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1. INTRODUCTION

1.1. Context

Albania has continued to implement the Stabilisation and Association Agreement and the meetings of the joint bodies under the agreement took place. In November 2016 the Commission recommended the opening of accession negotiations subject to credible and tangible progress in the implementation of the justice reform, in particular the re-evaluation of judges and prosecutors (vetting). The Commission has continued to monitor thoroughly the developments in the context of the Five Key Priorities.

1.2. Progress on meeting the conditions for opening accession negotiations

Key Priority 1: Albania was requested to reform the public administration with a view to enhancing its professionalism and de-politicisation. The relevant legal and strategic frameworks are now in place. Implementation of public administration reform has continued consistently, following the adoption of the civil service legislation, advancing further towards a professional and merit-based civil service. The transparency and quality of merit-based recruitment and selection procedures for public posts were enhanced, particularly for the central level of governance; the capacity of the institutions responsible for management and monitoring of the civil service was strengthened; the operational infrastructure of service delivery was improved through one-stop-shops and further implementation of the territorial administrative reform (*see section 2.1.2 Public administration reform*).

Key Priority 2: Albania was requested to take further action to reinforce the independence, efficiency and accountability of judicial institutions. A thorough and comprehensive justice reform is being implemented. It was launched with a set of amendments that changed to one third of the country's constitution. The main features of the ongoing reform can be summarised around the following pillars: measures to fight corruption, including by establishing a new Special Anti-Corruption and Organized Crime Structure (SPAK); measures to reduce the influence by the parliament and the executive on the judiciary; measures to increase the independence and effectiveness of the High Court, as well as the independence, impartiality and transparency of the Constitutional Court and the High Council of Justice and Prosecution system; measures to increase accountability of judges and prosecutors, including by setting up the new High Judicial Council, the new High Prosecutorial Council, as well as a High Justice Inspector; measures to increase justice efficiency and access to justice. Implementation of the various components of the reform is progressing well, in line with the legal provisions, in terms of steps and calendar. The work on the establishment of the new bodies for the self-government of the judiciary is also progressing. In addition to the institutional restructuring of the judiciary, the reform process foresaw the launch of a generalised re-evaluation (vetting) of all judges and prosecutors. This entails that around 800 professionals are currently undergoing scrutiny. The **vetting** has now started. The Albanian vetting institutions have completed the assessment of the top priority cases (i.e. all judges at the Constitutional Court, the President of the High Court and the Chief Prosecutor). The first hearings resulted in the dismissal of a Constitutional Court judge and of a Court of Appeal judge, also candidate to the High Judicial Council. Seventeen high ranking judges and prosecutors resigned (some at the very start of the process, refusing their assets to be verified, some asked to retire or leave service upon reaching the end of their mandates, and some just before the hearings, after receiving notification of the findings to be discussed in the hearing). Another hearing in early April resulted in the confirmation in duty of a Constitutional Court judge (*see section 2.2.1 Chapter 23: Judicial and fundamental rights*).

Key Priority 3: Albania was requested to make further determined efforts in the fight against corruption, including towards establishing a solid track record of proactive investigations, prosecutions and convictions. In recent years, substantial work was done to improve the legal framework and the institutional set-up (including SPAK) to strengthen the system to prevent and fight corruption. As regards the efforts towards establishing a solid track record in the fight against corruption, the positive trend of recent years continued. There is an increase of activity at different points of the investigation chain. The police increased the number of referrals of corruption cases and the number of corruption cases sent to court also maintained an increasing trend in recent years. The overall number of first and second instance convictions involving junior or middle-ranking officials has constantly increased in recent years. Regarding convictions of high-level state officials, important results have been achieved in the judiciary. Convictions have been rendered against prosecutors and judges. As regards the opening of new cases against high-state officials, these also increased. However, the number of final convictions of high-state officials remains very low.

The establishment of a solid track record of proactive investigations, prosecutions and convictions in the fight against corruption remains nonetheless a long-term objective that continues to require further structured and consistent efforts. The efforts noted since the Five Key Priority framework was established, seem nevertheless adequate to consolidate further progress in this area, which will remain a core aspect of EU engagement in the context of future negotiations (*see section 2.2.1 Chapter 23: Judicial and fundamental rights*).

Key Priority 4: Albania was requested to make further determined efforts in the fight against organised crime, including towards establishing a solid track record of proactive investigations, prosecutions and convictions. Tangible results were achieved in particular in the fight against the cultivation and trafficking of cannabis. In 2017, a substantial reduction of cannabis cultivation and a considerable increase of seizures, in particular of stocks of cannabis, were detected. Large scale law enforcement operations also led to successful confiscation of large quantities of cannabis stockpiled from previous crops and, recently, also cocaine from Latin America and covered also trafficking of human beings and property rights abuses. Work continues on preparing for the vetting of police forces (law adopted in principle by the Assembly at the end of February). As regards the track record in the fight against criminal organisations and structured criminal groups, the number of referrals has increased in the past years, and has particularly intensified in the past months, but the number of indictments and final convictions remain very low and has only marginally increased. As regards statistics on serious crimes not linked to criminal organisations and structured criminal groups, the trend of people convicted is increasing, against the background of a higher number of reported cases. Such crimes are mostly related to production and cultivation of narcotics, followed by money laundering.

The establishment of a solid track record of proactive investigations, prosecutions and convictions in the fight against organised crime remains nonetheless a long-term objective that continues to require further structured and consistent efforts. The efforts noted since the Five Key Priority framework was established, seem nevertheless adequate to consolidate further progress in this area, which will remain a core aspect of the EU engagement in the context of future negotiations (*see section 2.2.2 Chapter 24: Justice, freedom and security*).

Key Priority 5: Albania was requested to take effective measures to reinforce the protection of human rights, including of Roma, and anti-discrimination policies, as well as implementing property rights. The legal framework for the protection of human rights is

broadly in line with European standards and Albania has ratified most international human rights conventions. The Ombudsman has been actively promoting the rights of vulnerable groups, including by submitting special reports and recommendations. The policy and legal framework on non-discrimination is broadly in line with European standards. Important steps have been taken to improve the legal framework on the protection of minorities, for which secondary legislation is now under preparation, as well as juvenile justice, child protection and property rights (financial means have been earmarked to implement ECtHR rulings). As for the integration of Roma and Egyptians¹, progress was achieved in early childhood and primary education, as well as access to healthcare and the labour market. The housing budget has also increased. Freedom of thought, conscience and religion was generally upheld. The overall legislative environment is conducive to the exercise of freedom of religion and progress was made in strengthening the independence of the regulatory authority and public broadcaster. Efforts for the enforcement of human rights will have to continue. (see section 2.2.1 Chapter 23: Judicial and fundamental rights)

1.3. Summary of the report²

As regards the **political criteria**, strong polarisation persisted in the political establishment. Parliamentary activities were affected by a prolonged boycott by the opposition in early 2017, which also delayed the appointment of the judicial vetting institutions. In May, an agreement between the main ruling party and the opposition allowed resuming parliamentary activities, triggering some changes to the electoral legislative framework. This was conducive to the smooth organisation of the general elections in June, although a number of OSCE/ODHIR recommendations still remained outstanding. Some progress was made towards improving the functioning of the National Council for Civil Society. Additional efforts are needed to better involve civil society organisations as part of an inclusive policy dialogue.

Albania is moderately prepared in the reform of its **public administration**. Efforts continued, resulting in some progress in the efficiency and transparency of public services delivery, the training of civil servants, more transparent recruitment procedures, and the overall strengthening of merit-based civil service procedures. Consolidation of these achievements should advance further, to ensure a more efficient, depoliticised, and professional public administration.

Albania's **judicial system** has some level of preparation. The implementation of comprehensive and thorough justice reform has continued, resulting in good progress overall. The re-evaluation of all judges and prosecutors (vetting process) has started and is delivering first tangible results. This process has cross-party support, is carried out by an independent authority, is subject to international monitoring and its compatibility with the European Convention on Human Rights has been confirmed by the Venice Commission. Under the aegis of the European Commission, an International Monitoring Operation has been deployed to oversee the process throughout its implementation. The auxiliary institutions supporting the process have completed their first reports on the proficiency assessments, background checks and asset declarations.

¹ All these groups are considered under the wider "Roma" umbrella term under the EU Framework for National Roma Integration Strategies.

² This report covers the period from October 2016 to February 2018. It is based on input from a variety of sources, including contributions from the government of Albania, the EU Member States, European Parliament reports and information from various international and non-governmental organisations.

Albania maintains some level of preparation in the **fight against corruption**. Good progress was made, notably with the adoption of amendments to the criminal procedure code. A chain of specialised anti-corruption bodies, including a special prosecutor's office, is being established. The number of final convictions involving junior or middle-ranking officials has increased compared to the previous reporting period. Convictions of high-level officials occurred mostly in the judiciary (judges and prosecutors); however, the rate of final convictions for high-ranking officials remains overall very low. Corruption remains prevalent in many areas and continues to be a serious problem.

Albania has some level of preparation in the **fight against organised crime**. Overall there was some progress in the reporting period, notably in the fight against cannabis cultivation. Albania needs to build on operational results in this area, intensifying confiscation of assets belonging to criminal gangs and pursuing the destruction of all existing cannabis stockpiles. Amendments to the anti-mafia law and the Criminal Procedure Code have created the conditions for increased efficiency of criminal investigations. Albania participated successfully in international police cooperation, intensifying its interactions particularly with EU Member States. At domestic level, effective police-prosecution cooperation remains to be improved. As regards the track record, there has been little progress in dismantling organised criminal groups. The number of final convictions in organised crime cases remained very low and has only marginally increased. More efforts are needed to tackle **money laundering**, criminal assets and unjustified wealth.

Albania has ratified most international **human rights** conventions and has developed its legal framework in line with European standards. Enforcement and monitoring of human rights protection mechanisms remain to be strengthened. As regards the **freedom of expression**, Albania has some level of preparation/is moderately prepared. There has been some progress in strengthening the independence of the regulatory authority and public broadcaster but transparency of state advertising in the media remains to be enhanced. Progress remains to be made in the area of property rights with the update of the current legislation and reinforcement of institutional coordination. Institutional mechanisms to protect the rights of the child and to tackle gender-based violence remain weak. Important steps were made to improve the legal framework for the respect for and protection of minorities but relevant secondary legislation needs to be developed. Living conditions for Roma and Egyptians need to be improved.

Albania has continued to participate actively in **regional cooperation** and maintain good neighbourly relations. Important steps have been taken to address bilateral issues with Greece.

As regards the **economic criteria**, Albania has made some progress and is moderately prepared in developing a functioning market economy. The public debt-to-GDP ratio and the current account deficit have been reduced. Economic growth increased further and unemployment decreased but is still high. Non-performing loans (NPLs) in the banking sector have been reduced, but bank lending to businesses remains sluggish. Reforms crucial to improving the business environment progressed but require further efforts, including the reduction of the informal economy. The comprehensive judicial reform advanced but needs to be fully implemented. The new bankruptcy law entered into force and should strengthen the insolvency regime. However, business-relevant regulations remained cumbersome and shortcomings in the rule of law continued to hamper businesses and deter investments.

Albania has made some progress and has some level of preparation in terms of capacity to cope with competitive pressure and market forces within the EU. Specifically, progress was

made on energy and transport infrastructure and digitalisation, although shortcomings remain which hinder Albania's competitiveness and trade. The quality of education needs to be raised at all levels, not least to better equip people with skills that the labour market needs. Foreign trade remains below potential and sectorally concentrated. Albania's capacity for research, development and innovation remains low.

Albania continued to align its legislation to EU requirements in a number of areas, enhancing its **ability to take on the obligations of membership**. The country is moderately prepared in many areas, such as in financial control, education and culture, or has some level of preparation, including in the areas of public procurement and statistics. Albania will need to continue its efforts as regards the overall preparations for adopting and implementing the EU *acquis*. It should continue work on the development of transport and energy networks, also with a view to improving connectivity throughout the region. The administrative capacity and professional standards of bodies which would be charged with the implementation of the *acquis* need to be strengthened and the independence of regulatory bodies safeguarded. Enhancing transparency and accountability, in particular ensuring the effective, efficient and transparent functioning of the public procurement system and public finance management, remains essential. Albania has continued to fully align with all EU common foreign and security policy positions and declarations.

The number of unfounded asylum applications lodged by Albanian nationals to EU Member States and Schengen associated countries has remained high. Albania showed commitment and adopted a number of measures, including strengthened bilateral cooperation with relevant EU Member States. These measures yielded positive results. Further decisive actions have to continue, including in the framework of the post-visa liberalisation monitoring mechanism, to effectively address this phenomenon. Albania needs to put in place a return mechanism for irregular migrants, which is in line with the EU *acquis*, as well as to align its visa policy progressively with the EU's.

2. FUNDAMENTALS FIRST: POLITICAL CRITERIA AND RULE OF LAW CHAPTERS

2.1. Functioning of democratic institutions and public administration reform

2.1.1 Democracy

The political environment remained characterised by strong polarisation throughout the reporting period, particularly in the first half of 2017, when parliamentary activities were affected by a prolonged boycott by the opposition. This also delayed the appointment of the judicial vetting institutions. An agreement between the two main ruling and opposition parties in May allowed parliamentary work to resume ahead of the electoral recess. More recently, a number of bipartisan initiatives have been taken, including the wide cross-party consensus on the vote of principle to the law for the vetting of the police, the establishment of investigative committees, as well as continued dialogue in the ad hoc committee on electoral reform.

Elections

The 2017 parliamentary elections were held in an orderly manner and its results were accepted by all parties. The May 2017 cross-party political agreement resulted in the opposition's participation in the election and a less aggressive electoral campaign. It also led to some changes to the electoral legislative framework. In its report, the Office for Democratic Institutions and Human Rights of the Organisation for Security and Cooperation

in Europe (OSCE/ODIHR) highlighted the persistent politicisation of electoral bodies, widespread allegations of vote-buying and pressure on voters. High-level political commitment is required to improve and properly implement the legal framework. The newly established ad hoc parliamentary committee on electoral reform should address outstanding OSCE/ODIHR recommendations in an inclusive manner, well ahead of the 2019 local elections.

The 18 May political agreement between the Prime Minister and the leader of the main opposition party ended 4 months of parliamentary boycott by the opposition and secured participation by the latter in the 25 June parliamentary elections. It granted six ministerial positions to the opposition in sectors key to elections. A task force, chaired by a deputy prime minister from the opposition, was established to monitor and coordinate the public administration's conduct during the campaign and on election day. The agreement contributed to a less polarised campaign and a largely incident-free election. However, OSCE/ODIHR expressed concerns over the low level of public trust in the electoral process and the continued politicisation of the election-related bodies. It reported widespread allegations of vote-buying, as well as concerns over abuse of state resources and pressure on voters.

Some OSCE/ODIHR recommendations on sanctions for electoral violations, transparency and accountability of campaign financing, and the rights of observers were partially addressed through the amendments to the legislative framework and sub-legal acts of the Central Election Commission adopted in May. However, the ad hoc electoral reform committee failed to achieve comprehensive reform through broader amendments to the Electoral Code. All outstanding OSCE/ODIHR recommendations should be addressed as a priority through both legislative and administrative measures. A new ad hoc parliamentary committee was established in October 2017 to address OSCE/ODIHR recommendations outstanding from the last three elections (2013, 2015 and 2017). It is jointly chaired by the two main majority and opposition parties and includes representatives of all parties in Parliament.

Parliament

The last year of the outgoing parliament was marked by a high degree of polarisation and an extended opposition boycott. Overall, the role of the Parliament in initiating and amending legislative proposals, as well as consultations in parliamentary committees, has increased. The new legislature has so far demonstrated commitment to electoral reform and improved conduct in plenary sittings. Implementation of the so-called Decriminalisation Law led to the removal of four members of Parliament during the reporting period. More efforts are required to achieve effective oversight, strengthen constituency links, increase transparency and ethical conduct, and strengthen Parliament's research capacity.

Political polarisation and the extended opposition boycott hindered political dialogue and parliamentary work. The opposition boycotted parliamentary activity between February and May 2017 and threatened not to take part in elections. The political agreement of 18 May 2017 led to the opposition returning to Parliament, enabling the completion of the vetting commissions. Parliament elected former Speaker Ilir Meta as President of the Republic in April 2017, with the votes of the governing majority.

The 2017 parliamentary election gave the Socialist Party 74 seats and the mandate to govern alone. The Democratic Party and Socialist Movement for Integration became the two largest opposition parties, with respectively 43 and 19 seats. About one third of the 2017-2021 MPs were elected for the first time and the number of women representatives elected rose to 40

(28.5 %). In September 2017 Parliament nominated its Speaker and the Prime Minister and voted through the government's political programme.

Four members of Parliament (and one mayor) lost their mandates under the so-called decriminalisation process in December 2016 and January 2018. Overall, seven MPs lost or forfeited their mandates in the reporting period, and an eighth was found to have had business interests incompatible with a parliamentary mandate. The Constitutional Court decided in autumn 2016 that the mandates of two other MPs were compliant with constitutional provisions. At the request of the prosecution, in October 2017 Parliament partially lifted the immunity of MP Tahiri, former Minister of Interior.

Despite improved conduct in plenary sittings, procedural rules are sometimes not respected and public expectations are often not met. The **Code of Ethics**, which has been in parliamentary procedure since early 2016, still awaits approval. Coverage of all 12 regions with constituency offices has yet to be ensured. Communication channels between citizens and MPs need to be formalised and strengthened.

Regarding Parliament's **legislative role**, the number of laws and amendments put forward by MPs and the regularity of hearings with government and interest groups at committee level has increased. Parliament accepted three presidential decrees returning laws for parliamentary review. Overall, the opposition gave its approval to a limited number of laws. Parliament adopted 17 laws requiring a qualified majority vote, most of which form part of the justice reform package.

Parliamentary rules of procedure should reflect the law on the **role of Parliament in the EU integration process** adopted in March 2015. The capacity of the National Council for European Integration has been strengthened by a dedicated support unit, which remains to be fully staffed. The Council has held a number of consultations and training sessions, but is yet to fully assume its role as a forum for broad involvement and consultation on EU integration issues. The EU Integration Committee held a number of oversight hearings during the reporting period. Parliament's overall capacity to monitor the implementation of new legislation and its compliance with the *acquis* remains limited. Coordination with the executive branch needs to be improved.

On Parliament's **oversight function**, the work of inquiry committees remained highly conflictual and lacked results. The mandates of the two inquiry committees established in 2016 on the privatisation and renationalisation of the Electricity Power Distribution System Operator were extended in January and February 2017. An inquiry committee on telephone surveillance was established in October 2016 at the request of the opposition and another on cannabis cultivation and the case of former Minister Tahiri was recently established. Other oversight mechanisms remained underused. In the last year there were few Prime Minister and cabinet questions and oversight hearings at committee level. Parliament conducted a structured review of annual reports from independent institutions and adopted 15 resolutions, which are however not discussed in plenary. The April 2017 decision to establish a system for following up and monitoring recommendations by Parliament and independent institutions marked a step towards stronger oversight in this regard.

The **Ombudsman**, as well as the chair and one member of the **Central Election Commission**, were appointed as part of the 18 May political agreement. The assembly has yet to finalise a second process for electing the **Commissioner for Protection against Discrimination**, after failing to elect one in March 2017.

As regards **transparency and accountability**, Parliament has overall ensured access to documents and activities. A two-year communications strategy was approved in May 2017. A review has continued of the internal rules of organisation of Parliament's administration and training, including activities undertaken under the EU Twinning Project.

Political parties have partially reflected OSCE and EU recommendations on transparency of party funding, agreeing on legal amendments ahead of the 2017 parliamentary elections. Further reform, including amendments to the Electoral Code, is required. Issues persist in relation to internal party democracy and due implementation of statutes.

Governance

The government remained committed to the EU integration process but the pace of reform was affected by the electoral campaign and changes at ministerial level. The new government, established after the June elections, reconfirmed that Albania's EU accession was a key priority. The government has launched a restructuring of the whole public administration which aims to reduce the number of ministries and state agencies while delivering services more efficiently. Further progress was made at local government level, with the adoption of the laws on local finances and on the organisation and functioning of local governance. The Consultative Council was established and started operating as the main mechanism for institutional coordination between central and local governments.

During the reporting period, the government was reshuffled three times and changed once. Two reshuffles took place in January and March 2017 within the ruling coalition of the Socialist Party and the Socialist Movement for Integration. Following the 18 May 2017 agreement mentioned above, the opposition Democratic Party was granted six ministerial posts with responsibilities linked to the elections. The reshuffle included the position of deputy prime minister and the chairmanship of some key state agencies. This joint government decreased public tension and polarisation and demonstrated some cross-party ability to overcome stalemate. However, cooperation between the two main parties stalled after the elections.

In September 2017, a new government took office, with the Socialist Party Chair receiving an absolute majority for a second mandate. The restructuring process proposed by the new government has started. The central government underwent a full restructuring of ministries and of the Prime Minister's office: the number of ministries was reduced from 19 to 11 and policy functions streamlined in new ministerial departments. The restructuring led to a significant redistribution of competencies and merging of administrations. The lower number of ministers was balanced by an increase in the number of deputy ministers to 33. The new government marks a clear commitment to gender equality, with 7 out of 14 ministers being women, including the Deputy Prime Minister. Further to these steps already taken, state agencies and independent bodies will be reduced in size and streamlined with the aim of optimising consistency and efficiency in administrative performance. Key measures in the restructuring are the dismantling of agencies with mixed functions, the merging of those with overlapping functions and the devolution of institutions to the four development regions in coherence with territorial administrative reform. The restructuring process created a temporary vacuum in some areas of governance, which shall be swiftly overcome, in order to prevent losses of efficiency in the continuation of reform implementation.

With the new government, a dedicated State Minister for **relations with the diaspora** was nominated.

The **Constitutional Court** issued 71 decisions in 2017, two of which were related to the justice reform and one to property rights. The constitutionality of the vetting process was contested twice before the Constitutional Court but the latter rejected these appeals.

Regarding **local government**, the implementation of territorial reform continued and the newly created municipalities were further consolidated, administratively and financially. Appointments in breach of the civil service law continue to be a common practice hindering merit based civil service. The implementation of the 2015-2020 national cross-cutting strategy for decentralisation and local governance continued. Under the territorial administrative reform, the Law on Local Self-Governance Finances was adopted in April 2017. It aims to strengthen the fiscal autonomy of local governments and ensure a predictable, transparent and inclusive process for allocating funds that is responsive to local governments' needs. The Law 'On Qark's Prefect', adopted in October 2016, strengthened the role of prefects in overseeing the implementation of legislation and delegated functions by local government units.

The Consultative Council, established in December 2016, is operating as the main mechanism for institutional coordination between central and local governments. In January 2018 the Agency for Implementation of Territorial Reform was transformed into the Agency for Local Self Government Support, widening its scope under the responsibility of the Ministry of Interior.

With regard to **public participation in local decision making**, further progress has been made in the area of **access to information**: an increasing number of municipalities have disclosed public information and nominated a local coordinator responsible for the right to information. The institutional framework for public participation in local decision-making, particularly in the budgeting process, needs to be strengthened for all municipalities.

On **territorial planning** there has been some progress, with increasing numbers of municipalities drafting 'general local plans' supported by the government.

Additional efforts are needed to increase the capacity of local government units to carry out their expanded responsibilities, improve training and manage their finances more efficiently. Full implementation of the law on civil servants at local government level has yet to be ensured. Arrears continue to be a potential source of financial instability.

A network of 61 Local EU coordinators has been created. Each municipality is setting up an 'EU desk' with the aim to strengthen municipal EU related governance capacities and reach out to Albanian citizens and local administrations with information about the EU, its policies, funds and programmes.

Civil society

Some progress was made towards improving the functioning of the National Council for Civil Society and through approval of the Law on Social Enterprises. Substantial efforts are needed to ensure meaningful consultations with civil society actors as part of an inclusive policy dialogue. The financial sustainability of civil society organisations remains a challenge due to fiscal and legal frameworks.

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by the state institutions. Albania's legal and regulatory framework on the right of freedom of association is generally in line with international standards. The 2014 Law on Public Consultation laying down the procedural norms for transparency and public participation in decision-making is in line with European standards.

However, the registration process is still a problem due to the high financial cost of registration, lengthy procedures and lack of specialised judges. Implementation of the laws on volunteering and on social enterprises is hampered by the lack of sub-legal acts.

In 2017, the National Council for Civil Society (NCCS) had two meetings. The first one, held in February 2017, was organised with the support of the Agency for Support to Civil Society acting as a technical secretariat. An interinstitutional working group was established to follow up the implementation of the roadmap for engagement with civil society. The set-up of the NCCS needs to be aligned with the structural composition of the new government. In December 2017 the NCCS adopted its rules of procedures and elected a new deputy head coming from civil society. Consultation of civil society in legislative and executive processes has increased but needs to be more systematic, transparent and with adequate time frames at the central and local levels. So far, civil society participation still remains occasional.

No significant developments took place in the legal and regulatory framework of the tax regime for civil society organisations (CSOs), which remains a problem. This is a significant financial burden for CSOs and the current legal environment does not support alternative funding sources. Tax incentives for corporate donations do not stimulate donations to CSOs, while individual donations are not recognised. Public funding for CSOs remains limited and is not yet legally regulated at central and local level.

2.1.2. Public administration reform

Albania is **moderately prepared** with the reform of its public administration. **Some progress** was made, especially in improving the efficiency and transparency of public services delivery, training civil servants, establishing more transparent recruitment procedures and strengthening the administration's capacity to undertake merit-based recruitment. Implementation of the public administration reform and public financial management reform strategies has continued, although for the past few months some steps in the process have been on hold, following the general elections and central government restructuring. Any further reorganisation of the public administration needs to be carried out in a consistent and evidenced-based manner. The Commission's recommendations from 2016 were partially addressed.

In the coming year, Albania should in particular:

- implement regulatory and fiscal impact assessments across all ministries with a view to improving the quality of legislative and policy proposal, reflection of their financial estimates and their costing and budgeting of Medium Term Budget Plan;
- develop a comprehensive salary policy for a fair, transparent and merit-based salary scheme in public institutions and enable automated payroll through the human resource management information system and the treasury;
- ensure effective implementation of the Code of Administrative Procedure by completing the harmonisation of relevant regulations with the code.

Policy development and coordination

The legal basis and the institutional set-up are in place to ensure a consistent **policy-making system**, including for European integration. Policy planning remains fragmented among various centre-of-government institutions and line ministries. Harmonisation of central planning documents with sector strategies in line with government priorities remains limited. Alignment of policy and fiscal planning needs to be further strengthened. Institutional capacity for coordinating, reviewing and monitoring policy needs to be further improved.

The institutional responsibility for coordinating the national plan for European integration is assigned to the new Ministry for Europe and Foreign Affairs. Monitoring and reporting of implementation of such plan have improved, but the rate of implementation remains low and has decreased from 56 % in 2016 to 25.5 % in 2017, particularly due to delays following the ministerial restructuring.

The administration needs to further strengthen its capacity to develop **inclusive and evidence-based policy and legislation**, including the *acquis*. While procedures for legislative alignment with the *acquis* are in place, the impact of such alignment is not properly analysed and implementation costs are not duly forecasted. Two pilot ministries have started to apply regulatory impact assessments, but more systematic use of such assessments needs to be put in place and the relevant staff need to be trained. Inter-ministerial consultation and the quality of analysis supporting new policy proposals needs to be further improved. **Public consultation** is regulated but needs to be fully implemented. The electronic web portal for public consultations became operational in 2017, but it is not yet used by all ministries.

Public scrutiny of government work is still limited, especially because monitoring and reporting on government activities is not coherently regulated, coordinated or implemented. Monitoring and reporting is often limited to the implementation of activities and rarely assesses their results.

Public financial management

The government continued to regularly monitor implementation of the **public financial management reform** strategy for 2014-2020 and published the second monitoring report for 2016. The report assesses progress against a more robust result indicator matrix with baselines and targets. The main improvements in public financial management relate to the 2017 budget preparation in line with the revised Organic Budget Law; adoption of the law on local government finances; amendments to the Public Procurement Law to improve the independence of the Public Procurement Commission; increased clearance of arrears; online access to the treasury system; a campaign to combat the informal economy; and the piloting of external audit manuals. The mandate of the Ministry of Finance was broadened to include the mandate of the former Ministries of Economy, Labour, and Employment. Such reorganisation mirrored only an increase from 293 to 323 staff in the new ministry, its capacity to deliver reform needs to be maintained. Reforms in the next period are focussed on: improving budget planning and management; strengthening internal control standards across government; preventing arrears, at central and local government level; following-up internal and external audit recommendations; improving investment planning and management; improving the public procurement review and compliance with procurement rules; granting online access to the treasury for more institutions; analysing the fiscal risks of state-owned enterprises; and establishing the fiscal cadastre and value-based property taxation (see also *chapters 5, 16, 29 and 32*).

Budget transparency has improved further with government publishing seven out of eight key budget documents in a timeframe consistent with international standards. The 2018 budget, the citizens' budget for the 2018 draft budget and the list of public investments under the medium-term budget programme have been published, but public participation in the budget process needs to be further strengthened. The 2016 budget implementation report was published but its structure remains weak in reporting on state assets and in the degree of comparison it allows with the original budget. In-year reporting is available but the mid-year report covers 5 instead of 6 months.

Public service and human resources management

The Civil Service Law provides a clear scope for the civil service. Public employees in institutions delivering services directly to citizens are covered by the Labour Code. As a result, uniform standards on merit-based recruitment, promotion and dismissal of all public administration staff have yet to be applied.

The Civil Service Law provides a solid basis for **merit-based recruitment and promotion**. The recruitment process has become more efficient (with 86 % of the planned vacancies filled in 2016 in comparison to 66.5 % of the planned vacancies filled in 2015). The recruitments are more transparent as a result of improved examination procedures, the introduction of an online application system and the evaluation of electronically written tests. There has been a significant decline in the average number of applicants per position. Mobility within the civil service increased due to a rise in transfers between institutions (from 75 in 2015 to 146 in 2016) and in promotions (from 29 in 2014 to 101 in 2015 and 188 in 2016). The civil service law remains weakly implemented at the local level. Appointments in breach of civil service law remain problematic for the local level of public administration.

While the number of **dismissals** has decreased since 2015, the implementation of court decisions favourable to dismissed civil servants remains very low.

The capacity of the Department of Public Administration to lead the **management of human resources** was improved thanks to a staff increase from 53 to 58. The use of human resources management information system (HRMIS) is still not fully functional, hampering strategic human resources planning and monitoring. Further data on public service organisations and employees was added to the HRMIS, but it does not yet cover the whole civil service. Generation of payroll reports were piloted in 30 institutions, but the link with the treasury system is not operational. Public institutions cooperate effectively with the Commissioner for Oversight of the Civil Service, but the Commissioner's administrative capacity needs to be further strengthened to better ensure the oversight role.

The **remuneration system** for public servants is in principle transparent and based on a job classification system. While salary levels for selected positions were increased in 2017, a reform of the whole job classification system is pending. The application of salary supplements is not uniform across various public institutions and information is not publicly available. Salary increase is not linked to the promotion and performance appraisal system. Progress in unifying salary schemes across the public administration remains insufficient.

The training programmes implemented by the School of Public Administration contribute to the **professional development** of civil servants. However, an integrated training management cycle is needed to be more responsive to institutional needs. The budget is not sufficient to cover the increasing number of training courses needed following the restructuring process.

The **integrity** and prevention of corruption of public officials and civil servants is regulated, and institutional capacity for asset and conflict of interest declarations has been reinforced.

Accountability of the administration

The legal framework on the organisation of the central administration is in place and regulates the **accountability lines** between institutions. However, it is hard to distinguish between the functions of subordinated bodies and those of autonomous agencies. The ongoing restructuring process needs to result in a clear framework for all subordinate bodies. Managerial accountability within institutions is still focused on processes rather than the achievement of results, and there is no delegation of responsibility to middle management (*see chapter 32*).

Citizens' right to good administration is limited in practice because oversight institutions' recommendations have not been adequately implemented. Fewer than 30 % of the Ombudsperson's recommendations were implemented in 2017. The **right to access public information** is regulated by the Law on the Right to Information, but its implementation has revealed shortcomings in the legal framework. Increasingly, more public authorities have adopted transparency programmes, but more efforts are needed to promote proactive disclosure of information by public institutions. The capacity of the Commissioner for the Right to Information and Protection of Personal Data to oversee the process needs to be increased.

