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**ALBANIA 2007 PROGRESS REPORT**

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TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**Enlargement Strategy and Main Challenges 2007-2008**

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# COMMISSION STAFF WORKING DOCUMENT

## Albania 2007 Progress Report

### 1. INTRODUCTION

#### 1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and Parliament on the progress made by the countries of the Western Balkans region.

This progress report largely follows the same structure as in the previous years. The report:

- briefly describes the relations between Albania and the Union;
- analyses the situation in Albania in terms of the political criteria for membership;
- analysis the situation in Albania on the basis of the economic criteria for membership;
- reviews Albania's capacity to implement European standards, that is, to gradually approximate its legislation and policies to the *acquis*, in line with the Stabilisation and Association Agreement and the European Partnership priorities.

The period covered by this report is 1 October 2006 to early October 2007. Progress is measured on the basis of decisions taken, legislation adopted and the measures implemented. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. In addition, many sources have been used, including contributions from the government of Albania, the Member States, European Parliament reports<sup>1</sup>, and information from various international and non-governmental organisations.

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

#### 1.2. Context

Albania is a potential candidate for EU membership.

The Stabilisation and Association Agreement (SAA) between Albania and the EU was signed in June 2006. An Interim Agreement is in force since December 2006.

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<sup>1</sup> For Albania, the rapporteur is Mr Libor Rouček.

<sup>2</sup> Enlargement Strategy and Main Challenges 2007-2008.

### 1.3. Relations between the EU and Albania

Albania is participating in the **Stabilisation and Association Process (SAP)**.

Albania signed a Stabilisation and Association Agreement (SAA) with the EU in June 2006. The SAA provides a framework of mutual commitments on a wide range of political, trade and economic issues. Trade-related parts of the SAA are being implemented through an Interim Agreement while ratification of the SAA is being completed. The Interim Agreement entered into force in December 2006. Cooperation provisions of the 1992 Trade, Commercial and Economic Cooperation Agreement (TCECA) will remain in operation until the SAA is ratified. Albania also benefits from the EU's autonomous trade measures.

The EU provides guidance to the Albanian authorities on reform priorities through the **European Partnership**. Progress on these reform priorities is encouraged and monitored through political and economic dialogue with Albania. This dialogue is conducted through Ministerial Troika, joint committee and consultative task force (CTF) meetings at ministerial level and working party meetings at deputy minister level.

A Ministerial Troika meeting with Albania in June 2007 focused on key political priorities, including regional issues. The annual joint committee met in December 2006 to oversee the proper functioning of the Interim Agreement and the TCECA. Two CTF and five working party meetings took place between October 2006 and October 2007. CTF meetings focused on political accession criteria and rule of law issues. Each CTF meeting resulted in jointly-agreed recommendations for action by the Albanian authorities. Working party meetings focused on economic, internal market and sectoral issues and reported to the joint committee.

In September 2007, the EU and Albania signed an agreement on **visa facilitation**. The new arrangements are important to facilitate people-to-people contacts. They will simplify procedures for issuing visas for certain categories of citizens of Albania, including students, academics, businesspeople, journalists, and tourists. They will also keep the cost of visas at its current level and, in some cases, lead to visas free of charge. This agreement complements the EC-Albania readmission agreement which entered into force in May 2006. This will allow more interaction between citizens of the EU Member States and the citizens of Albania.

Since January, pre-accession **financial assistance** to Albania is provided under the new Instrument for Pre-Accession Assistance (IPA). The EC allocated a total of € 61 million in 2007. The Multi-Annual Indicative Planning Document (MIPD) 2007-2009 for Albania under IPA was adopted in May 2007. Main focus areas are justice and home affairs, administrative capacity building, economic and social development and democratic stabilisation. Ongoing CARDS and IPA assistance is implemented by the EC Delegation in Tirana. The management of aid on a decentralised basis is a medium-term objective for Albania.

As regards support to **civil society** dialogue, € 4 million support has been earmarked for projects to enhance the role of civil society and the media in the European integration process. Albania received support from EU member states through the EU Monitoring and Information Centre for Civil Protection (MIC) to help deal with forest fires during the summer.

A Framework Agreement between the Community and Albania on participation in **Community programmes** entered into force in May 2005.

## **2. POLITICAL CRITERIA**

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

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

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

#### *Parliament*

The parliament continued to fulfil its role as a focus for political exchange. A new president of Albania was elected by parliamentary vote in July. The election process was conducted in line with the constitution. The new president was elected by the required three-fifths majority at the fourth election round. The successful conclusion of the presidential election allowed the parliament's work to continue without interruption by premature parliamentary elections. A new ad hoc parliamentary committee on electoral reform was established. The current system for updating voter lists was used efficiently in preparing for the local elections. The debate on the 2007 budget law was conducted smoothly, as in 2006.

However, there was little progress towards constructive consensus between political parties on implementing reforms necessary for progress in the Stabilisation and Association Process. Parliamentary work was often dominated by a short-term political agenda which polarised debate. Parliamentary decisions were often delayed due to disputes focused on narrow party interests or rushed without proper preparation and discussion. This held back reform, particularly in the electoral and judicial fields.

The parliamentary committee on European integration met infrequently and conducted no regular review of SAA-related topics. Monitoring of implementation of SAA obligations is done exclusively by the government. The performance of other parliamentary committees was uneven. The composition of parliamentary committees was in some cases changed for political reasons. Committee discussions are not yet transcribed. The level of expertise available to the parliament, including on EU integration issues, remains low. This is reflected in the quality of legislation. The Legal Reform Commission does not conduct sufficiently wide consultations to secure the necessary expertise in law drafting. The reliability of electronic voting equipment continued to cause disputes. Budget management remains deficient and overly absorbed by non-core expenses such as transportation for members of parliament.

Political disputes delayed the spring 2007 local elections and led to many technical shortcomings. The OSCE office for democratic institutions and human rights (ODIHR) and Council of Europe election observation mission reported that the elections were competitive but were a missed opportunity to conduct elections fully in line with international commitments and standards. Continued party disputes led to an opposition boycott of a parliamentary by-election. No progress has been made in implementing OSCE/ODIHR

recommendations or Venice Commission advice on electoral reform. Proper reform of the electoral framework sufficiently in advance of the next parliamentary elections requires constructive participation by political parties in the electoral reform committee.

Overall, the parliament provided a focus for political debate and fulfilled its constitutional role in the election of a new president. However, political parties' lack of will to cooperate continued to hold back reforms needed to fulfil SAA obligations.

### *Government*

The Ministry of European integration (MoEI) was restructured to make it more effective in monitoring SAA implementation. All its posts are now filled. The process of developing sector strategies under the national strategy for development and integration (NSDI) has been transparent and open. The MoEI improved its coordination with the Department of strategy and donor coordination (DSDC). This is likely to help ensure that European integration objectives are fully reflected in the NSDI. European integration units (EIUs) have been set up in all line ministries to act as focal points for EU-related assistance, reporting and monitoring.

The civil registry and the national address system are being strengthened. In parallel, electronic identification cards and biometric passports are being developed. This should help improve data for government decisions, voter lists, voter identification, as well as border control. However, improvement of the civil registry and address system is not yet sufficiently coordinated with the development of electronic identification cards and biometric passports. This poses a risk to the success of each of these initiatives.

The MoEI's institutional capacity is limited by high staff turnover, slow filling of senior positions and a shortage of staff for approximation of legislation and management of specific fields of Community assistance. The EIUs' organisation and staffing are not always consistent with their ministries' planned role in SAA implementation. Further progress is needed on government-wide coordination of EU integration work. In particular, wider and more consistent consultation of ministries, including the MoEI, stakeholders and EU experts would improve the quality of legislative proposals.

Many sector strategies under the NSDI lack clear cost estimates and performance indicators. These are necessary for the strategies to be used effectively as the basis for the medium-term budgetary framework through the Integrated Planning System. The DSDC has not filled all its posts despite higher salaries than other government departments.

Albania took some legal and institutional measures to transfer responsibility for VAT, local taxation, water supply and sanitation from central government to municipalities. However, little progress has been made in implementing 2006 Council of Europe recommendations to define the geographical scope and competences of regional authorities. The allocation of financial resources and tasks between central and local government as well as between municipalities remains unbalanced. A stronger legal framework for local borrowing would facilitate the capital investment needed for better local services.

Overall, Albania has made some progress in strengthening its government structures to address its commitments towards the EU and the broader development agenda. Further strengthening of capacity, coordination and strategic planning remains necessary.

### *Public administration*

Policy and strategy functions have been given greater prominence in ministries. Expertise and institutional memory are stabilising. Some subordinate institutions and agencies have been merged, resulting in a reduction of 16% in civil servant posts and 33% in administrative and support posts. Public-sector salaries have been raised by between 5% and 70% depending on category. The government has changed the recruitment process to attract Albanian graduates of foreign universities to the civil service. The training plan for civil servants has been revised to better reflect real needs. A new law on the organisation of the police devolves responsibility for human, material and financial resources from the Interior Ministry to the police itself. The new law is in line with EU standards and should help de-politicise the police.

However, further horizontal changes are needed to improve the quality of personnel and the organisation of policy-making in the ministries. The authority of the Department of Public Administration to set common management strategies across the public administration is, in practice, limited. As a result, it is often not consulted on the establishment of new agencies and institutions. The civil service often fails to adhere in practice to the official career structure and job classification framework. The use of performance management remains at an early stage. This hinders the attraction and retention of competent and motivated staff. Staff changes have resulted in some civil service positions being left unoccupied for several months. Staff cuts have left some ministries under-resourced. Political appointments to senior and mid-level positions continue, often without due attention to the Civil Service Law. Administrative acts continue to be signed by temporary replacements who have not been officially appointed. The computerised payroll management system needs further investment. Significant further efforts are needed to create, at both governmental and sub-national levels, an accountable and efficient civil service, based on professional career development criteria. In particular, recruitment and promotion need to be regulated by objective and merit based criteria, and a clear distinction between the political and administrative level needs to be observed.

Overall, the public administration is stabilising and becoming somewhat more focused. Further progress on strengthening the Department of Public Administration and ensuring competent, motivated and impartial staff is now needed.

### *Judicial system*

Judicial procedures generally remain slow and lack transparency. Government measures to combat corruption in the judiciary led to continued conflict between the executive and the judiciary, in particular the General Prosecutor.

Constitutional Court rulings contributed to the development of jurisprudence on decentralisation, the role of parliamentary investigative commissions, the role of the executive in relation to independent state bodies and standards for issuing government decrees.

The High Council of Justice is implementing a new system for the professional evaluation of lower court judges in advance of adoption of the planned law overhauling the judiciary. The capacity of the courts to manage the judicial budget improved significantly through training. A decree reduced the number of district courts from 29 to 21, which should increase efficiency. A new serious crimes court building is being built in Tirana. The civil case management system was extended to all Albania's district and appeal courts.



Some improvement has been made to the capacity of the bailiff service. The backlog of court rulings awaiting enforcement involving state institutions was reduced. The Magistrates' School continued to provide training in human rights, ethics, commercial matters and other SAA-related issues.

However, a draft law overhauling the judiciary remains under discussion in parliamentary committee. It provides for administrative courts, transparent assignment of cases and improvement in judges' career structure and disciplinary procedures. It limits recruitment of judges to graduates of the Magistrates' School. A planned law to improve employment conditions for judicial administrators (who are not civil servants) is delayed.

Further legislation is needed to strengthen the independence constitutional protection and accountability of judges. The respective competences of the judicial inspectorates of the High Council of Justice and the Ministry of Justice need to be clearly defined. Judges and prosecutors are not yet appointed through competitive examinations. A transparent and merit-based system to evaluate prosecutors is not yet in place. Many courts have not yet started using the new civil case management system. Judicial transparency has not increased. Better mechanisms to make judicial decisions available for examination remain urgently necessary. Coordination between prosecutors and police needs to be improved.

Judicial infrastructure remains poor, especially in the Tirana district court and court of appeal, the country's largest. Courts continue to lack adequate space for courtrooms, archives and equipment. This hinders transparency, with the public unable to attend trials held in judges' offices. Lack of office space and equipment for bailiffs and insufficient assistance from other authorities, such as the police and the Immovable Property Registration Office, impedes the enforcement of judgments, which remains slow. Enforcement of court rulings in cases involving state institutions often takes longer than the six months allowed by law. Plans to reform the bailiff system have not yet led to new laws.

Continued national funding is necessary to make the Magistrates' School sustainable in the medium term. A quality control system for the many private law schools is not yet in place. Plans to reform legislation on the professions of notary and lawyer are at an early stage.

A dedicated directorate for witness protection is provided for under the new police structure. Training has strengthened the skills of witness protection staff. Video-conferencing equipment has been installed in the serious crimes court and prosecution office. However, amendments are necessary to the law on witness protection before operational guidelines can be developed. Establishment of the new police witness protection directorate has not yet begun. The serious crimes court witness protection unit still lacks adequate financial resources. This severely limits the number of persons who can be protected. The lack of reliable witness protection remains a major obstacle to success in fighting organised crime and trafficking in human beings.

