agriculture	10)1 1)	50.6	44.6e	44.1e	41.8e	45.4e	51.1e
Industry	11)	7.1	9.3e	10.0e	11.0e	10.6e	10.9e
Construction	11)	6.6	8.5e	9.9e	9.9e	8.2e	6.5e
Services	10)1 1)	35.7	37.6e	36.0e	37.3e	35.8e	31.6e
Unemployment rate: share of labour force that is unemployed (%)	10)	22.8	13.0e	13.8e	14.0e	13.9e	13.9e
Share of male labour force that is unemployed (%)	10)	18.8	12.5e	12.2e	12.6e	13.8e	15.0e
Share of female labour force that is unemployed (%)	10)	28.4	13.5e	15.9e	15.9e	14.1e	12.5e
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)	10)	35.5	27.2e	27.2e	30.5e	23.6e	27.9e
Long-term unemployment rate: share of labour force that is unemployed for 12 months and more (%)	10)	:	8.5e	9.1e	10.6e	10.2e	10.8e

Social cohesion	Note	2001	2008	2009	2010	2011	2012
Average nominal monthly wages and salaries (national currency)		17 218.0	36 537.0	40 874.0	44 375.0	46 665.0	50 093.0
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI/HICP) (2000=100)		11.6	91.7	109.8	116.1	123.5	138.2
* Early school leavers - Share of population aged 18-24 with at most lower secondary education and not in further education or training (%)		:	39.0e	35.5e	31.9e	35.2e	31.6e

Standard of living	Note	2001	2008	2009	2010	2011	2012
Number of passenger cars per 1000 population		43.5e	83.3	88.2	104.4	106.3p	106.6
Number of subscriptions to cellular mobile telephone services per 1000 population		120.6e	1 013.0e	1 444.0e	1 584.4	1 841.8	:

Infrastructure	Note	2001	2008	2009	2010	2011	2012
Density of railway network (lines in operation, per 1000 km ²)		14.3	13.9	13.9	13.9	13.9	13.9
Length of motorways (km)		:	:	:	:	:	:

Innovation and research	Note	2001	2008	2009	2010	2011	2012
Spending on human resources (public expenditure on education in% of GDP)		3.3	3.5	3.4	3.5	3.3	:
* Gross domestic expenditure on R&D in% of GDP		:	:	:	:	:	:
Percentage of households who have Internet access at home (%)		:	3.4	:	:	:	:

Environment	Note	2001	2008	2009	2010	2011	2012
* Greenhouse gas emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		386.5	:	:	:	:	:
Electricity generated from renewable sources in% of gross electricity consumption		:	:	:	:	:	:

Road share of inland freight transport (% of tonne-km)		:	:	:	:	:	:
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Energy	Note	2001	2008	2009	2010	2011	2012
Primary production of all energy products (thousand TOE)		933	1 159	1 263	1 643	1 494	1 676
Primary production of crude oil (thousand TOE)		335	578	577	744	895	1 031
Primary production of hard coal and lignite (thousand TOE)		15	20	3	3	2	2
Primary production of natural gas (thousand TOE)		8	8	8	13	15	15
Net imports of all energy products (thousand TOE)		1 001	1 033	895	552	668	320
Gross inland energy consumption (thousand TOE)		1 934	2 119	2 104	2 106	2 162	2 014
Electricity generation (thousand GWh)		3.7	3.9	5.2	7.7	4.1	4.3

Agriculture	Note	2001	2008	2009	2010	2011	2012
Agricultural production volume index of goods and services (producer prices, previous year=100)		:	107.4	102.0	107.3	3.9	:
Total utilised agricultural area (thousand hectare)		1 139	1 121	1 138	1 201	1 201	1 201
Livestock: cattle (thousand heads, end of period)		708	541	494	493	492	498
Livestock: pigs (thousand heads, end of period)		106	161	160	164	163	159
Livestock: sheep and goats (thousand heads, end of period)		2 933	2 620	2 540	2 581	2 517	2 619
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		984	1 040	1 045	1 070	1 101	1 105
Crop production: cereals (including rice) (thousand tonnes, harvested production)		503	608	630	662	701	:
Crop production: sugar beet (thousand tonnes, harvested production)		39	:z	:z	:z	:z	:
Crop production: vegetables (thousand tonnes, harvested production)	12)	677	715	730	860	890	:

: = not available

:z = not applicable

b = break in series

e = estimated value

p = provisional

* = Europe 2020 indicator

The balance of payments sign conventions are used for FDI. For FDI abroad a minus sign means investment abroad by the reporting economy exceeded its disinvestment in the period, while an entry without sign means disinvestment exceeded investment. For FDI in the reporting economy an entry without sign means that investment into the reporting economy exceeded disinvestment, while a minus sign indicates that disinvestment exceeded investment.

Footnotes:

- 1) The figures of the population are based on the calculation of retro projection made by INSTAT.
- 2) 2011, flash, annual estimation, GDP at market prices; 2012, flash based in quarterly estimation
- 3) Estimation of GDP per capita is based on annual average population calculated by INSTAT (1402/Y1001-A)
- 4) 2012, based on quarterly estimation of GVA at basic prices (2005=100)
- 5) Base year is 2005; according to Nace Rev 1.1.
- 6) Data on GED from 2003 are disseminated by Bank of Albania.
- 7) 2001, Debt Outstanding Disbursed (DOD) cumulative stock covering external public debt and external publicly guaranteed debt, but excluding IMF credit. Total exports are calculated according national accounts concepts.
- 8) 2001 - 2009, average weighted rate applied on new 12-month loans over the respective month, on 12-month maturity.
- 9) 2001 - 2009, deposit interest rate represents the average weighted rate for newly accepted deposits over the respective month, on 12-month maturity.
- 10) 2001 based on 2001 census data, 2008-2012 based on LFS data.
- 11) Data are provided according to Nace rev 1.1
- 12) Including melons.