The legislative framework for the **right to administrative justice** is in place. The capacity of the administrative court system to deal with the backlog of cases has improved at the first-instance level, but there is a backlog of cases at the appeal court level due to the country having only a single administrative court of appeal. The legislation for protecting the **right of citizens to seek compensation** is in place but court cases remain rare due to limited public awareness of this right. Due to the lack of data collection, it is not possible to assess the effectiveness of the liability regime.

Service delivery to citizens and businesses

The institutional set-up and the strategic and legal framework for coordinating the delivery of public sector services are in place to promote **user-oriented administration**. The Law on Delivery of Front Office Services is in place. It foresees the reduction of administrative barriers and promotes transparent services to citizens to reduce the risk of corruption. The Agency for the Delivery of Integrated Services has introduced standards to improve service delivery. It has also started measuring user satisfaction and set up one-stop-shops across the country. E-services need to be further developed and easily accessible information about public services needs to be provided to all citizens.

The legislative framework for **simplifying administrative procedures** is in place, following the entry into force of the Code of Administrative Procedure in May 2016. However, progress in adopting the necessary implementing legislation, reviewing the special administrative procedures and adjusting the sector legislation has been limited. This is due to the lack of a lead coordinating institution.

Strategic framework for public administration reform

The public **administration reform strategy** for the period 2015-2020 is in place and the second annual implementation report was published in March 2017, accompanied by a mid-term review. A new action plan for 2018-2020 is still under preparation, as there have

been delays due to the ongoing restructuring process. The political responsibility for PAR has been assigned to the Deputy Prime Minister, ensuring continued administrative and **political support** for reform. The technical support on PAR has been assigned to the Department of Public Administration, which will have the role of the technical secretariat, in cooperation with the Department of Development and Good Governance. **Financial sustainability** has been improved by closing the financial gap from 29 % to 19 % from 2016 to 2017. The costing of the new action plan needs to be aligned with the medium-term budget programme and ensured in the annual budgets.

2.2. Rule of law and fundamental rights

2.2.1. Chapter 23: Judiciary and fundamental rights

The EU's founding values include the rule of law and respect for human rights. A properly functioning judicial system and an effective fight against corruption are of paramount importance, as is respect for fundamental rights in law and in practice.

Albania has **some level of preparation** to implement the *acquis* and European standards in this area. **Good progress** was made, in particular through the continuation of the justice reform and the adoption of the full legal package. The new legislation tackles many shortcomings related to the justice system's lack of independence, efficiency and professionalism. However, corruption is widespread and remains an issue of concern. The impact of various measures has yet to be seen. There has been further progress in enforcing human rights, especially at the local level, and on strengthening the institutional mechanisms to defend the rights of children, tackle gender-based and domestic violence and protect vulnerable groups. Albania should in particular:

- advance the implementation of justice reform. This should include completing the set-up of the new judicial structures (the High Council of Justice, the High Prosecutorial Council, the High Justice Inspector and the Justice Appointment Council) and achieving first results in the process of re-evaluating judges and prosecutors;
- progress further in establishing a solid track record of investigations, prosecutions and convictions in combating corruption at all levels, including asset recovery;
- make significant progress towards the protection of property rights (including compensation and registration).

Functioning of the judiciary

Albania has **some level of preparation**. **Good progress** was made through continued implementation of the justice reform. The process of re-evaluating all judges and prosecutors has started and is delivering the first tangible results. Following the establishment of the vetting institutions, the first set of priority cases is being reviewed. The auxiliary institutions supporting the process have completed their first reports on the proficiency assessments, background checks and asset declarations. Appeals against the vetting law and the related underlying legislation of the judicial reform have been adjudicated by the Constitutional Court. The latter confirmed the Vetting Law's constitutionality. A number of provisions in the laws on the governance of the judiciary and on the status of judges and prosecutors have been declared unconstitutional and were annulled, thus requiring legislative follow up. There has been no progress in carrying out the recommendations on making more effective use of the case management system, on issuing reasoned adjudications in due time and on allocating cases randomly to judges and prosecutors.

In the coming year, Albania should in particular:

- achieve further results in the process of re-evaluating judges and prosecutors;
- finalise the creation of the new independent judicial institutions, namely the High Council of Justice, the High Prosecutorial Council, the High Justice Inspector and the Justice Appointment Council;
- continue to pursue a sector approach to the justice reform under the cross-cutting strategy for 2017-2020 and ensure adequate governance, monitoring and reporting mechanisms through well-developed indicators coupled with adequate financial support for its implementation.

The judiciary of Albania is currently undergoing a comprehensive and thorough transitional re-evaluation process (vetting). The vetting was launched with the overall objectives of strengthening professionalism across the sector, eradicating corruption, consolidating independence and impartiality and, ultimately, rebuilding public confidence in the judiciary. The process rests on three pillars: proficiency assessment; asset verification, which is performed on all assessees, as well as on all their close relatives for wealth accumulated in Albania and abroad; and links to organised criminal networks. Following a request from the Albanian authorities, the European Commission has deployed under its aegis the International Monitoring Operation (IMO), which has the mandate to oversee the process throughout, while decision making remains within the remits of the vetting authorities of Albania. These include an Independent Qualification Commission (IQC), two Public Commissioners, and an Appeal Chamber.

From October 2017 onwards, the IQC started the analysis of the first priority dossiers. A batch of nine "top priority" dossiers included the members of the Constitutional Court, the President of the High Court and the General Prosecutor. The remaining cases to be treated with priority (47 amongst the highest ranking members of the judiciary) were also already allocated to IQC panels and the respective rapporteurs were identified. Their assessment is ongoing, in parallel with the review conducted by the IMO International Observers. The auxiliary bodies (HIDAACI, in charge of assets verification, and the working group chaired by the National Security Agency, in charge of background checks) have already delivered to the IQC and the IMO a significant number of dossiers, including all those related to all priority cases. The High Inspectorate at the High Council of Justice and the Ad Hoc Commission within the General Prosecutor's Office delivered the proficiency assessment for the top priority cases and they are advancing on delivering the reports on all remaining priority assessees. As from January 2018, based on the progress achieved in the revision of dossiers and on the operating procedures, the IQC allocates to their respective rapporteurs a batch of 36 new cases every two months.

First tangible results have been noted since the vetting law started to be implemented. When the process was initially launched, seven members of the judiciary (one High Court judge, two judges, one prosecutor and three senior legal assistants) resigned, refusing to submit their assets and patrimonies for verification. Later in 2017, when the vetting institutions started to operate, one judge from the constitutional court and five judges from the High Court opted to leave duty respectively at the retirement time and at the end of their legal mandate. According to the legal provisions they were obliged to stay in office until the appointment of the successors and thus undergo the vetting and be placed amongst the priority dossiers, based on their role and functions. In addition to these, a senior legal assistant and a prosecutor also

resigned. Once the Independent Qualification Commission started to complete the first sets of investigations, two top ranking members of the judiciary resigned from service and requested their vetting to be terminated, these were a Constitutional Court judge and the former General Prosecutor. The first hearing in March 2018 resulted in the dismissal of a Constitutional Court judge. A second hearing in early April resulted in the confirmation in duty of a Constitutional Court judge. A third hearing in April resulted in the dismissal of a judge at a Court of Appeal, who was also a candidate to the High Judicial Council.

In addition to the activities of the vetting bodies, some members of the judiciary were dismissed from service or suspended during the reporting period, in connection with court decisions or investigations against them. Specifically, three judges have been dismissed (Berat, Tirana, Elbasan District) following a final court decision convicting them. Based on criminal investigations, five judges have been suspended from duty, pending a final court decision; out of these, the High Council of Justice decided also to suspend three judges of the Appeal Court of Durrës (one being also the Chair of the Court) based on a request from the Serious Crimes Prosecution Office, where they are under criminal investigation for abuse of power.

Strategic documents

The cross-sectoral **justice strategy for 2017-2020** and its action plan were adopted in November 2016. The estimated budget for its implementation is EUR 98 million, of which 35 % is provided by international donors. The establishment of appropriate monitoring, evaluation and reporting mechanisms remains outstanding. A monitoring body has been appointed within the Ministry of Justice.

Management bodies

The justice reform package envisages setting up a High Judicial Council and High Prosecutorial Council as the two main self-governing bodies of the judiciary that are independent from the government. The councils will gather the majority of members from within the judiciary but five members will be selected from advocacy, academia and civil society. The councils are empowered to appoint, promote and evaluate judges and prosecutors. In contrast to previous structures, the members of the councils will serve full time for a five-year term without possibility of re-election. Annual reports produced by the councils and all relevant findings and recommendations should be made public. The councils should report annually to Parliament. The Minister of Justice may participate in the meetings of the High Judicial Council when issues of strategic planning and budget are discussed, but does not have voting rights or any responsibility for the inspection and evaluation of judges.

The selection process is based on objective criteria. The list of the lay member candidates has been approved, following a lottery at the Parliament, as per the unblocking mechanism provided for in the relevant law. Candidates coming from the ranks of the judges and prosecutors are elected to the two new separate councils by the General Assembly of Judges and the General Assembly of Prosecutors respectively. The application process is run respectively by the High Court and the General Prosecution Office. Candidates to both Councils have already been shortlisted, but they can be voted by their peers only once their vetting is carried out. The creation of the new councils is pending. Until they are established, the existing High Council of Justice acts with limited competences.

Independence and impartiality

The principles of impartiality and judicial independence are set out in the Constitution and reflected in the laws on the governance of the judiciary and on the status of judges and prosecutors. The reform has given prosecutors greater autonomy and reduced the centralisation of the system around the General Prosecutor. Judges and prosecutors cannot be transferred without their consent. Exceptions concern disciplinary measures, structurally justified changes or temporary needs. Judges can be dismissed only for serious misconduct or if sentenced for a criminal offence. The dismissal decision may be appealed at the Constitutional Court.

However, attempts at interference, including by authorities internal to the judiciary, have been an issue of concern and need to be addressed beyond the vetting process. The allocation of cases should be conducted randomly by lot and through electronic means. However, the electronic case management system has shown many shortcomings. Random allocation of cases to prosecutors is partially used, but prosecution offices often fail to make full use of the system and to produce reliable data. The laws provide for strict procedures in case of undue influence over a court case or when judges consider their independence to be jeopardised.

Accountability

The **Code of Ethics** for judges and prosecutors is now regulated by law and is no longer a non-compulsory document produced by the National Conference of Judges. Once established, the new High Judicial Council and the High Prosecutorial Council should be responsible for approving the ethics rules and code of conduct and ensuring their monitoring. While the High Council of Justice has improved evaluation forms and adapted these to the new legal standards, the performance of judges continues for the most to be measured on the basis of numbers of complaints and final court convictions. Until the establishment of the **High Justice Inspector**, the High Council of Justice and the General Prosecutor should continue to investigate disciplinary misconduct. Based on the latest reform, disciplinary proceedings have to be initiated by the High Justice Inspector and no longer by the Minister of Justice. However, the latter retains the right to submit a complaint and to request the High Justice Inspector HJI to carry out an examination of prosecutors.

Improvements in the recruitment process for the School of Magistrates have included an integrity test and a psychological assessment related to the integrity and moral standards of candidates.

Judges and prosecutors are obliged to declare their assets on an annual basis. Under the vetting law, the High Inspectorate for the Declaration and Control of Assets and Conflict of Interest administers and verifies all data obtained through the declarations of assets and private interests of all those vetted. Lack of compliance with this obligation is to be followed by automatic dismissal.

Professionalism and competence

The system for recruiting, selecting, appointing, transferring and dismissing judges and prosecutors has been improved. Constitutional and legal changes have reduced political influence during the appointment process, ensuring a merit-based career system.

The High Court is currently composed of 19 members, with only eight members exercising their functions. Former members have mostly resigned after the termination of their mandate and one judge has been suspended after being found guilty of corruption, with her dismissal

pending a final court decision. Vacancies in the High Court will be filled once the High Judicial Council is established.

Appointments to the Constitutional Court are awaiting the formation of the members of the Justice Appointment Council (JAC), who are undergoing vetting. The JAC is the independent institution responsible for verifying and ranking the legal, professional and moral criteria for the appointment of judges in the Constitutional Court and for the candidates of the High Justice Inspector. The procedures to form the JAC have been initiated.

The General Prosecutor (GP) should be elected following a proposal by the High Prosecutorial Council and approval by a qualified majority in Parliament. The mandate of the current GP ended in December 2017. Since the new GP cannot be elected until the High Prosecutorial Council is formed, the transitional provisions provided for the possibility of a temporary GP elected by a simple majority in Parliament. The responsibilities of the temporary GP are also limited under the law.

The vetting process for all judges and prosecutors also provides for the professional abilities of all those vetted to be re-evaluated. The School of Magistrates is preparing the proficiency testing for non-magistrates assesses.

Quality of justice

Albania has 408 full-time judges (13 per 100 000 inhabitants) and 336 full-time prosecutors (11 per 100 000 inhabitants). There are 44 lawyers per 100 000 inhabitants. According to the European Commission for the Efficiency of Justice (CEPEJ), the European average is 21 judges/11 prosecutors per 100 000 inhabitants. The 2017 budget for courts was EUR 98 million (compared to EUR 91.7 million in 2016). This amounts to EUR 5.41 per inhabitant, with EUR 4.3 per inhabitant for the prosecution offices. General government expenditure on courts represents 0.13 % of GDP, a 0.1 % reduction from 2016.

Total expenditure provided in the 2017 budgetary plan for the justice sector was EUR 12.15 million, 2.5 % less than the 2016 budget. The creation of the new judicial institutions will be supported by a multiannual action plan of EUR 3.7 million allocated from the reserve fund of the Treasury. Judicial infrastructure remains poor overall and future budget allocations shall take this aspect in due account.

Some hearings continue to be held in judges' offices as spending on court premises has not been prioritised due to the establishment of the new judicial institutions. The realisation of a new court mapping is being planned by the Ministry of Justice in cooperation with the High Council of Justice. This new structure should ensure a more efficient use of court resources.

The School of Magistrates is responsible for initial and continuous in-service training of judges and prosecutors. The training needs are identified by the School in cooperation with stakeholders within the judiciary. The new legislation provides for extending the School's responsibilities, which should include training for legal advisers at all court levels, court chancellors, court administrators and the state advocates. However, the 2017 budget envisaged an 8.6 % cut for the School. The institution therefore continues to rely on donor support instead of enjoying a solution that provides sustainability in the long term. Most of the training related to the new legislation has been conducted with donor support. The School has limited capacity in terms of academic staff, qualified specialised trainers and premises. Its overall capacity needs to be improved as a matter of priority in order to progress with recruiting new members of the judiciary while the transitional re-evaluation of judges and

prosecutors advances. A structured needs assessment and proper evaluation mechanism shall also be developed in order to strengthen the overall effectiveness of the school.

The High Council of Justice monitors and evaluates court activities on a monthly basis. All courts are required to send a monthly report to the High Council of Justice and they also produce annual activity reports. However, the High Council of Justice's annual report for 2016 is still under preparation and institutions often lack the capacity to produce reports. All courts have websites which are publicly accessible, although the data is not always fully updated due to lack of capacity, including full functionality of the electronic management system.

The High Court issued two rulings unifying case-law in 2016, both related to administrative case-law.

The impact of alternative dispute resolution continues to be low. The total number of cases referred to and solved through mediation was 2 077 compared to 1 260 in 2016.

Efficiency

Consolidated reports are still lacking on the efficiency of the justice system, which includes the length of proceedings, clearance rate and pending cases at all court levels including the Constitutional Court. The clearance rate is lowest for the appeal courts, particularly for the Appeal Administrative Court (37 %), due to a high number of appeals and the low number of judges allocated to the Court. The highest clearance rate (100 %) is in the first-instance court of serious crimes. The highest number of pending cases is in the High Court, where the backlog is currently estimated at approximately 22 500 cases. There are 224 pending applications at the European Court of Human Rights; in 2016-2017 the court issued 131 judgments, of which 117 have been executed.

Changes in the procedural codes under the reform have provided for improved legal provisions on the length of proceedings, and a human resource strategy should be developed by the High Judicial Council.

In addition to the overall length of court proceedings, the execution of court decisions remains a cause of concern. Furthermore, shortcomings persist in the case management system, affecting its proper functioning. The system also requires proper maintenance and standardised procedures since it is still not producing reliable statistical data. The system should also be integrated with other relevant databases.

Fight against corruption

Albania has **some level of preparation** in the fight against corruption. **Good progress** was made, notably with the adoption of amendments to the Criminal Procedure Code, the Law on the Declaration and Audit of Assets, Financial Obligations of Elected Persons and Certain Public Officials, the Anti-Mafia Law and the Law on Political Party Financing. The recommendations of the last Albania report were either fully or partially fulfilled. The number of final convictions involving junior or middle-ranking officials has further increased. Convictions of high-level officials occurred mostly in the judiciary; however, final convictions for high-ranking officials remain very low overall. Substantial work was done to improve the legal framework on interceptions and surveillance, time limits for investigation, admissibility of evidence before courts and on political party financing. The specialised institutions to fight corruption have yet to be established. Direct access to databases for prosecutors and the police continued to improve.

In the coming year, Albania should in particular:

- step up efforts to increase the use of financial investigations in line with the standards of the Financial Action Task Force (FATF), and establish a track record of seizure and confiscation/recovery of criminal assets resulting from corruption-related offences;
- establish an effective chain of well-resourced and specialised anti-corruption bodies, composed of the Special Anti-Corruption and Organized Crime Structure (SPAK) and National Bureau of Investigation (NBI) and Court to address high-level corruption;
- continue to improve access to national electronic registries for prosecutors and police, notably by establishing an integrated case management system between police, prosecution and courts.

Track record

As regards the track record of **investigations, prosecutions and convictions** in the fight against corruption, the positive trend of recent years continued. The number of final convictions involving junior or middle-ranking officials increased compared to the previous reporting period (there were respectively 316 convictions in 2016 and 331 in 2017, compared to 286 in 2015). The overall number of referrals to the prosecution has also increased (1 977 in 2015, 1 910 in 2016 and 2 342 in 2017).

Regarding convictions of **high-level state officials**, the judiciary has achieved some initial good results. Convictions have been obtained against prosecutors and judges (6 first-instance and 2 second-instance convictions in 2016 for passive corruption, and 3 first-instance and 4 second-instance convictions in 2015). In 2017, one first-instance and 4 second-instance convictions were issued, including a conviction against a Supreme Court judge. The High Council of Justice suspended two judges, one of whom was arrested. There have been 72 new cases opened against high-level state officials in 2016, 61 in 2017, compared to 39 in 2015. However, the number of final convictions of high-ranking state officials remains very low.

As regards **asset declarations by high state officials**, the High Inspectorate of Declaration and Audit of Assets and Conflicts of Interest (HIDAACI) referred 22 cases to the prosecution in 2017 and 29 cases in 2016. Of the 2016 cases, 7 heads of commune were convicted for refusing to declare their assets. In total, HIDAACI submitted 72 criminal referrals of low- and mid-ranking officials to the prosecution services in 2016 (of which 20 resulted in final convictions). Seizure and confiscation of criminal assets should be systematically ordered to detect and cut the financial flows of criminal networks. An analysis to identify sectors at risk of corruption is not conducted systematically. The number of investigations started ex-officio needs to be increased, and a solid track record of investigations, prosecutions and final convictions in corruption cases needs to be established.

The rate of implementation of the State Audit Institution's general recommendations by public institutions remains low.

The National Coordinator against Corruption installed a corruption cases monitoring system. Little progress was made to set up an interface between the different electronic case management systems of the police, prosecution and courts. The budget for their implementation needs to be secured.

The use of audits and inspections on the basis of risk assessment in the tax and customs services increased, but needs to be further stepped up. Efforts are continuing to address

corruption in the tax and customs administration, notably with the restructuring of the General Directorate of Taxation and of the General Directorate of Customs.

Implementation of the Law on whistle-blowing and whistle-blower protection started in 2017. At both central and local institutions, 156 units responsible for protecting whistle-blowers and for reporting cases to HIDAACI have been established. During 2017, private entities with more than 100 employees were identified and 429 units responsible for the protection of whistle-blowers established.

On **internal control mechanisms**, the number of inspections carried out by the Transparency and Anti-Corruption Unit of the Ministry of Interior increased.

On **access to information**, the Commissioner for Information and Data Protection received 684 complaints and issued 36 decisions in 2016 while 560 complaints were received in 2017. A system was established to record the overall number of requests made to public institutions.

The impact of anti-corruption measures in **particularly vulnerable areas** (customs, tax administration, education, health, public procurement etc.) remains limited. There is still a strong and urgent need to improve and strengthen internal checks and inspection mechanisms within the public administration and to improve their cooperation with law enforcement authorities.

Institutional framework

Prevention of corruption

The capacity of the anti-corruption network in line ministries, at local level and in the Office of the National Coordinator against Corruption (NCAC) needs to be strengthened. Since September 2017, the Ministry of Justice serves as the new NCAC and structures are being put in place. Coordination between the latter and the Council of Ministers' Unit for Transparency and Anti-Corruption has to be ensured.

The role of HIDAACI in detecting **conflicts of interest and checking asset declarations** was strengthened with the adoption of the Law on whistle-blowing and whistle-blower protection and with the implementation of the Law on the transitional re-evaluation process. The latter provides for judges, prosecutors and legal advisers to undergo vetting. The number of inspectors at HIDAACI was increased from 20 to 28. Its administrative, technical and financial capacity needs to be further strengthened to cope with asset declaration checks. An online asset declaration system has yet to be established.

The role of the High State Audit (HSA) in the overall anti-corruption framework has to be strengthened, in order to identify systematic weaknesses. The inspection capacity in public procurement needs to be further improved. E-procurement is expected to achieve more transparency and reduce opportunities for abuse.

The Central Electoral Commission monitored the 2017 parliamentary elections and sanctions were issued for nearly all violations.

New training curricula for public officials on good governance and combating corruption were introduced at the School of Public Administration. Integrity-related secondary legislation is in place but an overall integrity risk management system has yet to be established. No integrity plans have been developed for ministries.

An online portal allows members of the public to submit complaints about corruption. Twenty-one cases were referred to the Prosecutor's Office in 2016, and six in the first half of

2017. Complementarity with the newly created government platform on ‘co-governance with the public’ needs to be clarified.

Law enforcement

Specialised anti-corruption bodies in charge of investigating, prosecuting and sanctioning corruption are in the process of being established. These include the SPAK, NBI and a Court to address high level corruption cases. The police and prosecution have been granted access to additional private and public national registries. However, an obstacle hampering the law enforcement authorities’ capacity to operate as well as the efficiency of investigations remains their lack of direct access to 20 key national registries. Concerns remain over high staff turnover and insufficient interinstitutional cooperation. The financial, human and technical resources of enforcement authorities need to be strengthened. Cooperation between police, prosecutors and the HSA and procurement services in fighting corruption should be strengthened. The police remain vulnerable to corruption and to political interference in operational activities, despite an increase in internal investigations.

Legal framework

Albania has ratified all relevant international conventions, but implementation remains uneven. Laws on excluding criminal offenders from public posts and protecting whistle-blowers were adopted. Concealment of assets and falsification and non-declaration of assets by public officials have been made criminal offences. Only one recommendation made by the Council of Europe’s Group of States against Corruption in its latest evaluation report has been fully implemented. The nine others have been only partially implemented so far. Albania should prioritise their correct and swift implementation.

To increase the efficiency of investigations, the legislative framework was amended in 2017. The time limit for investigations of corruption was extended from 3 to 6 months. Furthermore, amendments to the Law on Electronic Interception extended the scope of application of interceptions to include corruption offences and allow for the decentralisation of interception. However, the amendments did not provide for the recording of interceptions to be decentralised, allowing only for listening in real time at district level. Amended in April 2017, the Anti-Mafia Law now includes all passive and active corruption offences and defines the role of the prosecutor more clearly. Amendments to the Criminal Procedure Code introducing a clear definition of ‘high state official’ have yet to be adopted.

The Law on the Declaration and Audit of Assets, Financial Obligations of Elected Persons and Certain Public Officials was amended in April 2017, increasing the independence of HIDAACI. The chair’s mandate was extended from 5 to 7 years and the requirement for the chair’s election in Parliament was increased to a three-fifths majority. The new law also prescribes that members of Parliament’s assets be audited every 2 years. However, according to the target dates set in the latest amendments to the law, the full operability of the online asset declaration system cannot not be ensured before 2022. This has to be addressed, in order to ensure that the system is up and running within a shorter timeframe.

The latest amendments to the Law on **Political Party Financing** envisage the publication of financial reports on the election campaign of political parties, election campaign monitoring reports and financial audit reports.

All the secondary legislation for the legal framework on integrity is in place but it remains highly complex and fragmented.

Strategic framework

Implementation of the inter-sectoral strategy against corruption and its 2015-2017 action plan has further advanced. Implemented by the Ministry of Justice, a broad majority (86 %) of the envisaged actions were either entirely or partially implemented in 2016. The monitoring mechanism and its accountability need to be strengthened. Furthermore, 23 % of the amount needed for implementing the action plan is still missing and remains problematic.

A comprehensive sound performance assessment framework is being finalised. The lack of staff and funding for implementing the measures and reporting on progress remains a concern.

Fundamental rights

Albania has ratified most international human rights conventions and developed its legal framework in line with European standards. New legislation has been adopted on children's rights and the protection of minorities. However, the institutional mechanisms remain weak and more efforts are needed to implement existing commitments. Social care services for vulnerable groups, employment and living conditions for Roma and Egyptians need further improvements. Despite the efforts made, protection and enforcement of property rights has yet to be ensured.

In the coming year, Albania should:

- improve institutional mechanisms for protecting children, protecting victims of domestic violence, and guarantee gender equality;
- step up efforts to establish solid anti-discrimination case-law; find a sustainable long-term housing and employment solution and tackle segregation in the education field for vulnerable groups, in particular for Roma and Egyptians;
- further consolidate the entrenchment of property rights, notably by advancing the revision of property deeds, implementation of the compensation scheme, and make the necessary progress on the digitalising and mapping of property.

Albania complies with international **human rights instruments** and has ratified most international conventions. It has yet to ratify the Optional Protocol to the Convention on the Rights of Persons with Disabilities and the Optional Protocol to the International Convention on Economic, Social and Cultural Rights. Overall, the implementation of such instruments should be improved.

Albania continued to ensure good cooperation with the **European Court of Human Rights (ECtHR)**. Since September 2016, **the European Court of Human Rights (ECtHR)** has found violations of the European Convention on Human Rights (ECHR) in 6 cases relating mainly to the right to a fair trial. During the reporting period, 133 new applications were registered by the Court. On 1 February 2018, the total number of applications pending before the Court was 532. There are currently 25 cases against Albania under the enhanced supervisory procedure.

On **the promotion and enforcement of human rights**, the Ombudsman has an A-status awarded by the Global Alliance of National Human Rights Institutions in 2014. During the reporting period, the Ombudsman continued to promote the rights of vulnerable groups as well as focusing on the implementation of the justice reform. In 2017, the Ombudsman submitted a total of 188 recommendations (out of which 123 were accepted, 29 rejected, 24 without response and 12 in process). In May 2017, a new Ombudsman was nominated by the

Parliament, based on a political agreement between the two main parties and without fully completing all the steps foreseen in the consultation process. Owing to the current legal framework, and despite several attempts by the Ombudsman to propose amendments to the legislation, all five Commissioner positions at the Ombudsman's Office remain vacant.

As regards the **right to life**, the Authority on Access to Information on the former State Security Service was established and a strategy was adopted in June 2017. However, the resolution and recommendations on blood feuds still require follow-up. Following a visit to the country in December 2016, the UN Working Group on Enforced or Voluntary Disappearances (WGEID) issued several recommendations to Albania to address the crimes committed during the communist dictatorship period. For instance, the WGEID recommended that Albania recognise the enforced disappearances of the past and guarantee non-repetition through an appropriate mechanism. It also called for the creation of a mechanism taking a global approach, instead of fragmented measures, to deal with prejudices resulting from the past political repression. The number of people who have been secretly abducted or imprisoned during the dictatorship remains unknown, but it is estimated that around 6 000 persons went missing.

On the **prevention of torture and ill-treatment**, the National Preventive Mechanism conducted 124 inspections in 2017, resulting in 95 recommendations. During this period, 29 complaints of violence in police facilities and penitentiary institutions were processed. In October 2017 the Ombudsman launched criminal proceedings against a State Police officer on grounds of torture. However, the prosecutor's office decided not to initiate criminal proceedings. This case is related to the use of handcuffs on an offender hospitalised at Tirana's prison hospital. The European Committee for the Prevention of Torture (CPT) visited the country in February 2017 and published a report. Particular attention was paid to the treatment and conditions of detention of persons in police custody and the situation of remand prisoners and forensic psychiatric patients. The recommendations issued by the CPT have not been implemented by the Albanian authorities.

As regards the **prison system**, a strategic action plan to improve detention conditions was prepared in 2014 but its implementation has not been monitored. The release of 750 prisoners following the amnesty of January 2017 was not implemented in line with risk evaluations. The laws on prisons and prison police have yet to be amended to ensure compliance with European standards. During the reporting period, 22 prison directors were dismissed and the Prison Directorate Director was replaced four times. Several former managers are being charged and investigated for abuse of office and corruption. Furthermore, the verification and revaluation process of prison personnel has already achieved some preliminary results: disciplinary measures have been taken against 49 prison police officers and 65 other officers have been criminally prosecuted.

The use of alternatives to custody increased compared to the previous reporting period (there were respectively 5 577 cases in 2016 and 6 046 in 2017, compared to 5 952 in 2015). The use electronic monitoring has also increased (39 cases in 2015, 187 in 2016 and 113 in 2017). The specialist monitoring of convicts by the Probation Service increased from 74 in 2016 to 84 in 2017.

On the **protection of personal data**, the country has ratified the Council of Europe Convention for the Protection of Individuals with regard to the Automatic Processing of Personal Data and its additional protocol. The office of the Commissioner for the Right to Information and Data Protection increased its staff and training programme. The

Commissioner received 120 complaints from data subjects, carried out 184 administrative inspections, issued 22 decisions and imposed 36 administrative sanctions in 2016. Further efforts should be made to align the personal data protection legislation with the General Data Protection Regulation and the Directive on the protection of natural persons.

Freedom of thought, conscience and religion was generally upheld. In October 2016, the Parliament passed a resolution condemning communist regime crimes against religious persons. A special unit to tackle religious estate was established and property certificates for hundreds of religious buildings were delivered. However, the restitution of properties belonging to religious groups remains an issue. The government allocated EUR 740 000 to the five official religious communities in April 2017. The electricity fee for religious buildings was lowered and the capacity of the State Committee on Cults was increased.

Freedom of expression

The country has **some level of preparation**/is **moderately prepared** in the area of freedom of expression. There has been **some progress** in strengthening the independence of the regulatory authority and the public broadcaster. The overall legislative environment is conducive to the exercise of freedom of expression, but implementation remains a challenge. Legislation on public advertising, intended to improve transparency in line with international best practices, needs to be introduced.

In the coming year, Albania should in particular:

- bring ownership limitations for national operators into line with international standards;
- introduce legislation in line with international best practice on public advertising to increase transparency;
- enforce implementation of the Labour Code and strengthen the protection of Albanian journalists' labour and social rights.

Intimidation of journalists

Physical assaults on journalists remain very rare. A case was reported in March 2017 and was swiftly condemned by the authorities. Investigations were launched and led to the perpetrator's arrest. The case reached appeal level and is still ongoing. A TV programme was closed down and two journalists were dismissed following an investigative story involving a local official in October 2016, no official complaints were submitted. Three defamation court cases against nine journalists were registered. Cases are still ongoing and no convictions have been issued so far.

The authorities are expected to pursue zero tolerance of threats or attacks against media, and refrain from making statements that may create an environment not conducive to freedom of expression.

Legislative environment

The Constitution and relevant laws are in line with international human rights law. They guarantee individual liberties including the right to privacy, freedom of expression and sanctions against incitement to hatred. **Defamation** remains a criminal offence, although prison sentences are not allowed. However, journalists are at risk of large fines and damages. The rules on **hate speech** are in line with international standards. Five cases of hate speech were registered and two complaints were submitted to the Commissioner for the Protection

against Discrimination on the grounds of gender identity and sexual orientation. Albania still needs to introduce legislation strengthening transparency in public advertising.

Access to information about procurement contracts, audits and salaries of officials should be strengthened. Decisions of the Commissioner for the Right to Information are non-binding on public administration officials.