Overall, there have been some steps to improve the efficiency of the judiciary. However, it has continued to function poorly due to shortfalls in independence, transparency and efficiency. Legislation planned to address these issues is delayed.

#### *Anti-corruption policy*

Corruption is widespread and constitutes a very serious problem in Albania. The government has drafted a new anti-corruption strategy for 2007-2013. A strategy covering an extended

period shows a positive change in approach from short-term solutions to more effective and sustainable measures. Albania has made good progress in implementing the GRECO (Council of Europe Group of States against Corruption) 2002 recommendations. This has included, in particular, new public procurement legislation, measures to strengthen the independence and transparency of the Public Procurement Agency and the appointment of a public procurement ombudsman.

Through the Stability Pact Anticorruption Initiative (SPAI) Albania hosted a regional conference on implementing the UN Convention against Corruption. The government implemented this convention, and the UN Convention against Trans-national Organised Crime (Palermo Convention) provisions on corruption, in national legislation and took steps to raise awareness of related standards. Albania has aligned its Criminal Code with the Council of Europe Criminal Law Convention on Corruption. Specific legislation on bribery has been adopted.

Institutional capacity to investigate and prosecute corruption was strengthened by setting up a new task force against corruption and economic crime in the prosecution office, which coordinates with police and intelligence structures. In the recent reorganisation of the police, the structures dealing with economic and financial crime were upgraded to the level of directorate and a special anti-corruption section was set up. Anti-corruption investigations led to the arrest of a number of high-level officials. Prosecutors, judicial police and judges have been trained on anti-corruption legislation. The High Inspectorate for Declaration and Audit of Assets (HIDAA) made progress on enforcing asset declaration obligations. Of 3500 persons who are under a legal obligation to declare their assets and private interests, only 87 have failed to do so.

However, measures to strengthen the judiciary against corruption are delayed. The government's new anti-corruption strategy does not include sufficiently concrete objectives and indicators. Further progress is required on implementing a second set of GRECO recommendations from 2005. These include strengthening procedures and training for the police and the prosecutor on seizure of assets and improving training on corruption for tax authorities, private accountants and auditors. Albania has not yet fully aligned its Civil, Commercial and Administrative Codes with the Council of Europe Civil Law Convention on Corruption. The law on conflicts of interest needs to be further clarified.

A proposed change to the parliament's rules of procedure to allow its members' immunity to be lifted on a case-by-case basis has still not been adopted. The HIDAA lacks mechanisms to investigate declarations. No legislation exists to allow enforcement of the constitutional obligation for political parties to make public their sources of finance. There has been no change in the rate of disciplinary procedures against corrupt judges and prosecutors. Improvements in the legal framework to allow free access to public information are needed.

Overall, Albania has continued to address corruption, a key European Partnership priority. The government is taking a more strategic approach, but corruption remains widespread and constitutes a very serious problem. Much work is still needed on all aspects of this problem, including judicial accountability and transparency of political party funding.

## **2.2. Human rights and the protection of minorities**

*Observance of international human rights law*

As regards **ratification of human rights instruments**, Albania has ratified Protocol 13 to the European Convention on Human Rights concerning abolition of the death penalty in all circumstances and has revised its Military Code accordingly. Albania has aligned with the initiative taken by Italy and the European Union in the United Nations regarding abolition of the death penalty.

The **European Court of Human Rights (ECtHR)** delivered one judgement finding that Albania had violated the ECHR. Eighteen cases were ruled inadmissible. A total of 75 new applications regarding Albania were made to the ECtHR during the reporting period. The total number of pending cases before the Court regarding Albania is 143. The parliament and the Legal Reform Commission are examining amendments to the Civil and Criminal Procedure Codes to give domestic legal status systematically to ECtHR judgments, but their adoption is delayed.

As regards **promotion and enforcement of Human Rights**, they are guaranteed by Albanian law, and the government generally observes them. However, shortfalls remain in enforcement of human rights in fields such as preventing torture and ill-treatment, the rights of detainees and the right to a fair trial. Details of weaknesses in specific areas are given below.

#### *Civil and political rights*

With regard to **prevention of torture and ill-treatment and fight against impunity**, the Criminal Code definition of torture was amended in accordance with Article 1 of the UN Convention against Torture. The Prosecutor General issued formal instructions to prosecutors and judicial police underlining the need to observe human rights in criminal proceedings. Progress was made in implementing European Committee for the Prevention of Torture (CPT) recommendations. In particular, the transfer of responsibility for pre-trial detention facilities from the Interior Ministry to the Justice Ministry is now largely complete. An inter-ministerial task force coordinated by the Ministry of Foreign Affairs was set up to monitor implementation of CPT recommendations. Awareness-raising activities were held for journalists and the public.

However, allegations of ill-treatment of suspects by police during arrest or questioning are still frequent. There has been little progress on application of basic safeguards against ill-treatment during pre-trial detention, such as access to a lawyer and doctor and notification of detention to relatives. Prosecutions for ill-treatment do not always make reference to an appropriately serious offence. Legislation setting criteria for compensation to victims is not yet in place. Amendments to the law on the rights and treatment of inmates are delayed. The Code of Ethics for the prison system is not always followed. Training for prison staff on the European Convention on Human Rights is needed. The Supervisory Commission for the Execution of Imprisonment Sentences, which is intended to advise the Minister of Justice on enforcement issues and on protection of the rights of prisoners and detainees, is still not operational. Cases of arbitrary arrest and mistreatment of homosexuals by the police still occur.

Overall, some steps have been taken to prevent torture and ill-treatment of detainees but considerably better enforcement of human rights rules and proper prosecution of abusers is still required.

As regards **access to justice**, Albanian legislation provides for free legal defence for defendants who cannot afford a private lawyer. However, the existing system is segmented

and lacks a practical monitoring mechanism. It therefore does not always provide timely and appropriate advice. Free legal defence is not recognised in the High Court of Justice. Improved legislation is required.

With regard to the **prison system**, most police detention centres have been closed and detainees transferred to new pre-trial detention sections in prisons with better physical conditions and some facilities for social rehabilitation. Two new prisons, a new pre-trial detention centre and a forensic psychiatric hospital are under construction. The design of these new facilities will comply with international standards. Several prisons have been refurbished to improve conditions for inmates. Improved food standards for prisoners have been introduced. A victim-offender mediation programme has been set up.

Progress in building new pre-trial detention centres is slow. It will be important to ensure that management of new detention facilities complies with international conventions. International practice requires that the pre-trial detention regulation be made into a law. Alternatives to imprisonment are rarely used in sentencing. Progress on a planned new law on alternative sentencing is delayed. A probation service is not yet in place. This is necessary in order to make alternative sentencing work effectively, which could help slow the continued growth of the detainee population. The human and material resources available for the prison system remain insufficient. All prisons and pre-trial detention centres are overcrowded. An effective monitoring and inspection system for prisons is not yet in place. Progress on improving rehabilitation activities, such as education, work and social programmes for detainees, has been limited.

Overall, there has been progress in improving the prison and pre-trial detention system but detention standards remain poor due to lack of resources.

**Freedom of expression** and of the press is constitutionally guaranteed in Albania, but many media outlets remain subject to political or economic interests.

The 2006 decision to widen the composition of the National Council for Radio and Television (NCRT) and the Steering Committee of Albanian Radio and Television to include experts proposed by the parliamentary opposition has been implemented. The NCRT signed a Memorandum of Understanding with the Competition Authority on cooperation in promoting free competition in the electronic media field. Albania agreed to an action plan to develop new broadcasting legislation. The plan involves consultation with stakeholders and the international community. The labour code was amended to improve the status of journalists.

The government initially proposed a draft digital broadcasting law without the agreed consultation, as an urgent anti-piracy measure. Further consultation led to a new law which largely takes into account European Commission and Council of Europe advice.

However, current legal guarantees on freedom of expression are not yet implemented fully, particularly regarding the print media and respect of journalists' independence by media owners. Government-proposed legislation removing custodial sentencing for defamation has not yet been adopted. Work on legislative improvements in areas such as transparency of media ownership, defamation and the status of journalists is not yet sufficiently coordinated. Work on comprehensive new broadcasting legislation needs to continue and intensify, using the process agreed with the Commission and the Council of Europe. Government decisions on broadcast licensing and tax enforcement in the media sector have led to accusations of bias.

To foster media freedom, both the Albanian authorities and media firms need to act transparently and within the law.

The NCRT needs to implement the new digital broadcasting law in line with EU practice. The planned Council on Media Ethics has not yet begun its work. Wider debate on ethical issues and better training of young journalists is necessary. Journalists' associations remain weak.

Overall, Albania has made some progress on freedom of expression, a key European Partnership priority. It now needs to improve implementation of existing legislation and approach reform in this field in a more coordinated manner in consultation with stakeholders and experts.

No restrictions to **freedom of assembly and association** are to be reported.

The legal framework for **civil society organisations** remains open and non-restrictive. Civil society actors have been actively involved in discussions on important new laws such as the state police law and the law on higher education. However, civil society groups still lack sustainable resources, organisational capacity and advocacy skills. Albania would benefit from greater involvement of citizens in governance through civil society groups. This requires more effective channels for dialogue and greater transparency, in particular regarding public finance information. Civil society groups would benefit from forming closer ties with other NGOs in the region.

As regards **freedom of religion**, the inter-faith climate is positive and mutually tolerant. The government supports positive relations between religious communities. Albania continues to provide a valuable example of religious harmony in the region. However, religious communities remain adversely affected by the authorities' failure as yet to provide for full restitution of properties and other belongings.

### *Economic and social rights*

With regard to **women's rights**, Albania is progressively bringing its legislation on working conditions and equal opportunities into line with the *acquis*. Amendments to the 2004 Gender Equality Act gave the Ministry of Labour, Social Affairs and Equal Opportunities exclusive responsibility for gender equality. This led to the creation of a specific ministry section for gender equality issues. A new law addressing domestic violence has been adopted. It regulates the network of authorities which deal with domestic violence and provides new protection measures for victims, for example protection orders issued by courts. A new master's programme in gender and development has been set up by the Gender Studies Institute in the Faculty of Social Sciences at Tirana University.

However, the Gender Equality Act does not ensure full protection against discrimination on grounds of gender as provided under the *acquis* and has in any case remained largely unimplemented. Further work is needed on putting in place a national strategy, implementing legislation and structures and trained staff. Government bodies dealing with gender issues, such as the State Committee on Equal Opportunity, remain weak, as do related NGOs. Work on the cross-cutting National Gender Equality Strategy is not yet complete. Further steps are needed to improve women's inclusion in the labour market and their participation in political and economic decision-making processes. Women comprise 10 of 140 members of parliament. One of 15 government ministers is a woman. Albania remains at an early stage in mainstreaming gender in employment and other policies. The new domestic violence law does

not make domestic violence a specific offence and does not cover the issue of forced marriages. Albania continues to be a source country for the trafficking of women, often minors, for sexual exploitation.

Overall, there has been some progress on strengthening women's rights. However, Albanian legislation does not yet protect these rights sufficiently and is not fully implemented.

As regards **children's rights**, the government is making efforts to gather the data required to assess needs. New juvenile sections at six district courts should improve treatment of juveniles as regards criminal justice. The child rights monitoring system includes regional units which gather data on individual cases and build the capacity of local authorities to protect children. Five new local Child Rights Units have been set up. A child labour monitoring system has been set up to identify working children, assess risks and propose viable alternatives.

Progress has been made towards improving access to primary education and its quality. The Ministry of Education has begun a "second chance" programme to help reintegrate children who have dropped out of school. The Ministries of Education and of Financial Affairs signed an agreement on information-sharing and cooperation to prevent unlicensed private education activities. Progress has been made on developing indicators for child nutrition. Social services rules on children with disabilities and victims of trafficking have been improved. Regarding children kept at home and thus deprived of their right of education, the number of children involved in blood feuds decreased from 104 in 2005 to 95 in 2006 and 87 in 2007.

However, a draft law on birth registration, which is vital for widening children's access to education and primary healthcare, has still not been adopted by the government. Government resources are not sufficient to guarantee children their right to education. The child protection mechanism remains relatively weak. Civil servants working on child protection require improved training. Awareness of children's rights among children and adults remains limited.

The many children not registered at birth, particularly from the Roma community, remain at greater risk from traffickers. Child labour remains widespread, with an estimated 32% of children aged between 6 and 17 working. Amendments to the Penal Code concerning exploitation of children through forced labour, sale and pornography have been proposed but not yet approved by parliament. Article 7 of the European Social Charter concerning the right of children and young persons to protection remains unfulfilled in that the authorities' measures to protect minors from sexual exploitation have so far had limited effect. Further progress on juvenile justice is limited by lack of a specific legal code.

Overall, there has been some progress on children's rights. Further progress is hindered by delays in key legislation and lack of resources.

With regard to **socially vulnerable and/or persons with disabilities**, there are 114,000 families who benefit from social assistance at present. The government has adopted new standards for social services and set up a unit for monitoring them. Licensing criteria for social service providers have been revised. The Law on Social Services was amended to remove the age limit for financial support.