Implementation of legislation/institutions

The Audiovisual Media Authority (AMA) approved its 2017-2019 strategic action plan in March 2017. AMA has doubled its revenue and changed its structure to focus more strongly on supervisory and inspection activities to identify illegal broadcasting. The digital switchover has entered the final stage of implementation.

Public service broadcaster

The public broadcaster RTSH has a new internal structure reflecting the digital switchover process. RTSH has developed and approved editorial principles to guard against political interference. The OSCE/ODIHR report on the June parliamentary elections stated that RTSH showed a balanced approach to campaign reporting. However, RTSH needs to ensure its financial sustainability.

Economic factors

Audiovisual media ownership and the transparency of media funding and public advertising remain key issues. The editorial direction of private media continues to be strongly influenced by political and business interests. Media funding remains key to improving media freedom, especially given new challenges such as ‘fake news’ and third-party influence. Among others, self-censorship and the precarious nature of employment for journalists remain issues of strong concern.

Internet

The government does not restrict internet access or censor online content. Self-regulation for the media sector has to be encouraged.

Social dialogue/social conditions

Job security for journalists needs to be strengthened. Media owners do not formalise work contracts and the Labour Code needs to be properly implemented for journalists.

Freedom of assembly and association was respected. Protests and political demonstrations were held without major incidents.

As regards property rights, progress has yet to be made towards improving the legal framework for registration, expropriation and compensation. The 2012-2020 strategy on property rights has yet to be updated and institutional coordination should be improved. In relation to the Manushaqe Puto case, reflecting the effectiveness of compensation schemes, there are 89 cases are pending before the ECtHR. The Integrated Land Management (ILMR) Secretariat was established. Further progress is dependent on the budget allocation for integrated land management and on follow-up legislation. The Agency for the Treatment of Property has received 887 applications so far where 183 decisions have been executed for evaluation of property.

The policy and legal framework on **non-discrimination** is broadly in line with EU standards. However, the Law on Protection against Discrimination does not address multiple

discriminations. Implementation of the legal framework needs to be strengthened through the specialised training of judges and prosecutors. In 2017, the Commissioner for Protection against Discrimination handled 203 cases of alleged discrimination (against 288 in 2015 and 239 in 2016). The Commissioner participated in 59 judicial proceedings (against 37 in 2015 and 45 in 2016) and imposed 13 penalties (against 14 in 2015 and 10 in 2016). Awareness campaigns were organised across the country, but homophobia and anti-gypsyism remain widespread. The number of reported hate-crime cases is very low and data collection on hate crimes is still lacking.

The national strategy and action plan (2016-2020) on **Gender Equality** was adopted in October 2016. However, a certain funding gap persists. At the central level, the Deputy Prime Minister is assigned as the National Coordinator for Gender Equality mechanism. Regarding the legislative framework, a number of laws still contain gender-discriminatory provisions. In 2017, efforts were made to make gender equality an integral part of planning and budgeting for national development and EU integration, but these still need to be reflected at the local level. With the new government, 11 gender-champions employees were appointed at the central level and 58 at local level. Women are equally represented in the new government. The percentage of women parliamentarians also increased from 16 % to 28.5 % in the new parliament. In December 2017, the Parliament adopted a resolution on the fight against gender-based violence and established a parliamentary sub-committee on gender equality. Further efforts are required to ensure that all strategies and policies and strategies are gender mainstreamed.

Domestic violence remains a serious concern. During 2017, 3 243 cases were reported (against 3 700 in 2016) and 2 593 protection orders were issued (against 2 207 in 2016). For 2017, 129 of these protection orders were not respected (against 119 in 2016). Furthermore, 1 950 cases of domestic violence against women and children were registered as criminal offences in 2016. While the number of local mechanisms for reporting gender-based violence has increased, efforts should be stepped up to establish them in all municipalities. The Ministry of Justice established a new office to coordinate efforts against domestic violence. There is also a need to ensure cross-sectoral coordination with child protection and anti-trafficking mechanisms at local and regional level. Since December 2016, a donor-funded national emergency number for victims of domestic violence has been operational. Overall, more work is needed to ensure that women have access to justice.

The legislative and policy framework on the **rights of the child** was reinforced in 2017 with the adoption of the Law for the Protection of Children's Rights, the Criminal Justice for Children Code and the 'Children's Agenda 2020'. The Law for the Protection of Children's Rights provides for a child protection system. However, related bylaws are needed to make it operational. Interinstitutional cooperation, data collection and reporting mechanisms on child protection should be improved. Further efforts are also needed to ensure the child protection system functions effectively. In 2016 and up to June 2017, 586 street children and their families were taken into protection. The Criminal Justice for Children Code in March 2017 ensured Albania's *de jure* compliance with international standards on juvenile justice. The code needs to be completed with secondary legislation. The adoption of the 'Justice for Children' strategy, encompassing both **juvenile justice** and equitable access to justice for children, is still pending. The Law on Legal Aid adopted in December 2017 aims to ensure children's access to legal aid. The Ministry of Justice has established a section on criminal justice for children and developed an online system for tracking cases of children that committed offences.

Albania's framework legislation on the **rights of persons with disabilities** is partially compliant with the UN Convention on the Rights of Persons with Disabilities. During the 2017 elections, more than half of the polling stations were not accessible to disabled people. People with disabilities continued to face difficulties in accessing education, employment, healthcare and social services and in participating in decision-making and there are still difficulties in removing environmental and infrastructural barriers. Most of the secondary legislation related to the law on inclusion and accessibility from 2014 needs to be adopted. Despite efforts to ensure inclusive education, the quality of education for disabled children, especially deaf children, is a cause for concern and children are still placed in institutions. Monitoring of how disability-related measures are being implemented is hampered by a lack of data.

Despite the fact that the Constitution does not include references to sexual orientation and gender identity, Albania's anti-discrimination legislation prohibits discrimination against **lesbian, gay, bisexual, transgender and intersex (LGBTI) persons**. However, more efforts are needed to protect LGBTI persons from discrimination. An inter-ministerial team responsible for the monitoring of the 2016-2020 National Action Plan for LGBTI Persons in Albania is functional. Police officers, prosecutors and gender focal points of line ministries have been given training on preventing discrimination on the basis of sexual orientation and gender identity. According to LGBTI organisations, the attitude and awareness of the police has improved significantly in recent years. The donor-funded shelter for LGBTI persons has continued to provide care, support and advocacy to homeless LGBTI individuals. During the reporting period, no court rulings in cases related to sexual orientation and gender identity have been made. In addition, public awareness and acceptance of LGBTI persons remain low, particularly in rural areas. Hate speech and discriminatory language continue to be a problem in the media, especially online media. On a positive note, the sixth edition of Tirana Gay Pride took place without any incident.

Issues of **labour and trade union rights** are covered in Chapter 19: Social policy and employment.

On **procedural rights**, the new Law on Legal Aid broadens the category of people that benefit from legal aid and introduces primary and secondary legal aid concepts. The rights of victims were strengthened through amendments to the Criminal Procedure Code in May 2017. Victims can now have full access to information on the investigation file, be given medical and psychological assistance and have an interpreter to communicate in their own language. Furthermore, specific categories of victims are recognised by the code, including those that have been sexually abused or victims of trafficking in human beings. Nevertheless, the legal aid scheme still needs to develop an outreach mechanism and access to services. The vast majority of cases involving vulnerable groups are still handled by civil society with donor support.

Important steps were taken to improve the legal framework on respect for and protection of **minorities**. In October 2017, a framework Law on the Protection of National Minorities was adopted, which abolished the differentiation between national minorities and ethno-linguistic communities and introduced the principle of self-identification. Secondary legislation needs to be developed swiftly, with the involvement of all relevant stakeholders, in line with European standards, along with a revision of existing relevant legislation. These steps are necessary to ensure implementation in practice of all the principles and rights enshrined in the framework law, including the right to free self-identification.

The revised State Committee on National Minorities needs to be made functional and its financial viability ensured. The OSCE/ODIHR report on the June parliamentary elections noted that national minorities were given a fair opportunity to participate, both as candidates and voters. In September 2017, the public broadcaster started to offer programmes in five minority languages on a channel dedicated to national minorities.

The implementation of the 2016-2020 national action plan for the integration of **Roma and Egyptians** is ongoing. The 2017 report on its implementation noted progress in early childhood and primary education and in access to healthcare and labour market. Albania does not have a central interdisciplinary body coordinating the Roma integration policy. However, informal employment continues to be very high in the Roma community and unemployment rates have continued rising in recent years, reaching 55 % (the second highest rate in the Western Balkans). The enrolment of Roma and Egyptian boys and girls in pre-school and basic education has increased considerably (from 4 996 in 2015 to 12 801 in 2016) but the gap between Roma and not Roma enrolment increased. Despite this progress, Albania has one of the lowest completion rates of compulsory education in the region (44 %). The limited number of enrolments in secondary education among Roma children also remains a challenge. Roma children benefit from free textbooks and transportation to remote schools. However, segregation in schools remains widespread.

The housing budget has increased but remains insufficient to meet the needs for housing and infrastructure, with residential segregation rising in Roma settlements. In 2017, 255 Roma families benefited from projects to improve housing conditions, a considerable increase from previous years (187 in 2016). Albania has the region's lowest rate of access by the Roma population to piped water (48 %) and electricity (84 %). Civil registration for Roma has improved but further efforts are needed, particularly to ease the transfer of registration between municipalities and ensure registration of children born abroad who are at risk of statelessness. Most unemployed Roma and Egyptians have difficulties accessing healthcare due to complicated procedures for obtaining health cards. In fact, overall access to public services for Roma remains difficult, particularly in rural areas.

2.2.2. Chapter 24: Justice, freedom and security

Albania has **some level of preparation** to implement the *acquis* and European standards in this area. **Some progress** was achieved in improving the institutional capacity on border management, asylum and countering terrorism and violent extremism. Reception capacity to deal with mixed migration flows increased. Organisational changes in law enforcement agencies were introduced and key legislation adopted, especially on reorganising the police. The number of unfounded asylum applications lodged by Albanian nationals in the EU has decreased but requires continuous and sustained efforts, including addressing the phenomenon of unaccompanied minors. There was **some progress** in combatting organised crime but sustained efforts are needed to target organised crime networks and their leaders.

In the coming year, Albania should in particular:

→ develop a strategic approach towards financial investigations, including by (i) adopting the FATF concept on financial investigations; (ii) automatically implement financial investigations when dealing with organised crime, terrorism, money laundering and serious corruption cases; (iii) start financial investigations from the very start of the criminal investigation; and (iv) apply a multidisciplinary and proactive approach to financial investigations;

- make the National Centre for Countering Violent Extremism fully operational with adequate funding and staff;
- further increase the measures taken in recent months to address effectively the phenomenon of unfounded asylum applications in the EU as well as unaccompanied minors.

Fight against organised crime

The country has **some level of preparation** in the fight against organised crime. Overall there was **some progress** in the reporting period, notably in terms of increased police operations and in combating cannabis cultivation. Albania should ensure that these initial results are sustained and therefore should intensify the search for, confiscation and destruction of cannabis stockpiles. In view of previous recommendations, some progress was made on aligning relevant legislation with European standards and best practices. Albania adopted amendments to the Anti-Mafia Law and the Criminal Procedure Code to make criminal investigations more effective. Some progress was also made on confiscating criminal assets, relating mostly to preventive seizures. International police cooperation, especially with EU Member States, has intensified. Cooperation between the police, prosecution and other relevant agencies and bodies needs to be improved. More efforts are needed to tackle money laundering, criminal assets and unjustified wealth. In the coming year, Albania should in particular:

- progress further towards establishing a solid track record of proactive investigations, prosecutions and final convictions against organised crime groups; this should include intensifying investigations and prosecuting high-level members of organised crime groups;
- set up, equip and build up the capacity of the Special Anti-Corruption and Organised Crime Structure and National Bureau of Investigation to fight organised crime, and ensure coordination between relevant existing structures;
- intensify the fight against money laundering through the more effective use of criminal intelligence, identification, tracing, freezing and confiscation of crime proceeds; make reports of suspicious transactions admissible as evidence in court; introduce the concepts of extended confiscation and financial ceiling in cash transactions; and strengthen the capacity of law enforcement authorities to deal with tax fraud and tax evasion.
- establish or designate a centralised agency in charge of the identification and tracking of criminal assets (asset recovery agency) in order to further enhance the effectiveness of the national asset recovery system and facilitate operational cooperation with asset recovery offices in the EU Member States.

Institutional set-up and legal alignment

There are 9 867 officers in the Albanian State Police (ASP), equivalent to 257 per 100 000 inhabitants, compared to the EU average of 211 in 2015. Albania reorganised the police structures in December 2015 and is currently working on a new restructuring of the police, which should make it more efficient through department mergers and new accountability lines.

The **legal framework** has been further aligned with the *acquis*. In March and April 2017 Albania adopted amendments to the Anti-Mafia Law and the Criminal Procedure Code to ensure effectiveness in criminal investigations. The amendments relate to the extension of criminal investigations from three to six months, admissibility of evidence, the introduction of

the principle of free evidence and the concept of preliminary investigation judge, witness protection and controlled deliveries, where police secretly monitor deliveries of illegal goods.

Some legal amendments concerning unjustified wealth are outstanding. These include the introduction of the concept of extended confiscation and of legal financial ceilings in cash transactions; the admissibility of suspicious transactions reports as evidence in court; and the establishment of a central registry of bank accounts. The Law on the Organisation and Functioning of the Institutions for Combating Corruption and Organised Crime entered into force in November 2016.

In September 2017 the Ministry of Interior issued a policy document on the 10 top public order and security priorities for the next 4 years including objectives and key measures. Re-evaluating (vetting) officers of the ASP, Republican Guard and Internal Affairs and Complaints Service is one of the priorities. This will be based on personal integrity, professional capacity and verification of their assets. The re-evaluation is expected to affect about 13 000 individuals. On 6 March 2018 the law on the vetting of police ranks, setting the principle, criteria and procedures of the re-evaluation process was approved by the Parliament. In November 2017 the Ministry of Interior adopted the action plan on the fight against organised crime (operation 'Power of law'), which provides for setting up multi-disciplinary task forces to monitor and implement it, with a special focus on recovery of proceeds of crime. In this framework, the Ministry of Interior and the General Prosecutor Office signed in February 2018 a cooperation agreement on jointly tackling serious crimes and corruption. The agreement will be in force and applicable until the establishment of the special prosecutor's office (SPAK). Following investigations on criminal groups, Albania has identified 40 groups and their assets. Most of them are operating in the country mainly in cannabis cultivation and trade.

Albania updated and continued to implement the strategy on the fight against **trafficking in human beings** and its action plan for 2014-2017, which came to an end in December 2017. The new strategy and action plan for 2018-2020 have been finalised and their adoption is pending. The legislative framework for victims to obtain access to justice was improved through amendments to the Criminal Procedural Code, with the inclusion of additional rights for sexually abused victims and victims of trafficking in human beings. On money laundering, the police approved a new action plan to tackle criminal assets and unjustified wealth.

On **trafficking in weapons**, Albania adopted a law on weapons in 2014, which is partially aligned with the provisions of the Directive (EU) 2017/853. Albania has yet to introduce sub-categorisation of weapons, and to harmonise its legislation with the latest EU amendments on weapons.

Implementation and enforcement capacity

As regards Albania's **track record**, the number of operations carried out by the police is high and has particularly increased in the past months, leading to more offenders being arrested (including 39 individuals arrested for suspected illegal trafficking of Albanian citizens and public officials of a municipality arrested for abuse of office, and misappropriation of land property). While some criminal groups have been dismantled, investigations and prosecutions do not cover yet the upper echelons of the criminal organisation and the number of final convictions remains limited. New investigations of criminal organisations and structured criminal groups have also increased (from 23 in 2015, to 46 in 2016, and 31 in 2017). However, final convictions in **organised crime cases** remained very low and have only

marginally increased. In February 2018 four people have been convicted in final instance for membership of a structured criminal group involved in drug cultivation and trafficking (Lazarat case). Overall, there is still a relatively high percentage of cases that are initially reported as organised crime cases but subsequently transferred to local prosecutors' offices (therefore not considered organised crime cases anymore) or dismissed for lack of evidence and/or due to the poor quality of referrals.

Statistics on serious crimes that are not linked to criminal organisations and structured criminal groups indicate an increasing trend of crimes related to the production and cultivation of narcotics: almost 54 % in 2015, 66.5 % in 2016 and 72.3 % in 2017. They are followed by money laundering, trafficking in vehicles, money counterfeiting and forgery, and trafficking in human beings. In these cases, too, there remains a serious gap between the numbers of final convictions and of finalised investigations.

The government is making a concerted effort to improve the law enforcement capacity to tackle organised crime and has improved the law enforcement and security institutions through legal and institutional reforms. The quality of investigations in criminal proceedings has been improved through the use of special investigation techniques. However, the law enforcement authorities' response to organised crime is often delayed and limited. This is due to a combination of factors: inadequate resources; undue influence and pressure on police and prosecution services; frequent and unjustified turnover of State Police personnel; low salaries; and the limited equipment made available to the judicial police.

The police and prosecution have been granted access to additional private and public national registries but still lack direct access to 20 key national registries. This includes the electronic register of mobile phone subscribers. Steps have been taken to improve cooperation and mutual trust between police, prosecution and other relevant agencies and bodies in detecting and investigating complex criminal cases. This should now lead to operational results. Law enforcement structures should be given specific training in financial investigation techniques to improve their capacity to tackle unjustified wealth. Investigations of large criminal networks should be started proactively and in a more systematic way. Albania is encouraged to establish Joint Investigation Teams. Fighting organised crime remains fundamental to countering criminal infiltration of the political, legal and economic systems.

The Prosecutor's Office registered 220 investigations into **money laundering** in 2015, 227 in 2016, and 309 in 2017. Despite the increasing trend, the number of convictions for money laundering at first instance level remains low (three in 2015, eight in 2016 and only two in 2017). Only 15 people have been finally convicted for money laundering in the past four years. Limited law enforcement resources, weak legal institutions, corruption and a largely cash-based economy with substantial informal sectors make Albania vulnerable to money laundering.

Confiscation of criminal assets should become a strategic priority in Albania's fight against organised crime and terrorism. Criminal groups engage in an increasingly wide range of profitable illegal activities. Albania has developed tools for freezing, managing and confiscating criminal assets through amendments to the Anti-Mafia Law. These include the possibility for non-conviction based confiscation (allowing confiscation of criminal assets where a criminal conviction is not possible, in particular because the suspect is deceased, permanently ill or has fled), and third-party confiscation (confiscating criminal assets that were purposely transferred from the suspect to a third party). Albania should however focus on adopting and implementing rules on confiscating assets which are not directly linked to a

specific crime but which clearly result from similar criminal activities committed by the convicted person (extended confiscation); and ensure that the relevant authorities are more systematic in temporarily freezing assets that risk disappearing if no action is taken, subject to confirmation by a court as soon as possible (precautionary freezing). Albania should urgently step up its capacity to manage frozen or confiscated assets so that they do not lose economic value (asset management). Albania has not yet established an assets recovery office. A national asset recovery strategy is currently being drafted. Albanian should establish or designate an Asset Recovery Office in charge of the identification and tracking of criminal assets in order to further enhance the effectiveness of the national asset recovery system and facilitate operational cooperation with asset recovery offices in the EU Member States.

Cybercrime is a growing concern. The number of registered criminal proceedings related to computer fraud increased. However, final convictions (at Appeal Court level) remained low: five in 2017, against one in 2016 and four in 2015.

On **trafficking in human beings**, the Prosecutor's Office registered 52 new criminal proceedings in 2015, 24 in 2016 and 19 in 2017. Most of the referrals involved adults. The number of related convictions remains low. Albania remains a source country for trafficking in human beings. Vulnerable Albanian minors are victims of sexual exploitation both in Albania and in some EU Member States. The National Referral Mechanism for Victims / Potential Victims of Trafficking was fully functional during the reporting period. In 2017 no victim benefited from the right to financial compensation. The task force in charge of reviewing dismissed and not initiated cases of trafficking in human beings achieved limited results. Cooperation between the police and the prosecution in sharing investigation acts improved, and administrative procedures were simplified. However, Albania should strengthen its criminal justice system and step up efforts to prevent trafficking in human beings. It should pay particular attention to unaccompanied children and child victims of trafficking, especially among children begging in the streets. Moreover, Albania is encouraged to implement the principle of non-punishment for child victims of trafficking and provide them with adequate protection, such as witness protection programmes and temporary residence permits. Adequate protection should be granted irrespective of their ability or willingness to cooperate with the prosecutorial authorities.

On **trafficking in weapons**, the security upgrade of the Albanian State Police central armament storage and two evidence rooms in main police stations is expected to be completed in 2018. Albania is encouraged to establish a Firearms Focal Point in the Albanian State Police. Albania contributed and participated in the planning and implementation of the Joint Action Days coordinated by Europol in 2016 and 2017, between the EU and Western Balkans law enforcement agencies, planned under the European Multi-Disciplinary Platform Against Criminal Threats (EMPACT) for firearms.

On 9 December 2013 Albania and Europol signed an agreement on operational and strategic cooperation. Following the signature of the operational agreement with Europol, Albania has taken further steps to strengthen **operational police cooperation** with EU agencies and Member States. The ASP continued to assess the main organised crime threats in line with Europol methodology by preparing annual national serious and organised crime threat assessments. A growing number of messages are exchanged through the Europol Secure Information Exchange Network Application: in 2017 there were 6 457 exchanges of messages with Europol (4 771 sent by Europol and 1 686 sent by Albania to Europol), compared to 4 587 in 2016 (3 415 sent by Europol and 1 172 by Albania). However, Albania remains a

reactive rather than a proactive partner in international police cooperation. Its use of Europol's strategic intelligence products remained limited. It is planned to deploy a Europol liaison officer in Albania in summer 2018. Albania's law enforcement should make use of regional initiatives, such as the Joint Operational Office in Vienna, serving as a regional operational platform for international investigations into migrant smuggling organised crime groups. The office has the benefit of having a direct secure connection to the European Migrant Smuggling Centre in Europol.

There have been positive developments in the cooperation with Interpol. In May 2017, a joint police cooperation centre between Montenegro, Albania and Kosovo* was set up in Plav. It aims to improve cross-border cooperation in fighting crime.

Fight against terrorism

Institutional set-up and legal alignment

Albania has a comprehensive **legal framework** for preventing and combating the financing of terrorism. The country is party to all Council of Europe conventions on counter-terrorism, including seizure and confiscation of the proceeds from crime and financing of terrorism.

Since 2015, Albania has a national strategy to counter violent extremism (CVE), with a focus on community outreach, policing, education and countering extremist propaganda. In July 2016 the government appointed a national coordinator for CVE who is charged with overseeing the implementation of the national strategy. The CVE Office was established in October of that year and the following month the government adopted a new national counter-terrorism strategy. The Counter-Terrorism Directorate of the ASP is the lead body. Other agencies active in this field are the State Intelligence Service and the Defence Intelligence and Security Agency. In addition, the State Police's community policing personnel is involved in preventing radicalisation and combating violent extremism. Albania should proactively implement the counter terrorism strategy and action plan.

Implementation and enforcement capacity

The Counter-Terrorism Directorate has improved its capacity through additional specialised training, personnel and equipment. However, its operational and logistical capacity remained limited, especially for special investigations and operations such as surveillance and interceptions. Links between organised crime and terrorism should be assessed. Regional cooperation and exchange of sensitive information with international partners is satisfactory. Swift cooperation has taken place with Interpol for urgent verifications of suspected terrorists following attacks in EU Member States. In November 2016 a coordinated regional counter-terrorism operation led to the arrests of four individuals in Albania. The operation disrupted a potential attack targeting a World Cup qualifying football match between Albania and Israel, scheduled to take place in Shkoder. In 2017 five other operations were conducted where 12 suspects were arrested on charges of terrorism offences. Between 2012 and 2015 approximately 144 Albanian citizens travelled to Syria and Iraq to join the armed conflicts there. No Albanians are reported to have left the country to become foreign fighters since 2015. Some 45 fighters have returned, 26 died and 73 remain on the battlefield (the latter figure includes 18 fighters and 55 family members).

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

The limited resources allocated to the CVE Office continue to hamper its impact and performance. The announced upgrade of the Office into the long-awaited CVE Centre should be matched with enough funding and staff to enable it to perform its tasks effectively. The government needs to improve programmes to reintegrate returnees and their families and to prevent radicalisation in prisons. International cooperation has improved but prevention and monitoring mechanisms involving civil society and religious communities need to be strengthened. Online radicalisation content in Albanian is on the rise. The government also needs to step up efforts to counter external influences that could lead to further radicalisation. The overall assessment of regional cooperation and the exchange of sensitive information is positive. In 2017, three joint operations were conducted with security forces from neighbouring countries. Albania has cooperated swiftly with Interpol on urgent verifications of suspected terrorists following attacks in EU Member States.

Legal and irregular migration

Institutional set-up and legal alignment

The **institutional framework** on migration management changed in September 2017 and the development and implementation of migration-related policies and measures needs to be further clarified. The **legal framework** is broadly in line with the *acquis*. However, the government lacks a comprehensive cross-sector national migration strategy. The national strategies on migration and on the reintegration of returned Albanian citizens ended in 2010 and 2015 respectively. The Ministry of Interior has started working on a new cross-sector strategy which should be adopted in the fourth quarter of 2018. The new State Minister for Diaspora launched a new strategy on diaspora and migration in October 2017. As part of the broader migration and development nexus, efforts to address diaspora engagement objectives should continue.

Migration issues are covered by the national development and integration strategy for 2015-2020 and the national employment and skills strategy for 2014-2020. The latter also covers labour migration policies and concrete measures such as cooperation agreements with non-profit organisations providing guidance for returnees. In September 2015 Albania prepared a contingency plan for a possible mass influx of migrants and asylum seekers which is updated every 6 months. The agreement, initialled on 12 February 2018 with the European Border and Coast Guard Agency (EBCGA), will allow the Agency to assist the Albanian authorities in the external border management and to swiftly deploy teams on Albania territory in case of a sudden shift in migration flows. It will also strengthen border controls and the fight against migrant smuggling.

Implementation and enforcement capacity

The overall **staffing** of the renamed Department for Borders and Migration is limited (1 653 employees). Albania needs to ensure appropriate training of its border police staff in compliance with basic training standards for the EU border guard, such as the common core curriculum of the EBCGA. Albania has one reception centre for **irregular migrants** in Karrec with a total capacity of 150 beds. A number of improvements have been made to bring the facilities up to the required standards. However, there is no facility for unaccompanied minors. The centre's security system and accommodation require renovation. Alternatives to detention should be put in place for children and women at risk and people with serious medical conditions, as envisaged in the Law on Foreigners. Border police staff should be trained in identifying vulnerable categories and referring them for assistance.

Albania increased its capacity to host irregular migrants near its border with Greece. A new centre for registration and temporary accommodation for irregular migrants was established in June 2017 close to the Kakavija border crossing point with Greece. In 2017, 1 047 people were intercepted and pre-screened by the Border and Migration Police at the border (mainly with Greece), compared to 915 in 2016. In the first two months of 2018, the Border and Migration Police registered an increase in the number of people intercepted, with 661 cases, compared to 144 in the same period of 2016. The most prevalent country of origin is Algeria, followed by Syria and Libya.

The number of people **returned** to their country of origin remained low. Most of the irregular migrants were returned to the country from which they entered Albania (mainly Greece) via informal return. Albania is encouraged to apply the return procedures which are compliant with the Law on Foreigners and to ensure its return mechanism for irregular migrants is in line with the EU *acquis*.

The **readmission agreement** with the EU is being implemented in a satisfactory manner, with Albania swiftly honouring readmission requests from Member States. However, the country needs to finalise implementation protocols with Greece. Additional efforts are required on providing services to returned Albanian citizens (291 Albanian returnees have been registered at the migration counters in 2017). Training of staff working at the migration counter and regional employment offices should be strengthened. Negotiations on implementation protocols with Spain were finalised and negotiations on readmission agreements are being conducted with a number of countries of origin including Russia, Morocco, Afghanistan, Iraq and Iran.

Asylum

Institutional set-up and legal alignment

Albania is party to the 1951 Geneva Convention and in 2014 adopted a new asylum law which brought its **legal framework** generally into line with the *acquis*. However, since several EU directives have been further updated, some issues still need to be addressed as regards procedural safeguards and guarantees. In particular, Albania needs to ensure that asylum seekers have the right to legal assistance and apprehended third country nationals have access to information about asylum rights and procedures.

The instruction regulating pre-screening, detention, return and readmission should be revised and aligned with international standards. The revised version should include procedural safeguards for all categories of vulnerable persons. It should align its content with the new Law on Child Protection and refer specifically to compliance with the *non-refoulement* principle and language rights.

The country has the necessary **institutions and procedures** in place to handle asylum claims. The Directorate for Asylum (now Directorate for Asylum and Citizenship) has undertaken a re-structuring process in December 2017 resulting in the appointment of a new director and two out of four specialists. Efforts are required in order to enhance the capacity of the Directorate. Appeals can be lodged in principle with the National Commission for Refugees and Asylum, established in 2017. However the Commission has only taken three decisions in 2017, upholding the first-instance decisions. Judicial appeals can be lodged at the administrative courts. Procedural safeguards to guarantee fair procedures for the most vulnerable individuals should be improved through cooperation by the Ministry of Interior

with other relevant ministries. This is of particular importance when it comes to identifying and registering minors and determining the best interest of children.

Implementation and enforcement capacity

As regards the **asylum procedure**, asylum requests are recorded by the Border and Migration Police during pre-screening and are then referred to the Directorate for Asylum. Improvements in the implementation of pre-screening were noted in the second half of 2017, as well as the positive impact of monitoring by UNHCR, civil society and more recently the Ombudsman's Office. There is consensus among stakeholders that the pre-screening instructions should be amended to include additional safeguards and involve the participation of other relevant ministries, notably for persons with specific needs. A more direct input from the Directorate for Asylum, with regular attendance at interviews and support to the police, would improve the whole asylum procedure. Moreover, it has been observed that reports of procedural shortcomings and abuse during pre-screening have increased when non-border police security forces are present at the border points. It is therefore necessary to clarify command structures for pre-screening when other security forces operate at the border.

Although the overall administrative procedure in processing asylum requests is very short, some delays were reported. More training is needed in how to assess individual claims, particularly information on country of origin and cases involving vulnerable people. Access to information about asylum procedures and interpretation has improved but should be guaranteed without exception. Data management needs to be strengthened. The Directorate for Asylum should be granted access to biometric data collected by the Border and Migration Police. No cases of *refoulement* at the borders were reported. There have been cases of migrants returned to Greece without being pre-screened (six incidents, involving 36 persons have been reported).

During the reporting period Albania strengthened its **reception capacity** to host asylum seekers, in the border areas as well as in Tirana. The national reception centre in Tirana and the centre for elderly persons in Gjirokastr were renovated. In 2017, 309 people applied for asylum in Albania, up from 241 in 2016. As most asylum applications were withdrawn after a few days, the system does not have backlogs. Nonetheless, the status of some 2 700 Iranians (from the People's Mujahedeen of Iran), relocated to Albania in 2015 and 2016, has yet to be decided. They currently hold temporary residence permits on humanitarian grounds. Albania cooperates on an informal basis with the European Asylum Support Office.

Visa policy

Albania has yet to align its visa policy progressively with the EU's, including with the EU lists of countries whose citizens require a visa and those who are exempted. During the summer months, Albania lifts its visa requirement for citizens from Saudi Arabia, Belarus, Georgia, Qatar, Oman and Russia which is not in line with the EU *acquis*. Albania has in place the E - Visa system, used to register all foreign nationals applying for a visa when entering Albania. The system is operational within TIMS – Total Information Management System.

Overall, the visa liberalisation benchmarks continue to be fulfilled. Further improvement of the implementation is expected, in particular to address the irregular migration challenges. The flow of manifestly unfounded asylum applications to Member States and Schengen-associated countries remained at a sustained level. This was especially the case in France, Germany and Greece (with average applications per month in 2017 of 1 010, 508 and 204

respectively). In January 2018, France registered 720 asylum applications and Germany 300, respectively 30 % and 52.7 % less compared to January 2017.