A national strategy for people with disabilities is in place. A Secretariat for Persons with Disabilities has been established in the Ministry of Labour, Social Affairs and Equal Opportunities to monitor its implementation. Progress has included a 30% increase in

financial resources to support people with disabilities over the last two years and new legislation on human rights rules and procedures for psychiatric hospitals. First steps have been taken to progressively house mentally ill persons in community-based facilities rather than psychiatric hospitals.

However, no state resources are allocated to implementation of the national strategy for people with disabilities. There has been no progress on related legislation. Coordination between the ministries involved requires improvement. Progress, including new legislation, is needed on de-institutionalisation and aid to dependent persons. Measures to promote access of people with a disability to employment, education, including integrated education, and the environment, goods and services have yet to be developed.

New amendments to the Criminal Code specifically provide for punishment of instigators of blood feuds and self-imposed isolation and of blood feud murderers. There has, however, been no progress on establishment of a national coordination council to develop a national strategy against blood feuds and to coordinate the activities of the relevant government agencies. Lack of reliable data on the extent of the problem hinders appropriate action.

Overall, there has been some progress regarding socially vulnerable and/or people with disabilities but measures to support them remain limited and better coordination of government agencies could improve results.

As regards **labour rights**, Albanian legislation gives workers the right to form **trade unions**. The main body for social dialogue is the National Council of Labour where the government, trade unions and employees are represented. Albania has established a state mediation network covering twelve districts to help solve collective labour disputes. The position of trade unions is, however, weak due to the small size of the industrial sector, the dominance of very small enterprises and the large informal economy. Employers' organisations are very weak. There has been no progress towards developing a National Social and Economic Council. Albania's denial of the right to strike to some state employees is not in line with the European Social Charter.

As regards **anti-discrimination policies**, Albania's constitution prohibits discrimination on grounds of gender, race or religion. However, there is no proper legal definition of discrimination or specific legislation addressing it. Appropriate institutional support for victims, including by existing institutions in charge of human rights, needs to be ensured.

With regard to **property rights**, the government has adopted a strategy which links the processes of first registration of real estate, restitution and compensation and legalisation of informally constructed buildings. 86% of land has now been registered. A first wave of informally constructed buildings on state land has been legalised through payment of a fee which contributes to the compensation fund for former owners. Illegal buildings in some coastal areas have been demolished. The Property Restitution and Compensation Agency (PRCA) has improved its internal organisation, transparency and accountability and has made some progress in accelerating the processing of claims. A database to identify, assess, manage and prioritise the 41,000 outstanding restitution and compensation claims is being tested. Work on a land value map has continued, with the Tirana region now completed. State property that may be used to compensate in kind is being identified and mapped.

However, the pace of restitution and compensation remains slow. Information on results is not publicly disclosed. Further effort is required to address the problem of property restitution to

religious communities. The new strategy needs to be effectively implemented and monitored. The existing legislation requires improvement, as planned in the strategy. State bodies dealing with property registration, restitution and compensation are not yet sufficiently coordinated.

Overall there has been progress on strengthening property rights, a key European Partnership priority. Proper coordination and further acceleration of restitution and compensation are now needed.

#### *Minority rights, cultural rights and protection of minorities*

As regards **cultural rights**, Albania recognises three national minorities ('Greek', 'Macedonian' and 'Serbian-Montenegrin') and two ethno-linguistic minorities ('Aromanian' and 'Roma'). A climate of respect and tolerance generally prevails regarding minority groups.

Albania ratified the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions, which has now entered into force. Albania is endeavouring, within its budgetary limitations, to fulfil its commitments under the Council of Europe Framework Convention for the Protection of National Minorities. The government signed memoranda of understanding with local governments to promote the use of minority languages in relations with the administrative authorities and to display traditional place names in areas inhabited by persons belonging to national minorities. The Albanian Constitution provides that persons belonging to minorities have the right to be taught in their mother tongue. Updated syllabuses now allow members of minorities to include subjects in their mother tongue in their curricula. Schools specifically for members of the Greek and 'Macedonian' minorities have significantly higher teacher-pupil ratios than the national average. The Ministry of Education and Science issued an instruction allowing Roma children to enrol in schools without being registered.

Several radio and television operators broadcast in minority languages, mainly Greek and 'Macedonian'. Greek, 'Macedonian' and Aromanian minorities have their own newspapers. The Ministry of Tourism, Culture, Youth and Sports supports publication of a magazine focusing on the culture and social issues of the Roma and organises annual national festivals to promote the cultural heritage of all Albania's minorities.

However, the development of protection policies requires up-to-date statistical data on minorities. No progress has been made in strengthening the presence in the police force of people belonging to national minorities in areas in which they live. It remains difficult to include subjects in some minority languages, particularly the Roma language, in curricula. Albania has not signed the European Charter for Regional and Minority Languages as it cannot yet afford the attendant expenditure. The number of Roma children in schools has not substantially increased and the literacy rate of the Roma population remains low. Further action is required to overcome barriers to minority education, such as poverty, language difficulties, temporary migration and discrimination, particularly for the Roma minority.

Overall, there has been some progress on cultural rights but further improvement is needed.

The economic and social situation of the *Greek, 'Macedonian', Serbian-Montenegrin and Aromanian minorities is generally good*. People belonging to these minorities fully participate in the economic, social and political life of the country and often have organisations representing their interests. The Aromanian ethno-linguistic minority is particularly active in its efforts to preserve its ethnic and linguistic heritage.



The National Strategy for the Improvement of the **Roma** Living Conditions is being implemented. The staff monitoring its implementation has received training. Steps have been taken to improve housing, employment and business opportunities for Roma people and to organise vaccination campaigns.

However, the Roma minority still faces poverty, discrimination, extremely high illiteracy rates and very difficult living conditions. Less than half of all Roma children go to primary school, and only about 25% complete primary education. The Roma population's very low level of education and professional qualifications limits access to the formal labour market, which exacerbates poverty. The Roma often work in informal sectors, and begging is widespread among women and children. Many Roma families are not registered with the authorities. This excludes them from social assistance, impedes access to basic services, including education and health, and increases the risk of human trafficking. The situation of the Roma community in Tirana is now stable but remains worse than in other districts.

Albania is not participating in the 2005-2015 Decade of Roma Inclusion. Implementation of the national Roma strategy is slow and fragmented. No state budgetary resources are currently allocated for its implementation - the Ministries of Health, Culture, Education, Transport and the Interior allocate funds annually from their budgets. Other contributing factors include weaknesses in the strategy's priorities and indicators, poor coordination and lack of effective local government participation or dialogue with the Roma community, which itself has weak organisational capacity. There are still only three staff from the Ministry of Labour and Social Affairs monitoring implementation of the strategy. Further efforts are needed to grant the Roma minority equal opportunities and to address problems such as civil registration, education and participation and representation in decision-making.

Overall, there has been little progress in improving the situation of the Roma, which continue to face very difficult living conditions and discrimination, especially in the areas of education, social protection, health care, housing and employment. Lack of resources and weaknesses in strategy have limited the impact of government measures.

### **2.3. Regional issues and international obligations**

As regards the **International Criminal Court (ICC)**, Albania still maintains a bilateral immunity agreement with the United States of June 2003 granting exemptions from ICC jurisdiction which does not comply with the EU Common Positions on the integrity of the Rome Statute as well as related EU guiding principles on bilateral immunity agreements. It needs to align with the EU position.

Albania is still part of the monitoring procedure of the Parliamentary Assembly of the **Council of Europe** on verifying the fulfilment of obligations and commitments relating to its membership in the Council of Europe.

**Regional cooperation** and good neighbourly relations form an essential part of the process of Albania's moving towards the European Union.

Albania has also continued to actively participate in other regional initiatives: Stability Pact and the process of its transition into a more regionally owned cooperation framework with a strengthened South East Europe Cooperation Process (SEEC) and a new Regional Cooperation Council (RCC). In its capacity as presidency-in-office of the Central European Initiative, during 2006 Albania hosted the Heads of Government Summit and regional events

focusing on transport, energy and journalism. Albania is party to the Energy Community Treaty and in February 2007 ratified the Agreement on the European Common Aviation Area (ECAA). The new Central European Free Trade Agreement entered into force in July 2007. Albania participated actively and constructively in the negotiations and ratified the Agreement in March 2007. Albania, Croatia and the former Yugoslav Republic of Macedonia have continued to cooperate on political, defence and economic reform through the Adriatic Charter. The Adriatic Charter focuses on the shared goal of achieving NATO membership standards and allows the three countries to contribute together to NATO operations through group military deployments.

Albania's **bilateral relations with other enlargement countries and neighbouring member states** have continued to be intense, with frequent bilateral visits. Domestic cross-party consensus on key regional issues has continued to be strong.

Relations with the former Yugoslav Republic of Macedonia have continued to expand, with a number of political and technical meetings taking place. A memorandum on cooperation between the Public Prosecution Offices of the two countries has been signed and the agreement on cultural cooperation has entered into force.

Relations with Montenegro have developed further, with Albania opening an embassy in Podgorica. The two countries established the first joint border crossing point in the Western Balkans at Muriqan/Sokobine.

Relations with Croatia, Bosnia and Herzegovina and Serbia have remained positive and stable. Trade has continued to be relatively limited.

Senior Albanian politicians, including the Prime Minister, the Minister of Foreign Affairs and the Speaker of Parliament, have visited *Kosovo*, calling upon political leaders to maintain patience and moderation in the process of determining Kosovo's final status. At a June 2007 meeting with the EU Troika Albania confirmed its constructive position regarding the future of Kosovo.

*Italy* remains Albania's main political and economic partner, as well as the largest EU investor in Albania. However, problems related to lack of compliance with a concession agreement have continued to hamper a major Italian investment in the logistics sector.

Albania continues to treat its relations with *Greece* as a matter of strategic importance. Greece remains Albania's second largest trade partner, and a significant investor and bilateral donor. Bilateral relations have continued to be good and mutual high-level visits have taken place. Various bilateral agreements have been signed. Albania has ratified a free trade agreement with *Turkey*, in line with its Interim Agreement obligations. The agreement is under ratification by Turkey.

Overall, Albania has continued to foster positive relations with its regional partners, both multilaterally and bilaterally. Albania's continued constructive stance on the Kosovo status process has contributed to stability in the region.

### 3. ECONOMIC CRITERIA

In examining the economic developments in Albania, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that

membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

### **3.1. The existence of a functioning market economy**

#### *Economic policy essentials*

The first economic and fiscal programme for 2006-2008 was submitted by the authorities in December 2006. It is a broadly consistent economic policy document outlining a fundamentally sound medium-term framework. Nevertheless, as the programme gave no indication of important fiscal measures to be implemented as of July 2007, the validity of the fiscal framework remains unclear. A national strategy for development and integration for 2007-2013 with a strong emphasis on economic reform is being prepared. Cooperation with international financial institutions continued to be a firm anchor for economic policies. In July 2007, the International Monetary Fund (IMF) completed its third review under the current programme and all the quantitative targets and structural conditions were met. Overall, domestic consensus on the fundamentals of a market economy was broadly maintained.

#### *Macroeconomic stability*

In 2006, real GDP grew by 5%, down from 5.6% in 2005, driven mainly by domestic demand fed by booming credit and significant inflows of remittances. Despite government action to increase power imports after the first energy crisis at the end of 2005, Albania continued to suffer severe disruptions in electricity supply in 2006 and 2007. In 2006, these electricity shortages had little impact on economic growth and the current account, as electricity imports were not particularly large. However, as electricity shortages have been worsening in 2007, the impact of electricity imports on the current account will be stronger.

The current account deficit widened from 7.3% of GDP in 2005 to an estimated 7.6% of GDP in 2006. This was mainly a result of higher electricity imports. The trade deficit increased to 23.1% of GDP in 2006 and further widened by around 24% in the first half of 2007 compared with the same period last year. Growth in exports of goods and services, at around 21%, outpaced growth in imports of goods, at approximately 19.5% in 2006. Import coverage, i.e. exports as a percentage of imports, therefore increased slightly to 49% in 2006. The positive trend, with exports growing faster than imports, continued in the first half of 2007, with annual growth rates of 27% and 24% respectively. Income from tourism increased by 16% in 2006 and exceeded the value of exports of goods by 28%.

Financing of the trade deficit continued to depend largely on significant remittances and other current transfers from abroad, estimated at around 13% of GDP in 2006 or approximately 55% of the trade deficit. Foreign direct investment (FDI) rose by 16% in 2006 over 2005, to an estimated 3.6% of GDP for 2006. The government's external debt was estimated at around 17% of GDP at the end of 2006, equivalent to around 31% of total public debt. Gross reserves continued to rise throughout 2006 and climbed to around 4.5 months of imports of goods and services. Overall, external deficits widened further, mainly due to difficulties in the energy sector.

Data suggest that the unemployment rate continued to fall to 13.8% in 2006, compared with 14.2% in 2005. The downward trend continued in the first quarter of 2007, bringing a further drop in the unemployment rate to 13.6%. The highest increases in the number of new employees were observed in the mining, manufacturing and services sectors. Long-term

unemployed made up 65% of the total registered unemployed. Overall, the level of registered unemployment continued to decline.