In 2017, 25 528 applications were lodged by Albanian citizens in EU Member States and Schengen-associated countries, almost 20 % fewer than in 2016 (31 737 applications). This was equivalent to an average of 2 127 applications per month in 2017. Albanian nationals remained the biggest group of the asylum seekers from visa-free Western Balkan countries and the highest number of illegal stayers and cases of illegal entry. In the first half of 2017 the number of refusals of entry into EU Member States and Schengen-associated countries increased by 50 % compared to the same period of 2016, to 16 906 from 11 251. The number of illegal stayers fell by 13 % from 14 405 to 12 542. Albania has already started putting in place additional temporary measures to prevent abusive asylum applications. These include tighter checks at border crossing points, more thorough exit interviews and information campaigns. In 2017, 12 403 Albanian citizens were refused permission to exit Albanian territory at border crossings (10 796 adults and 1 607 minors) compared to 3 307 (3 061 adults and 246 minors) in the first two months of 2018. The awareness-raising campaigns should be better targeted to potential asylum seekers. Albania intensified its dialogue with the most affected Member States and in June 2017 the government adopted an action plan to prevent asylum abuse in EU and Schengen countries. Thirty-six migration desks have been established across the country to provide support to those returning to Albania. In December 2017 Albania signed an agreement with France on strengthening operational police cooperation and regulating the deployment in France of four French-speaking Albanian police officers. They will support the dismantling of criminal organisations of Albanian origin, including those involved in organising asylum seekers' journeys to France.

Albania needs to continue and strengthen its efforts to tackle the phenomenon of unfounded asylum applications and address the 'push factors' behind it. Immediate and determined action should be taken under the post-visa liberalisation monitoring mechanism. In particular, the country needs to ensure close cooperation with countries of destination. It also needs to start analysing data on returnees in order to map the most affected areas and so prioritise awareness-raising and socioeconomic support.

Unaccompanied minors from Albania travelling to EU Member States remain a matter of great concern and should be prioritised. The June 2017 action plan covers the identification and referral of criminal offences related to the abandonment of minors by parents or the accompanying person. Since August 2017 the State Police carry out tighter checks on children travelling abroad with one or both parents. In 2017, 54 cases of abandonment of minors were reported to the prosecution, and only four in 2016. The State Police has added an alert system in the TIMS border control database for cases where a parent or companion returns to Albania without the accompanied minor.

Schengen and external borders

Institutional set-up and legal alignment

The Law on Border Control and associated implementing legislation by-laws are aligned with the *acquis*. However, the **legislative framework** for the management of Albania's external borders is not yet fully aligned with EU standards. The Department for Borders and Migration is a specialised civilian body within the Ministry of Interior, with 1 645 employees, including 1 566 border guards. The staff receives basic and some specialised training from the Police Academy and from the European Border and Coast Guard Agency. The 2014-2020 integrated

border management strategy and action plan is fully aligned with European standards. Albania is a member of the Western Balkan Risk Analysis Network (WB-RAN) led by EBCGA.

Implementation and enforcement capacity

Implementation of the **integrated border management** strategy and action plan continued smoothly. The focus was on the regulatory and institutional framework, human resources and training, communication and exchange of information, and infrastructure and equipment for border control and surveillance.

Two border crossing points with Montenegro and one with Kosovo are being constructed. The Integrated Sea Surveillance System of radars for the ‘blue’ (sea) border is operational. Funds have been allocated to upgrade the radar software in 2018. The system, requiring improvements through the addition of new radar sites, provides more area coverage to detect smaller boats. The TETRA (Terrestrial Trunked Radio) special radio communication network for law enforcement forces is now functional. Overall, more resources need to be devoted to modernising border infrastructure and stepping up surveillance of the ‘green’ and ‘blue’ borders.

Preventive measures against corruption are implemented at the border crossing points, however their real impact remains to be assessed. A special system with telephone numbers and email addresses where citizens can denounce corruption cases is operational. Albania should continue risk analysis **training** at all levels and ensure sufficient training for border police, in particular by including protection-sensitive migration management in the curriculum of the Police Academy.

Inter-agency cooperation is increasing. Joint and integrated blue border patrols have been conducted regularly between the Albanian Navy, the Coast Guard and Border Migration Police and an annual plan has been adopted. Cooperation between border guards and customs worked well, including on mutual access to databases. The number of false or fraudulent documents detected remained low, in particular at the international airport. A track record of detection, investigation and prosecution of cross-border crime in coordination with all competent law enforcement authorities continues to be established. The border police’s investigative powers need to be strengthened, in particular to detect people smuggling and trafficking cases. In 2017 the Department of Border and Migration initiated disciplinary measures against 65 police officers: 27 were removed from the police ranks.

Operational cooperation with neighbouring countries continued to be good. Albania conducted joint patrols with Italy, Kosovo, Montenegro and the former Yugoslav Republic of Macedonia. Cross-border police cooperation agreements were signed with Italy, Kosovo and the former Yugoslav Republic of Macedonia. In February 2018 Albania initialled the status agreement for operational cooperation with the European Border and Coast Guard Agency (EBCGA), which will allow the deployment of EBCGA teams with executive powers on Albanian territory, and ensure a better management of irregular migration.

Judicial cooperation in civil and criminal matters

Albania continued to intensify judicial cooperation in civil and criminal matters, including with EU Member States. It addressed Eurojust recommendations on data protection standards and a draft cooperation agreement has been submitted by Eurojust to the Council for approval. Albania has been included in the Eurojust list of priority counterparts since 2008. There are currently three Eurojust counterparts in the country (Ministry of Justice, General Prosecutors’

Office and Serious Crime Prosecutor Office). In 2017 Albania was involved in four Eurojust cases (16 in 2016 and 12 in 2015), mainly dealing with drug trafficking, fraud and organised property crime. Albania participated in one joint investigation team supported by Eurojust. Albania signed the EU Justice programme and started to build the capacity needed to implement it. The Memorandum of Understanding on the drugs component of the EU Justice Programme was signed in February.

On *judicial cooperation in civil matters*, in 2017 Albania received 200 requests and sent out 104 requests of mutual legal assistance. On *judicial cooperation in criminal matters*, in 2017 the country received 1 311 requests and sent out 1 177 requests for mutual legal assistance. The country issued 89 extradition requests and received 181. There were three incoming requests and three outgoing requests for transfers of criminal proceedings.

Albania needs to further improve international cooperation, the timely implementation of multilateral instruments and its institutional capacity. Further efforts are necessary to further align legislation with the *acquis* and promote exchange of best practices in the field of judicial cooperation. The Ministry of Justice should allocate specific staff to follow and manage the EU Justice programme.

Cooperation in the fight against drugs

Cooperation with the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) continued. Preparations are ongoing in view of establishing a working agreement between Albania and EMCDDA, which will facilitate information exchange. Albania has no national drug observatory and no functional Early Warning System on new psychoactive substances. The national drug strategy and action plan 2012-2016 came to an end. The new strategy and action plan 2017-2020 are currently being drafted.

In March 2017 the government adopted the 2017-2020 strategy and action plan against cannabis cultivation and trafficking, and set up the central task force against cannabis cultivation. Special police units were set up to control identified high-risk areas (risk analysis). The coordinated approach between the Albanian institutions, the cooperation with Member States (especially with Italy in carrying out airborne monitoring of the Albanian territory) and the controls and inspections by the Albanian police have brought positive results. Moreover, data show that cannabis cultivation in Albania significantly decreased in 2017 compared to 2016. Statistics indicate that in 2017 the police identified and destroyed 66 927 plants. This was a decrease of 91.6 % compared with 2015 (797 422 plants destroyed) and of almost 97.4 % compared to 2016 (2 536 288 plants destroyed), mainly due to the fall in cannabis cultivation in Albania. In 2017 the police also seized 78.2 tonnes of cannabis/marijuana, a 61.6 % increase from 2016 (30 tons). Nevertheless, Albania remains the main source of cannabis herb trafficked to the European Union. Albania should now also intensify the search for, confiscation and destruction of stockpiles. A new laboratory for collecting and analysing data allows for faster processing and response on the destruction of the plants. In 2017, 100 % of the detected cannabis plants were destroyed on the spot by the police. In 2017, 104 disciplinary measures have been taken against police officers for disciplinary breaches related to prevention, detection and fighting cannabis cultivation. Forty police officers have been dismissed from the police.

According to EMCDDA, Albania is also considered a transit country for hard drugs such as heroin and cocaine. Heroin seizures amounted to 21.5 kg in 2017 compared to 57.3 kg in 2016 and 17.5 kg in the first two months of 2018. As for cocaine, 3.7 kg was seized in 2017 after

7.2 kg the year before. In February, the ASP seized a record amount of 613 kg and 350 grams of cocaine from Colombia. This represents the largest single seizure of cocaine or heroin in several years.

On the track record, while there is an increasing number of offenders being arrested for drug trafficking, the number of final convictions remains negligible. In 2017 the police submitted to the Prosecutor's Office 2 071 cases of drug production and trafficking involving 2 485 possible offenders. This was 451 cases and 391 people more than in 2016 (1 620 and 2 094). In 2017 the Prosecutor's Office registered 1 766 cases; most cases have been dismissed or suspended and 805 cases were sent to court. Some 534 offenders were convicted at first instance (391 in 2016). Albania should make use of special investigation techniques, proactive investigations and asset confiscation. It should systematically launch financial investigations in drug trafficking cases.

Customs cooperation

Albania's legislation on the use of technology for customs purposes is partially aligned with the *acquis*. Bilateral agreements exist with 12 EU Member States. Regarding implementation and enforcement capacity, risk analysis has been further developed, and risk profiles for transit, goods used by terrorists and extremist organisations, and imported seeds are regularly updated. A cooperation agreement with the General Directorate of Road Transport Services was signed to exchange data to address vehicle and illicit trafficking, and tax evasion. The fight against fraud is supported by 16 mobile anti-smuggling units at the land border and six units at the sea border. The General Directorate of Customs has 14 investigators and eight judicial police officers with investigative powers. GDC periodically performs integrity tests at customs houses and publishes information online and at the customs houses on how to lodge complaints and denunciations. In 2017, 95 disciplinary measures were taken against customs officials, including seven terminations of service, compared to 115 disciplinary measures, including 10 terminations of service in 2016.

3. FUNDAMENTALS FIRST: ECONOMIC DEVELOPMENT & COMPETITIVENESS

Key economic figures	2015	2016	2017*
Gross domestic product (GDP) per capita (% of EU28 in PPS)	29	29	n.a.
GDP growth (%)	2.2	3.4	3.9
Unemployment rate (male; female) (%)	17.5 (17.5; 17.5)	15.6 (16.4; 14.6)	14.3 (15.4; 12.7)
Economic activity rate: proportion of the population aged 15–64 that is economically active (male; female) (%)	64.2 (73.4; 55.1)	66.2 (74.0; 58.3)	66.6 (75.6; 57.4)
Current account balance (% of GDP)	-8.6	-7.6	-6.3
Net foreign direct investment (% of GDP)	8.0	8.7	8.0

* First 3 quarters

In line with the conclusions of the European Council in Copenhagen in June 1993, EU accession requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

The monitoring of these economic criteria should be seen in the context of the central importance of economic governance in the enlargement process. Each enlargement country prepares an Economic Reform Programme (ERP) annually, which sets out a medium-term macro-fiscal policy framework and a structural reform agenda aimed at ensuring competitiveness and inclusive growth. The ERPs are the basis for country-specific policy guidance jointly adopted by the EU and the Western Balkans and Turkey at ministerial level in May each year.

3.1. The existence of a functioning market economy

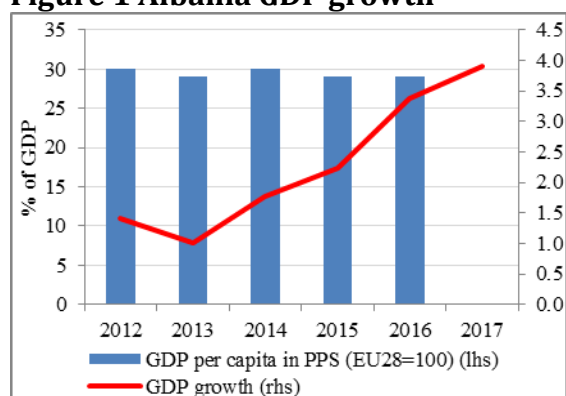
Albania has made **some progress** and is **moderately prepared** in developing a functioning market economy. The public debt-to-GDP ratio and the current account deficit were reduced. Economic growth increased further and unemployment decreased but is still high. Non-performing loans (NPLs) in the banking sector have been reduced, but bank lending to businesses remains sluggish. Reforms crucial to improving the business environment progressed but require further efforts. The comprehensive judicial reform advanced but needs to be fully implemented. The new bankruptcy law entered into force and should strengthen the insolvency regime. However, business-relevant regulations remained cumbersome and shortcomings in the rule of law continued to hamper businesses and deter investments.

To support long-term growth, Albania should pay particular attention to:

- continue fiscal consolidation to meet the medium-term target for public debt reduction and create more room for manoeuvre for fiscal policy;
- bolster financial stability further by continuing to promote the resolution of NPLs and the use of the domestic currency;
- reduce the informal economy, including undeclared work.

Economic governance

Figure 1 Albania GDP growth



Source: Eurostat, national sources

stipulated procedure for adopting the 2018 budget was not fully respected which impaired parliamentary discussions. Stability and growth have been bolstered by the three-year programme with the International Monetary Fund (IMF) completed in February 2017.

Albania continued to strengthen its macroeconomic stability and implement market-oriented reforms. Addressing the high level of public debt remained the focus of fiscal policy, although the pace of consolidation has slowed down. The fiscal rules, adopted with an amendment to the Organic Budget Law in June 2016, have been complied with. Ambitious finance management reforms are under way with EU budget support. A fiscal risks unit has been established in the Ministry of Finance and first efforts have been made to identify such risks. The

Reforms crucial to improving the business environment advanced but require further efforts. The policy guidance jointly adopted in May 2017 has been partially implemented.

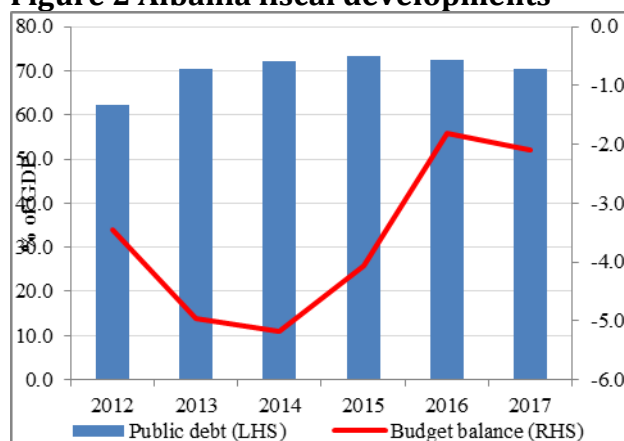
Macroeconomic stability

The Albanian economy has continued to expand thanks to both domestic demand and foreign trade. Annual GDP growth in real terms increased from 3.4 % in 2016 to 3.9 % in the first three quarters of 2017. All components of domestic demand have contributed positively to output expansion. Capital spending has been the main driver, benefitting from large foreign direct investment (FDI) in the energy sector. Private and public consumption have also recovered over the past 2 years. Net exports added to GDP growth between mid-2016 and mid-2017 based on very strong services export (including tourism) and a recovery of goods export. Despite stronger economic activity, per capita GDP in purchasing power standards stood at only 29 % of the EU-28 average in 2016, practically unchanged since 2009.

The substantial current account deficit has narrowed and been more than covered by FDI inflows. Albania has historically run a large trade deficit partly funded by remittances from Albanians living abroad. Since 2015, the current account balance has been improving, cutting the deficit as a percentage of GDP from 10.8 % in 2014 to 6.3 % in the 12 months to the end of September 2017. This has exclusively been the result of a sharply higher surplus on the balance for services trade, while the trade deficit for goods has remained very high. Revenues from foreign tourism increased strongly in 2016 and 2017, but the contribution from other services (which include manufacturing services) was even greater. Remittances remained relatively stable in absolute terms, but their share of GDP fell to 5.5 %. FDI inflows, recently mainly associated with the construction of the Trans Adriatic Pipeline and a large hydropower project, amounted to 8.0 % of GDP in the year to the end of September 2017. As in 2016, they thereby exceeded the current account deficit. The gross external debt-to-GDP ratio declined to 67.9 % at the end of September 2017. Foreign exchange reserves have remained stable over the past 2 years at close to 25 % of GDP. They cover 6-1/2 months of imports of goods and services, providing an adequate safeguard against adverse shocks.

Inflation remained below the official target but prompted no further monetary easing. Average annual inflation has been below the central bank's 3 % target since 2012, falling to 1.3 % in 2016. A weather-related spike in food prices in the winter of 2016-2017 raised annual average inflation to 2.0 % in 2017, but underlying price pressures have remained subdued helped by a strong lek in foreign exchange markets. The Bank of Albania has maintained a very accommodative monetary policy by keeping the key policy rate (the repo rate) at the record low of 1.25 % since May 2016. The freely floating exchange rate of the lek appreciated 1.7 % against the euro over 2017 and 5.6 % since June 2015.

Figure 2 Albania fiscal developments



Source: Eurostat, national sources

as a result of a significant under-execution of expenditures.

The 2017 budget has a deficit target of 2.0 % of GDP and the preliminary data on budget realisation suggest that the target has been met. The budget was amended twice to take into account drought-related emergency support to the electricity sector and a government reorganisation. The revisions raised planned revenues and expenditures by a similar, relatively modest rate and left the budget target unchanged. The fiscal rule banning overspending in election years was complied with.

The public debt-to-GDP ratio has declined, but further consolidation is required to achieve the medium-term fiscal target. The public debt-to-GDP ratio started to decline in 2016 after having risen significantly in the previous 5 years. The government estimates that the debt ratio fell further to 69.9 % at the end of 2017. The current fiscal framework operates with a medium-term debt objective of 45 % of GDP and annual budget balances that ensure a falling debt ratio until the target is reached. Within this framework, the current government has committed to reduce the debt ratio to below 60 % by 2021. This would probably require additional consolidation efforts compared to current fiscal plans.

Albania's level of public debt remains high compared with regional peers and is associated with risks to macroeconomic stability in case of adverse shocks. In recent years, the authorities have been able to lengthen the average maturity of the public debt stock significantly and to shift it increasingly towards external creditors. Almost half of the debt is now denominated in foreign currencies, most of which in euros. The shifting debt composition means that the rollover risk has been lowered, but interest rate and exchange rate risks have increased. Just over half of the public debt is still held domestically, mainly by the banking sector, and much of it is still short-term and has to be refinanced frequently.

The macroeconomic policy mix was appropriate. Fiscal policy was prudent in 2017 despite it being an election year, but further reducing the budget deficit during the current economic upturn is necessary to make public debt more sustainable. Fiscal consolidation also reduces public borrowing, providing space for increased lending to the private sector, particularly for investment. Keeping the key interest rate low is appropriate as it helps to raise weak inflation and support economic activity.

The functioning of product markets

Business environment

In spite of new legislation and other measures, the business environment remains a constraint on Albania's competitiveness and growth performance. The new bankruptcy law entered into force in May 2017 and should strengthen the insolvency regime, streamline burdensome market exit procedures, prevent abuse and facilitate collateral recovery. However, its implementation still awaits the adoption of regulations, especially on insolvency administrators, and out-of-court restructuring still needs to be facilitated. The Private Bailiffs Law has also been amended to protect the rights of lenders and strengthen the enforcement of loan collateral, but the bylaw to fully implement the reform still needs to be revised. Procedures for business registration, licensing and building permits have been improved. Reforms in the electricity sector have improved its finances, but getting electricity remains lengthy, complicated and costly for users. Redundant regulatory and procedural hurdles constitute another significant impediment for business. Access to formal finance, especially in the start-up phase, remained a challenge for firms.

Shortcomings in the rule of law continued to hamper the business environment, although the justice reform advanced. In spite of measures taken to address the informal economy, it is estimated to account for at least one third of GDP. This is causing tax revenue losses, a lack of labour protection and unfair competition among firms. Ineffective contract enforcement, uncertain property rights and the prevalence of corruption are major concerns repeatedly expressed by businesses. Progress on judicial reform needs to be translated into a more favourable business environment. Better governance, a more predictable tax system, consistent enforcement of rules, and more efficient delivery of public services would substantially improve the business environment.

State influence on product markets

State presence and public subsidies remained limited in the Albanian economy with the notable exception of the electricity sector. The share of public revenue and spending in GDP remained relatively low. Total reported State aid stood at 0.15 % of GDP in 2016, mainly in the form of horizontal aid in the area of training, research and development, employment, culture and support to small and medium-sized enterprises. Reform in the electricity sector has substantially decreased distribution losses, improved bill collection rates and strengthened the financial situation of state-owned enterprises in the sector. Although budget allocations to the energy sector had originally been reduced significantly in 2017, a drought and a difficult financing situation obliged the government to provide a substantial loan to the sector in August, requiring a budget revision. The government has expressed its intention to eliminate all power sector subsidies, including public guarantees and policy net lending, by 2020.

Privatisation and restructuring

Albania is well advanced in market liberalisation and privatisation. The private sector remained dominant in the economy, providing about 84 % of all jobs. The state's involvement in the economy remained limited and was concentrated in public utilities (railways, electricity, water and oil extraction). Albania has moved ahead with separating the production of gas and electricity from transmission and distribution. Shortcomings remained in the corporate governance of state-owned electricity companies. Further liberalisation of the electricity market would enable private operators to enter the market, thereby increasing

competition and quality of supply. An action plan for the privatisation or liquidation of state companies in non-strategic sectors was adopted in March 2017.

The functioning of the financial market

Financial stability

The stability of the banking system improved as the number of NPLs was reduced.

Albania's banks are generally well capitalised, with a capital adequacy ratio which rose over the course of 2017 and is well above the regulatory minimum. The banking sector's liquidity ratios also remain well above the minimum regulatory levels. Deposits remain the main source of funding, covering almost twice the volume of total bank loans. The ratio of NPLs to total loans declined to 13.2 % at the end of 2017, 5.1 percentage points (pps) lower than a year earlier, mainly as a result of mandatory write-offs.

Banking sector profitability improved in 2017. The sector's financial result more than doubled in the first half of the year on a year-on-year basis. Return on assets and equity stood at 1.5 % and 15.7 %, respectively, in December 2017, more than double their levels a year earlier. However, use of the euro for loans has remained high: foreign currency loans to unhedged borrowers still account for around one quarter of total private sector credit, making their repayment vulnerable to a depreciation of the domestic currency. Government securities represent almost a quarter of bank assets, exposing banks to sovereign risk as well.

Access to finance

There is scope for banks to expand lending and better support the economic recovery.

The banking sector, dominated by foreign banks, holds over 90 % of all financial system assets. With loans to businesses and households amounting to about 37 % of GDP, there is much scope for increased bank lending. However, credit to the business sector has stagnated in recent years despite low interest rates as a result of both low demand for and tight supply of bank loans. With the ratio of NPLs declining, lending to the business sector recorded slightly positive growth in the third quarter of 2017 when adjusted for loan write-offs.

The non-banking financial sector remained relatively small. It includes insurance companies, savings and loan associations, private supplementary pension funds, investment funds, and some other non-banking financial institutions. Their total assets corresponded to close to 10 % of total financial sector assets in 2017, little changed from the preceding 2 years but up from 6.6 % in 2012. The capital market is rudimentary and the stock exchange remained closed. There is significant scope for expanding equity and corporate bond finance provided the supervision capacity is strengthened and transparency and governance in the private sector is improved.

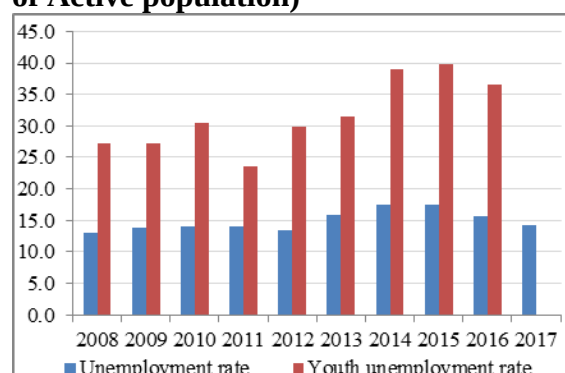
The functioning of the labour market

Stronger economic activity improved labour market conditions, but unemployment remained high.

The economic upswing continued to create new jobs in 2017, but at a lower rate than in the preceding year. In the first three quarters, employment in the 15-64 age group increased by a relatively modest 2.5 % compared with a year earlier. This allowed the unemployment rate to decline to 14.3 % from 16.0 % in the corresponding period in 2016. The youth unemployment rate (covering the 15-29 age group) fell from 29.2 % to 26.3 %. In addition to substantial skill mismatches, persistently high unemployment reflects rigidities in labour market legislation and lack of incentives to work.

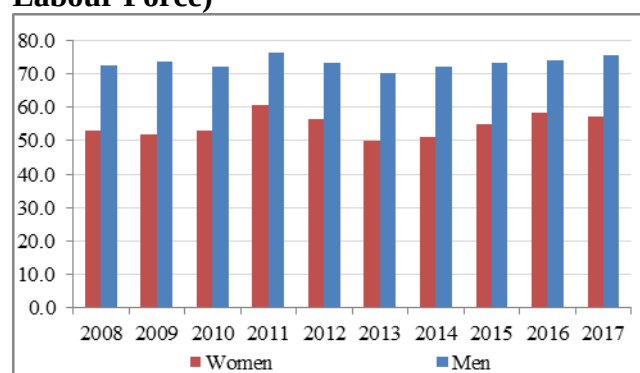
Labour force participation - the number of people employed or looking for work - continued to rise, possibly reflecting improved employment prospects. Two thirds of the working age population were now employed or looking for a job. However, the gap between the male and female participation rates widened significantly. 42 % of the workforce was employed in agriculture, mostly in low-skilled and low-productivity jobs, and informal employment remained widespread. Active labour market policies have continued to be implemented, but they still covered only 5.5% of the unemployed in 2017 which, however, was an increase from previous years. The end of the public wages freeze in March 2017 drove up average public sector wages by about 11%.

Figure 2 Unemployment in Albania (% of Active population)



Source: Eurostat, national sources

Figure 3 Participation rates in Albania (% of Labour Force)



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

Albania has made **some progress** and has **some level of preparation** in terms of capacity to cope with competitive pressure and market forces within the EU. Specifically, progress was made on energy and transport infrastructure and digitalisation, although shortcomings remain which hinder Albania's competitiveness and trade. The quality of education needs to be raised at all levels, not least to better equip people with skills that the labour market needs. Foreign trade remains below potential and sectorally concentrated. Albania's capacity for research, development and innovation remains low.

To support long-term growth, in the coming year Albania should pay particular attention to:

- improve the quality of the education system, including increasing capacity;
- develop the capacity for technological absorption, research, development and innovation;
- enhance public investment in infrastructure in a transparent and fiscally responsible way.

Education and innovation

The quality of Albania's education system is relatively poor. Compared to 2012, Albania improved its scoring in the OECD's 2015 PISA assessment of the performance of 15-year-old students in science, reading and mathematics, but the overall ranking remained below all EU Member States. Public spending on education remains low. Total expenditures from the state budget for vocational education and training have increased, but still accounted for only 0.13 % of GDP in 2017. Particularly in remote rural areas, school infrastructure and the quality of teachers are inadequate. The World Bank reports a functional illiteracy rate above

50 %. The level of funds available for teacher training in all fields of education is insufficient. Reforms in higher education and science have continued but further improvements are needed. The total number of teachers in the pre-university education system in 2016-2017 was 2 % lower than a year earlier.

The capacity for technological absorption, research, development and innovation remains low. The Education Ministry's budget for research and development has remained very modest. Some State aid was granted in 2016 for research and innovation. Substantial efforts to strengthen the link between business and academic and research institutions are needed. Upgrading the economy from low-technology, labour-intensive and low-cost production areas requires more research and innovation. This is particularly the case in sectors like agriculture & food, energy, and sustainable tourism which are crucial for Albania's economic development. Statistical data on research and development needs to be improved.

Physical capital and quality of infrastructure

The level of investment has stabilised but remains dependent on foreign inflows. Investment has accounted for one quarter of GDP in recent years, much of it by foreign companies. In 2017, when the construction of hydro power plants on the river Devoll and the Trans Adriatic Pipeline reached their peak, FDI inflows amounted to about 8 % of GDP. A fully functioning cadastre is not yet in place; together with uncertainties about land ownership, this is a significant impediment to investment. Large investments are often delayed by lengthy land expropriation procedures, which in most cases require a proper registration of the rightful owners first. Public investment, amounting to 4-5 % of GDP in recent years, has often been hampered by weaknesses in public investment management.

Albania's transport and energy infrastructure made some progress but is still insufficiently developed. Improvements to the road network continued and a new railway law was adopted in early 2017. However, better connections to neighbouring countries and the EU transport network still need to be established to reduce transportation costs and facilitate trade. There has been some progress on energy infrastructure, but inadequate the electricity supply remains a key structural challenge that increases costs to businesses.

The digitalisation of the economy is gradually being developed. Major advances have been the establishment of online platforms for business registration, licensing, tax filing, e-banking, e-commerce, e-signature, mobile payment of bills, and issuance of civil registry-related certificates. Broadband coverage and users have increased.

Sectoral and enterprise structure

The Albanian economy is led by the services sector, but agriculture still retains an important role. In 2016, services again increased their share of gross value added (to 53.2 %). Agriculture remained the second most important sector (at 22.9 %). Industry (13.3 %) has gradually increased its share of the economy over the past 10 years, mainly as a result of rising crude oil production. Within industry, manufacturing is relatively small (6.4 %) and mainly produces low value added and labour-intensive products such as textiles and footwear. Construction (10.5 %) has seen its share of the economy decline sharply over the past 10 years.

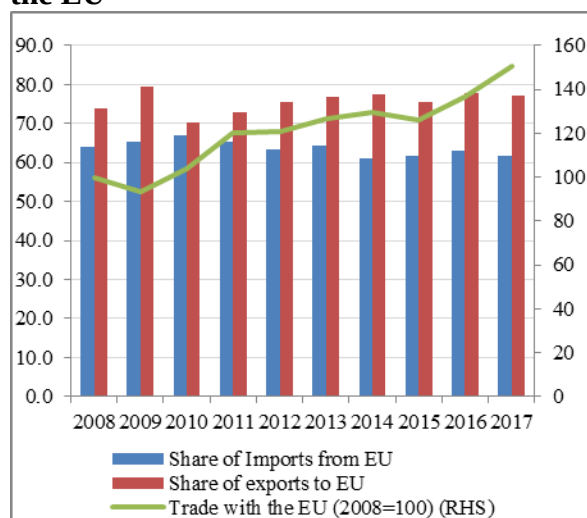
Exports continue to be concentrated in a few sectors. 76.0 % of goods exports in the first eight months of 2017 came from three product categories: textiles and footwear (43.6 %); minerals, fuel and electricity (16.6 %); and construction materials and metals (15.9 %). This

lack of diversification contributes to the large external deficit and exposes the economy to industry-specific shocks like sharp swings in energy prices.

SMEs play a significant role in the economy. SMEs provide 80 % of employment and two thirds of value added in the non-agricultural private sector. Various state- and donor-funded schemes support SMEs' competitiveness. However, further steps need to be taken to strengthen their innovation capacity and improve their access to finance, such as developing the venture capital market.

Economic integration with the EU and price competitiveness

Figure 5 Albania trade integration with the EU



Source: Eurostat, national sources
investment at the end of September 2017.

The EU is Albania's dominant trading partner, but overall trade remains below potential. Albania's total foreign trade (exports and imports combined) increased from 72.1 % of GDP in 2015 to 74.8 % in 2016. A better integration into global supply chains would help boost productivity and create more and better jobs. The EU accounted for 76.6 % of Albania's goods exports and 61.3 % of its goods imports in the first 8 months of 2017. Within the EU, Italy is the main destination for Albanian exports, absorbing more than half of Albanian goods sold abroad and providing almost 30 % of imported goods. The EU remains the main source of FDI into Albania and held 57.6 % of the total stock of such

Trade links with Central European Free Trade Agreement (CEFTA) countries are also relatively significant, mainly on account of exchanges with Kosovo. Taken together, Albania's six CEFTA partners accounted for about 15 % of Albanian goods exports and 7.5 % of its goods imports in 2017. These shares are largely unchanged since 2008, suggesting a large untapped potential for future growth, if intra-regional connectivity improves and some technical barriers to trade are eliminated. The development of a Regional Economic Area based on EU rules and standards, to which all Western Balkan economies have committed, has the potential to generate untapped growth.

Regarding price and cost competitiveness, the real effective exchange rate was 4.2 % higher than a year earlier at the end of 2017.

4. REGIONAL ISSUES AND INTERNATIONAL OBLIGATIONS

Albania still maintains a 2003 bilateral immunity agreement with the United States, granting exemptions for US citizens from the jurisdiction of the **International Criminal Court**. In doing so, it does not comply with the EU common positions on the integrity of the Rome Statute or with the related EU guiding principles on bilateral immunity agreements. As mentioned in the previous report, Albania needs to align with the EU position.

Regional cooperation and good neighbourly relations form an essential part of Albania's European integration process. Albania has continued to participate actively in regional initiatives such as the South East European Cooperation Process, the Regional Cooperation Council, CEFTA, the Western Balkans Six, the Energy Community Treaty, the European Common Aviation Area Agreement, the Central European Initiative, the Regional Initiative for Migration and Asylum, and the '*Brdo-Brijuni process*'. The country is a committed supporter of the Berlin process. At the Trieste Summit in July 2017 Albania endorsed the Regional Economic Action Plan adopted there and signed the Transport Treaty. Albania also hosted a follow-up meeting of prime ministers in Durrës in August 2017 to support the implementation of the action plan. Albania hosts both the Western Balkans Fund and Regional Youth Cooperation offices.

Albania has continued to strengthen **bilateral relations** with the countries of the region, applying the mechanism of joint government meetings with many of them to deepen cooperation. It is also a constructive partner with neighbouring EU Member States.

Relations with **Bosnia and Herzegovina** have seen some positive developments. An honorary consulate was opened in Sarajevo during the official visit of the Albanian Foreign Minister in October 2016. The Prime Minister of the Federation of BiH visited Tirana in March 2017. During the reporting period, a set of agreements was signed on movement of citizens with ID cards and on maritime commercial transport.

Albania reconfirmed its very good relations with **Kosovo** by signing several new agreements in key areas of cooperation during the fourth governments' meeting in November 2017 and announced readiness to host a Custom Office of Kosovo in Albania's Port of Durrës. A framework Memorandum on cooperation with the diaspora was signed. Common consular offices were inaugurated in Munich and Milan. Albania continued to advocate for Kosovo's full membership of international and regional organisations and to support the dialogue between Kosovo and Serbia.

Relations with **the former Yugoslav Republic of Macedonia** have intensified since the new government took office on 31 May 2017. The first joint session of the governments took place in December 2017 and was a step forward which raised bilateral relations to a higher level. It was followed by the signature of bilateral agreements aimed at improving cooperation between the two countries. The government of the former Yugoslav Republic of Macedonia provided financial support and humanitarian aid for the areas in Albania affected by floods.

Relations with **Montenegro** remained positive, with Albania strongly supporting Montenegro's accession to NATO. The Prime Minister of Albania visited Montenegro in April 2017. In May 2017 the Joint Centre for Police Cooperation between Montenegro, Albania and Kosovo was opened in Plav. In December 2017 Montenegro's President visited Albania. Albania also cooperates with Montenegro under the Albania-Montenegro-Croatia Trilateral, established in 2017, as part of the Adriatic-Ionian dialogue. Two trilateral meetings took place during the reporting period.

The relationship with **Serbia** continued through the strengthening of business cooperation. The Albania-Serbia Joint Chamber of Commerce was established in Tirana. The first visits in decades by Albanian's President to Serbia, in March and November 2017 were a major step forward. Bilateral ties were also strengthened on the occasion of regional and international events attended by both Prime Ministers. Albania also cooperates with Serbia under the Albania-Serbia-Italy Trilateral. The latest trilateral meeting took place in February 2018.

Albania maintained its good relations with **Turkey**. A series of high-level exchanges took place in the reporting period. The increase in Turkish investment in Albania continued with a focus on infrastructure and energy sectors. Albania announced the establishment of a national airline with the support of Turkey. Turkey continued to provide education and training for the Albanian Army and security forces.

Relations with **Greece** have intensified. A renewed political dialogue on outstanding bilateral issues was initiated at ministerial level in November 2017 and it is expected to lead to the signing of a partnership agreement between the two countries. A Memorandum of Understanding on energy was signed in April 2017 between the countries' energy ministries. This is seen as an important cooperation mechanism which will promote regional energy connectivity and the diversification of natural gas sources lines and suppliers, including the Trans Adriatic Pipeline. The process of searching for, exhuming and identifying the remains of Greek soldiers who fell in Albania during the Second World War was started. In February 2018, Greece withdrew its reservation on Albania's accession to the Apostille Convention with immediate effect with a positive practical impact mainly on Albanian citizens living and working in Greece. Bilateral cooperation on migration is satisfactory overall.

Relations with **Italy** remained very good. Political dialogue intensified with key high-level visits on both sides. Italy provided key support for monitoring the cannabis situation in Albania. In November 2017, a Protocol on the fight against terrorism and trafficking in human beings was signed by the two Ministers of the Interior. In October 2016, a Memorandum of Understanding on cooperation on agriculture was signed. In March 2017, a cooperation agreement was signed between the transport ministries which scraps the fixed fee and road tax for Albanian carriers. The two countries renewed their framework agreement on education.

5. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

5.1. Chapter 1: Free movement of goods

The free movement of goods ensures that many products can be traded freely across the EU based on common rules and procedures. Where products are governed by national rules the principle of the free movement of goods prevents these creating unjustified barriers to trade.

Albania has **some level of preparation/is moderately prepared** in the area of free movement of goods. There has been **some progress** over the past year. This has been mainly regarding efforts to align with 'New and Global Approach' *acquis* and increased capacity for accreditation, as well as in the process of removing unjustifiable barriers to the free movement of goods. However, further efforts are needed to ensure legislative alignment and strengthen enforcement in this area.

In the coming year, the country should in particular:

→ continue to align its legislation with the horizontal *acquis*, notably on metrology and standardisation;

→ further strengthen the enforcement capacity of the Market Surveillance Inspectorate.

General principles

Regulations are in place on the **production, distribution and marketing of industrial products** related to the price of products, import licences or permits for imported goods and

the obligation to have storage facilities in specific areas. Further efforts towards alignment with the *acquis* are envisaged in the 2016-2020 national plan for European integration, as well as in the 2020 consumer protection and market surveillance strategy, which includes quality infrastructure. However, there is no specific strategy on the free movement of goods.

Non-harmonised area

Despite the completion of the methodology for comparative analysis of Albanian legislation, an action plan on the self-screening of national technical regulations for **compliance with Articles 34-36** of the Treaty on the Functioning of the European Union (TFEU) is still in preparation.

There has been some progress in removing unjustifiable trade barriers through amendments to the laws on mandatory inspection for imported packed lubricants and transportable pressure equipment.

Harmonised area: quality infrastructure

Legislation in the area of accreditation and market surveillance is partly aligned with the EU *acquis*. Administrative structures are in place for technical regulations, standardisation, conformity assessment, metrology, accreditation and market surveillance as subordinate bodies under the Ministry of Economic Development, Tourism, Trade and Entrepreneurship. Recruitment of more competent and specialised staff to the Market Surveillance Inspectorate is necessary. Mutual cooperation agreements on accreditation, standardisation and conformity assessments are in place with countries in the region and other non-EU countries.

On **standardisation**, the General Directorate of Standardisation (GDS) is a full member of the European Telecommunication Standards Institute (ETSI), an affiliate member of the European Committee for Standardisation (CEN) and of the European Committee for Electrotechnical Standardisation (CENELEC), and an associate member of the International Electrotechnical Commission (IEC). GDS has adopted about 98% of CEN and CENELEC standards and 80% of ETSI standards as Albanian Standards. Since September 2016, the GDS has adopted 3,748 standards, of which 2,550 were European standards (CEN, CENELEC and ETSI standards) and 928 were other standards (ISO and IEC standards).

The 2014 law on accreditation of **conformity assessment** bodies is partly aligned with the *acquis*. It regulates the functioning of the General Directorate of Accreditation, its accreditation board, technical committees and other procedural issues. There are 58 accredited conformity assessment bodies: 41 laboratories, 12 inspection bodies and 5 certification bodies. The General Directorate of Accreditation is a full member of the European Cooperation for Accreditation (EA), a member of the International Accreditation Forum (IAF) and of the Multilateral Agreement for Testing Laboratories of the European Cooperation for Accreditation, and an associate member of the International Laboratory Accreditation Cooperation (ILAC). The General Directorate of **Metrology** has 104 employees and is increasing its capacity.

The State Inspectorate for **Market Surveillance** (SIMS) was established in 2016, and the inspection sector of metrology, copyright and accommodation structures was merged into it in the second half of 2016. The SIMS currently has 50 staff and is recruiting more. In May 2017, the internal regulation laying down SIMS's tasks and responsibilities was approved by the Ministry of Economic Development, Tourism, Trade and Entrepreneurship. During 2017 more than 400 **inspections** were carried out. As a result, 11 importers of toys received fines,

corrective measures were taken concerning three retailers of pre-packaged products and approximately 700 products were blocked and prepared for destruction based on RAPEX (Rapid Alert System for dangerous non-food products) notifications.

Harmonised area: sectoral legislation

For the ‘**New and Global Approach**’ **product legislation**, the government adopted several technical regulations designed to align with the *acquis* on: low voltage equipment, gas appliances, toys, energy labelling, measuring instruments and medical devices. However, alignment has not yet started on cableways, electromagnetic compatibility, radio & telecoms equipment, explosive atmospheres equipment, construction products, recreational craft, pyrotechnic articles, eco-design and non-automatic weighing instruments.

The national legislation on pricing of **medical devices** is designed to be partly aligned with the *acquis*. On **civil explosives**, alignment has not started.

In terms of ‘**Old Approach**’ **product legislation**, the law on chemical management is partly aligned with the provisions of the Regulation concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and other related parts of the *acquis*. National legislation on **chemical classification, labelling and packaging** is still not aligned with the United Nations Globally Harmonised System of Classification and Labelling of Chemicals.

On **drug precursors**, the list of controlled substances is in compliance with the lists in the relevant EU *acquis*. There is partial alignment in the area of **procedural measures**, notably on: firearms; textile labelling and mixtures; and medicinal products pricing. The legislation on defence products and procurement and on return of **cultural objects unlawfully removed from the territory of a Member State** is not aligned with the *acquis*.

5.2. Chapter 2: Free movement of workers

Citizens of one Member State have the right to work in another Member State and must be given the same working and social conditions as other workers.

Albania is at an **early stage** in freedom of movement for workers. There has been **no progress** in this area.

In the coming year, Albania should:

→ continue to align its legislation with the EU *acquis* in the area of freedom of movement for workers;

→ continue negotiating and implementing new bilateral agreements on social security, notably with EU Member States.

As regards **access to the labour market**, EU citizens are eligible to work in Albania without a work permit. This is pursuant to provisions of the Law on Foreigners and subsequent amendments, which provide that foreigners will not need a work permit or business registration certificate if they are nationals of an EU Member State or Schengen country legally residing in Albania. The appropriateness of social security schemes and forfeit of occupational pensions are regulated through bilateral agreements. Immigration admission policies do not place obstacles to the permanent settlement of EU workers’ family members. On concluding and signing bilateral agreements for citizens of Albania, no progress was made over the reporting period.

Regarding preparation for joining **EURES (European network of employment services)**, Albania has established an integrated database for the Employment Services System. This will facilitate exchanges of information between IT departments of the civil status, the tax system, the compulsory healthcare system and the economic assistance system. It marks an additional step in the preparation of a national employment database.

On the **coordination of social security systems**, bilateral agreements on social security are in place with Belgium, the Czech Republic, Germany, Luxembourg, Hungary, Austria, Romania, the former Yugoslav Republic of Macedonia and Turkey. Negotiations are ongoing with Switzerland, Kosovo and Canada. There have been initial exchanges on coordinating social security schemes with countries such as Bulgaria, Spain, France and Croatia.

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

EU natural and legal persons have the right to establish themselves in any Member State and to provide cross-border services. For certain regulated professions, there are rules on mutual recognition of qualifications. Postal services are gradually being opened up to competition.

Albania is **moderately prepared** in the area of right of establishment and freedom to provide services. There has been **some progress** during the reporting period on freedom to provide services.

In the coming year, the country should in particular:

- continue to align its legislation with the Services Directive and the Professional Qualifications Directive;
- further strengthen institutional capacity on right of establishment and mutual recognition of professional qualifications.

Regarding barriers to the **freedom of establishment or the free movement of services**, the legislation on mining, taxation and social policy is broadly aligned with the Services Directive. However, the legislation on the veterinary sector requires amendments for the licensing of private veterinary clinics and hospitals. In the legal sector, the legislation is partially aligned with the EU *acquis* but restrictions exist for the public notaries and private bailiffs. The screening process is ongoing for other sectors.

On the **freedom to provide cross-border services**, the law on services of September 2016 provides a single contact point for establishing a business in Albania. The National Business Centre functions as a one-stop-shop for registering businesses and issuing licences, authorisations and permits. It operates through service windows throughout the country, as well as the electronic service window on the e-Albania portal.

Following the adoption of implementing legislation for the law on **postal services**, the postal market has been opened to competition since January 2017. There is one universal service provider and 11 other postal service providers in the market.

Regarding **mutual recognition of professional qualifications**, following the approval of the law on handicrafts in June 2016 the National Chamber of Crafts and an apprenticeship system for crafts trades have been set up. For the first time, the law provides for a model of the dual system of vocational education and training.

5.4. Chapter 4: Free movement of capital

In the EU, capital and investments must be able to move without restriction and there are common rules for cross-border payments. Banks and other economic operators apply certain rules to support the fight against money laundering and terrorist financing.

Albania is **moderately prepared** in the area of free movement of capital. **Some progress** was made in the reporting period, particularly in the area of payment systems. This was achieved through the amendment of regulations by the Bank of Albania and the implementation of the mid-term strategy of the National Payment Systems Committee. There was also some progress in the national legislation on fighting money laundering. The action plan on acquisition of property by foreigners has yet to be implemented.

In the coming year, Albania should in particular:

- continue legislative alignment with the EU *acquis* on fighting money laundering and financing of terrorism;
- take short- and medium-term measures to implement the action plan on acquisition of land by foreigners.

The Law on **Foreign Investments** of 1993 was amended in April 2017 to extend the special protection enjoyed by foreign investors/investments under Albanian legislation until 31 December 2018. This special protection is also granted to strategic investments under the Law on Strategic Investments.

Acquisition of real estate by foreigners remains subject to restrictions: they are not allowed to acquire agricultural land, forests, meadows and pastures. Albania is late in delivering on its commitment under the 2006 Stabilisation and Association Agreement (SAA) to amend the regime for the acquisition of property by EU citizens/entities by 2016. Provisions regulating the acquisition of real estate by foreigners remain unchanged and uncertainties over real estate ownership rights continue to discourage investment.

As regards **payment systems**, foreign banks have the right to open branches and agencies in Albania and to offer cross-border payments. Albania has the administrative capacity to move ahead with aligning its legislation with the EU directives in this area. The regulations on licensing the activities of non-bank financial institutions and on electronic payment instruments were amended in December 2016, aiming at alignment with European Directive "On Payment Services in the Internal Market" and the Directive "On Electronic Money Institutions". The amendments provided for exception procedures regarding licensing requirements for entities or persons that provide payment services via mobile phone or other electronic tickets. They also provided for an increase in the minimum initial capital required for electronic money institutions. The National Payment System Committee continued to meet in 2017, and agreed to work on a mid-term strategy on small value payments in Albania.

As regards the **fight against money laundering**, some progress was made through amendments in May 2017 to the Law on the Prevention of Money Laundering and Financing of Terrorism and an amendment to the Bank of Albania regulation on the same subject. The Albanian Financial Intelligence Unit (FIU) increased its staff by 11 employees in 2017. The number of suspicious transaction reports the Unit collected in 2017 increased to 1 384 from 1 292 in 2016. In 2017, the Unit shared 401 of these reports with the General Directorate of Polices and the Prosecutor's Office, almost at the similar level of 411 in 2016. In 2016, law enforcement structures seized approximately EUR 47.6 million in bank accounts and

properties related to money-laundering offences and additional EUR 38.8 million were seized in 2017. The number of appeal court convictions on charges of money-laundering offences increased to 4 in 2017 from only 2 in 2016.

5.5. Chapter 5: Public procurement

EU rules ensure that the public procurement of goods, services and works in any Member State is transparent and open to all EU companies on the basis of non-discrimination and equal treatment.

Albania has **some level of preparation** in public procurement. Efforts are needed to improve compliance with procedures and prevent corruption in the procurement cycle. **Some progress** was made in the past year to further align with the *acquis* on strengthening the public procurement review system.

In the coming year, Albania should in particular:

→ fully transpose the 2014 directives on EU public procurement, including in the area of utilities, concessions and defence procurement;

→ further strengthen the administrative capacity of the Public Procurement Agency and the contracting authorities;

→ systematically follow up conflicts of interest and strengthen the state's audit capacity in this respect.

Institutional set-up and legal alignment

The **legal framework** on public procurement is largely in line with the EU directives on classical and utilities procurement, and relevant administrative and budget provisions. The law specifies the principles of transparency, equal treatment and non-discrimination. However, there has been no progress on harmonisation with the directives on utilities or in defence and security. The law on concessions and public-private partnerships is partly aligned with the Directive on the award of concession contracts. The option of granting 10 % bonuses for unsolicited proposals and the exemption of road infrastructure of national importance from the scope of the law are still not aligned with the *acquis*.

Under the public finance management **strategy**, recommendations of studies on public investment management and public procurement have still to be addressed. These include revision of the public investment management guidelines to ensure good project selection and management principles.

The **Public Procurement Agency** (PPA) is the central public procurement entity mandated to monitor the application of public procurement rules, including providing information, support and guidance to contracting authorities. The PPA has 29 posts of which 4 are vacant.

Implementation and enforcement capacity

The **planning and preparation of public procurement procedures** generally comply with transparency and efficiency principles and public procurement forecasts are published. The number of negotiated procedures without prior publication increased during 2017 to 2 234, 67 % of which were contract extensions. In terms of volume these procedures represented 8 % of the total budget of awarded procedures. The use of framework agreements is expanding but is still very limited, with 61 framework agreement notices published and 36 contracts signed in 2017. For categories of common use goods and services a centralised procurement body is

operational in the Ministry of Interior, which can be seen as providing intermediary functions partly in line with new EU directives.

Albania has an electronic **central public procurement portal** for the publication of tender and contract notices as well as other important information and guidance. The system is mandatory, including for low-value procurement. Since January 2018 standard tendering documents for each type of procedure and contract are published on the PPA website.

By the end of 2017 around 200 public-private partnerships (PPPs), mostly concessions, have been signed. Although required by law, value-for-money analysis is still not systematically carried out before approval of all PPPs. Furthermore, there is no regular report on PPPs. The technical skills and capacity to design and assess concessions and PPP projects need to be further improved.

The PPA has strengthened its **monitoring** role and applies a procurement performance and compliance monitoring system based on performance indicators. Further support to contracting authorities is still needed, as well as the strengthening of the e-procurement system, monitoring of contract implementation and analysis of public procurement market trends.

The contracting authorities' capacity to manage public procurement procedures still needs to be improved substantially. Compliance is still generally weak, especially in more complex procedures. In October 2016, PPA issued an instruction on the declaration of conflicts of interest by procurement officials, which was drafted jointly with the High Inspectorate of Declaration and Audit of Assets and Conflict of Interest. The State Audit Institution reports a substantial number of irregularities in public procurement with an estimated financial loss to the state budget of around EUR 12 million in 2017 compared to around EUR 25.6 million in 2016 and approximately EUR 18.8 million in 2015.

Efficient remedies system

The **right to legal remedy** is set out in the Constitution and the Public Procurement Law and is mostly in line with the Remedies Directive. Provisions including ineffectiveness of contracts, alternative punishments and *ex ante* voluntary transparency notices are still not yet covered. The remedy system is easily accessible to economic operators without discrimination. However, the complainant needs to pay a 0.5 % fee of the budget of the procurement procedure which is refunded once the complaint is accepted and granted. For refused complaints the fee is transferred to the state budget.

In April 2017, amendments to the Public Procurement Law strengthened the independence of the **Public Procurement Commission** (PPC) in line with the *acquis* and increased the length of time for reviews from 10 to 15 days, and to 30 days for complex cases. However, the PPC chair and 4 other members have not been appointed as envisaged on 1 January 2018. The PPC carries out administrative reviews of public tenders and the majority of PPC decisions are corrective and can be challenged in the Administrative Court.

The majority of initial complaints lodged with the Contracting Authority that awarded the contract are dismissed, thus pushing the complainants to appeal to the PPC. In 2016, the PPC handled 1 393 complaints, up from 1 124 (2015) and corresponding to 14 % of the public procurements published. 708 complaints were considered unsubstantiated and 683 were accepted. Almost 60 % of complaints relate to procedures below EUR 38 000. In 2016, 100 or 7 % of total PPC decisions were challenged in the Administrative Court, with 60 % upheld.

Processing of complaints within the legal time limit remains a challenge, partly due to the absence of standard criteria to categorise new appeals either as a normal or complex case. Setting up an electronic database for PPC judgments would improve the transparency of the review system.

Although the remedy procedure is largely in place, the **capacity** of the PPC and the Administrative Court to deal with the complexity and increasing number of appeals still needs to be substantially strengthened. Jointly organised specialised training courses on topics related to public procurement are recommended.

5.6. Chapter 6: Company law

The EU has common rules on the formation, registration and disclosure requirements of a company, with complementary rules for accounting and financial reporting, and statutory audit.

Albania is **moderately prepared** in the field of company law. **Some progress** was made towards improving the online registration service.

In the coming year, Albania should in particular:

→ step up efforts to align its legislation with the *acquis* on accounting, and strengthen its implementation capacity;

→ ensure full transparency of company financial statements in the business register.

Some *acquis* alignment has been achieved in a range of **company law** areas, including takeovers and cross-border mergers. The National Business Centre is responsible for company registration and disclosure of financial statements. Free online registration is available and the application time was reduced; data can be accessed electronically.

In the area of **corporate accounting**, further efforts are needed to align legislation with the *acquis* on annual and consolidated financial statements. Public-interest entities (PIE) apply international financial reporting standards. The capacity of the National Accounting Council, which drafts the accounting standards and monitors their implementation, still needs to be reinforced. On **statutory audit**, the Public Oversight Board, established as an independent regulatory authority with its own financing resources, is the competent authority that ensures quality assurance and a system of investigations and sanctions. Statutory auditors and audit firms apply international auditing standards — translated into and published in the Albanian language — and are subject to continuous professional training. The Law on Statutory Audit lays down provisions on professional ethics. The Public Oversight Board can delegate the quality assurance of non-PIE audits to the professional organisation of statutory auditors. Further efforts are required to align with the most recent *acquis* on statutory audit.

5.7. Chapter 7: Intellectual property law

The EU has harmonised rules for the legal protection of intellectual property rights (IPRs) and of copyright and related rights. Rules for the legal protection of IPRs cover, for instance, patents and trademarks, designs, biotechnological inventions and pharmaceuticals. Rules for the legal protection of copyright and related rights cover, for instance, books, films, computer programs and broadcasting.

Albania has **some level of preparation** regarding IPRs. Following the recommendations made by the European Commission in its previous report, **some progress** was made in particular in implementing and enforcing the 2016 Copyright Law.

In the coming year, Albania should in particular:

- continue aligning its legislation on copyright and neighbouring rights with the EU *acquis*;
- improve the functioning of collective management agencies and the payment of royalties to rights holders.

In the area of **copyright and neighbouring rights**, the implementation of the 2016 Copyright Law aimed at aligning Albania with relevant EU directives. In March 2017 the Criminal Code was amended to refine the legal mechanisms and better address copyright infringements, which has already brought positive results and is expected to further intensify actions against copyright infringement.

The two main entities responsible for intellectual property are the General Directorate of Industrial Property (GDIP) and the Copyright Directorate (CD). GDIP is a public agency under the supervision of the Minister of Economy and Finance. It registers, administers and promotes IP objects. Under the Ministry of Culture, the CD provides advice to the inspectorate and to the public in cases of infringement of rights.

On IPRs, in 2017 the Law on Industrial Property was amended, creating a legal basis for protecting IP objects.

On enforcement, in 2017 applications to register trademarks rose by 12.3 % compared to 2016 and applications for patents and utility models increased by 16 %. During the reporting period the GDIP participated in 54 court proceedings.

The State Inspectorate for Market Surveillance is responsible for inspecting, controlling and enforcing copyright and related rights. The Inspectorate is in the process of strengthening its capacity. Since it was established in 2016 it has conducted 261 inspections concerning IPRs.

Furthermore, during the reporting period the customs administration suspended the customs clearance of a number of goods infringing IPRs, based on an application by the right holder and/or ex officio procedures. However, there are still concerns about the high number of counterfeit products in the country.

5.8. Chapter 8: Competition policy

EU rules protect free competition. They include antitrust rules against restrictive agreements between companies and abuse of dominant position, and also include rules on concentrations between companies which would significantly impede competition. EU rules also prevent governments from granting State aid which distorts competition.

Albania has **some level of preparation** / **is moderately prepared** in competition policy. There was **some progress** on legislative alignment during the reporting period. However, significant efforts are needed to further improve legislative alignment and enforcement in the area of State aid.

In the coming year, the country should in particular:

- ensure the operational independence of the State Aid Commission (SAC) and strengthen the capacity of the State Aid Unit;

→ step up efforts to improve its enforcement record in the area of State aid control.

Antitrust and mergers

The alignment of the **legislative framework** is broadly in line with the *acquis* and the provisions of the SAA. The Law on Protection of Competition is largely aligned with Article 101 on restrictive agreements and Article 102 on abuses of dominant position of the TFEU. It also provides for prior control of mergers, in line with the Merger Regulation. Secondary legislation is broadly in line with the relevant EU regulations and Commission guidelines. In 2016, the Albanian Competition Authority (ACA) simplified its procedures for handling certain concentrations and its regulation on commitment procedures.

As regards the **institutional framework**, the ACA is responsible for implementing the Law on Protection of Competition. Formally, it is an operationally independent authority reporting to Parliament, which appoints its chair and four board members. The ACA can adopt secondary legislation, impose fines and remedies if competition rules are breached, authorise mergers, with or without conditions, or prohibit them. It can conduct sector enquiries and, at its own initiative, issue opinions and recommendations on draft laws that may affect competition. A leniency programme for companies providing information on cartel cases is in place. Parties may appeal ACA's decisions before the courts.

Regarding **enforcement capacity**, the ACA has 39 staff members, which is considered adequate. The level of expertise has been strengthened through ACA staff participating in a number of seminars and workshops. On **implementation**, during the reporting period the ACA adopted 46 decisions, including 2 decisions on prohibited agreements and 13 decisions approving concentration notifications. Few decisions in the area of antitrust or mergers seem to result in effective remedies: no leniency applications have been reported since 2016 and only one suspected cartel case, on cinema distribution, was under investigation. The ACA should continue to step up its enforcement of competition rules.

State aid

The **legislative framework** is broadly in line with the *acquis* and with the provisions of the SAA. Amended in 2016, the Law on State aid largely reflects Articles 107 and 108 of the TFEU on the definition of compatible and incompatible State aid as well as on procedures. During the reporting period, Albanian legislation was amended to align it with the Regulation on *de minimis* aid granted to undertakings providing services of general economic interest and with the latest modifications to the General Block Exemption Regulation. However, further alignment with secondary EU legislation on State aid control is still needed.

As regards the **institutional framework**, the SAC is responsible for implementing the Law on State aid. Given that its secretariat is part of the Ministry of Economy and Finance, which is an aid-granting institution, the SAC cannot be considered an operationally independent authority as the SAA requires. The Law on State aid provides that new aid measures must be notified to the SAC and found to be compatible before they can be put in place. The SAC can order the recovery of unlawfully granted, incompatible aid. Its decisions can be appealed in court.

With limited resources, the **enforcement capacity** of the SAC is insufficient and needs to be strengthened. It has yet to be shown that the Law on State aid is being **implemented** effectively. Since the beginning of 2016, the SAC has assessed 13 State aid schemes and 2 ex officio cases. No negative or recovery decisions were taken. It is important that State aid rules

are reflected in the public finance management strategy and that the SAC's advisory role is presented to line ministries and regional and local authorities. Advocacy must be stepped up to achieve prior notification of aid measures to the SAC.

Liberalisation

The laws on protection of competition and on State aid are applicable to public undertakings and undertakings with special or exclusive rights, except when their application obstructs the performance of the particular tasks of services of general economic interest that are assigned to them.

There has been no investigation of State aid for public undertakings or undertakings with special or exclusive rights. As regards the rules on financing services of general economic interest, their enforcement needs to be further demonstrated.

5.9. Chapter 9: Financial services

EU rules aim to ensure fair competition and the stability of financial institutions, namely banking, insurance, supplementary pensions, investment services and securities markets. They include rules on the authorisation, operation and supervision of these institutions.

Albania is **moderately prepared** in the area of financial services. **Some progress** has been made in banking supervision and in further aligning the legislation with the Solvency II Directive.

In the coming year, Albania should:

→ align its legislation with Basel III and prepare for the implementation of the Basel IV provisions;

→ accelerate the adoption of the amendments to the Law on Compulsory Insurance in the transport sector.

As regards **banks and financial conglomerates**, the Bank of Albania (BoA) has reinforced and restructured its supervision department with special emphasis on risk-based supervision. Memoranda of understanding have been signed with other institutions on the domestic financial market and with foreign supervisory authorities of banking entities operating in Albania. The BoA is part of the College of the European Banking Authority and maintains contacts with the European Supervisory Authorities. The BoA's capacity is adequate for implementing Albania's legislative alignment with the *acquis*. A BoA mid-term development strategy 2018-2020 was adopted in November 2017. The BoA has continued to further align the banking regulation and supervisory manual with Basel II and Basel III. The Basel III definition of capital has been adopted. Work has to continue in the areas of macroprudential policy (counter-cyclical capital buffers and identification of domestic systemically important banks) and the resolution framework. New guidelines and regulations aiming at further alignment with the relevant EU *acquis* were adopted on capital adequacy, licensing and activity, risk management, reporting by savings and loan associations, and transparency for banking and financial product services. Albania has in place a system of identification of systemically important banks, similar to the EU practice. The non-performing loan ratio decreased from 18% in December 2016 to 13.2 % in October 2017, mainly due to the write-offs procedure and some loan restructuring. Efforts to implement the non-performing loan action plan and to further facilitate the collateral execution process need to continue.

In the area of **insurance and occupational pensions**, amendments still need to be adopted to the Law on Compulsory Insurance in the transport sector. The Albanian Financial Supervisory Authority (AFSA) adopted a secondary legislation to further align with the Solvency I and Solvency II Directives and started the implementation of the Strategy on consumers and investors' confidence in the supervised markets. AFSA re-organised its organisational structure and recruited additional staff.

Some progress was made on **financial market infrastructure** with the licensing of Albania's first private stock exchange, which became operational in February 2018. The public stock exchange remains suspended.

As regards the **securities markets and investment services**, the issuance of bonds by companies has been authorised for private offerings to institutional investors, their shareholders or individuals.

5.10. Chapter 10: Information society and media

The EU supports the smooth functioning of the internal market for electronic communications, electronic commerce and audiovisual services. The rules protect consumers and support universal availability of modern services.

Albania is **moderately prepared** in the field of information society and audiovisual media. **Some progress** was made on the digital agenda action plan and e-government services. The Audiovisual Media Authority (AMA) approved its strategic action plan for 2017-2019 and the public broadcaster its new statute.

In the coming year, Albania should in particular:

- finalise the delayed digital switchover process, free the digital dividend and revise the national broadband plan with clear objectives and targets;
- take further steps to draft and approve the necessary amendments to the Law on Electronic Communication, in alignment with the *acquis*;
- implement the European emergency number 112 over a wider geographical area.

On **electronic communications and information and communications technologies**, progress was made in implementing the single European emergency number 112 as envisaged in the 2015-2020 public order strategy and the 2015-2017 action plan. Further funding is needed to extend the 112 number to the whole country. Judicial bodies received training on how to enforce the Law on Electronic Communications. Further training was provided on the modules and importance of competition advocacy as a tool for addressing anti-competitive regulation and enforcing decisions by the Authority of Postal and Electronic Research. Fixed internet penetration is low: approximately 30 % of households are connected. There is a huge gap between urban and rural areas. Rural areas represent 40% of the population but only 1% out of this is connected to the internet. Mobile internet penetration is around 80%.

In the area of **information society services**, the cross-sectoral strategy on Albania's digital agenda for 2015-2020 and the plan for broadband development are being implemented. The Law on Cyber Security was adopted in February 2017 and is partly aligned with the Directive on security of network and information systems. In the framework of the European Commission's mapping of 'digital innovation hubs', three eligible hubs have been registered. There is a need to develop a national cybersecurity strategy.