The primary objective of the exchange rate regime of Albania remained to maintain price stability. This is pursued by a policy of implicit inflation targeting and an independent float. The Bank of Albania occasionally intervened in the foreign exchange market with the objectives of smoothing temporary fluctuations and accumulating foreign currency reserves. An annual inflation rate of 3% with a fluctuation band of  $\pm 1\%$  has been set as the objective, to be implemented in the central bank's strategy by means of changes in the repurchase rate. The lek remained relatively stable against the euro throughout 2006. After depreciating slightly, by around 2.5% against the euro over the first four months of 2007, it gradually returned to its year-opening level and, by September, appreciated slightly further. Discussions at the Bank of Albania on a possible change in its monetary policy framework towards an explicit inflation targeting regime have progressed.

Annual growth of the broad money in circulation accelerated to 16.3% at the end of 2006 and stood at 16% in August 2007. Average annual inflation reached 2.4% in 2006 but accelerated to 4.4% in September 2007 driven by rising prices for agricultural products. Following the hikes of the main policy rate in July 2006 and November 2006, the Bank of Albania further tightened its monetary policy stance in June 2007 by raising its main policy rate by another 25 basis points. This also aimed at containing inflation expectations on the back of rapid credit growth and relatively high growth rates in money supply. Overall, monetary policy remained credible, keeping inflation within the fluctuation band around the set target.

In 2006, budget performance benefited from a favourable macroeconomic environment. The solid economic growth, combined with the implementation of reforms aiming at improving tax administration and reducing tax evasion, led to a solid increase in revenue collection. In addition, capital expenditure was lower than planned (by approximately 17%). This was partly a result of capacity constraints in some ministries and weak procurement management. The programmed general government deficit of around 4% of GDP in 2006 was therefore undershot. Instead the deficit stood at 3.2% of GDP.

The budget for 2007, as adopted by parliament in November 2006, plans a deficit of 4.8% of GDP, excluding proceeds from potential privatisations. Revenue is programmed at 26 % of GDP, exceeding 2006 budget projections by around 10%. Expenditure is programmed at 30.6% of GDP, growing by about 12.5% over the 2006 budget. The priority sectors remained infrastructure, health care and education, each accounting for around 3% of GDP. Average public-sector wages increased by 14.9% year-on-year in 2006. Over the first half of 2007, the budget recorded a surplus of about 1% of the full-year projected GDP, largely due to underspending in the capital budget. In the light of these favourable developments on the expenditure side and of the proceeds from privatisation of Albtelecom, half of which will be used to reduce debt, the authorities agreed with the International Monetary Fund on a supplementary budget for the second half of 2007. Similarly to 2006, a large part was allocated as additional productive investment, mainly in infrastructure projects. In addition, a flat personal income tax of 10%, with 0% levied on the first 10,000 lek for salaries up to 30,000 lek, entered into force in August 2007. Overall, the revenue performance was broadly in line with the targets and budget implementation improved.

The public debt-to-GDP ratio has been substantially reduced over recent years, from 71% at the end of 2000 to below 56% at the end of 2006. However, the level of domestic public debt remains relatively high, at about 39% of GDP at the end of 2006. The average maturity of

domestic public debt increased from 195 days in 2005 to 242 days at the end of 2006. Nevertheless, it still remains relatively short and efforts to lengthen it need to be accelerated. The public-debt management strategy was approved by the government in early 2007 and a new directorate for debt management has been established under the Ministry of Finance. The authorities successfully issued the first 5-year domestic bond in November and a first euro-denominated bond in December 2006, broadening the range of instruments available and the investor base. However, the administrative and risk-management capacity of public-debt management need to be further strengthened to reduce the outstanding deficiencies and vulnerabilities resulting from the current debt structure.

Solid progress on implementing public finance reforms continued. The authorities completed the public finance strategy for 2007-2013. The strategy clearly identified the main priorities, related policies and measures to increase the efficiency of public finance over the medium term. Nevertheless, the impact of further reforms on public finance sustainability needs further discussion. Overall, public finance reforms have further advanced but fiscal risks remain.

The tightening monetary policy of the Bank of Albania continued to be geared towards price stability. Further fiscal adjustment was pursued in 2006, while expenditure grew in 2007 as favourable revenue performance allowed higher spending. Deficit and debt targets agreed with the IMF were adhered to or overachieved. A supplementary budget was approved in July 2007 raising investment expenditure in particular. In general, the macroeconomic policy mix again remained broadly adequate.

#### *Interplay of market forces*

The private sector's share of GDP was estimated at around 80% in 2006. The share of the private sector in total employment remained stable at around 82% in 2006. Within that, agriculture accounts for 71% of the total private-sector employment. The private sector further expanded, also on the back of acceleration of the privatisation process. In July 2007, parliament endorsed the sale of the 76% stake in Albtelecom, the public telecommunications operator. This was the most important privatisation operation since 2004. The proceeds totalled EUR 120 million, equal to around 1.5% of the projected 2007 GDP. However, state ownership remains significant in utilities, such as KESH (the state power utility), Albanian Refining and Marketing Oil and Albpetrol-One, recently formed by merging Albpetrol and Servcom. Some progress has been achieved on preparing the ground for privatising the distribution arm of KESH. The government's objective of selling a stake in the state-owned insurance company has not yet been achieved. To sum up, after significant delays in the privatisation agenda in 2006, progress with privatisation has gained new momentum since early 2007.

#### *Market entry and exit*

Solid progress has been made on computerisation of the data on registered existing businesses. The national registration centre for businesses, which came into operation in September 2007, is intended to serve as a one-stop-shop. The average time needed to set up a business was 36 days. The number of new businesses registered increased considerably, by around 46% in 2006, equivalent to over 14,000 new registrations. The total number of registered businesses stood at almost 78,000 at the end of 2006. However, the costs of starting and closing a business remain relatively high. Overall, company registration procedures have

started to improve, but remaining administrative inefficiencies continue to hamper market entry and exit.

### *Legal system*

The establishment of a new joint investigative unit to fight economic crime and corruption in May 2007 is a positive development, although its operational capacity has so far been weak. The judicial system suffers from non-transparent and inefficient court proceedings. Political and other undue interference in the system occurred. While some progress has been made with enforcement of court rulings and establishment of property rights, the overall efficiency of the judicial system and the resulting implementation of law remain low.

### *Financial sector development*

The financial sector is dominated by commercial banks, practically all in private ownership. The degree of market concentration remains fairly high as the group of the five largest banks dominates the market with about 75% of total assets in July 2007. This is equivalent to a decrease of concentration by almost 4% since the end of 2005. The average return on assets remained stable at 1.4% in 2006, while the average return on equity decreased slightly to 20.2% in 2006 from 22.2% at the end of 2005. The average capital adequacy ratio stood at 18.1% at the end of 2006, 0.5 percentage points lower than a year earlier. This is mainly attributable to accelerated growth in risk-weighted assets, on the back of rapid credit growth. The capital adequacy ratio varied substantially between banks, with the lowest recorded at 12.4%. Stress tests point to solid resilience of the banking sector to possible shocks resulting from movements in exchange rates and interest rates and deterioration of credit quality. Overall, the privately owned banking sector is growing and is generally sound.

The annual growth of credit (74% in 2005) moderated somewhat to 57% in 2006. It increased to 58% during the first four months of 2007. Credit denominated in Albanian lek recorded the highest growth at around 78% in 2006, while credit in foreign currency grew by 47%. The level of financial intermediation remained relatively low. At the end of 2006, total credit equalled 31% of total banking assets or 37% of total deposits. Outstanding credit added up to 22% of GDP in March 2007, while credit to businesses made up 66.5% of the credit portfolio of banks. The share of non-performing loans to total credit increased to 3.1% by December 2006, compared with 2.3% at the end of 2005. In short, credit continued to expand strongly.

In order to keep credit growth at sustainable levels, prudential supervision was strengthened in December 2006. The Regulation on credit risk management was amended, establishing higher capital requirements for banks that record credit growth exceeding the set benchmarks. In addition, the new banking law was adopted and entered into force in June 2007. Preparations for establishing the credit information bureau and completing draft legislation improving execution of collateral have been continuing. The regulatory framework for banking supervision is, following its recent comprehensive overhaul, well-developed and continuing the process of alignment with international practice.

A restructuring of the financial supervisory authority was approved by parliament in May 2007. The institutional development action plan aims further to reinforce the operational capacity of this institution. The amendment of the insurance law was adopted in early 2007. The pension system remains underdeveloped. Overall, some progress has been achieved in the area of non-banking supervision; nevertheless, scope for stronger non-banking supervision, in particular regarding the pensions industry, remains.

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

#### *Existence of a functioning market economy*

Albania's economic growth and stability continued to be relatively strong, despite the negative effects of the energy crises at the end of 2005 and 2006. Nevertheless, the business environment remained very weak and calls for further significant improvements. Outstanding deficiencies of the judiciary, uncertainty about property rights, a high level of corruption, inadequate infrastructure and unreliable energy supply, in particular, continued to hinder economic development and investment.

#### *Human and physical capital*

The budget for education, which was at a low level, has been significantly increased in 2007. A new law on higher education was adopted by parliament in May 2007. The labour market continued to face significant challenges, such as relatively slow job creation and high youth and long-term unemployment. The efficiency of labour market policy design and planning remained significantly constrained by the limited statistical capacity and unreliable key labour market indicators.

Gross fixed capital formation is estimated to have increased from 30.3% of GDP in 2005 to 32.6% in 2006. This was mainly a result of rising public investment. The government focused on investment in the energy sector, infrastructure and transport, in particular on highway construction. Net flows of foreign direct investment (FDI) increased from 3.3% of GDP in 2005 to 3.6% in 2006, equivalent in absolute terms to an increase of around 16%. The telecommunications sector took the largest share of cumulative FDI inflows in 2006 (35%), followed by industry (33%) and services (12%). A new initiative called "Albania – 1 euro" was launched in mid-2006 to stimulate FDI inflows, but follow-up has been limited so far.

The road network is in poor condition and needs further very substantial rehabilitation and extension, notably highway links with the neighbouring countries. Preparation for construction of the Durrës-Kukës-Morinë road and completion of the north-south and east-west national roads gained momentum. About 76% of the budget appropriations of the Ministry of Public Works, Transport and Telecommunications in 2007 were allocated to the national road network. Only 10% of this amount was secured for maintenance, a share insufficient to cover basic maintenance needs. Overall, improving infrastructure remains a challenge.

#### *Sector and enterprise structure*

The operational and financial performance of the electricity utility KESH deteriorated sharply over the reporting period and only little progress has been achieved to bring the company closer to financial sustainability which requires improving billings and collections. However, under new management, notable progress has been made in collection during the second quarter of 2007. Domestic generation was only partly able to meet local energy consumption needs and, as a consequence, electricity had to be imported. Insufficient interconnection capacity to import the quantities required resulted in power cuts. The fact that retail electricity prices have been kept below import cost levels, leading to reliance on budgetary support, remains a key problem. The frequent power cuts had a negative effect on private-sector productivity and investment activity. As a result, the energy sector remains one of the major



risks to macroeconomic stability and to the budget. In short, the energy sector remains highly vulnerable. Vigorous measures to address the key inefficiencies are essential.

The shares of the main sectors of the economy remained relatively stable. The services sector continued to be the main contributor to GDP in 2006 with around 47% (1% less than in 2005), followed by agriculture with around 21%, construction with its gradually increasing share of 16%, industry with 10% and transport on 6%. The informal economy has remained sizeable, affecting the competitiveness of the economy. Small and medium-sized enterprises (SME) generated approximately 64% of GDP in 2006. They account for 99% of the total number of firms and 66% of total employment. It is estimated that 49% of enterprises were active in the trade sector, 24% in the services (non-trade) sector, 11% in industry and 10% in transport. Almost 50% of all active enterprises are operating along the Tirana-Durrës corridor, where around 57% of the total number of employees work. SMEs remained the main contributors to economic growth, employment and poverty reduction.

#### *State influence on competitiveness*

The overall liberal trade and business environment policies continued to facilitate development of a private-sector-led economy. Nevertheless, large subsidies continued to be provided to public enterprises, mainly to KESH. These subsidies were meant to improve the energy supply and to avoid further deterioration of KESH's financial position, thus reducing the effects of electricity disruptions on economic activity. This, however, places a heavy burden on the budget. Total subsidies and transfers from the budget added up to 0.3% of GDP or 0.9% of budgeted revenue in 2006. Budget support to KESH in 2007 totalled about 0.5% of GDP. Overall, while the authorities did not intervene directly in the development and functioning of the private sector, subsidies to public utilities, however, continued to be relatively high.

#### *Economic integration with the EU*

The value of Albania's exports and imports of goods and services accounted for about 74% of GDP in 2006, increasing the openness of the economy as compared to 2005 (68% of GDP). The EU is by far Albania's main trading partner. Albania's exports of goods to the EU accounted for around 88% of the total exports of goods in 2006. Imports from the EU accounted for approximately 63% of total imported goods. At the same time, Albania further expanded its trade with its non-EU neighbours. In terms of export structure, the footwear and textile industry products together accounted for around 55% of Albania's total exports of goods.

The real effective exchange rate remained stable in 2006. Due to limited availability and reliability of data on labour productivity and price competitiveness based on real unit labour costs, recent trends in this respect are difficult to discern.

Albania's per capita income, measured in purchasing power standards, totalled around 18% of the EU-27 average in 2006, nearly half a percentage point up from the corresponding 2005 level.

## 4. EUROPEAN STANDARDS

This section examines Albania's capacity gradually to approximate its legislation and policies to the *acquis* related to the internal market, sectoral policies and justice, freedom and security, in line with the Stabilisation and Association Agreement and the European Partnership priorities. It also analyses Albania's administrative capacity.

### 4.1. Internal market

#### 4.1.1. Free movement of goods

There has been good progress in the area of **standardisation**. By the end of September 2007, Albania had adopted 11,814 European standards (ENs), representing 72.5 % of all of the ENs of the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC). The pace of adoption of ENs is good and the target of adopting 80% of ENs by the end of 2008 is likely to be achieved. Albania continues to give priority to the adoption and implementation of those ENs that are harmonised under the new approach directives.

The Directorate General for standardisation (DGS) cooperated with line ministries in the adoption of ENs and in withdrawing the mandatory status of Albanian standards based on existing government decrees. This has resulted in a considerable reduction in the total number of these mandatory standards. DGS efforts to raise the private sector's awareness of the benefits of standardisation have led to increased use of standards, particularly of ENs. DGS has continued to participate in the activities of CEN and CENELEC as an affiliate member and has made considerable progress towards full membership of both bodies.

However, a new draft law on standardisation and the relevant implementing legislation that has been submitted to the government has still to be adopted. This draft law provides for the establishment of a supervisory board of the DGS. The board will include representatives of all stakeholder groups and will monitor DGS activities. Further efforts are needed to increase awareness of economic operators in relation to the concepts of standards and certification and their importance in international trade. Overall, preparations in the area of standardisation are on track, even though line ministries have been slow in aligning technical regulations with the relevant EU legislation.

Some progress has been made in the field of certification and other components of **conformity assessment**. The number of companies certified to ISO 9001:2000 standard more than doubled in the past 12 months. To date, all certification to this standard has been carried out by foreign bodies. The limited size of the Albanian market does not encourage the creation of a large third party certification infrastructure. The DGS has closed down its certification activities and can now focus exclusively on its tasks related to standardisation. Preparations in this field are advancing moderately.

In the field of **accreditation**, good progress can be noted. The Directorate of Accreditation (DA) was reorganised and commenced proper accreditation operations. It successfully accredited Albania's first six laboratories and its first certification body. Accreditation of testing laboratories is the most advanced sector. Albania has signed a contract of cooperation with the European Cooperation for Accreditation (EA). Preparations in this area are advancing.

Some progress can be reported in the area of **metrology**. The structure of the Directorate-General for metrology and calibration (DGMC) was revised, with the setting up of four regional centres and the establishment of a directorate for metrological supervision, with the aim of separating metrological activities from supervision. DGMC staff received further training. In September 2007 Albania became an associate of the General Conference on Weights and Measures. However, a new law on metrology to transpose the old approach directives and set up a decentralised metrology system and deregulate some metrological activities such as calibration has not yet been adopted. Preparations in this field are at an early stage.

Progress was made in the area of **market surveillance**. The Market Surveillance Directorate of the Ministry of Economy, Trade and Energy (METE) is the coordinating authority in the field of market surveillance and is also responsible for drafting technical regulations in the sectors under its competence and for consumer protection. The Directorate was re-structured and strengthened with additional personnel. Actual market surveillance is carried out by the central technical Inspectorate (CTI) which is an independent Directorate-General of METE. The CTI does not cover foodstuffs, pharmaceuticals, cosmetics and construction materials. These areas are under the responsibility of the ministries of Agriculture, Health and Transport. CTI has continued to perform pre-market conformity assessment and market inspections against existing legislation and mandatory standards. The national strategy on market surveillance for industrial products and food up to 2012 has still to be approved. Overall, preparations in the field of market surveillance are advancing.

Albania has made some progress in approximating its horizontal legislative framework to the *acquis*. It adopted a new law on general product safety, essential requirements for products and conformity assessment. This law provides the legal basis for aligning with EU legislation on free movement of goods, general product safety and for conducting market surveillance activities. The law on drugs and pharmaceutical services has been amended to reorganize the Medicine Prices Commission, which is the authority that ensures transparency as regards the determination of prices of medicinal products for human use. Albania has prepared amendments to its legislation on toys, simple pressure vessels and pressure equipment, non-automatic weighing instruments and pre-packaging in order to take European legislation into account.

A law on **consumer protection** aiming at incorporating some elements of the *acquis* in this field has not yet entered into force. A clear distinction still has to be made between market surveillance and consumer protection. Further improvements are needed in the handling of consumer complaints and in the development of systems for the settlement of consumer disputes. Preparations are starting in the field of consumer protection.

#### *4.1.2. Movement of persons, services and right of establishment*

Very limited progress can be reported in the area of **movement of persons**. The draft law on the employment of foreigners has not yet been finalised. There has been no progress as regards coordination of social security services.

There has been some progress as regards the **right of establishment** as well as on **company law**. A new law on company registration procedure was adopted establishing the National Registration Centre of Business (NRC). The NRC became operational in September 2007 and should function as a one-stop shop. The courts are now excluded from the registration

process. However, uncertainties related to property rights continue to discourage establishment. Preparations in this field are advancing moderately.

Some progress was made in accounting and auditing. The National Accounting Standards were published and the International Financial Reporting Standards are in the process of translation, as Albania is currently using the 2003 version. The National Accounting Council was strengthened. However, further efforts are needed to ensure consistency of legislative framework and to build a credible and well functioning financial reporting framework, especially for Small and Medium Enterprises. Enforcement of financial reporting should be strengthened. Preparations in this area are starting.

There was some progress as regards mutual recognition of academic and professional qualifications. An action plan to improve the procedures for the recognition of diplomas was adopted. A law on the establishment of the nurse-midwife profession was passed in April 2007. Preparations in this area are at an early stage.

Little progress can be reported as regards **freedom to provide services**. There is still no clear distinction between providing services on a temporary basis and through a permanent establishment. The licensing system needs further improvements. No further progress was recorded in the area of postal services. Preparatory work for the approximation of legislation to the *acquis* is on track, although further efforts are still needed. The Postal Service (Posta Shiptare) was transformed into a joint stock company and its ownership is vested in a ministry other than the one in charge of regulatory functions.

Some progress can be reported concerning financial services. The legal and supervisory framework for the banking sector was strengthened. A new law on banks entered into force in June 2007 bringing legislation in this field closer to EU standards. This law removed discrimination on the treatment of branches of foreign banks. The Regulation on credit risk management law was amended to increase the capital requirements for certain banks. Work is ongoing to fully transfer responsibility for the supervision of the leasing sector to the Bank of Albania. However, efforts are still needed to further approximate the new banking law to the *acquis*. A credit register is yet to be established. Although prudential banking supervision was strengthened, further enhancement is needed. Cooperation between supervisors of different financial sectors needs improvement.

For the non-banking financial sector some progress can be reported. The insurance law was amended to increase the guarantee fund for insurance companies. Several implementing regulations on insurance, private pensions and securities market (incl. on prospectus and on takeover) were adopted. A single non-banking sector financial supervision authority was established and replaced the securities commission, the insurances supervisory authority and the Institute on private pensions. However, further measures are needed to enhance its operational capacity.

Overall, preparations in the field of free movement of services are advancing moderately.

#### *4.1.3. Free movement of capital*

No progress can be reported in the field of free movement of capital. Significant restrictions remain, in particular on the acquisition of real estate by foreigners as well as portfolio investments and other short-term capital movements. This aspect will need attention to ensure compliance with SAA obligations.

The revision of the legislative framework for the full liberalization of capital movements is ongoing. However, Albania continues to be a predominantly cash-based economy. The degree of financial intermediation continues to be relatively low. Some sectors have very limited access to credit. Preparations in this field are at an early stage.

#### *4.1.4. Customs and taxation*

There has been some progress in the area of **customs**. Albania took timely measures for the implementation of the trade related provisions of the Interim Agreement (IA).

Collection of customs duties between October 2006 and May 2007 exceeded the target by around five percent. Implementing provisions of the customs Code regarding customs warehouses were amended. The system of inward processing fees was abolished. The computerisation of customs procedures has continued and about 98% of customs declarations are now processed using the ASYCUDA computerised customs declaration and processing system. The Directorate-General of customs signed an agreement with the Albanian TIR association.

However, further progress is needed in approximating to EU practices, in particular in the areas of simplified procedures, binding tariff information and transit procedures. An IT-based system of risk analysis which is applied in the main custom houses can cover 70% of customs declarations on national level. However, the use of this module needs to be extended, as the current rate (25%) of physical inspection is still high by European standards. No progress has been recorded on the effective protection of intellectual property rights and the control of dual-use goods at customs. The Albanian tariff is still based on the Combined Nomenclature (CN) of 2005. In line with the Interim Agreement, Albania needs to start using the CN 2007.

Improvement in customs infrastructure has been very limited. A programme for rebuilding most of the second and third category Border Crossing Points has been prepared, but the actual work has not yet started. The Tirana customs house still requires urgent improvements. Staff turnover in the customs administration was moderate, and staff received further training. Customs officials have not yet been given civil servant status. Lack of performance management systems is hampering staff motivation and career development. Overall, preparations in the field of customs are advancing moderately.

Some progress can be reported in the field of **taxation**. The parliament adopted a fiscal package aiming at reducing the size of the informal economy. It includes a flat tax rate of 10% for corporate profit and for personal income taxes and introduces ceilings for cash transactions. The law on Value Added Tax has been amended to introduce exemptions for leasing, and for gold, and to extend the existing exemptions to other banks than the Bank of Albania. Legislation on excise was amended to raise the level of excise duty to EU levels for some of the products covered.

Some progress was made on strengthening administrative capacity. The number of regional branches of the tax administration was rationalised from 36 to 12. Responsibility for the collection of taxes from small businesses was decentralised to the municipalities. Staff levels were reduced, mainly in the tax police unit and regional offices. In parallel tax audit capacity was strengthened with the establishment of a specialised tax crime investigation section (TACIO). TACIO staff were given investigative powers and underwent training. Tax police staff who have been made redundant may join TACIO after appropriate selection and training.

The Directorate General of Taxes established a tax appeals department to examine taxpayers' complaints. The appeal process was reformed and simplified. The computerisation of tax offices is progressing and a new network is being introduced which covers 12 district tax offices representing 80% of all taxpayers. The government has determined a reference minimum monthly salary for the calculation of social and health insurance contributions and personal income tax. This entitles the tax administration to reassess salary declarations from non-public entities for the purposes of social contributions and income tax. An analysis aiming at identifying potentially harmful tax measures under the Code of Conduct for business taxation is being finalised.

However, further approximation to EU legislation and practices is still necessary. Some of the amendments made to excise legislation represent a move away from the EU system. Product definitions and structure, as well as the reduced rates for small producers of wine, intermediate products and alcohol, are not in line with EU standards. The new law on tax fines requiring payment of the full tax assessed and 15% of the fines imposed before appealing to the court is not in line with EU practice and has caused controversy among business actors. Tax collection rates remain low and Albania lacks a comprehensive tax collection and control strategy. Sudden large scale dismissals of staff are a source of concern as they risk undermining administrative capacity.

Preparations in the field of taxation are moderately advanced.

#### 4.1.5. *Competition*

Some progress can be reported in the **anti-trust** field. The government approved a national competition policy document to serve as a guide for the establishment of free and efficient competition in the market. The document was the subject of a wide-ranging discussion with stakeholders. Its priorities are telecommunication, energy and financial services. The government took the decision to strengthen the Albanian Competition Authority (ACA) by doubling its staff to 35. A new structure was approved which includes departments dealing with market analysis and investigation, legal matters and EU integration. Five staff members were assigned to the Commission of the Competition Authority, the decision making body.

The ACA contributed to the promotion of a competition culture by issuing recommendations on several pieces of draft legislation and producing competition policy documents. The ACA assessed several merger notifications. It decided to impose fines for violation of competition rules on two major files regarding mobile telephony and car insurance at border crossings. The ACA is proceeding with another major investigation in the insurance market and has opened investigations regarding the cement market and a cartel on bread prices.

The Law on Competition is partially compatible with the *acquis*. However, it is not clear to what extent the ACA may work independently. Competition culture remains weak in Albania. The Competition Authority needs to be reinforced. The new posts need to be filled and additional training needs to be provided to its staff.

There has been good progress in the area of **state aid**. The State Aid Department within the Ministry of Economy, Trade and Energy has been given independence in its reporting to the State Aid Commission (SAC). The SAC is the decision-making body for state aid. The decisions of the SAC are published in the Official Gazette and are available on the Ministry website. Representatives of central and local administration have received training on the new legal and institutional framework for state aid and their legal obligations.