Some good progress was made in electronic communications with the approval of the law on the development of high-speed electronic communication networks and the provision of the right of way. The law fully complies with the *acquis*.

In the field of **audiovisual policy**, in March 2017, following public consultation with various stakeholders, the AMA adopted its strategic action plan for 2017-2019. During the reporting period the public broadcaster, RTSH, approved a new Statute with a new internal structure reflecting the digital switchover process. The digital switchover still has to be finalised and the digital dividend to be freed. Due to obsolete technology, AMA is still not able to adequately exercise monitoring duties, a challenge which becomes more difficult with the digital switchover process. Debt collection from old fees of broadcasting operators has significantly increased reaching an 87 % rate.

5.11. Chapter 11: Agriculture and rural development

The common agricultural policy supports farmers and rural development. This requires strong management and control systems. There are also common EU rules for quality policy and organic farming.

Preparations are at an **early stage** in agriculture and rural development. There was **good progress** in 2017 on strengthening the capacity of the IPARD II management and operating structures and in the overall process for entrusting them with budget implementation tasks.

In the coming year, the Albanian authorities should in particular:

- plan and allocate resources for improving farm and animal registers and use of available agricultural statistics in policy-making;
- complete the reform of the advisory system in agriculture in order to strengthen the growth of investment in agriculture and agro-processing;
- complete the legal, institutional and administrative framework for organic products, Protected Designation of Origin and Protected Geographical Indication.

As regards **horizontal issues**, the Agricultural and Rural Development Agency (ARDA) is the structure implementing the national support schemes in agriculture and rural development. ARDA is part of the management and operating structures to be entrusted with budget implementation tasks under the IPARD II programme (2014-2020). After ARDA's structure was modified in November 2017 it now has 123 staff members.

There is no **land parcel identification system** in place. Given the complexity of the issue, including land property titles and restitution of land, the Albanian authorities should consider to start planning the process as soon as possible. The integrated administration and control system has yet to be fully implemented, but certain elements of it - such as a farmer register and an animal register - have been developed. There is no **Farm Accountancy Data Network** in place and preparatory work on setting it up has not started.

Direct payments in 2017 represented a high percentage of the agricultural support for the sector (close to 80 %) and their importance will increase further in the 2018. Overall, public expenditure for support to farmers is very low and there is no consistency in the yearly amounts of national aid granted to the sector. Direct payments are linked to production: planting of vineyards, fruit trees, nuts, hazelnuts, almonds and medicinal and aromatic plants; cows with a semi-pasture regime; support for registered sheep/goats; support for extensive

farming of cows; and support for beehives (the last three measures account for animal payments in the sector). Direct payments are not linked to cross-compliance rules.

The **farm advisory service** is currently under the competence of the Regional Agricultural Directorates of the Ministry for Agriculture and Rural Development. Both directorates are under reorganisation in order to be geographically closer to the farmers. Five agricultural technology transfer centres, specialised in different agricultural products, operate in the country.

Regarding **common market organisation**, two legal acts have been adopted in the olive oil sector which partially aligns the relevant national legislation with the *acquis*. No other sector-specific common market organisation schemes, market measures such as public/private storage, production quotas or export refunds were implemented in the country in 2017.

Two programming documents for **rural development** are in place - the IPARD II programme (2014-2020) and the inter-sectoral strategy for agriculture and rural development (2014-2020). Good progress has been recorded on IPARD II entrustment. The three most capital-intensive IPARD II measures (investments in agricultural holdings, processing, and diversification of agricultural activities) were entrusted at the beginning of 2018.

Currently there are **no special support schemes aiming at protecting landscapes, valuable natural habitats, biodiversity** and/or preventing the negative effects that inappropriate agricultural practices can have on natural resources.

On **organic farming**, there was an increase in subsidies under direct schemes, from EUR 600 per certified farm in 2016 to EUR 1 500 in 2017. Two organic operators applied in 2016, of which one became a beneficiary, while six (out of eight) became beneficiaries in 2017. Organic olive growers have also benefited indirectly from the support scheme to protect olives from olive fly.

The Commission for Organic Production (COP) is responsible for approving and supervising the control bodies for the certification of organic products. Supervision on behalf of COP is performed by the Sector for Policies of Agricultural and Livestock Production which is responsible for developing legislation for organic farming, registering organic operators and operating the database containing information on organic production.

As regards **quality policy**, the Law on Industrial Property was amended in August 2017 and is partially aligned with the EU *acquis*. However, a number of bylaws need to be adopted for the system of protection of geographical indications to be effective.

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

EU hygiene rules for foodstuff production ensure a high level of food safety. Animal health and welfare and the safety of food of animal origin are safeguarded together with quality of seeds, plant protection material, protection against harmful organisms and animal nutrition.

Albania has **some level of preparation** in food safety, veterinary and phytosanitary policy. It made **some progress** in implementing relevant policies in the food safety and veterinary sectors.

In the coming year, Albania should in particular:

→ update the relevant legislation to approximate it with the latest EU legislation on official controls, animal health and plant health; and enforce food safety rules, including official controls, import conditions and controls, and maximum pesticide residue levels;

- complete the restructuring of the veterinary sector in line with the tasks and functions set out in the amended legislation;
- update animal registers to ensure solid traceability systems are established for food of animal origin.

On **general food safety**, for the second consecutive year the National Food Authority carried out official controls under a risk-based plan approved at the beginning of 2017. The operational procedures needed to ensure compliance with the legislation have not been endorsed yet, including those on internal audits. No progress has been made on risk assessment. The Scientific Committee and panels have not convened due to budgetary issues.

During 2017, the National Food Authority started to use the TRACES system to issue veterinary export certificates for animal products (fish and eggs).

As regards **veterinary policy**, mass vaccinations against rabies in red foxes, brucellosis of small ruminants, lumpy skin disease of cattle and anthrax in infected areas have continued. Strategies for monitoring and eradicating main zoonotic diseases are to be finalised by end of 2017. Although positive efforts were made during the second half of 2017 to update the information in the animal identification and registration system, it still suffers from insufficient or inaccurate field data due to the lack of reporting in previous periods.

The reform of the veterinary service announced since 2015 was meant to consolidate the veterinary service by establishing a clear chain of command and communication to be sanctioned in the relevant amendments to the law. Nevertheless, the pace of reform is slow and the service remains fragmented and understaffed with various functions being left uncovered such as animal waste management, farm biosecurity or aquaculture.

At present, veterinary field operations are carried out by veterinary clinics rather than single, private veterinarians. However, the necessary operational and contracting procedures that regulate the activity of these clinics with regard the veterinary work on animal identification and registration, animal movement, vaccination and reporting are not yet in place.

With regard to the **placing on the market of food, feed and animal by-products**, the annual programmes for monitoring residues of undesired substances have covered pesticide residues in 10 plant products in addition to veterinary medicines, bio-toxins and heavy metals. Albania's capacity to improve the safety of food on the market is expected to be increased by 2018 with IPA assistance.

Concerning **food safety rules**, the preparation of secondary legislation has continued in several areas: microbiological criteria in foodstuffs, trichinella in meat, plastic material coming into contact with food, maximum levels of pesticide residues in several products and maximum residue limits for pharmacologically active substances in foodstuffs of animal origin.

Improvements have been registered in the methodology of microbiological monitoring of raw milk based on samples from every milk-processing or dairy plant with capacity of more than 1 tonne/day. The samples are analysed for plate counts and somatic cells and a geometrical average is generated every 3 months. This approach provides a clearer picture of the situation regarding raw milk.

Besides general rules included in the Food Law, no progress has been made on preparing the required legislation on **specific rules on feed**.

On **phytosanitary policy**, following the new Law on Plant Protection adopted in October 2016, the secondary legislation on registration, procedures and criteria for assessing plant protection products and rules on trading, transport, keeping and storage of plant protection products is not yet in place but expected to be ready for approval during 2018.

There was no progress on preparing legislation on **genetically modified organisms**, and no structure has been appointed for this role.

5.13. Chapter 13: Fisheries

The common fisheries policy lays down rules for management of fisheries, protects living resources of the sea and limits the environmental impact of fisheries. This includes setting catch quotas, managing fleet capacity, rules for markets and aquaculture as well as support for fisheries and coastal communities.

Preparations are at an **early stage**. Albania has made **some progress** towards updating the vessel register and adopting preparatory measures for improving landing statistics.

In the coming year, Albania should in particular:

→ establish appropriate institutional and administrative capacity in line with its sector strategy;

→ take steps to ensure the appropriate management of fisheries resources, including by allocating the necessary resources to this area, taking appropriate enforcement action, developing an adequate data collection system, ensuring the adjustment of the fishing fleet's capacity to the fishing opportunities with the objective of achieving a stable and enduring balance between them, and collecting accurate landing statistics;

→ strengthen inspection, control, monitoring and surveillance capacity.

In October 2016, a regulation on the management of fishery resources and the functioning of the fishing fleet register was approved. The **vessel register** was updated twice.

Inspection and control capacity needs to be strengthened. The Department for Fisheries Services and Aquaculture lacks qualified staff to control and eliminate illegal fishing practices. The limited number of inspectors (18) does not allow for 24/7 service, especially in Albania's marine waters. Fisheries statistics have been so far collected by fisheries inspectors. Albania has not yet recruited monitors and observers to cooperate with the inspection service as foreseen in the relevant amendment to the fishery law approved in May 2017.

The fisheries service has not been reorganised in line with the recommendations of the Albanian government's sector strategy. At present, the service consists of a directorate responsible for inspections and controls outside the structure of the ministry and two sectors placed under two different directorates.

The **vessel monitoring system** has worked discontinuously and has not covered all vessels. Since March 2017 the system has not operated, partly due to issues related to the procurement of maintenance and airtime services. As a consequence, inspections and controls have mostly been regularly applied to small vessels in coastal or inland waters only.

Following approval of the Law on Aquaculture in 2016, the **licensing of new aquaculture farms** will be allowed only when the plan of allocated zones has been established and approved.

Data collection and scientific advice on managing fish stocks needs to be strengthened in line with the EU *acquis*, as the country currently continues to be dependent on these issues to the FAO FAO-AdriaMed Project (Scientific Cooperation to Support Responsible Fisheries in the Adriatic Sea) project financed by the Commission and EU Member States.

As regards **international agreements**, Albania has consistently participated in activities of the General Fisheries Commission for the Mediterranean and is committed to complying with its recommendations. In addition, Albania has fulfilled all the requirements in the recommendations of the International Commission for the Conservation of Atlantic Tunas.

On fisheries governance Albania signed the Malta MedFish4Ever Declaration towards the sustainability of fishing resources in the Mediterranean (an initiative of the EU to return fisheries in the Mediterranean to sustainability and in this way preserve growth and jobs).

5.14. Chapter 14: Transport

The EU has common rules for technical and safety standards, security, social standards, State aid and market liberalisation in road transport, railways, inland waterways, combined transport, aviation and maritime transport.

Albania has **some level of preparation** in the area of transport policy. **Some progress** was achieved in the past year by adopting the national transport strategy for 2016-2020 and the new railway code.

In the coming year Albania should:

- review the national transport plan in line with the national transport strategy;
- adopt legislation to implement the railway sector reform;
- pursue efforts to comply with the requirements under the first transitional phase of the European Common Aviation Area Agreement.

As regards the **general transport acquis**, the national transport strategy and action plan for 2016-2020 for all transport modes was adopted in November 2016. The strategy includes a sustainable transport plan, which aims to ensure a sustainable transport network and improve energy efficiency. The third review of the national transport plan will be initiated in 2018. Albania needs to make further efforts to align with the public services obligations and the *acquis* on public service contracts. Albania signed the Transport Community Treaty in July 2017 at the Western Balkan 6 Summit in Trieste and ratified it in February 2018.

Albania has not transposed the legislation on summer-time arrangements. Administrative capacity throughout the transport sector needs to be strengthened, particularly on rail transport. The new railway code was adopted in December 2016 and entered into force in January 2018. Independent railway and waterborne accident investigation bodies are not established yet. Funding for maintaining road and railway infrastructure is insufficient, resulting in their continued deterioration. Further efforts are needed to support the road and rail maintenance plans for 2018-2022.

Albania has made steady progress in approximating its national legislation on **road transport** with the *acquis*. There has been good progress on adopting the road safety inspection

guidelines and curriculum and delivering training. The country's legislation is aligned with the *acquis* on transport of dangerous goods, licensing for road hauliers and access to the road transport market. The General Directorate for Transport Services, tasked with implementing the law on dangerous goods, has yet to adopt and apply rules on sanctions and strengthen its inspection capacity. Greater approximation efforts are needed on commercial vehicle inspections, traffic management systems and road safety, including education and enforcement. Albania has to pursue its efforts to align with the safety *acquis* and develop enforcement capacity. In 2017 Albania partially aligned its legislation on the qualification of road transport operators. Implementation of the legislation on roadside checks of commercial vehicles is at an initial phase. The legislation on intelligent transport systems is partially aligned.

The new railway code aims to regulate **railway transport** by separating train operations from infrastructure management, in line with the EU *acquis*. It transposes only partially the recast Directive on a single European railway area and EU safety and interoperability rules. As a result, the unbundling of train operations from infrastructure management has not yet been achieved. Implementing legislation is under preparation for the establishment of relevant structures and agencies, in particular the Railway Regulatory Authority. One private railway operator is licensed for freight transport. Positive development was noted on cross-border facilitation, with the operation of the joint railway station of Tuzi (Montenegro), which started in July 2017. Further efforts are needed to define the strategic framework for implementing the intelligent transport systems on the core rail network.

On **maritime transport**, further efforts are needed to follow up on the country's membership application to the Paris Memorandum of Understanding on port state control. Efforts to improve flag state control of Albanian flagged vessels and port state control need to continue in order to further reduce the detention rate of Albanian vessels. Further efforts are also needed to define a strategic framework for the implementing intelligent transport systems on the core maritime network. Legislation on an EU vessel traffic monitoring and information system has not been transposed yet.

There were no developments in **inland waterway transport**. This mode of transport is limited to two lakes which are shared with neighbouring countries and regulated by bilateral agreements.

On **aviation**, Albania should be adequately prepared for the assessment visit requested in the framework of the European Common Aviation Area Agreement, ensuring proper transposition and implementation of the relevant EU *acquis*, notably in the areas of aviation safety, security and economic regulation. On air traffic management in particular, Albania has not yet complied with the Single European Sky requirements for the first transitional phase under the European Common Aviation Area Agreement as the functional use of airspace has not been implemented yet. Albania should also focus its efforts on the second transitional phase.

Even though the national transport strategy includes some priority actions for the development of **combined transport**, there is still no legislation on this. Albania has to step up efforts to implement the EU **passenger rights** legislation in all modes of transport.

5.15. Chapter 15: Energy

EU energy policy covers energy supply, infrastructure, the internal energy market, consumers, renewable energy, energy efficiency, nuclear energy and nuclear safety and radiation protection.

Albania is **moderately prepared** in this area. There was **some progress** in the gas sector and on interconnection lines. However, the country has to accelerate implementation of the connectivity reform measures, especially by removing legal and contractual obstacles to integrating energy markets.

In the coming year Albania should in particular:

- finalise and adopt its national energy strategy;
- fully align its Energy Efficiency Law with the *acquis*, set up an energy efficiency fund and draft and adopt secondary legislation implementing the Energy Performance of Buildings Directive;
- finalise the unbundling of energy companies.

On **security of supply**, Albania is at a moderate stage of preparation. The new national energy strategy, which runs until 2030, is now undergoing consultation with different stakeholders.

Albania's oil stocks legislation is not in line with the *acquis*. There was no progress on establishing a central stockholding body. The interinstitutional working group for analysing and developing a plan for re-designing the emergency stockholding system is working on a plan for a model of an emergency oil stock reserve. Albania has to continue its efforts to align with the *acquis* on minimum oil stocks of crude oil and/or petroleum products and to amend the emergency oil stock model.

Albania's electricity system is interconnected with the neighbouring systems of Greece and Montenegro since 2014, when the European Network of Transmission System Operators (ENTSO-E) approved synchronous operation of the Albanian electricity transmission system with the continental European system.

On the internal energy market, Albania has adopted legislation on gas and electricity in line with the EU's third energy package.

In March 2017 the Albanian Energy Regulator ERE approved the certification of OST SA as the transmission system operator, following a positive opinion from the Energy Community Secretariat. Consequently, later the same month the ENTSO-E Assembly admitted OST SA as a full member of the network.

The legal and functional unbundling of distribution system operator OSHEE SA from its supply activity has not yet been finalised. The unbundling model was approved by the supervisory council of OSHEE and the Minister of Energy and Industry, representing the General Assembly. The Energy Community Secretariat initiated an infringement procedure for non-compliance with Albania's obligations concerning OSHEE's unbundling in January 2018.

Electricity prices are still regulated but should be gradually liberalised once the legislation is implemented. The freedom for all customers to switch suppliers is stipulated by law but is still

not possible in practice. The electricity market remains closed by a regulated contract between the state-owned generation and supply companies which needs to be phased out urgently.

ERE must develop into a well-equipped and skilled independent institution and the shortcomings in their competences as regulator need to be addressed.

On **hydrocarbons**, Albania has not aligned its legislation with the Hydrocarbons Licensing Directive, but there has been some progress with its secondary legislation. The Directive on safety of offshore oil and gas installations has not been transposed. In February 2018 the Council of Ministers adopted the 'Gas master plan' which assesses investment needs until 2040.

The main interconnection line, the **Trans Adriatic Pipeline**, is progressing on schedule. (see chapter 21)

The regulatory framework for **renewable energy**³ is at an early stage. The national renewable energy action plan for 2015-2020 plan envisages that 38 %⁴ of gross final energy consumption will come from renewable energy sources. The plan should be revised in the first quarter of 2018. With the adoption of the law promoting renewable energy in 2017 Albania increased its compliance with the *acquis*. It introduced schemes to support renewable energy producers above 2 MW (solar) and 3 MW (wind) through a competitive procedure based on the support scheme "contracts for difference" on top of the market price of electricity. The law incorporates a net metering scheme for photovoltaic (PV) or wind energy with a capacity of up to 500 kW.

Albania depends almost exclusively on **hydropower** for its electricity generation (98 %), making it vulnerable to unfavourable hydrological conditions as in 2017. In addition, electricity from hydropower is not sufficient to meet its needs. Albania is a net importer of electricity and the security of its power supply is a challenge. The government should foster the development of renewable energy generation. Several investments (local and foreign) have been made through concession contracts to construct and operate hydroelectric power plants. However, plans for future plants (on the Vjosa and Valbona rivers, etc.) have generated debate about the need to address ecological considerations. Doubts have been expressed about the quality of **strategic environmental assessments and environmental impact assessments** carried out on energy projects. Investments in renewable energy projects other than hydropower need to be further explored.

The second and third national **energy efficiency** action plans for 2017-2020 were approved by the Council of Ministers in December 2017. The main target is a cumulative saving of 6.8 % of the energy used in Albania by 2020. The Energy Efficiency Agency was set up in 2016 with the task of implementing energy efficiency policies and measures, but it is still not staffed and operational. The agency reports to the minister responsible for energy. A working group has been set up within the Ministry of Energy and Infrastructure to prepare the establishment of the energy efficiency fund. However, full compliance with the Energy Community *acquis* has still not been achieved so the Secretariat has continued the dispute settlement procedure and submitted a Reasoned Request to the Ministerial Council for

³ The Ministry of Infrastructure and Energy includes the Directorate of Renewable Energy and Energy Efficiency, which is charged with drafting and implementing legislation on renewable energy sources. The Directorate has currently six employees including its director.

⁴ In 2015, the total RES share was 35 %.

decision. Albania still needs to start amending the Energy Efficiency Law in order to align with the Energy Efficiency Directive (EED). Albania is also the only Energy Community Contracting Party that failed to submit its first annual report under the EED (by 30 June 2017).

A law on **energy performance in buildings** entered into force in 2016. Albania still needs to adopt the necessary legislation to achieve full compliance with the *acquis*.

There has been moderate progress in **nuclear energy, nuclear safety and radiation protection**. Albania has no nuclear power plant on its territory, nor is it planning one. There is a National Nuclear Agency with the mission of putting in place a system to calculate energy demand for the next 20-30 years. Albania has adopted some guidelines and orders on policy and strategic steps for safely managing radioactive waste and has ratified a number of international conventions. Albania stated in its reports for the Sixth Review Meeting of the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management that on 7 September 2016 the government approved regulation No 638 on the safe management of radioactive waste, which reflects the latest International Atomic Energy Agency developments in this field. The country has established a waste storage facility with capacity of 300 m³. The facility was licensed by the Radiation Protection Commission on 18 November 2016 for 5 years. Albania is not a member of the European Community Urgent Radiological Information Exchange. It has partly aligned with the *acquis* on controlling radon and is preparing a national plan on this. The Radiation Protection Commission operates as Albania's nuclear regulatory authority, with the Radiation Protection Office (with 10 employees) as executive body.

5.16. Chapter 16: Taxation

EU rules on taxation cover value added tax and excise duties as well as aspects of corporate taxation. They also deal with cooperation between tax administrations, including the exchange of information to prevent tax evasion.

Albania is **moderately prepared** in the area of taxation. **Some progress** was made, in particular on legislative approximation with the *acquis* on tax procedures, further organisational development of the General Directorate of Taxation (GDT), implementation of the action plan against informal economy and tax compliance. Revenue performance in 2017 was above 2016 levels (+7.8 %) but slightly below target (-1.7 %), largely due to underperformance of personal income tax and local taxes.

In the coming year, the country should in particular:

- establish the fiscal cadastre in pilot municipalities (Tirana, Korça, Fieri, Durrës) and implement the revised property tax law;
- step up its efforts to negotiate double taxation agreements, notably with EU Member States;
- address the recurrence of delays in VAT refunds and avoid large backlogs.

Regarding **indirect taxation**, the standard *value added tax* (VAT) rate is 20 %. Since June 2017, a reduced rate of 6 % is applied to tourism accommodation services. Exemptions from VAT for supplies without right to input deduction are largely aligned with the *acquis*.

Excise taxation is partially aligned with the EU *acquis*. Marking of mineral oils is done for some categories. Tobacco excise duties are set to increase incrementally over the next 3 years,

from EUR 44 per 1 000 cigarettes as of 1 January 2018 to EUR 48.9 from 1 January 2021. Since 2016, the level of taxation on cigars and cigarillos manufactured domestically with tobacco leaves grown in Albania is set at EUR 18.8/kg as compared to EUR 33.1/kg for imported in an attempt to combat the informal economy. Small producers of alcoholic beverages enjoy reduced tax rates and distillation. For personal consumption, amounts up to 100 litres for spirits and up to 200 litres for wine are tax exempted. The national VAT law includes all energy products listed in Directive 2003/96/EC.

Regarding **direct taxation**, financial institutions are legally required to calculate, withhold, declare and pay income tax on income from savings. Albania does not provide deferral of taxation for status changes such as those provided for in the Merger Directive. Albania has committed to join the Organisation for Economic Co-operation and Development's (OECD) Inclusive Framework on anti-Base Erosion and Profit Shifting by 2019.

On **administrative cooperation and mutual assistance**, Albania is yet to sign double taxation agreements with Denmark, Cyprus, Lithuania, Portugal, Slovakia and Finland. It has not yet established a central liaison office to automatically exchange financial account information based on the OECD single Global Standard.

Concerning **operational capacity and computerisation**, the tax administration has 1 569 posts. In 2017, 22 employees were dismissed due to disciplinary measures. The annual training programme is needs-based and was approved by the Director-General of Taxation in January 2017. Training is provided through the tax and customs administration Training Centre and the Albanian School of Public Administration.

Albania does not yet have the technical capacity to facilitate the efficient exchange of information or the appropriate infrastructure to apply the EU IT standards. The electronic tax administration system has been operational since January 2015 as a network application with a central platform operating in the entire tax administration. The current IT department strategy does not provide steps and timelines to achieve interconnection and interoperability with the EU systems.

GDT adopted the 2017 annual action plan on combating the informal economy and implemented it accordingly.

5.17. Chapter 17: Economic and monetary policy

EU rules require the independence of central banks and prohibit them from directly financing the public sector. Member States coordinate their economic policies and are subject to fiscal economic and financial surveillance.

Albania is **moderately prepared** in the area of economic and monetary policy. **Some progress** was made, in particular in the area of fiscal policy where new rules on debt reduction and budget execution in election years were implemented.

In the coming year, Albania should take further measures to:

- further align the legislation with the *acquis* as regards the Bank of Albania's (BoA) independence and accountability;
- strengthen the government's policy coordination and consultation mechanism with non-governmental stakeholders when formulating sector priority reforms.

In the area of **monetary policy**, preparations have started to further align the 1997 Law on the Bank of Albania with the statute of the European System of Central Banks (ESCB) as regards

the personal independence of the supervisory council members, especially of the governor, and the BoA's accountability. The BoA is financially independent and has sufficient administrative capacity to function effectively. The primary objective of the central bank, as defined by the Law on the Bank of Albania is to achieve and maintain price stability. The BoA has defined price stability as an annual increase of consumer prices of 3 % and it aims to keep consumer price inflation at that level on average terms and for long time periods. Monetary policy is conducted with a standard set of instruments and within a free-floating exchange rate regime. Foreign exchange reserves are maintained at an adequate level.

In the area of **economic policy**, the 2016 amendments to the Organic Budget Law on debt reduction and budget execution in an election year (fiscal rules) were implemented in 2017. Further alignment with the Directive on Requirements for Budgetary Frameworks is needed. EDP notification tables are sent regularly to Eurostat on a best-effort basis, but they are not complete. An MoU was signed in 2016 between the Institute of Statistics, Bank of Albania and Ministry of Finance towards further improving the fiscal statistics reporting according to the European System of National and Regional Accounts (ESA 2010) requirements. Albania should fill in the gaps for cross-annual statistics, as well as for regular transmissions of government deficit and debt statistics and government finance statistics. Further significant efforts are needed to align fiscal statistics with ESA 2010. Preparations for participation in the macroeconomic imbalance procedures (MIP) have started at the Bank of Albania and the Institute of Statistics. Albania submitted its coherent ERP 2018-2020 in time.

5.18. Chapter 18: Statistics

EU rules require that Member States are able to produce statistics based on professional independence, impartiality, reliability, transparency and confidentiality. Common rules are provided for the methodology, production and dissemination of statistical information.

Albania is **moderately prepared** on statistics. **Some progress** was made in many statistical areas and by adopting the official statistics programme for 2017-2021, but a detailed budget and action plan for its implementation is still to be prepared. The Institute of Statistics (INSTAT) has signed several memoranda of understanding with different statistical agencies. However, there is a need for a greater use of administrative data.

In the coming year, Albania should in particular:

- continue strengthening INSTAT's resources by adjusting its salary structures and civil servant posts;
- adopt the new statistical law and put more efforts into implementing existing legislation (such as the new official statistics programme);
- further align macroeconomic statistics to ESA 2010 and submit a complete excessive deficit procedure notification.

Regarding **statistical infrastructure**, the legal framework is partly in line with the European Statistics Code of Practice and classifications are in line with EU standards. The new five-year programme on official statistics for 2017-2021 was adopted in February 2017 but is yet to be accompanied by a detailed action plan. INSTAT's budget and staffing are insufficient for fully implementing the EU *acquis* in statistics. INSTAT has concluded agreements with data custodians on access to administrative data to facilitate the statistical use of such data. A Memorandum of Understanding was signed in October 2016 between producers of official statistics (INSTAT, BoA and Ministry of Finance) on improving the

national accounts statistics and communication and data transmission between parties. During 2017 memoranda of understanding were signed with 12 different statistical agencies and other public institutions for accessing administrative data. INSTAT has improved the range and quality of the statistics it publishes. Since January 2017 INSTAT transmits data to Eurostat through the Electronic Datafiles Administration and Management Information System.

On **macroeconomic statistics**, annual and quarterly GDP data continue to be produced based on the production and expenditure approach, in current and constant prices. Supply and use tables and derived input-output tables are produced and harmonised with the concepts and definitions of the European System of Accounts (ESA 2010). Excessive deficit procedure notification tables are sent regularly to Eurostat on a best-effort basis, but they are not complete. During September 2017, INSTAT released for the first time the full list of public institutions in the government sector. However, further improvements are needed in Government Finance Statistics.

As regards structural **business statistics**, data collection and production have further improved. INSTAT produces and publishes the Harmonised Index of Consumer Prices (HICP). Expenditures are classified using the European Classification of Individual Consumption by Purpose ECOICOP-5 digit classification. Since first quarter 2017 the time series of Short-Term Statistics are published regularly every quarter. Development of a Service Producer Price Index started in February 2017. Efforts are under way to improve tourism statistics. INSTAT carried out a pilot survey, harmonised with EU regulation, during April 2017 and a full-scale survey during May 2017. During March 2017, INSTAT conducted the ICT survey on businesses.

More detailed **social statistics** need to be produced. The Labour Force Survey is conducted regularly and micro-data are provided to Eurostat. In 2016, INSTAT launched for the first time a full-scale EU statistics on income and living conditions (EU-SILC) survey among the representative gross sample of 9 216 households. Labour cost statistics (LCS) are calculated on the basis of a Labour Cost Survey, which is conducted every 4 years. The second Survey has been launched for the period April 2017-April 2018. Statistics on external migration and asylum are partially aligned with EU legislation. Quarterly publications on crime statistics were published throughout 2017. The annual publication of 'Women and Men in Albania' was enriched with 15 additional indicators, including child-specific indicators in the areas of demographics, health, justice, education and labour.

Agricultural statistics are partially aligned with the EU *acquis*. INSTAT conducted the Annual Agricultural Survey 2016 in collaboration with the Ministry of Agriculture, Rural Development and Water and the data were published in 2017. The final data of the Census of Agriculture Holdings 2012 was published in October 2017. The Farm Structure Survey has yet to be implemented.

Environment and energy statistics are in line with the EU *acquis* to a very limited extent. INSTAT produces the Balance of Electricity twice per year and publishes the Balance of Energy produced by the National Agency of Natural Resources. Short-term energy statistics are still produced as volume data for electricity only. Detailed data on urban waste statistics are in line with the EU *acquis*. Air emission accounts are partially in compliance with the EU requirements. In 2017, for the first time, INSTAT produced data on economy-wide material flow and environmental taxes as part of environmental accounts. Data on environmental expenditure is not yet being produced due to continued lack of information.

5.19. Chapter 19: Social policy and employment

EU rules in the social field include minimum standards for labour law, equality, health and safety at work and non-discrimination. They also promote social dialogue at European level.

Albania has **some level of preparation** on social policy and employment. **Some progress** has been made on increasing labour market participation and the quality and effectiveness of labour market institutions and services, and on implementing the national employment and skills strategy (NESS) for 2014-2020. Albania has initiated the restructuring of employment governance stipulated in the revised law on vocational education and training (VET). Employment and human capital development statistics have improved from the previous year. The employment rate and labour market participation remain low, and the informal economy is still a significant job provider.

In the coming year the country should:

- ensure sufficient human and financial capacities and resources to secure the implementation of employment and social policies and to carry out meaningful social dialogue;
- develop a strategic approach to tackle the informal economy and undeclared work;
- intensify efforts to implement the 2015-2020 social protection strategy, including through further progress in social care reform and linkages with active labour measures and strengthening the role of local government in implementation.

On **labour law**, the amended Labour Code is being implemented. The monitoring of the implementation of the Labour Code amendments requires strengthening of data collection and instruments for disaggregated data. Labour inspectorate capacity and performance should be further increased and investigations of suspected cases of fraud and misconduct by social inspectors strengthened. Child labour remains a concern, with more effective measures needed to prevent it. There is also a need to improve the system of monitoring child labour.

Regarding **health and safety at work**, the 2016-2020 occupational, safety and health policy document and its action plan are under implementation. The Labour Inspection Law was amended in March 2017, but labour inspection is struggling with low financial and human capacities. Reported accidents at work fell from 125 in 2015, to 107 in 2016-2017, and fatalities at work decreased from 28 to 13. Ninety-nine workers suffered accidents in 2016, and 101 in the first 9 months of 2017. Most of the accidents (60 %) occurred in mines, manufacturing and construction. Statistical data on health and safety still need to be improved.