The State Aid Department, which has five staff members, continued to analyse the existing state aid schemes, as well as registering new ones. The Department provided advice on several legislative drafts and organised activities to raise awareness among state aid providers. The SAC assessed three plans for state aid measures and rejected one of them. Provisions were approved on the submission of complaints and on the interest rates to be applied to unlawfully granted state aid being recovered. Albania has started preparations for the implementation of the state aid provisions in the steel protocol of the Interim Agreement. However, Albania needs to continue adopting new implementing legislation in the field of state aid.

Preparations in the area of competition are on track.

#### 4.1.6. *Public procurement*

There has been some progress in the area of public procurement. Albania has taken steps towards bringing its legislation into line with the *acquis* by approving a new public procurement law. Implementing legislation is in force. The new public procurement law takes into account the principles of non-discrimination and equal treatment, transparency, value for money and legal protection of bidders' interests. Direct tendering has been abolished and criteria to identify abnormally low bids have been introduced.

The website of the Public Procurement Agency (PPA) has been improved in order to enhance transparency and access to information. It includes standard documentation and templates which can be downloaded. Guidance manuals are being distributed. Contracting authorities are required to publish procurement notices and tender dossiers on the PPA website, which can be accessed electronically by the public.

A training unit was set up within the PPA and seminars on the new public procurement legislation were organised for officers and magistrates at central and local level. There have been 30% fewer complaints to the PPA since the new legislation and practices were introduced. The PPA is being strengthened as it received ten additional posts, most of which are occupied. The Parliament adopted a law on concessions, for both works and services, which aims to implement European standards on public works concessions.

However, further alignment is required in all areas of public procurement (public contracts, utilities, concessions). The PPA also remains responsible for decisions on complaints, therefore the impartiality of review procedures cannot be guaranteed. The administrative capacity of all those dealing with public procurement needs to be strengthened to ensure that Albania can properly implement the new public procurement legislation properly. Proper records are required in order to monitor enforcement of the new law. Cooperation between the PPA, the Ministry of Finance and the concessions Department in the Ministry of Economy, Trade and Energy, and also with prosecutors in the case of offences, still needs to be improved.

Overall Albania is advancing towards meeting its commitments under the Interim Agreement in this area.

#### 4.1.7. *Intellectual property law*

There has been some progress in the area of intellectual property rights.

As regards legislative developments, Albania ratified the Hague Agreement of 1960 and the 1999 Geneva Act on the international registration of industrial designs.

The copyright office provided for under the Law of 2005 on copyright and related rights has become operational with 12 staff. The office has established working relations with the two collecting societies operating in Albania, namely ALBAUTOR, which protects the music copyrights, and FMAA which protects the copyrights of audiovisual works. The national council of radio and television (NCRT) signed a memorandum of understanding with the national cinematography centre (NCC) aimed at fighting piracy and observing copyright law.

Concerning industrial property rights, the Directorate General for patents and trademarks (GDPT) was restructured and given additional staff. Registration and administration of patents, trademarks and industrial designs has been computerized. This has improved the processing of applications and the supply of information.

However, further strengthening of the capacity of both the copyright office and the GDPT is still required. Piracy and counterfeiting remain widespread. Enforcement of IPR is hampered by the lack of appropriate experience and qualifications of the Albanian courts in this field. The provision of training to judges, prosecutors and customs administration is not enough to solve the problem. Further efforts are needed to address the limited capacity of customs to detect counterfeit products. Government responsibilities are fragmented and inter-institutional cooperation remains weak. There is no national strategy on intellectual property rights. The general level of knowledge about IPR and infringements remains poor. The current industrial property law from 1994 needs substantial improvements.

Albania has made significant commitments under the Interim Agreement in the area of intellectual, industrial and commercial property rights. However, preparations in this field remain at an early stage.

#### 4.1.8. *Employment and Social policies*

There has been some progress in the area of **employment**. Subsidised programmes continued to foster employment of vulnerable groups. Particular attention is being given to the employment of marginalised women, including Roma, victims of human trafficking, older women and women with disabilities. A specific programme exists also to facilitate the integration of young graduates in the labour market. The number of persons trained in vocational training centres has remained stable. The capacity of the National Employment Service and its local and regional offices was strengthened through training. However, Albania has not yet adopted a multi-sector approach to further stimulate job opportunities and make proper use of its growing labour force. Employment and vocational training strategies have still to be integrated into economic, social, educational, tax, enterprise and regional policies. Proper evaluation of the employment programmes to assess their impact and ensure efficiency is lacking. There is a lack of information and administrative systems necessary to provide an accurate view of the scale of unemployment and the needs of unemployed persons. (See also the political section on economic and social rights)

There has been some progress as regards **social policies**.



The institutional and regulatory framework in the area of *labour legislation* has been improved by the adoption of the law on labour inspection and the establishment of the Labour Inspectorate which has concluded cooperation agreements with the General Tax Department and the National Employment Service. However, the limited capacity of the regional labour offices and of the Labour Inspectorate hampers the effective implementation of legislation. There has been no progress in establishing a modern framework approximated to the *acquis* as regards labour law, and occupational health and safety remain poor.

The child labour monitoring system, which aims to identify working children, assess risks and refer them to viable alternatives, is a welcome step that needs to be followed up by concrete action. However, child labour remains widespread. Efforts to protect children at work need to be continued.

Albania is progressively approximating its legislation on working conditions and equal opportunities to European standards as regards gender equality. However, the State Committee on Equal Opportunities remains weak and the Gender Equality Act remains largely unimplemented. Further action is needed to facilitate women inclusion in the labour market and their participation in the decision-making process. Albania remains at an early stage in mainstreaming gender in employment as well as in other policies. (See Economic and Social Rights)

In the area of social protection, minimum wages and pensions have been increased. Contributions to the social security and pension systems have been reduced in order to combat informal employment and increase social insurance collection rates. However, the core functions of the Social Insurance Institute have not been consolidated. There are no properly defined procedures for pensions and social contributions. A national digital archive and database for electronic monitoring of workers and emigrants' employment itineraries remain to be established. Drafting of a 7-year strategy for social assistance and of the Social Inclusion Strategy 2007-2013 has not yet been finalised. As regards poverty and social exclusion, there is an urgent need to improve social statistics and analyses that can serve as a sound basis for fostering the development of social inclusion strategies, action plans and the evaluation of programmes.

There has been some progress in the public health field. Albania drafted a Health System Strategy 2007 to 2013, and made a commitment towards achieving Millennium Development Goals on health for mothers and children. Training was provided to the Ministry of Health on the European legal framework on standards for transfusion of blood and blood components.

Preparations in the area of employment and social policies are at an early stage.

#### *4.1.9. Education and research*

Some progress can be reported in the area of **education**. The budget for education, which was at a low level, has been significantly increased in the last year. The government has started implementing the national strategies for pre-university education and pre-university vocational education and training up to 2015. The implementation of the scheme on final and entry exams for Albanian universities (State Matura) continues. The quality of teaching has been improved through the continued professional development of teachers and improvement of school management.

The Parliament passed a new law on higher education which includes the follow-up of the Bologna process. A master plan for higher education covering the period until 2016 has been launched. Some measures have been taken to reform teacher training in universities, and to increase the financing of research related to teaching and learning. Albania is taking measures to reinforce the leadership, management and governance of the education system, improve the conditions of teaching and learning, improve and rationalise education infrastructure and pave the way for higher education reform.

Albania is building a qualifications framework in line with the European qualifications framework. The national vocational education and training agency has started its work. It is responsible for standards, qualifications, accreditation, assessment, curricula and teacher training. A more flexible structure for vocational education and training (VET) is being developed to allow more labour market-oriented courses. There is an attempt to involve more social partners in VET, as they are exhibiting a growing awareness of the need to play an active role in order to obtain a suitably qualified labour force. An initiative for the development of post-secondary and higher VET has been launched by setting up a vocational academy at the University of Durres to provide technical training, taking into account the needs of the national economy.

However, in contrast with the EU's life long-learning objectives enrolment rates continue to be low. This is particularly the case at secondary level and among children in rural areas and girls. Drop-out rates in the final years of basic education are high. Low skill levels hamper investment and the development of higher value-added industries. Continued efforts are required in order to meet the government's objective of increasing enrolment rates in vocational schools from 17% to 40% by 2009. In the field of higher education, further efforts are required to increase participation in the Tempus programme. Albania's preparations in the area of education are advancing moderately.

There has been limited progress in the area of **research**. Albania has bilateral protocols with Italy, Greece, the Former Yugoslav Republic of Macedonia, Slovenia and Turkey on scientific and technological cooperation. Some activities have taken place to ensure familiarisation with the Seventh Framework Programme (FP7), such as meetings with coordinators at local universities and scientific institutions and the establishment of the contact point network. Albania has asked to become associated to the FP7 but the association procedure has not yet been finalised. Preparations in this field are at an early stage.

#### *4.1.10. WTO Issues*

Albania is a member of the WTO since the year 2000. In 2007, Albania continued to implement its relevant WTO obligations. However, the WTO Relations and Economic Cooperation Section of the Ministry of Economic Affairs, which acts as the Secretariat for WTO issues, has not been strengthened and no changes have been observed regarding Albania's capacity for trade policy-making.

## **4.2. Sectoral Policies**

### *4.2.1. Industry and SMEs*

Some progress can be reported in the field of business environment for **industry and SMEs**. Companies are able to use a unique identification number for their relations with the different branches of public administration. The government approved legislation establishing the

National Registration Centre of Business (NRC). The new legislation will change business registration from a court-administered judicial procedure to a simpler administrative process. The NRC, which became operational in September 2007, will act as a one-stop-shop intended to make it possible to register a business in a single day. It has already signed a memorandum of understanding with the Directorate-General for taxation to simplify registration tax procedures. Business registration will also be available at the NRC branches in 29 municipalities.

The government approved a medium-term strategy for 2007-2009 to promote the competitiveness of small and medium-size enterprises (SMEs). The strategy seeks to promote entrepreneurship culture, improve the business climate, increase competitiveness and improve SMEs' financing.

The Albinvest agency, responsible for the promotion of SMEs, export and FDI, has been proactive in marketing for foreign investments and providing support to business, including the preparation of studies on potential export areas. The agency has 36 employees and was further strengthened by the establishment of a new department to manage the export guarantee fund of Albanian lek 200 million (approximately € 1.6 million) created by the government. The fund aims to facilitate funding of exports through loans from local and foreign commercial banks to enterprises, combined with commercial risk sharing.

Some progress can be reported in the area of SME financing. The government has established a € 200 000 competitiveness fund managed by Albinvest. The fund functions as a cost-sharing grant scheme to help develop businesses. It has already approved ten applications for funding. Albania has a specific tax regime for small companies. Social contributions have been reduced from 30% to 21% and are due to be further reduced in January 2008. Some steps were taken to reduce business informality, such as a draft law laying down reference wages for private businesses and the development of a methodology for working standards to combat under-reporting of the work force in certain industrial activities.

However, concrete progress in tackling the informal economy remains slow. Progress in the implementation of the European Charter for Small and Medium Enterprises has been slow and measures to improve the business environment for small enterprises have been delayed. As regards SME financing, the € 30 million credit facility agreed between Albania and Italy has yet to be implemented. The teaching of entrepreneurship has yet to be introduced in the education and training systems. The capacity of the NRC needs to be ensured. Proper premises and adequate financial and human resources are essential. Company registration still remains bureaucratic and cumbersome. On-line registration services and the principle 'silence is consent' have yet to be implemented. Although Albania has taken some steps forward on business advocacy and business representation by reforming the legislation on Chambers of Commerce and by establishing the Business Advisory Council, business participation in legislative processes and in corporate associations remains limited

Albania needs to develop strategies that act as incentives for businesses to enter the formal sector. A more pro-active and innovative approach on the development of clusters and technology transfer mechanisms for SMEs is needed. Strategies on business incubators are not very advanced. Informal businesses remain widespread, which hinders fair competition and adversely affects business climate. Arbitration and appeals facilities available to the business community are ineffective and open to corruption.

Preparations in the field of industrial policy and SMEs are advancing gradually.

#### 4.2.2. *Agriculture and fisheries*

Limited progress was made in the area of **agriculture and rural development**. Direct payments per area were introduced for vine, olive and fruit growing, providing incentives to increase production. The agricultural extension and research system is currently under review to adapt it to policy priorities. In the area of organic farming, progress was noted in the alignment of legislation with Community regulations, although challenges remain on the strengthening of relevant public institutions and its effective implementation.

Various constraints such as the continuing fragmentation of already very small farms, the high price of land, which makes buying land for agricultural purposes uninteresting, lack of adequate education of farm operators to apply improved production techniques, and an undeveloped marketing system, are still preventing the farming sector from being competitive and from meeting the increased demand for food products. Export-oriented farming could, however, increase its production and trade in some sectors.

The Sector Strategy for Agriculture and Food 2007-2013 addresses these concerns. This document follows most of the priorities of the period 2004-2006 (particularly as regards increased competitiveness and diversification of economic activities in rural areas), but also some new ones such as clear definition of strategic sub-sectors and increased government budget for agriculture. However, the strategy, like the rural development strategy, has not yet been adopted.