Social dialogue remains weak in both the private and state sector. Regarding tripartite social dialogue, the mandate of the members of the National Labour Council has expired and should urgently be re-established. The appointment of the new members is still expected. Significant efforts are needed to transform it into an effective social dialogue forum, aiming at improving collective bargaining. Intensification of bipartite social dialogue, in particular at local and company level is also needed. At regional level, the decision on a tripartite Regional Consultative Council, consisting of representatives of employers' organizations, trade unions and representatives of state structures, is still expected to be adopted.

On **employment policy**, the administrative restructuring led to the dismantling of the Ministry of Labour and reduction in human capacities, which can have negative effects on the

implementation and the design of employment policies and measures. While there has been improvement in the labour market, the employment rate and labour market participation remain low and the informal economy significant. A mid-term review of the NESS and its action plan should be conducted in the first half of 2018. In February 2017 the revised VET Law was adopted but its bylaws have yet to be adopted. No progress has been made in extending employment and VET services to rural areas. Significant efforts should be made to adopt the Albanian Qualification Framework. The law on employment promotion programmes has still not been adopted. Less progress has been made in linking the reform of social assistance to the employment and skills development programmes available.

Public employment services were strengthened and the image and outreach of Labour Offices have improved. Further efforts should be made to finalise the reorganisation of the remaining employment offices.

The unemployment rate decreased to 15.6 % in 2016 from 17.5 % in 2015, but remains high, particularly among women, young people and people with disabilities. The data available on the second quarter of 2017 show that the unemployment rate further decreased to 14 %, 1.6 percentage points below the same period in 2016 and with a downward trend from the beginning of the year (-0.3 pp.). Long-term unemployment remains a challenge to be addressed through more flexible and tailored policy interventions. During the first half of 2017, over 460 undeclared workers were identified and over 1 650 urgent measures imposed. Inspections carried out in June 2017 show that 37 % of employees are declared as paid at the minimum wage.

Institute of Statistics has sufficient resources to contribute to policies with comprehensive and reliable data. The wage gap methodology still needs to be aligned with Eurostat requirements. Special attention is needed to urban/rural ratios in all labour-related statistics. There were no developments regarding use of the European Social Fund.

As regards social inclusion and protection, the national strategy on social protection for 2015-2020 is under implementation. The Law on Social Care Services entered into force in November 2016 and the Law on the Rights and the Protection of the Child in February 2017. The 2017-2020 national agenda for children's rights was adopted in April 2017, promoting stronger governance in the protection of such rights. In December 2016 the Council of Ministers approved the criteria, procedures, documentation and the amount of economic aid for offering more autonomy to local government units. The use of the Management Information System for disabled beneficiaries is already approved and is being implemented in a pilot phase. The process of transitioning from institutional to community-based care for vulnerable groups is being piloted in Durrës, Shkoder and Saranda. Foster care was promoted by the state social services but needs to be further developed and regulated.

Regarding the Social Inclusion Policy Document for 2016-2020, little progress has been made in setting up the necessary structures or clarifying arrangements for implementing the policy. The government should step up its efforts to ensure there is a comprehensive plan for building up the capacity of all line ministries and local governments to implement the actions in the document. In 2016, the government developed a social housing strategy but the budget allocated for (social) housing programmes is limited and does not provide for all proposed actions to be carried out. To address many of Albania's shortcomings identified by international bodies in the field of housing and forced eviction, the Council of Ministers approved a full-fledged draft social housing law in April 2017. However, this draft was

withdrawn following the restructuring of the government after the elections in June 2017, and is not yet adopted.

On **non-discrimination** in employment and social policy, there have been legislative amendments in the employment and workplace environment for women. These concern the amendment of the Labour Code defining and reversing the burden of proof in cases of sexual harassment.

As regards **equality between women and men** in employment and social policy, the gender gap in employment decreased in 2016 to 12 %, 2.5 p.p. less than 2014. The 2017 World Economic Forum Gender Gap Index report showed Albania improved compared to 2016 (rising from rank 62 to 38 out of 144 countries). The 2017 index ranked Albania third on wage equality for similar work and 10th for women in ministerial positions. There are not enough kindergarten and early childhood education and care facilities in the country to enable parents, especially women, to work. In rural areas, in 2016 women were overrepresented as contributing family earners. In the third quarter 2017, agriculture employs 35 % of employed males and 42 % of employed females.

Concerns remain over the proportion of women in the informal labour market, especially the textile and shoe industries, without adequate labour and social protection. There are also concerns over the lack of disaggregated data on the number of women in the informal labour economy.

5.20. Chapter 20: Enterprise and industrial policy

EU industrial policy strengthens competitiveness, facilitates structural change and encourages a business-friendly environment that stimulates small and medium-sized enterprises (SMEs).

Albania is **moderately prepared** in the area of enterprise and industrial policy. **Some progress** was made by introducing incentives to stimulate investment in the tourism sector and maintaining a focus on the principles of the Small Business Act.

In the coming year, Albania should in particular:

- take steps to enhance SMEs' ability to handle new technologies and business processes;
- raise the effectiveness of the implementation of the triple-helix action plan;
- speed up the full alignment of its legislation with the late payment directive;
- pursue the reduction of the regulatory burden more ambitiously and vigorously address the main business environment challenges in the policy areas concerned.

The 2014-2020 business and investment development strategy sets the strategic framework for Albania's **enterprise and industrial policy** and addresses its strategic approach to industry and competitiveness. Albania is following the South-East Europe 2020 regional initiative which mirrors the Europe 2020 strategy and has already adopted an action plan for its implementation. The business and investment development strategy is cross-cutting and sets out the roadmap for: business development, including SMEs and increased competitive skills; developing innovation; promoting sustainable growth; and creating the conditions for attracting foreign investment. In January 2017 the government adopted an action plan based on a 'triple helix' model that incorporates measures requiring the involvement of the public and private sectors together with universities. However, its implementation needs to be further improved. An innovation map Albania portal was launched. The national strategy on

employment and skills for 2014-2020 and its action plan address the measures needed to develop and consolidate the labour market.

Albania has partly aligned its definition of SMEs and the relevant legislation which regulates this issue with the EU definition. Albania follows the implementation of the Small Business Act. The methodology and templates for full regulatory impact assessment were finalised by the end of 2016. Albania has intensified its coordinated actions against the informal economy and an ‘anti-informality’ action plan for 2017 has been implemented. In October 2017 a Council of Ministers Decision was adopted on monitoring the performance indicators on fighting informality. Despite some improvement in the business environment, SMEs continue to identify the informal economy and unfair competition as well as the unclear ownership of property titles as the main challenges, as well as the enforcement of the rule of law and better implementation of public consultation law.

In the area of **enterprise and industry policy instruments**, the Albanian Investment Development Agency has implemented and manages dedicated funding instruments that stimulate entrepreneurship in tourism, handicrafts and innovation and to support inward processing industry and competitiveness. Albania participates in the EU’s COSME programme for SMEs and the Enterprise Europe Network through a consortium led by the Investment Development Agency. The second European Enterprise Network project is being implemented until the end of 2018. Business incubators are not yet properly developed in Albania and few pilot experiences can be identified. Albanian legislation is partially aligned with the 2011 Late Payment Directive.

Regarding **sector policies**, specific studies were completed in 2017 in the copper industry and leather-footwear sectors as part of structural reforms under the economic reform programme aimed at encouraging private investment in these areas. A national strategy on innovation and technology was adopted in December 2017. In the first half of 2017 regulatory measures and fiscal incentives in the tourism area were adopted which were followed in 2018 by a fiscal incentive package for 4-5 star hotels. Albania’s Law on the Establishment and Operation of Economic Zones, amended in 2015, provides for the creation of a technological and economic development area. Businesses have only benefitted to a small extent from the industrial zone facilities.

5.21. Chapter 21: Trans-European networks

The EU promotes trans-European networks (TEN) in the areas of transport, telecommunications and energy to strengthen the internal market and contribute to growth and employment.

Albania has **some level of preparation** in the area of trans-European networks. **Some progress** was made in preparing the strategic framework for developing transport and energy networks. **Some progress** was also made on its gas interconnection due to the implementation of the Trans Adriatic Pipeline project.

In the coming year, Albania should in particular:

→ accelerate the development of the transport and energy core networks in line with the national strategies for transport and energy and with infrastructure investment prioritisation under the Single Project Pipeline and the connectivity agenda;

→ proceed with harmonising the legal framework with the EU *acquis* and the regulations on TEN-T (trans-European transport networks) and TEN-E (trans-European energy networks), and with implementing connectivity reform measures;

→ strengthen the institutional framework and administrative capacity to develop and monitor trans-European networks.

On the **transport networks**, Albania is progressing in setting up the **country's strategic framework**. Albania intends to harmonise the legal and institutional framework with the EU TEN-T Regulation and the Transport Community Treaty, signed in June 2017. Albania participates actively in the South-east Europe Transport Observatory and Western Balkan 6 (WB6) processes, focusing on improving connectivity within WB6 and with the EU. The national transport strategy and action plan for 2016-2020, adopted in November 2016, envisages the development of the indicative extension of the TEN-T Comprehensive and Core Networks to the WB6, aligned with TEN-T guidelines and EU standards and regulations.

Albania has made progress on repairing roads, rail and maritime infrastructure, especially that linked with the Adriatic-Ionian Corridor and Corridor VIII.

Albania is partially aligned with the *acquis* on a single European railway area, railway system interoperability and rail freight corridors for competitive freight. Further efforts are needed to align with the Directive on intelligent transport systems and the steps needed to implement it are still awaited.

The **national energy strategy** is in the consultation phase with stakeholders. It aims to cover the development of the energy sector up to 2030. The gas master plan (GMP) has been adopted by the Council of Ministers in February 2018. Further efforts need to be made to adopt the strategic framework (namely the national energy strategy as well as the strategic environmental assessment and project identification plan related to the GMP) for developing TEN-E projects. Progress was made on the infrastructure for power transmission. The Trans Adriatic Pipeline is progressing well and is expected to be operational in 2020. Major gas interconnector projects are provided for under the GMP.

Albania has functional power interconnection lines with Greece, Montenegro and Kosovo. A 400 kV interconnection line between Albania and Kosovo was finalised in June 2017 but is not yet used. The inability to use this interconnection has a financial cost for Albania and Kosovo. OST S.A. and KOST SA, respectively the Albanian and Kosovo power transmission system operators, have therefore officially requested the assistance of the Energy Community Secretariat and the European Commission to start the operation of the line.

The construction of the 400 kV line between Elbasani in Albania and Bitola in the former Yugoslav Republic of Macedonia was approved in June 2016 by the Council of Ministers and the tendering procedure for project preparation is still ongoing. The line is projected to cost EUR 70 million. For this reason, the Council of Ministers approved an agreement between Albania and Germany on financial cooperation for the project. The agreement was ratified by the Albanian Parliament in January 2017.

Albania has shown some progress towards building up the institutional framework and administrative capacity for developing trans-European networks for transport and energy.

Albania also participates in the EU macro-regional strategy for the Adriatic and Ionian Region (EUSAIR) where improving connectivity (transport and energy networks) is a main priority for the regional issues.

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

Regional policy is the EU's main tool for investing in sustainable and inclusive economic growth. Member States bear responsibility for its implementation, which requires adequate administrative capacity and sound financial management of project design and execution.

Albania is **moderately prepared** in the area of regional policy and coordination of structural instruments. **Some progress** was made with the signature of the Financing Agreement for the 2016 IPA national programme, completing the entrustment process.

In the coming year, the country should in particular:

→ strengthen its administrative capacity, especially the Central Finance and Contracting Unit (CFCU) of the Ministry of Finance, the National Authorising Officer's Support Office and the Audit Authority;

→ accelerate the preparation of project documentation to avoid delays in the use of EU funds and difficulties in meeting contracting deadlines, as observed in the 2013, 2014 and 2015 programmes;

→ increase programming capacity in line with the sectoral approach and sectoral policies, and improve the design of mature sector project pipelines.

On the **legislative framework**, the national strategy for development and integration and several sectoral reform strategies have been adopted and are being implemented. A national medium-term budget plan still needs to be drafted and adopted. Adequate co-financing capacity for EU programmes at national and local level has yet to be established.

Regarding the **institutional framework**, the reorganisation of Albania's institutions after the general elections in 2017 affected the progress of setting up the institutional bodies to implement the regional development policy and manage EU pre-accession assistance (IPA). The functions of national IPA coordinator were transferred to the Minister for Europe and Foreign Affairs. The coordinator's support office is being reorganised as well. The pilot integrated policy management groups set up by the Prime Minister's Office to support the government's Strategic Planning Committee have not been reactivated. Further efforts are needed to fully establish adequate structures and make them operational. The integrated policy management group on competitiveness still has to be made operational. Coordination on EU integration and EU assistance needs to be ensured between national administrations such as the Ministry for Europe and Foreign Affairs, the Ministry of Finance and Economy, the Prime Minister's Office and line ministries.

On **administrative capacity**, the problems faced by the Audit Authority were partially addressed in 2017 by increasing its staff. However, further capacity-building measures should be taken for the Audit Authority and the CFCU, in particular for the public procurement process. The CFCU's procurement department should be increased to ensure it can handle the volume of tendering procedures effectively and promptly. The supervisory capacity of the National Authorising Officer's Support Office has yet to be strengthened and a proper retention strategy needs to be developed for all indirect management structures. The administrative capacity and monitoring of the integrated policy management group secretariats still need to be improved and business continuity ensured.

Further efforts are still needed to ensure multiannual sector **programming** in line with the sectoral approach under the IPA framework for 2014-2020. The number of integrated policy management groups should be expanded and new sectors identified. The involvement of

development partners, local governments and civil society organisations in sectoral dialogue should be improved. The authorities provide input into the mid-term review of the IPA country strategy paper. The national project pipeline of investments, including those for regional development, is not yet fully aligned with the medium-term budget programme and the planning and management of nationwide public investment.

On **monitoring and evaluation**, there is slow progress on setting up the Sector Monitoring Committee (for IPA II). The committee ensures the proper monitoring of EU pre-accession assistance and the process for establishing it has to be finalised soon. The committee needs to meet regularly.

Regarding **financial management, control and audit**, procurement procedures under IPA II indirect management were suspended. This is causing delays in handling tendering procedures for the 2014 and 2015 programmes.

5.25. Chapter 25: Science and research

The EU provides significant support for research and innovation. All Member States can benefit from the EU's research programmes, especially where there is scientific excellence and solid investment in research.

Preparations are at an **early stage** in the area of science and research. **Some progress** has been made over the last year, especially with the adoption of the national strategy for scientific research, technology and innovation for 2017-2022.

In the coming year, the country should in particular:

- increase investment in research, in line with its own commitments and European Research Area priorities;
- strengthen participation in Horizon 2020, for example by making efforts to increase the participation rate.

On **research and innovation policy**, the national strategy for scientific research, technology and innovation for 2017-2022 was adopted following broad public consultation. The strategy's action plan is designed to promote the EU research and innovation programme Horizon 2020. In January 2017 the government approved the 2017-2021 action plan to support the development of innovative policies, stimulating better links between academia, industry and government.

Investment in research and measures to strengthen research and innovation capacity at national level need to be stepped up. The percentage of research & development expenditure in relation to GDP remains low at around 0.35 % of GDP. Albania has no national roadmap for research infrastructure. In September 2017 the process of drafting a 'smart specialisation' strategy started under the lead of the Ministry of Education, Sports and Youth and in cooperation with the European Commission.

As regards EU **framework programmes**, Albania participates in Horizon 2020 as an associated country. At the end of 2017, the number of Albanian applicants had increased to 249 from 146 in 2016, but the success rate remains comparatively low (7.9 % compared to 14.7 % overall for Horizon 2020). Private sector participation in the programme remains very low. The Albanian early-stage or experienced researchers participating in Marie Skłodowska-Curie Actions have been increasing steadily over the last years, counting a total of 21 funded talented researchers since 2014.

On integration into the **European Research Area**, Albania has so far endorsed 29 bilateral scientific cooperation agreements with EU countries, Western Balkan states and/or other countries worldwide.

Concerning **Innovation**, the government adopted decisions establishing three programmes managed by the Albanian Investment Development Agency for 2016: Competitiveness Fund: 6 companies benefited from a total of EUR 58 712; Innovation Fund: 1 project received EUR 3 077; Start-up Fund: 2 projects were approved and received EUR 4 466.

5.26. Chapter 26: Education and culture

The EU supports cooperation in education and culture through funding programmes and the coordination of Member State policy through the open method of cooperation. Member States must also prevent discrimination and facilitate the education of children of EU migrant workers.

Albania is **moderately prepared** in the field of education and culture. **Some progress** has been made on education especially by improving the curricular framework for pre-school education and standards of development and learning for children aged 3-6 years. **Some progress** was registered in vocational education and training (VET), with the adoption of the revised VET Law.

In the coming year, Albania should in particular:

- ensure the pre-university education strategy and the higher education reform are implemented and further improve teacher training;
- ensure the VET Law is fully implemented, including finalisation of the secondary legislation, and review/expand the current funding system and arrangements for VET;
- adopt and implement the national strategy on culture for 2018-2022 to preserve Albania's cultural heritage.

On **education and training**, progress was made with the approval of the curricular and legislative frameworks. The level of pre-school participation was 81.5 % in 2016 (slightly down from 83 % in 2015) and participation in lifelong learning participation was very low at 1 % in 2016. The enrolment of Roma and Egyptians in pre-school education increased by 5 %, in elementary schools by 25 %, in middle school and high school by 27 % and in pre-university education by 22 %. However, their enrolment rates remain very low overall.

The new VET Law was adopted in February 2017 but related implementing legislation has yet to be adopted. Qualification standards and framework curricula for most VET programmes are being modernised, even though some Albanian schools lack the teaching skills and equipment to put them into practice. Participation in VET is increasing, mainly through promotion of the VET services. It is planned to expand the responsibilities of the National Agency for VET and Qualifications to include VET teacher training and non-formal training. Albania should also make progress in ensuring VET is inclusive through targeted measures for rural women, people with disabilities, Roma and Egyptian minorities and other populations at risk of exclusion, especially in rural and remote areas.

Moderate progress was made in implementing the Law on Higher Education and Scientific Research. Remaining bylaws still need to be approved. Progress was made on recognition of diplomas which is now offered online. Some steps have been taken to implement the 2014-2020 pre-university education strategy; however it is still at a very early stage, especially

regarding teacher training and delivery of the new curricular framework. On education, infrastructure works are ongoing but further efforts are needed to improve the infrastructure in small cities and rural areas as well.

The results in all areas of the Programme for International Student Assessment (PISA) surveys improved over the last three testing rounds (2009, 2012 and 2015) and preparation for Albania's participation in PISA 2018 has started.

Special measures have been taken regarding the inclusion of vulnerable groups into formal education; their enrolment rates had increased during the academic year 2016/2017.

Participation in the Erasmus+ programme has been further improved, especially in Capacity Building in Higher Education, where two Albanian higher education institutions participated as project coordinators for the first time and in the International Credit Mobility action, where 1 193 mobilities were granted last year, which represent an increase of +11.5 % in relation to the previous year and more than 3 400 since the first call was launched in 2015. Participation in the Jean Monnet programme significantly increased with four selected projects.

On **youth**, the Regional Cooperation Office's headquarters has been established in Tirana during the second half of 2017. Government priorities for youth continue to promote youth participation employability. Six Youth Centres have been established in the last two years: three in Tirana and three more outside the capital. Young Albanians and Albanian youth workers and youth organisations continued benefitting from the funds allocated through the Erasmus+ National Agencies. More than 1 700 young participants benefited from one of the three Youth mobility actions since 2014 (mobility of youth workers, youth exchanges and the European Voluntary Service).

As regards the culture sector, the national strategy on **culture** for 2018-2022 is in its drafting stage. The draft law on cultural heritage was approved by Council of Ministers in 2017.

The Law on Copyright and Other Related Rights came into force in October 2016. In line with the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions, a new Law on the Protection of National Minorities has been adopted.

Albania continued to participate in the EU Creative Europe programme with good results in literary translations over the years.

5.27. Chapter 27: Environment and climate change

The EU promotes strong climate action, sustainable development and protection of the environment. EU law contains provisions addressing climate change, water and air quality, waste management, nature protection, industrial pollution, chemicals, noise and civil protection.

Albania shows **some level of preparation** in this area. **Some progress** has been achieved in further aligning policies and legislation with the *acquis*, especially through the review of the national strategy on waste management. However, significant efforts are needed on implementation and enforcement.

In the coming year, Albania should in particular:

→ ensure an adequate budget, finalise the cross-cutting environmental strategy and strengthen the environment agency's monitoring and reporting capacity;

- develop the legal, institutional and policy framework for water, and improve the environmental impact assessment process, especially in the hydropower, construction and mining sectors;
- start implementing the Paris Agreement and Albania's contribution to it by adopting a national strategy and legislation on climate change as well as related energy and transport policies.

As regards **horizontal issues**, further progress is needed to achieve full alignment and implementation. The environmental impact assessment process needs to be considerably strengthened, especially in the hydropower and mining sectors. Some permits for the construction of new hydropower plants and tourist resorts in protected areas have been issued. Substantial efforts are needed to align the process with the EU standards. The Directive on infrastructure for spatial information has not yet been transposed. Albania has taken some steps to improve cooperation with civil society organisations, but more work is needed to achieve effective public participation and consultation in the decision-making process, particularly at the local level. Further progress is needed to achieve full compliance with the remaining cross-cutting aspects of the directives on environmental liability, environmental crime and environmental inspection. The lack of a secondary legal framework for environmental liability and the inappropriate permits and requirements that result are hampering the establishment of an adequate process and assessment of environmental liability for damage to the environment.

More efforts are needed to further align the legislation on **air quality** with the *acquis*. The national strategy for air quality and the law on ambient air quality need to be properly enforced. The directive on ambient air quality and cleaner air for Europe has been fully transposed but current air quality monitoring practice is not in line with EU requirements. Albania prepared a first draft annual assessment report for January-September 2017 based on available air quality data. Online data access, disclosure to the public and accreditation of public authorities to undertake the monitoring need to be ensured.

The legal framework for **waste management** is partially aligned. The national strategy on waste management (covering 2010-2025) is being revised but implementation remains at an early stage. Work done on waste landfills has brought waste treatment facilities closer to the EU standards. Further efforts are needed to close the over 300 non-compliant landfills, increase the separate collection of different waste streams and reduce bio-waste. Economic instruments to promote recycling and prevent waste generation remain limited. The construction of an incinerator in Elbasan which started to operate last year and plans for further investment in incinerators pose concerns in terms of compliance with EU principles since disposal and incineration are the least preferred waste management options.

On **water quality** the level of alignment remains partial. A National Agency for Water Supply and Sewerage was established, and performance-based contracts between municipalities and water utilities were put in place. Further efforts are needed to strengthen the capacity of utilities and the central level and to improve the subsidy scheme. Further progress has been achieved in the licensing process for waste water collection and treatment. However, the performance and connections to waste water systems need to improve. Efforts have been made to combat illegal connections. The responsibility for water resource management was transferred from the Ministry of Agriculture, Rural Development and Water Administration to the Prime Minister's Office. Only one of the six defined river basin management plans exists and it has not yet been implemented. Nine marine/coastal protected

areas are registered. The integrated water resource management strategy has been prepared but not adopted yet. Water quality and its monitoring system have improved. The number of operational waste water treatment plants increased but their impact is limited by underdeveloped networks and household connections. There is a strong need to extend sewer networks and treatment plants, notably in urban, coastal and tourism areas.

Alignment with the *acquis* in the field of **nature protection**, in particular the Habitats and Birds Directives, is well advanced. The level of transposition of the Habitats and Birds Directives has increased. However, effective protection for designated protected areas still needs to be guaranteed. Furthermore, investments in hydropower need to comply with nature protection obligations.

Alignment with the EU legislation on **industrial pollution and risk management** is still at an early stage. Capacity constraints are hampering progress in implementing the legislation on prevention of chemicals accidents. Permitting is not fully compliant with all legal requirements.

On **chemicals**, Albania's national plan to reduce and eliminate persistent organic pollutants is currently being reviewed. Some positive steps have been taken towards aligning with the EU Regulation on registration, evaluation, authorisation and restriction of chemicals (REACH). However, the adoption of the implementing legislation and the establishment of adequate capacity are still needed.

Administrative capacity for preparing strategic **noise** maps and action plans needs to be strengthened.

No **civil protection** strategy is in place and there is limited administrative capacity. Albania is gradually implementing its emergency communication system in accordance with the single European emergency number 112, but is not linked to the EU Common Emergency and Information System yet.

Climate change

Albania has achieved some level of preparation, but alignment is still limited. A national strategy on climate change consistent with the EU 2030 framework on climate and energy policies still needs to be adopted. It should aim at implementing Albania's Nationally Determined Contribution (NDC) to the Paris Agreement and also contain a plan on adaptation. The latest reorganisation that established the Ministry of Tourism and Environment provided no specific structure for climate change, which might jeopardise the Paris Agreement implementation. Laws and plans in the fields of transport and energy efficiency help to mainstream climate change and reach the objectives of Albania's NDC.

Regarding its reporting obligation under the United Nations Framework Convention on Climate Change, Albania submitted its third national communication but did not attend the UN Climate Change Conference in 2017.

The law on climate change and accompanying decisions, partly transposing provisions on monitoring, reporting and verification of greenhouse gas emissions and on accreditation of verifiers in the EU Emissions Trading Directive, still need to be adopted. Further efforts should be made on emission standards for new cars and vans and related consumer information. The same goes for effort sharing, geological storage of CO₂, and greenhouse gas emissions from land use, land use change and forestry. Considerable strengthening of

administrative capacity, sustainable financing of the sector and awareness-raising activities are needed.

5.28. Chapter 28: Consumer and health protection

EU rules protect consumers in relation to product safety, dangerous imitations and liability for defective products. The EU also ensures high common standards for tobacco control, blood, tissues, cells and organs, and medicines for human and veterinary use. The EU also ensures high common standards for upholding patients' rights in cross-border healthcare and tackling serious cross-border health threats including communicable diseases.

Preparations are at **early stage** in the area of consumer and health protection. There was **some progress** over the last year, notably on strengthening the effectiveness of the Consumer Protection Commission (CPC), analysing business practices and raising consumer awareness, and through the adoption of the national health strategy for 2016-2020. However, significant progress needs to be made to ensure everyone in Albania has healthcare coverage.

In the coming year, the country should in particular:

- further align its legislation with the *acquis* on tobacco control, on substances of human origin and on medicines for human and veterinary use;
- improve access to services for vulnerable populations, including women, Roma and Egyptian minorities, people with disabilities and populations in rural or remote areas;
- implement the national health strategy by allocating adequate funding and staffing at both central and local level.

Consumer protection

Regarding **horizontal aspects**, the capacity of the CPC and of other consumer protection bodies was strengthened through training and by sharing knowledge of EU legislation and enforcement practices.

In **product safety-related issues**, the Market Surveillance Inspectorate, which was established in 2016, still needs to be better staffed and made fully operational. National legislation is partly aligned with the EU *acquis*.

In **non-safety-related issues**, awareness-raising materials were made available on the CPC's website.

Public health

On **horizontal aspects**, the 2016-2020 national health strategy, adopted in May 2017, seeks to achieve universal healthcare coverage. However, further efforts are needed to strengthen the governance of public hospitals and healthcare quality. Albania should ensure that adequate funding and staffing are allocated to fully implement the new policy at both central and local level. Although reporting of health data by public and private health service providers has been established, further efforts are needed to improve the quality and coverage of the data.

National legislation on **patients' rights in cross-border healthcare** has yet to be aligned with the EU *acquis*. The Ministry of Health and the National Agency of Information Society are the authorities responsible for **e-health** issues.

As regards **rare diseases**, the national e-health strategy is being developed in cooperation with the World Bank.

In the field of **serious cross-border health threats including communicable diseases**, the legal basis on communicable disease prevention and control is in place and is designed to be in line with the *acquis*. However, its implementation through secondary legislation is still lacking. There is a national alert, response and surveillance system for communicable diseases. However, no national plan for implementing international health regulations has been put in place yet. The national immunisation coverage rate is 97 %. There have been no new communicable diseases related to vaccination.

Albania does not yet have an antimicrobial resistance action plan.

On **blood, tissues, cells and organs**, the relevant legislation is still not fully aligned with the *acquis* on blood safety. On **tobacco control**, the law to protect public health against tobacco products, which is designed to be aligned to the *acquis*, is being implemented.

Legislation on **medicines for human and veterinary use** is not aligned with the *acquis*.

With regard to **health promotion** regarding **non-communicable diseases**, there is a national cancer control plan but appropriate structures for cancer screening services and a cancer registry have yet to be set up.

No developments can be reported in the area of **mental health**. With regard to **nutrition and physical activity**, malnutrition is a critical issue, especially for children and pregnant women. Albania is encouraged to develop a nutrition plan and increase awareness in school and community centres of the risks related to malnutrition.

On **drug abuse prevention and harm reduction**, prevention activities have taken place sporadically, mainly initiated by the Department of Health Promotion and the Institute of Public Health. The social and economic reintegration of drug addicts has limited success.

On **health inequalities**, access to services needs to be strengthened for vulnerable populations, including women, Roma and Egyptian minorities, people with disabilities and populations in rural or remote areas.

5.29. Chapter 29: Customs union

All Member States are part of the EU customs union and follow the same customs rules and procedures. This requires legislative alignment, adequate implementing and enforcement capacity, and access to the common computerised customs systems.

Albania is **moderately prepared** in the area of the customs union. **Some progress** was made: in particular the Customs Code entered into force, the organisation was restructured and risk management improved.

In the coming year, the country should in particular:

- approve legal provisions and develop the New Computerised Transit System;
- advance the registration of authorised economic operators;
- pursue the fight against smuggling, imports of counterfeit products and corruption.

As regards customs legislation, the Customs Code which entered into force in June 2017 is broadly aligned with the *acquis*. In January 2017, the Albanian customs administration (ACA) updated the Nomenclature of the Goods in line with the EU Combined Nomenclature. The country's system for customs debt and guarantees is harmonised with EU rules. However, the customs declaration 'scanning fees' contravene the SAA which prohibits customs duties or

charges having equivalent effect on trade between the EU and Albania. The guide for implementing the common Albania-Kosovo transit procedures was approved in December 2016. In 2016 and 2017 national legislation and procedures were prepared to align with the *acquis* in the area of the Common Transit Convention.

Tariff suspensions and tariff ceilings are not envisaged at the moment. Binding tariff information and explanatory notes are published by ACA, and anonymised decisions on administrative appeals by the respective court. Rules of non-preferential origin are included in the 2014 Customs Code and accompanying implementing provisions. The Regional Convention on Pan-Euro-Mediterranean (PEM) preferential rules of origin is applied in Albania.

The Customs Code's rules on valuation are aligned with EU rules. The risk management system is automated and compares import, export and transit data against active risk profiles. However, further harmonisation with EU rules is required. The legislation on customs enforcement of intellectual property rights is harmonised with the *acquis*. The customs control system for drug precursors, dangerous chemical products and 'controlled substances' is harmonised with the 1988 UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. Differences between the *acquis* and national rules on cash and goods transported in travellers' baggage remain in relation to the amount to be declared (ALL 1 million or ca. EUR 7 500) and the declaration form. ACA does not impose sanctions for non-declarations or mis-declarations, but confiscates the cash and passes it on to the police or Attorney General's office for criminal prosecution.

On **administrative and operational capacity**, Albania adopted the Business Strategy of the Customs Administration which comprises the mission and strategic objectives for the period 2017-2021, including an objective on enhancing IT systems and platforms. A new organisational structure of ACA entered into force in January 2017, further amended in January 2018, with the aim of strengthening professional training and implementation of the Code of Ethics as well as increasing transparency. In 2017, 148 disciplinary measures were taken against customs officials, including 95 cases considered by the Disciplinary Commission and 7 terminations of service.

Electronic local customs clearance is functioning, but IT systems are only fully interconnected with the Directorate General of Taxation and the Directorate General of Road Transport, while conditions for direct access are created to police and prosecution.

5.30. Chapter 30: External relations

The EU has a common trade and commercial policy towards third countries, based on multilateral and bilateral agreements and autonomous measures. There are also EU rules in the field of humanitarian aid and development policy.

Albania is **moderately prepared** in the area of external relations. **Some progress** was made in coordinating and facilitating trade policy.

In the coming year, Albania should in particular:

- implement the national action plan on trade policy coordination and facilitation;
- adopt the relevant legislation in the field of export control of dual-use goods, and prepare participation in the Wassenaar multilateral export control arrangement;

→ strengthen the administrative capacity of the team in the Ministry of Finance and Economy dealing with trade with the EU and the Central European Free Trade Agreement (CEFTA); work within the World Trade Organisation (WTO) framework, in particular with a view to implementing smoothly the WB6 multiannual action plan for developing a Regional Economic Area (REA) in the Western Balkans.