Availability of credit for investments in agriculture and systematic involvement of stakeholders in policy-making are key elements needed for the sustainable implementation of the planned strategy. Overall, the competitiveness of the farming sector needs to be increased. Preparations in the area of agriculture are at an early stage.

There has been little progress in the area of **food safety, veterinary and phytosanitary policy**. The Ministry of Agriculture, Food and Consumer Protection has an inventory of the relevant *acquis* to which Albania plans to align its legislation. The Ministry issued more than 20 regulations and orders in the area of animal health. However, as regards control of animal diseases the degree of implementation is uncertain. Various initiatives have established or improved the capacity in relation to veterinary and phytosanitary border inspection posts, laboratories and mollusc monitoring programmes. In 2006 the Council of Ministers approved a Decision on the system of identification and registration of farm animals and of their movements. However, for bovines, only certain districts are covered, considerably reducing the value and benefits of the system. This hampers the efficiency of measures taken to eradicate brucellosis which has spread to new areas.

Insufficient numbers of staff and lack of financial resources limit the capacity of the Ministry of Agriculture, Food and Consumer Protection to improve food safety. The capacity of the Ministry for preparations to implement European standards as well as implementation of measures remains weak.

No specific progress can be reported on the upgrading of food processing establishments. The systems of controls of live bivalve molluscs are not equivalent to the Community system. This restricts Albania's export possibilities. Albania does not yet have the necessary laboratory capacity to fulfil the requirements to export fish and fishery products to the EU. Specific guarantees concerning histamine will be requested for each consignment of certain species

destined to the EU market. Preparations in the area of food safety and in the veterinary and phytosanitary field are at an early stage.

Some progress can be reported in the area of **fisheries**. Especially law enforcement and inspections on the ground are improving. An increase in the number of inspection staff allows more frequent controls. Nevertheless, measures to prevent overexploitation and illegal fishing have still to be strengthened as regards licensing and controls. Preparations in the area of fisheries are starting.

#### 4.2.3. *Environment*

Some progress can be reported in the area of **horizontal legislation**. The first part of the Environmental Impact Assessment (EIA)/ Strategic Environmental Assessment (SEA) methodology, covering the preliminary assessment of environmental impact, has been approved. A law on transboundary environmental protection, transposing some provisions of the Espoo and the Aarhus Conventions has been adopted. Implementation of the obligations under the Aarhus Convention has improved. Albania ratified the Kyoto Protocol in 2005, but there have been no further steps on the subject. The National Environmental Law has not yet been amended. Implementation of the existing legislation on EIA will need to be improved. Preparations have started in the area of horizontal legislation.

Limited progress can be reported on **air quality** in urban areas. It has improved slightly due to reduced emissions from the vehicle fleet and from some large factories in the Elbasan area. The Council of Ministers has adopted a decision on the quality of fuels taking some European standards into account. Two additional monitoring stations have been established and some equipment provided. This contributes to the development of the monitoring network and the improvement in collection of accurate air pollution data. However, further efforts in this field remain necessary as Albania is only at an early stage as regards monitoring of air quality.

There has been little progress in the area of **waste management**. Implementing regulations for the law on the management of hazardous waste have been prepared. Work is ongoing on the rehabilitation of the Sharra landfill in the municipality of Tirana and on the wastewater treatment plant of the Ballshi Oil Refinery. A project to assess environmental impact at the Patos-Marinez oil field started in April 2007. However, on-site disposal of hazardous waste and contaminated material in the Fier Nitrate Fertilizer Plant and in the Rubik Copper Smelter has not yet started. Minor hot spots persist. An accurate inventory of all hot spots, accompanied by an environmental impact assessment, is necessary before any new interventions are planned. There is no clear strategy for the disposal of municipal solid waste. Uncontrolled dumping and burning of waste continue to pose environmental and health risks. Preparations in the field of waste management are not very advanced.

There are no developments to report on **industrial pollution** and **risk management**.

There has been little progress on **water quality**. During 2006, a programme for monitoring and benchmarking was carried out in 54 water utilities. However, the Water Supply and Waste-Water Sector Strategy (2003) targets have not been attained. Water supply and disposal of waste-water remain problematic, particularly in coastal areas. There is still significant water pollution from industrial activities, especially oil extraction. Water supply and sanitation systems remain outdated. A comprehensive water management strategy is still needed, including approximation with European legislative standards, determining investment

needs, and improving the capacity to manage water and sewerage issues. Preparations in this field are at an early stage.

There has been some progress in the area of **nature protection**. Protected areas now account for about 10% of the national territory. However, appropriate indexes of species need to be established. No measures are being taken to control illegal logging or hunting. Adequate training and resources should be given to the rangers operating in these areas. Approximation to the Wild Birds and Habitat directives continued, but further efforts are still needed in this field. The transposition of the *acquis* on wild birds as required under Article 16 of the Energy Community Treaty remains to be achieved.

Limited progress can be reported in the areas of **chemicals and genetically modified organisms (GMO)**. The Council of Ministers approved an action plan for the elimination of persistent organic pollutants (POPs) and submitted it to the Secretariat of the Stockholm Convention. Provisions on GMOs are included in the draft law on bio-safety, which has not yet been approved by the government. Albania is at an early stage in these fields.

Legislation has been approved in the field of **noise** but preparations are still an early stage.

As regards **administrative capacity**, the main goal remains strengthening environmental and sectoral policy making, as well as enforcement of policies in areas under the responsibility of the Ministry of the Environment, Forestry and Water Administration (MEFWA). Responsibilities of other bodies in charge of environment protection need to be defined. Cooperation between the MEFWA and other ministries and local government needs to be improved.

The government has embraced the “polluter pays” principle, but current legislation does not allow this concept to be implemented in practice. The collection rate for fines is very low (15%) and environmental inspectors lack adequate resources to carry out their duties.

The National Environmental Strategy (NES) -a comprehensive document which has enjoyed wide involvement and acceptance on the part of stakeholders- remains in draft form awaiting incorporation into the National Strategy for Development and Integration. Further efforts are needed in this field.

Albania has made some progress in approximating its environmental legislation to EU standards. However, there is a tendency to concentrate efforts on adopting new legislation, with the consequence that implementation of already transposed legislation is falling behind. Further efforts are needed towards ratification and implementation of international conventions. Administrative capacity of bodies in charge of environment protection needs to be strengthened and coordination of work between them improved.

#### 4.2.4. *Transport policy*

There has been progress in the area of **trans-European networks**. Albania actively participates in the development of the Core Regional Transport Network and in the South East Europe Transport Observatory (SEETO) and has approved the second Rolling Five-Year Multi-Annual Plan (2007-2011). Continued cooperation in the framework of SEETO is required in order to improve the definition and implementation of regional priorities and the coordination of investments. In particular, Albania needs to ensure reliable project information and complete transmission of traffic and transport data on the core regional

transport network to SEETO. Implementation of major projects needs to be improved, including by ensuring appropriate administrative capacity.

There has been limited progress as regards **road transport**. Albania agreed to grant unrestricted access through its territory to Community transit traffic. Albania ratified the following international agreements in the field of road transport: European Agreement concerning the work of crews of vehicles engaged on international road traffic, 1970; Convention on the contract for the international carriage of goods by road, 1956; European Agreement on main international traffic arteries, 1957 and protocol to the convention for the international carriage of goods by Road, 1978.

Amendments to the road code were adopted in September 2007 aiming at approximation to the *acquis* on vehicle inspection, weights and measures, and driving licenses. However, their compliance with the corresponding EU standards remains to be established. The reorganization of the General Roads Directorate (GRD) into an agency contracting out road construction and maintenance to private firms is still pending. The quality of road maintenance remains poor and the prioritisation and identification of maintenance interventions do not follow a clear action plan. Road safety remains a serious problem due to the poor condition of roads, defective signalling, illegal construction along new roads, and the very limited level of vocational education of drivers. The implementation of the bridge asset management programme is on-going but has not yet been completed. Further simplification of freight transport traffic by road is required, both for national and transit traffic. Preparations in the field of road transport are lagging behind.

Progress as regards **rail transport** has been very limited. The State budget for 2007 earmarked approximately €2.3 million for railways to be used for maintenance of existing rolling stock and tracks. The railway sector continued to deteriorate owing to the extremely poor condition of the rolling stock and tracks. A five-year Business Plan for the Albanian Railways has been drawn up but has not yet been adopted. Preparations in the field of rail transport are lagging behind.

There has been some progress in the **air transport** sector. Albania ratified the European Common Aviation Area Agreement (ECAA) and undertook to gradually integrate into the EU internal aviation market and to apply EU aviation standards. The construction of new infrastructure at Tirana Airport was completed in mid-March 2007. Implementation of the first transitional phase of the relevant aviation *acquis* under the ECAA is underway but further efforts are needed, particularly in the in the fields of aviation safety, security, and air traffic management. The strengthening of the administrative capacity of Albania's institutions in the field of air transport is still outstanding. Work on the new draft Air Code is underway but its alignment with the *acquis* in line with Albania's commitments under the ECAA remains to be verified. Albania needs to implement the action plan to address the deficiencies identified within its Civil Aviation Authority as regards safety oversight of the country's airlines. Preparations in the field of air transport remain at an early stage.

Very limited progress can be reported in the area of **maritime transport**. Albania has ratified the international Maritime Convention MARPOL 73/78 and the United Nations Maritime Convention on Carriage of Goods. The updating of the Master Plan for the Port of Durres was started in June 2007. This Plan will act as a blueprint for the overall development of Albanian ports, in compliance with National Transport Plan recommendations. Substantial efforts are needed to improve maritime safety, including Port State Control facilities. With an increased detention rate of 29.9% in 2006, the Albanian flag is the second worst in the June 2007 black

list of the Paris Memorandum of Understanding and is rated as "very high risk". At the same time, the performance of the Albanian Register of Shipping is rated as very low. Considerable progress is required in this area. Preparations in the field of maritime transport are lagging behind.

#### 4.2.5. *Energy*

No progress has been made as regards **oil stocks**.

Albania has started to take some steps to improve the security of **energy supply**. The contract for the construction of a new thermal power plant in Vlora has been signed. Albania has approved a law on concessions to develop private construction and operation of small hydroelectric plants. The parliament has ratified a convention with Bulgaria and the former Yugoslav Republic of Macedonia for the construction of a pipeline (the AMBO pipeline) to transport oil from the Black Sea to the port of Vlora. Projects to further increase electricity generation and interconnection capacity have been planned.

However, Albania has not been able to ensure security of electricity supply. It is still overly dependent on hydroelectric plants for its electricity generation and continued to experience severe problems in the supply of power. Insufficient domestic generation and limited interconnection capacity to import made it impossible to keep up with demand. This resulted in extensive and regular power cuts. Illegal connections and loss of electricity due to technical deficiencies in the transmission network are still high and constitute a structural problem which needs to be vigorously addressed. Further efforts are needed in order to improve bill collection and to provide all consumers with electricity meters. Large-scale imports of power strained the financial position of the State Electricity Company KESH. The revised National Energy Strategy has yet to be approved.

Albania made some progress in the field of the **internal energy market**. Albania has ratified the Energy Community Treaty and therefore undertook to implement the relevant EU energy *acquis* as from July 2007, with the exception of the provisions related to market opening to which a specific timetable applies. A new market model was adopted in September 2007 but its compliance with the requirements of the Energy Community Treaty remains to be confirmed. There has been some progress in the electricity sector as regards monitoring of security of supply, technical rules and third party access. A new tariff policy was introduced in the internal energy market. Rates for households were increased whilst rates for businesses were lowered in order to reduce the distortion caused by the cross-subsidy between the two categories of customers and to improve payment compliance. The process of reforming KESH, which involves unbundling the company into three independent entities, has begun. The Transmission System Operator has been separated legally and financially, although the allocation of assets and liabilities has not yet been finalised. The government has started preparations to privatise the distribution arm of KESH. However, only two companies have been awarded Eligible Customer Status. The opening up of the electricity market is in an early stage. (*See also the economic section*).

Implementation of the Law on **energy efficiency** of 2005 has yielded no tangible results as yet. The use of renewable energy sources remains at low levels. No progress has been made as regards **nuclear safety and radiation protection**. Albania needs to ensure compliance. Considerable efforts are still required for Albania to meet the requirements of the Energy Community Treaty as regards transposition of the *acquis*. Particular attention should be paid to electricity generation, public services and cross border trade mechanisms. Overall, the



energy sector is still in a critical situation which is hampering the social and economic development of the country.

#### 4.2.6. *Information society and media*

There has been very little progress in the areas of **electronic communications and information technologies**. Market liberalisation remains at an early stage. An amendment to the Telecommunications Law was introduced at the end of 2006 allowing operators to apply for urban or regional licences. Implementing legislation was completed in April 2007. Provisions on Voice over Internet Protocol (VoIP) services have now been introduced into the law, although the Telecommunications Regulatory Entity (TRE) still has to specify the details for their application. The Competition Authority opened an investigation on abuse of a dominant position by the two existing mobile telephone operators and decided to impose fines for violation of competition rules. The TRE set interconnection tariffs after the fixed and mobile telephone operators failed to reach agreement.