On the **common commercial policy**, Albania continued to coordinate its positions and align its policies closely with those of the EU, including within the WTO. It has ratified the WTO Trade Facilitation Agreement and notified its list of commitments, which now need to be carefully reviewed in order to speed up implementation. In addition, Albania needs to submit the notifications required under Articles 1.4, 10.6.2 and 12.2.2 of the WTO Trade Facilitation Agreement.

The NCTF held two meetings in 2017 and adopted a national action plan for 2017-2020 which needs to be duly implemented.

In October 2016 Albania adopted its national control list of dual-use goods in line with the 2015 Commission Delegated Regulation on the control of exports, transfer, brokering and transit of dual-use items. Further alignment with the *acquis* on export controls of dual-use goods remains to be completed. There has been no progress towards Albania's participation in the Wassenaar multilateral export control arrangement. Albania has not transposed the legislation related to the EU Regulation concerning trade in certain goods which could be used for capital punishment, torture or other cruel, inhuman or degrading treatment or punishment.

During the reporting period, Albania signed 12 new bilateral agreements on economic/trade/technical cooperation. In total, it has now in place bilateral agreements with 36 countries, including 13 EU Member States. Albania has finalised an exercise in mapping and analysing bilateral investment treaties (BITs) with regard to the need for harmonising them with EU law. Albania has in place BITs with 45 countries and 6 more BITs are under negotiation with Slovakia, Iran, Canada, Morocco, Lebanon and Iceland.

Albania continued its active participation in CEFTA. In addition, it made important commitments at the WB6 summit in Trieste to implement a multiannual action plan for developing a REA in the Western Balkans. Implementing the action plan will deepen and widen economic integration within the region, based on EU rules and standards. The government of Albania has established a mechanism for implementing and monitoring the REA. In February 2018 the Albanian Government adopted the draft law on adoption of additional protocol 5 of the agreement with CEFTA countries, which remains pending adoption by Parliament.

Administrative and operational capacity needs to be strengthened: following the restructuring of the Ministry of Finance and Economy, organisational units in charge of trade with the EU, CEFTA and WTO are covered by an Ad Hoc Working Group composed of four experts. This Working Group also cover functions of the Technical Secretariat supporting the National Committee for Trade Policy and Facilitation (NCTF).

Albania has no policy framework for **development cooperation**/aid or agency for development cooperation with third countries. The 2001 Law on Non-Profit Organisations recognises the potential activities of such organisations in the field of **humanitarian aid** and entitles them to carry out development and humanitarian aid activities in and outside Albania.

5.31. Chapter 31: Foreign, security and defence policy

Member States must be able to conduct political dialogue under EU foreign, security and defence policy, to align with EU statements, to take part in EU actions and to apply agreed sanctions and restrictive measures.

Albania has a **good level of preparation**. **Some progress** was made through the ongoing security upgrade of armament and ammunition storage facilities. The newly established national Small Arms and Light Weapons (SALW) Commission is operational. Albania continued to participate in military crisis management missions and to align with EU positions.

In the coming year the country should in particular:

→ finalise the work on an evidence-based strategy on SALWs, continue improving the security of armament and ammunition storage facilities and establish a Firearms Focal Point in the Albanian State Police.

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

Albania's Ministry of Foreign Affairs and Ministry of Defence have sufficient structures to be able to participate in the common foreign and security policy and the common security and defence policy. On the **common foreign and security policy**, Albania supports the Global Strategy for the European Union's Foreign and Security Policy. Albania aligned, when invited, with all relevant EU declarations and Council decisions (100 % alignment) during the reporting period. (For more information on developments concerning the International Criminal Court, see *Political criteria — Regional issues and international obligations*).

Albania continued to participate in some, but not all, international export control arrangements and instruments on **non-proliferation**. The next step would be starting the process of adhering to the Wassenaar Arrangement.

Albania has made further progress in implementing the action plan for destroying surplus weaponry. Clearance of hotspots contaminated with unexploded ammunition continues. The destruction of the last batch of 1 987 SALWs was finalised in October 2016. The security upgrade of the armament and ammunition storage facilities in Qafe Molla was completed in December 2016. Staff from the Ministry of Defence and the Albanian State Police have undergone specialised training in the physical security of armaments and ammunition and stockpile management. The security upgrade of the Albanian State Police central armament storage and two evidence rooms in main police stations is expected to be completed in 2018. Albania is encouraged to establish a Firearms Focal Point in the Albanian State Police.

An awareness campaign on the dangers of the misuse and illicit possession of weapons was implemented in November-December 2016 targeting both police personnel and the civilian population. Following the campaign, the government approved a three-month amnesty for voluntary surrender of weapons which led to a significant collection of SALWs, pieces of explosives and ammunition. Albania is encouraged to examine and destroy weapons collected through this campaign.

The online register of weapons and ammunition is currently installed in police stations throughout the country and the relevant personnel have been trained in the use of its software. In June 2017 the government signed the decision formally establishing the inter-ministerial

SALW Commission with the task of coordinating and monitoring all SALW control-related activities in the country. The National SALW Commission is now operational. In February 2018, Albania contributed to the unanimous adoption of a regional Joint Statement of deputy ministers of interior and foreign affairs of South-East Europe, strengthening its commitment towards SALW control in the region.

Albania continued to engage actively with **international organisations**. It maintained a robust presence in a number of NATO missions, including some of strategic importance for the EU (e.g. NATO's Maritime Group in the Aegean Sea deployed to contribute to European efforts to address the migration/refugee crisis).

On **security measures**, negotiations are continuing on the arrangements for implementing the agreement on security procedures for exchanging and protecting classified information, signed between the EU and Albania in March 2016. Concluding the negotiations will allow the agreement to enter into force.

Albania continued to actively participate in military crisis management missions under the **common security and defence policy**, notably EUFOR Althea in Bosnia and Herzegovina and EUTM Mali.

5.32. Chapter 32: Financial control

The EU promotes the reform of national governance systems to enhance managerial accountability, sound financial management of income and expenditure, and external audit of public funds. The financial control rules further protect the EU's financial interests against fraud in the management of EU funds and the euro against counterfeiting.

Albania is **moderately prepared** in this area. **Some progress** was made during the reporting period, especially with raising awareness on managerial accountability, piloting external audit manuals in line with international standards and establishing quality control measures. The Commission's 2016 recommendations were partially implemented. However, several institutions do not fully implement the public internal financial control (PIFC) legislation, and the rate of implementing internal and external audit recommendations remains low.

In the coming year, Albania should in particular:

- prepare a comprehensive PIFC policy paper with a specific focus on managerial accountability;
- ensure effective follow-up to the annual PIFC assessment by addressing systemic weaknesses, especially in the delegation of duties and performance reporting;
- adopt a risk-based external audit approach that will outline how to gradually reduce the number of compliance audits and increase financial and performance audits.

Public internal financial control

The **strategic framework** is broadly in place. While the PIFC reform is addressed in the 2014-2020 public financial management reform strategy and its action plan, there is not yet a clear policy on managerial accountability and how it applies to institutional responsibilities, resource allocation, reporting on the achievement of objectives, and financial management. The 2016 annual PIFC review was presented to the Council of Ministers and published in May 2017, while the main findings were discussed in the Parliament in June 2017. The PIFC Council has become operational in 2017 holding two meetings. A mechanism for effective

coordination, monitoring and reporting of the public administration, public financial management and PIFC reforms still need to be put in place.

Managerial accountability is not yet well embedded in the administrative culture, despite several awareness-raising events in 2017. Following the restructuring in 2017, all ministries have managerial structures broadly aligned with the budget structure. Institutional accountability is hampered by unclear accountability and reporting lines between agencies and their parent institutions. Supervision over state-owned enterprises is limited. Performance management is not yet developed, although some ministries use performance indicators to monitor implementation. Decision-making in the institutions is centralised with very little delegation to middle management. The financial management and control law defines accountability only in relation to financial management. Specific guidance, beyond the current legal framework on delegating duties of employees to governance units is needed (*see Public administration reform*).

Legislation on **internal control implementation** is largely in line with the internal control framework of the Committee of Sponsoring Organisations (COSO) and the guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI). The revised financial management and control manual was approved in November 2016. Implementation is not systematic by all institutions. As reported in May 2017, 93 % of budget institutions have internal control procedures in place. Risk management is still at an early stage, although 70 % of institutions have prepared risk registers and corresponding action plans. Declarations of assurance are systematically signed by senior management, but in the absence of a delegation framework, they are more of a formal exercise. Centralised budget inspection is regulated in line with PIFC requirements. The Financial Inspection Directorate in the Ministry of Finance and Economy has four inspectors who are supported by a further 85 inspectors on a case-by-case basis. In 2016 20 inspections were carried out compared to 5 in 2015. The work focuses on financial mismanagement, fraud, theft, property destruction, abuse of duty and corruption.

The legislation on **internal audit practice** is in line with international standards. Manuals, codes of ethics and internal audit charters are in place. In 2017, the share of certified auditors in the public sector increased compared to 76 % in 2016, when the revised national certification scheme was first implemented. In 2017, the **Central Harmonisation Unit (CHU)** carried out a quality review in two ministries under a new methodology. Until the end of 2016, 49 municipalities out of 61 (80 %) have created internal audit units and 33 public units have not performed internal audit service. The number of internal audit recommendations is high, 7 718 in 2016, with a shift from mainly financial aspects towards improving decision-making processes, policies, procedures and drafting of strategies. There is a high acceptance rate of recommendations by management, although the level of follow-up decreased from 62 % in 2015 to 47 % in 2016.

The CHU provides methodological guidance and monitors implementation of internal control and internal audit, by analysing self-assessment reports and conducting on-site visits. The 2016 PIFC report provides recommendations on improving PIFC implementation; however the government needs to ensure a more systematic follow-up.

External audit

The State Audit Institution's (SAI) functional, operational and financial independence is set out in the **constitutional and legal framework** in line with INTOSAI standards. Full implementation of the legal framework will need to be further ensured.

Concerning **institutional capacity**, professional development of auditors has been a priority in recent years with on average 25 training days per auditor per year. The SAI adopted its 2018 audit plan according to a risk-based assessment methodology. The new strategic development plan for 2018-2022 was adopted in December 2017. The strategy on communication for the period 2017-2019 was approved in July 2017.

As regards the **quality of audit work**, the audit activities do not yet comply with the International Standards of Supreme Audit Institutions (ISSAI). The focus is on compliance audits determining economic damage and violations of rules, rather than on audits that could help prevent such damage in the first place. The focus on producing a large number of audit reports annually negatively impacts the quality of audit work and recommendations. Financial audits do not yet result in professional audit opinions. New compliance and financial audit manuals were first piloted in 2016. The first IT audits were conducted in 2016 and 2017. A Code of Ethics from December 2016 guides audit work. In 2017, SAI took steps towards improving quality assurance and control in line with ISSAI. In May 2017 the SAI and the CHU signed a new Memorandum of Understanding to better coordinate and monitor the follow-up to audit recommendations.

The **impact of audit work** is limited. In 2017, 52 % of SAI' recommendations for legal and organisational improvements were accepted by auditees and of these 68 % are under implementation. Audit reports are summarised quarterly and published on a regular basis on the SAI website. The SAI 2016 annual audit report was submitted to Parliament and presented to the Economy and Finance Committee in October 2017.

Protection of the EU's financial interests

As regards **acquis alignment**, the main elements are in place. The national **Anti-Fraud Coordination Service (AFCOS)** is a unit within the Directorate of Financial Inspection, in the Ministry of Finance and Economy. An AFCOS network, involving other relevant authorities, is in place. The irregularity management manual was approved and the cooperation agreements with relevant national institutions were signed in 2016. Albania's **cooperation with the European Commission** includes cooperation during on-the-spot missions and irregularity reporting through the Irregularities Management System. So far, 1 case has been reported through the system since 2015. There is no anti-fraud strategy yet in place to address the protection of the EU's financial interests. Effective capacity to carry out investigation activities has yet to be ensured and a solid track record in investigations and reporting on irregularities needs to be further developed.

Protection of the euro against counterfeiting

Albania has not yet ratified the 1929 International Convention for the Suppression of Counterfeiting Currency. **Acquis alignment** is partially ensured with the definition of counterfeiting banknotes and coins, as well as the procedures for gathering, storing and withdrawing them from circulation. **Technical analysis** is performed by the National Analysis Centre of the National Bank. **Cooperation** at the national and international level is ongoing. A cooperation agreement with the European Commission on coins is in place, while an agreement with the European Central Bank on banknotes is pending. Albania takes part in the actions of the Pericles 2020 programme. Albania has an agreement with Europol on cooperation in combating the counterfeiting of currency and means of payment since 2014.

5.33. Chapter 33: Financial and budgetary provisions

This chapter covers the rules governing the funding of the EU budget ("own resources"). These resources mainly consist of i) contributions based on the gross national income of each Member State; ii) customs duties; and iii) a resource based on value-added tax. Member States must have the appropriate administrative capacity to adequately co-ordinate and ensure the correct calculation, collection, payment and control of own resources.

Albania has **some level of preparation** in this area. **Some progress** was made in the underlying policy areas that affect the functioning of the EU funding system. This progress consists in implementation of the 2016 Organic Budget Law, the fiscal rule and the continuation of the public finance management reform.

Albania should make efforts to:

- further align its relevant legislation with the European System of National and Regional Accounts (ESA 2010) requirements;
- further align its legislation with the EU provisions on VAT and customs duties;
- set up solid coordination structures and implementing rules and working procedures to ensure that it will be able to collect, control, manage and report on its own resources in line with the EU *acquis*.

There was some progress on the underlying policy areas affecting indirectly the own resources system (see chapters 16-Taxation, 18-Statistics, 29-Customs union and 32-Financial control).

Albania has structures in place for levying customs duties at the point of import, it operates a national VAT system and the national accounts and GDP and GNI estimates are partially based on ESA 2010 standards. Although the Institute of Statistics has taken measures to systematically evaluate all potential sources of non-exhaustiveness, considerable efforts remain necessary to ensure the exhaustiveness of the national accounts and GNI calculations. Additional efforts are needed to ensure effective measures are taken to formalise the grey economy and combat fiscal evasion and customs duty fraud.

Some amendments to property tax, income tax and the VAT tax base that were introduced in the 2018 fiscal package are expected to improve tax collection and management and increase general tax revenues.

On **administrative infrastructure**, the Ministry of Finance and Economy has overall responsibility for financial and budgetary issues. Albania will need to work on setting up the relevant institutions involved in the own resources system, a coordination body and implementing rules. These are needed to ensure that from accession it will be able to correctly calculate, forecast, account for, collect, pay, control and report to the EU on own resources in line with the *acquis*.

ANNEX I - RELATIONS BETWEEN THE EU AND ALBANIA

The **Stabilisation and Association Agreement** between Albania and the EU came into force in April 2009. Albania presented its application for membership of the European Union on 28 April 2009. The European Council of June 2014 endorsed the decision of the General Affairs Council granting Albania candidate status. In November 2016 in view of the progress in meeting the key priorities the Commission recommended opening accession negotiations with Albania subject to credible and tangible progress in the implementation of the justice reform, in particular the re-evaluation of judges and prosecutors (vetting).

In the reporting period, Albania has implemented smoothly its obligations under the Stabilisation and Association Agreement (SAA). Regular political and economic dialogue between the EU and Albania has continued through the relevant structures under the SAA. The SAA Committee and Council met in October and November 2017, respectively. Meetings of subcommittees and of the special group on public administration reform were held. The Stabilisation and Association Parliamentary Committee gathered in Tirana in February 2018.

Visa liberalisation for citizens of Albania travelling to the Schengen area has been in force since December 2010. As part of the monitoring mechanism in place since visa liberalisation, the Commission has been regularly assessing the progress made by the country in implementing reforms introduced under the visa roadmap. The monitoring mechanism also includes an alert mechanism to prevent abuses, coordinated by the European Border and Coast Guard Agency (EBCGA).

A readmission agreement between the EU and Albania has been in force since 2006. Albania signed the draft status agreement for operational cooperation with EBCGA, which will enable the deployment of EBCGA teams with executive powers on Albanian territory, and ensure a better management of irregular migration. Albania signed in February 2018 the Memorandum of Understanding on the drugs component of the EU Justice Programme.

The EU provided financial assistance to Albania under the **Instrument for Pre-accession Assistance** (IPA I) in 2007-2013 with a total allocation of EUR 594 million. The assistance has been predominantly implemented under direct management by the EU Delegation in Tirana. The indirect management modality has been introduced with a pilot approach for the IPA 2012 and 2013 national programmes. Under IPA II (2014-2020), Albania benefits, in line with the priorities set out in the indicative strategy paper, from pre-accession assistance with a total indicative allocation of EUR 649.4 million. The Framework Agreement for IPA II entered into force in April 2015. The 2014-2017 action programmes for Albania provide EUR 170 million to promote reforms in key sectors such as democracy and governance and rule of law and fundamental rights and provide EUR 113 million to invest in competitiveness and growth. They include budget support operations for public finance management, public administration reform, employment and vocational education and training, home affairs and transport as well as an EU integration facility. Albania benefits from support under the IPA multi-country programme and it participates in five cross-border cooperation programmes with neighbouring Western Balkan countries and Member States, as well as in transnational cooperation programmes under the European Regional Development Fund and the IPA Adriatic cross-border programme. Albania participates with IPA support in the EU programmes Erasmus+, Creative Europe (Culture and Media strands), Employment and

Social Innovation, Horizon 2020, Customs 2020, Fiscalis 2020, Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme (COSME) and Europe for Citizens.

ANNEX II – STATISTICAL ANNEX
STATISTICAL DATA (as of 19.02.2018)

Albania

Basic data	Note	2005	2012	2013	2014	2015	2016
Population (thousand)		3 135	:	2 899	2 896e	2 892e	2 886
Total area of the country (km ²)		28 750	28 750	28 750	28 750	28 750	28 750

National accounts	Note	2005	2012	2013	2014	2015	2016
Gross domestic product (GDP) (million national currency)		804 163	1 332 811	1 350 053	1 395 305	1 427 799p	1 472 791p
Gross domestic product (GDP) (million euro)		6 475	9 586	9 625	9 969	10 218p	10 722p
GDP (euro per capita)		2 150	3 305	3 325	3 450	3 547	3 728
GDP per capita (in purchasing power standards (PPS))		5 000	8 000	7 800	8 300	8 500	8 500
GDP per capita (in PPS), relative to the EU average (EU-28 = 100)		21	30	29	30	29	29
Real GDP growth rate: change on previous year of GDP volume (%)		5.5	1.4	1.0	1.8	2.2p	3.4p
Employment growth (national accounts data), relative to the previous year (%)		:	:	:	:	:	:
Labour productivity growth: growth in GDP (in volume) per person employed, relative to the previous year (%)		:	:	:	:	:	:
Unit labour cost growth, relative to the previous year (%)		:	:	:	:	:	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2010 = 100)		:	:	:	:	:	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-28 = 100)		:	:	:	:	:	:
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)		21.5	21.7	22.4	22.9	22.9p	22.9p
Industry (%)		11.1	13.3	14.6	14.8	13.9p	13.2p
Construction (%)		17.5	13.1	11.8	9.9	10.2p	10.5p
Services (%)		49.9	51.9	51.2	52.4	53.0p	53.4p
Final consumption expenditure, as a share of GDP (%)		88.0	88.8	91.1	92.2	92.4p	:
Gross fixed capital formation, as a share of GDP (%)		37.9	26.5	26.1	24.2	24.6p	:

Changes in inventories, as a share of GDP (%)		:	1.8	2.0	1.5	1.7p	:
Exports of goods and services, relative to GDP (%)		23.0	28.9b	28.7	28.2	27.4p	:
Imports of goods and services, relative to GDP (%)		47.9	47.6b	47.0	47.2	44.7p	:
Gross fixed capital formation by the general government sector, as a percentage of GDP (%)		:	:	:	:	:	:

Business	Note	2005	2012	2013	2014	2015	2016
Industrial production volume index (2010 = 100)		47.1	143.5	172.7	178.0	161.7	130.5
Number of active enterprises (number)	1)	46 261	77 508	78 950	78 920	95 184	:
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)		14.5	12.0	10.9	15.4	:	19.5
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)		:	:	:	:	:	:
People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)	2)	80.4	81.4	81.0	80.1	81.7	:
Value added by SMEs (in the non-financial business economy) (EUR million)	2)	843	2 020	1 867	1 949	2 083	:
Total value added (in the non-financial business economy) (EUR million)	2)	1 345	2 918	2 803	2 871	3 124	:

Inflation rate and house prices	Note	2005	2012	2013	2014	2015	2016
Consumer price index (CPI), change relative to the previous year (%)	3)	2.0	2.4	1.9	0.7	2.0	2.2
**Annual change in the deflated house price index (2010 = 100)		:	:	:	:	:	:

Balance of payments	Note	2005	2012	2013	2014	2015	2016
Balance of payments: current account total (million euro)	4)	-589	-978	-891	-1 076	-884	-812
Balance of payments current account: trade balance (million euro)	4)	-1 477	-2 226	-1 963	-2 216	-2 299	-2 603
Balance of payments current account: net services (million euro)	4)	-140	440	226	323	525	797
Balance of payments current account: net balance for primary income (million euro)	4)	131	-72	166	91	122	174

Balance of payments current account: net balance for secondary income (million euro)	4)	897	880	680	725	768	821
Net balance for primary and secondary income: of which government transfers (million euro)		:	:	:	:	:	:
**3 year backward moving average of the current account balance relative to GDP (%)		:	-11.5p	-10.8p	-10.1	-9.6p	-9.0p
**Five year change in share of world exports of goods and services (%)		:	:	:	:	:	:
Net balance (inward - outward) of foreign direct investment (FDI) (million euro)		:	647.9	923.2	811.5	818.4	936.5
Foreign direct investment (FDI) abroad (million euro)		:	65.1	21.6	57.7	71.9	6.1
of which FDI of the reporting economy in the EU-28 countries (million euro)		:	:	:	:	:	:
Foreign direct investment (FDI) in the reporting economy (million euro)		:	712.9	944.8	869.2	890.4	942.5
of which FDI of the EU-28 countries in the reporting economy (million euro)		:	:	259.5	272.7	319.5	242.3
**Net international investment position, relative to GDP (%)		:	:	:	-42.9	-43.2	:
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)		:	0.7	-18.9	8.0	1.2	0.9

Public finance	Note	2005	2012	2013	2014	2015	2016
***General government deficit / surplus, relative to GDP (%)		-3.5	-3.4	-5.0	-5.2	-4.1	-1.8
***General government gross debt relative to GDP (%)		58.2	58.2	61.7	66.1	69.1	68.7
Total government revenues, as a percentage of GDP (%)		25.4	24.8	24.2	26.3	26.6	27.6
Total government expenditure, as a percentage of GDP (%)		28.9	28.2	29.2	31.5	30.6	29.4

Financial indicators	Note	2005	2012	2013	2014	2015	2016
Gross external debt of the whole economy, relative to GDP (%)	4)	25.6	57.5	66.2	69.5	74.7p	73.5p
Gross external debt of the whole economy, relative to total exports (%)	4)	110.6	198.6	228.8	246.3	272.7	253.5
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		1 801	2 023	2 109	2 524	2 749	3 170
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		3 434	4 816	4 942	5 161	5 174	5 365

Money supply: M3 (M2 plus marketable instruments, million euro)		4 614	8 080	8 192	8 538	8 703	9 198
Total credit by monetary financial institutions to residents (consolidated) (million euro)		:	:	:	:	:	:
**Annual change in financial sector liabilities (%)		:	:	:	:	:	:
**Private credit flow, consolidated, relative to GDP (%)		:	:	:	:	:	:
**Private debt, consolidated, relative to GDP (%)		:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)	5)	4.10	4.47	3.80	2.92	2.26	1.49
Lending interest rate (one year), per annum (%)	6)	12.38	10.28	9.52	7.66	7.77	5.89
Deposit interest rate (one year), per annum (%)	7)	5.08	5.38	4.17	1.92	1.35	0.80
Euro exchange rates: average of period (1 euro = ... national currency)		124.19 0	139.040	140.262	139.97	139.74	137.364
Trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		1 208	1 972	2 015	2 192	2 880	2 945

External trade in goods	Note	2005	2012	2013	2014	2015	2016
Value of imports: all goods, all partners (million euro)		2 096	3 797	3 699	3 941	3 882	4 169
Value of exports: all goods, all partners (million euro)		159	1 531	1 761	1 827	1 728	1 771
Trade balance: all goods, all partners (million euro)		-1 566	-2 267	-1 938	-2 114	-2 154	-2 399
Terms of trade (export price index / import price index * 100) (number)		89	115	119	119	120	116
Share of exports to EU-28 countries in value of total exports (%)		75.5	75.6	76.7	77.4	75.4	77.9
Share of imports from EU-28 countries in value of total imports (%)		71.3	63.2	64.3	61.1	61.8	63.1

Demography	Note	2005	2012	2013	2014	2015	2016
Crude rate of natural change of population (natural growth rate): number of births		7.2	:	5.3e	5.2e	3.6e	:

minus deaths (per thousand inhabitants)							
Infant mortality rate deaths of children under one year of age (per thousand live births)		7.6	:	7.9	7.9	7.1	:
Life expectancy at birth: male (years)		:	:	:	76.3e	76.2e	:
Life expectancy at birth: female (years)		:	:	:	80.2e	79.7e	:

Labour market	Note	2005	2012	2013	2014	2015	2016
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	71.9e	67.6e	68.6e	71.3e	73.3e
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	62.4e	56.7e	56.6e	59.3e	62.1e
Male employment rate for persons aged 20–64 (%)		:	70.1e	64.8e	65.2e	68.1e	69.4e
Female employment rate for persons aged 20–64 (%)		:	54.9e	49.3e	48.5e	50.7e	55.0e
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		:	56.3e	51.1e	51.2e	53.6e	54.8e
Employment by main sectors							
Agriculture, forestry and fisheries (%)		:	46.1e	44.0e	42.7e	41.3e	40.2e
Industry (%)		:	9.1e	9.7e	11.0e	11.6e	12.8e
Construction (%)		:	8.2e	7.1e	6.4e	6.9e	6.5e
Services (%)	8)	:	36.6e	39.2e	39.9e	40.2e	40.5e
People employed in the public sector as a share of total employment, persons aged 20–64 (%)		:	15.7e	17.8e	17.5e	16.7e	15.6e
People employed in the private sector as a share of total employment, persons aged 20–64 (%)		:	84.3e	82.2e	82.5e	83.3e	84.4e
Unemployment rate: proportion of the labour force that is unemployed (%)	9)	14.1	13.4e	15.9e	17.5e	17.1e	15.2e
Male unemployment rate (%)	9)	12.1	14.6e	17.8e	19.2e	17.1e	15.9e
Female unemployment rate (%)	9)	17.2	11.7e	13.5e	15.2e	17.1e	14.4e
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		:	29.8e	31.4e	39.0e	39.8e	36.5e
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		:	10.3e	11.5e	11.2e	11.3e	10.1e
Unemployment rate for persons (aged 25–64) having completed at most lower		:	10.5e	13.6e	13.4e	12.0e	11.8e

secondary education (ISCED levels 0-2) (%)							
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED levels 5-8) (%)		:	:	:	:	:	:

Social cohesion	Note	2005	2012	2013	2014	2015	2016
Average nominal monthly wages and salaries (national currency)	10)	26 808	50 093	52 150	53 025	54 000	54 488
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2010 = 100)	10)	83.8	108.8	111.1	111.2	111.1	110.7
GINI coefficient	11)	30	27	:	:	:	:
Poverty gap		3.9	3.0	:	:	:	:
*Early leavers from education and training: proportion of the population aged 18–24 with at most lower secondary education who are not in further education or training (%)		:	31.6e	30.6e	26.0e	21.3e	19.6e

Standard of living	Note	2005	2012	2013	2014	2015	2016
Number of passenger cars relative to population size (number per thousand population)		62.2	:	:	130.5	139.6	151.1
Number of mobile phone subscriptions relative to population size (number per thousand population)		509.3e	2 015.0	1 822.5	1 742.5	1 697.9	1 836.5
Mobile broadband penetration (per 100 inhabitants)		:	:	:	:	:	:
Fixed broadband penetration (per 100 inhabitants)		:	:	:	:	:	:

Infrastructure	Note	2005	2012	2013	2014	2015	2016
Density of railway network (lines in operation per thousand km ²)		15.8	14.6	12.6	12.6	13.8	12.2
Length of motorways (kilometres)		3	:	:	:	:	:

Innovation and research	Note	2005	2012	2013	2014	2015	2016
Public expenditure on education relative to GDP (%)		3.3	3.3	3.3	3.3	3.1p	3.1p
*Gross domestic expenditure on R&D relative to GDP (%)		:	:	:	:	:	:
Government budget appropriations or outlays on R&D (GBAORD), as a percentage of GDP (%)		:	:	:	:	:	:

Percentage of households who have internet access at home (%)		1.7	14.3	:	23.8b	25.0	:
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Environment	Note	2005	2012	2013	2014	2015	2016
*Index of greenhouse gas emissions, CO ₂ equivalent (1990 = 100)		91e	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2010 constant prices)		318.5	224.6	250.1	243.8	223.6p	223.1p
Electricity generated from renewable sources relative to gross electricity consumption (%)		93.6	65.1	75.0	60.6	80.8	100.5
Road share of inland freight transport (based on tonne-km) (%)		:	:	:	:	:	:

Energy	Note	2005	2012	2013	2014	2015	2016
Primary production of all energy products (thousand TOE)		1 097	1 605	1 966	1 876	2 071	1 936
Primary production of crude oil (thousand TOE)		383	966	1 138	1 231	1 276	1 031
Primary production of solid fuels (thousand TOE)		11	1	1	0	34	2
Primary production of gas (thousand TOE)		9	13	15	25	27	35
Net imports of all energy products (thousand TOE)		1 119	461	670	809	282	486
Gross inland energy consumption (thousand TOE)		2 216	2 101	2 363	2 345	2 199	2 267
Gross electricity generation (GWh)		5 443	4 725	6 959	4 724	5 895	7 782

Agriculture	Note	2005	2012	2013	2014	2015	2016
Agricultural production volume index of goods and services (at producer prices) (2010 = 100)		:	:	:	:	:	:
Utilised agricultural area (thousand hectares)		1 077	1 201	1 190	1 178	1 175	1 182
Livestock numbers: live bovine animals (thousand heads, end of period)		655	498	498	500	504	492
Livestock numbers: live swine (thousand heads, end of period)		147	159	152	172	171	181
Livestock numbers: live sheep and live goats (thousand heads, end of period)		2 701	2 619	2 723	2 800	2 751	2 913
Raw milk available on farms (thousand tonnes)		1 076	1 105	1 131	1 133	1 131	1 145
Harvested crop production: cereals	12)	511	697	703	700	696	698

(including rice) (thousand tonnes)							
Harvested crop production: sugar beet (thousand tonnes)		0	0	0	0	0	0
Harvested crop production: vegetables (thousand tonnes)		685	914	924	950	1 030	1 129

: = not available

b = break in series

e = estimated value

p = provisional

s = Eurostat estimate

* = Europe 2020 indicator

** = Macroeconomic Imbalance Procedure (MIP) indicator

*** = The government deficit and debt data of enlargement countries are published on an "as is" basis and without any assurance as regards their quality and adherence to ESA rules.

Footnotes:

- 1) The Albanian Government is implementing an action plan to reduce the informal economy. As result, 56 787 active enterprises were registered for the first time in the statistical business register in 2015. Most of them are not new entities for 2015.
- 2) 2005: based on NACE Rev. 1.1; coverage is Divisions 10 to 74. 2012-2015: based on NACE Rev. 2; coverage is Divisions 05 to 82 and 95.
- 3) Variation between December of one year and December of the previous year.
- 4) 2005: based on balance of payments manual edition 5 (BPM5).
- 5) Annual average of the Tribor rate – interbank rate for overnight loans.
- 6) Average weighted rate applied on new 12-month loans over the respective month, on 12-month maturity.
- 7) Deposit interest rate represents the average weighted rate for newly accepted deposits over the respective month, on 12-month maturity.
- 8) 2013 and 2014: including persons who have not or could not be classified to a particular activity.
- 9) 2005: administrative data.
- 10) Public sector.
- 11) Measured by consumption.
- 12) Excluding rice.