The government signed a contract for the privatisation of 76% of the state-owned company Albtelcom following extended negotiations with the successful bidder for the 2005 privatisation tender. The contract was ratified by the parliament in July 2007. Eagle Mobile, the third mobile operator, which is owned by Albtelcom, will have to start operations following the conclusion of the privatisation. This is likely to enhance competition in the mobile telephony market.

Interconnection tariffs are based on termination and the TRE aligned the national and international termination tariffs for mobile operators. However the tariffs are still mostly beneficial for the larger operators in Albania and there are complaints of a price squeeze. It cannot be guaranteed that the tariffs are actually applied in practice since not all interconnection payments between operators have been made.

Many issues remain outstanding in the field of electronic communications, networks and services to improve the approximation of Albania's legislation with the EU framework. Costing models have to be developed for the introduction of cost-based tariffs. Competitive safeguards, such as number portability, carrier (pre) selection and local loop unbundling need to be introduced. The TRE needs to improve its expertise and capacity. It still faces difficulties over the timely implementation of existing legislation and has been unable to tackle the high retail tariffs of the two mobile operators through market regulation measures. TRE and the competition authority are now taking a position in favour of the direct regulation of retail tariffs of the mobile operators. Specific training needs to be provided to develop expertise in courts dealing with regulation issues in this area.

No progress can be reported as regards **information society services**. Legislation on electronic commerce, electronic signatures and conditional access has still to be adopted. Overall, preparations in the area of information society are at an early stage.

There has been progress in the area of **audiovisual policy**. The National Council of Radio and Television (NCRT) took rigorous measures against private television operators broadcasting outside their licensed area. However, the NCRT's human and financial resources remain limited given its tasks, particularly as regards frequency allocation, preventing pirate occupation of frequencies, fighting copyright piracy and monitoring broadcasters.

The NCRT has yet to draft a strategy for the development of the radio and television sector and an up-to-date plan to regulate analogue and digital frequencies. The alignment of the broadcasting law with the European Convention on Trans-frontier Television and the Television Without Frontiers Directive remains to be achieved. (*See also Freedom of expression*)

#### 4.2.7. *Financial control*

There has been progress in the area of **Public Internal Financial Control**. The government agreed to update the 2005 Policy Paper and Action Plan in the light of its recent experience of PIFC and the proposed changes to the relevant legal framework. In this respect an internal audit law was recently approved by parliament and proposals were made by the government to introduce the concept of managerial accountability in a new draft Organic Budget Law. Both are still subject to scrutiny and will have to tie in with the updated PIFC Policy Paper providing for a balanced introduction of managerial accountability and of decentralised and functionally independent internal audit.

Existing Internal Audit units perform mainly control and inspection tasks, indicating that the internal audit profession, which should focus on systems-assessment and advice, is still in the very early stages of development.

As regards external audit, neither the Constitution nor the Law on External Audit comply fully with the guidelines of the International Organization of Supreme Audit Institutions (INTOSAI), especially as regards the functional and financial independence of the Albanian supreme audit institute and its members (dismissal criteria). The institute's planned Development Strategy (2009-2013) needs to focus on financial and performance audits rather than on inspection activities. The independence of the institute needs to be appropriately strengthened.

Albania needs to develop an appropriate inspection service to combat fraud and to achieve a broad understanding of the scope of functions such as internal audit, external audit and inspection/control. Overall, preparations in the area of Financial Control are advancing moderately.

#### 4.2.8. *Statistics*

There has been progress in the field of **statistical infrastructure**. The Law on Official Statistics complies with European standards. A strategic operational plan, including budgetary provisions, has been adopted for the national statistical institute (INSTAT). INSTAT has signed cooperation agreements with two main providers of statistical information and further agreements are in preparation with other relevant official bodies.

Most major statistical **classifications** are in place and comply with EU standards. It is the task of the National Centre of Registry established in September 2007 to update the 1998 statistical register of enterprises. This is a positive development towards approximation of the business register to EU requirements as regards content and coverage. An agricultural census is scheduled for early 2009.

There has been uneven progress towards compliance with EU standards as regards **sectoral statistics**.

Concerning demographic and social statistics, the household budget survey (HBS) and the labour force survey 2007 are ongoing. Data are being processed, but results are not yet

available. Both surveys have been carried out in accordance with EU requirements and will improve social statistics, including labour market statistics. The Civil Registration Office is in the process of computerising the existing paper-based information on civil status. Measures need to be taken to ensure comprehensive registration of all demographic events. Inter-institutional cooperation is needed to ensure transmission of all data to INSTAT. The population census which is scheduled for 2011 will make it possible to establish a census-based population register.

In the field of regional statistics, data are collected mainly from administrative sources and only at county level. A classification comparable to the NUTS level 2 classification is not yet established.

As regards **macro-economic statistics**, GDP data are compiled using the ESA 95 as the methodological base. The time lag for publication of the first estimates has been shortened from 19 to 11 months, and further progress is expected. The Consumer Price Index (CPI) is now in broad compliance with EU requirements and its weighting and structure will be revised once the results of the HBS are available. Quarterly National Accounts are compiled for 2001-2006 as preliminary figures, and a user group has been established to look at the quality and frequency of results. The results of the HBS and LFS will be taken into account. Data collection for the Producer Price Index (PPI) has been carried out in line with an improved methodology which follows EU requirements. The new PPI for the first quarter of 2007 was published in June.

As regards business statistics, new variables have been included in the structural business surveys. As for short-term statistics, preparations are ongoing to ensure the time consistency of data collection and the sustainability of a new accounting scheme for enterprises.

Concerning agricultural statistics, the questionnaire for annual surveys has been improved and discussion on harmonising the methodology used by the Ministry of Agriculture with that of INSTAT is ongoing. The revised questionnaire for the Farm Structure Survey in 2007 is in line with EU requirements. An agricultural census is due to be carried out in the first quarter of 2009, and on that basis an appropriate Farm Register can be established.

The positive trend as regards **foreign trade statistics** was confirmed. Good cooperation continued between the customs administration and INSTAT.

The five-year statistical programme 2007 – 2011 has been prepared taking into account the requirements of the SAA and the statistical *acquis*. It establishes the short- and medium-term priorities in the statistical field and, for the first time, includes monitoring of its implementation. However, this programme has not yet been adopted.

The Albanian statistical system is moving towards compliance with the EU standards. Improvements are necessary in the fields of macro-economic statistics and agricultural statistics. New data sources need to be developed in order to improve the quality of GDP and to compile GDP by type of final expenditure, to compile supply and use tables and to improve the quality of quarterly estimates of GDP. A census-based population register and a farm register need to be established. Adequate financial and human resources need to be allocated to INSTAT in order to ensure the quality of the statistical work. The high turnover of personnel calls for particular attention, and improvements are needed as regards office premises. Preparations in the field of statistics are advancing.

### 4.3. Justice, freedom and security

#### 4.3.1. *Visa, border, control, asylum and migration*

There has been some progress with management of **visas**. A centralised IT system to administer visas is being installed. In terms of document security, technical specifications for new micro-chipped biometric passports and ID cards in line with EU standards have been approved. New, more secure diplomatic and service passports have been introduced.

There have been no major changes to the visa regime. Albania operates a visa-free regime for all EU Member States. Citizens of Serbia are now exempt from visa requirements and citizens of Bosnia and Herzegovina are exempt from 15 June to 15 September, as are all tourists not exceeding a 24-hour stay. A recently signed EU-Albania visa facilitation agreement provides for reduced visa fees and streamlined visa-processing procedures. Drafting of amendments to bring the Law on foreigners and the Law on control of state borders into line with the *acquis* has yet to be finalised. Further steps towards visa liberalisation depend on proper implementation of visa facilitation and readmission agreements and progress on border management, travel document security and the fight against organised crime. Given the limited number of consular posts that Albania has abroad and, in particular, the absence of any consular post in some regions, the necessary measures should be taken to avoid issuing visas at the borders. Overall, Albania is advancing moderately on visa management.

Albania has made progress in the field of **border control**. The government has adopted a national integrated border management strategy and action plan which complies with EU requirements. New infrastructure at 15 border crossing points (BCPs) is improving border control. Inter-agency cooperation has improved steadily at BCPs and at central level. The new Law on the organisation of the police (*see Political section – Government and police*) provides for improvements in the structure of the border and migration police. This will also help improve coordination with other state agencies.

The Ministry of the Interior and the Ministry of Foreign Affairs are implementing the total information management system (TIMS) to coordinate checks at all BCPs. The opening of a new terminal at Tirana international airport has improved border control standards there. The new terminal includes a small border police laboratory with devices to detect false documents.

Cross-border police cooperation with Albania's neighbours is good and gaining strength. Albania, the former Yugoslav Republic of Macedonia, Montenegro and Kosovo (under UNSCR 1244) have jointly drafted an agreement on border police cooperation. The agreement will formalise the current procedural cooperation between the signatories and allow signature of specific bilateral protocols. A joint border patrol agreement with the former Yugoslav Republic of Macedonia was ratified. An agreement on information exchange was signed with Italy. Systematic information exchange and joint green border patrols by Albanian and Greek border police are continuing.

However, considerable work and investment are still required to bring all Albanian BCPs up to European standards. Proper implementation of the integrated border management strategy is essential. Training efforts regarding border control should be enhanced. Blue border surveillance remains weak. The situation in the port of Durres remains critical. Poor infrastructure and heavy traffic through the port make border police work extremely difficult. The port of Vlora also suffers from poor infrastructure. A solution to allow full civilian command of the Albanian coast guard in line with Ohrid commitments is still pending. Use of

naval vessels with both Ministry of the Interior and Ministry of Defence personnel on board under civilian command has so far been the most rational and cost-effective solution. Staff cuts in the border and migration police are limiting the effect of the structural improvements.

Overall, illegal emigration, primarily by economic migrants, remains a significant problem, especially at the Albanian-Greek green border. Albania is partially meeting its objectives in the field of border control.

There has been limited progress on **asylum** issues. The legislative framework for asylum complies with international standards and all asylum-seekers and refugees are provided with the necessary documents.

However, no coherent single asylum strategy is yet in place. Progress on the planned review and amendment of the legal framework for asylum has been slow. By-laws are required to implement the 2003 Law on local integration and family reunion, in particular to allow development of a system for local integration of refugees. Albania's protection regime for those granted asylum remains weak, especially its judicial aspects.

Staff changes as a result of the restructuring of the directorate for nationality and refugees have continued to hinder its capacity and delay decision-making. Reduced capacity led to shortcomings in implementation of the action plans for asylum and for management of asylum cases. Further training is required. Coordination with the national migration system is at an early stage. Improved coordination with the border police is required in order to implement the pre-screening system properly. The expertise of the staff running new asylum centres remains weak. The impact of readmission agreements on asylum system capacity has not yet been properly evaluated. In general, Albania has partially met its targets in the field of asylum.

A unit to coordinate and monitor implementation of the national strategy on **migration** has been established in the Ministry of Labour and Social Affairs. Albania ratified the European Convention on the Legal Status of Migrant Workers and the UN Convention on the Protection of the Rights of Migrant Workers. Field manuals on migration procedures have been introduced. Migration checks at border crossing points are now somewhat more effective. A law governing the migration of Albanian citizens for employment purposes abroad was adopted. Information material has been produced to clarify procedures for return and re-integration of Albanian citizens to Albania. A memorandum of understanding on joint management of information on illegal migration was signed with Western Balkan partners.

However, Albania continues to be a transit country for economic migrants, asylum-seekers and trafficked persons. A more effective data management system for asylum and migration is required, in particular to fulfil Albania's international commitments. Cooperation with neighbouring countries on irregular migration needs to be enhanced. Facilities for reception and processing of irregular migrants at border crossing points need to be improved. Reception centres would benefit from further staff training and the addition of legal, social and psychological specialists.

To implement the EC-Albania readmission agreement, readmission protocols are currently being negotiated with Austria and Slovenia, with countries in the region and with countries of origin of migrants transiting through Albania, such as Turkey and Moldova. The new State Police Law and the resulting new structure of the border and migration police aim to strengthen the capacity of the police to fulfil its obligations under the readmission agreement.

However, there is a risk that border and migration police staff cuts might limit Albania's capacity to meet these obligations in the short term.

Albania has partially met its targets in the field of migration.

#### 4.3.2. *Money laundering*

Some, but uneven, progress has been made in the fight against **money laundering**. The government has improved use of the country's banking system. Tax legislation was amended to penalise firms who do not pay salaries through banks. Almost all public administration salaries are now paid through banks. The penal code was amended to make handling stolen goods a criminal offence. This could significantly enhance the fight against money laundering if properly implemented. Some progress has been made on upgrading the IT systems of the Financial Intelligence Unit (FIU) in the Ministry of Finance and creating electronic links with banks. Inspections have been carried out in regional property registration offices and notaries' offices. A government decree restricts currency exchange to licensed agencies. The FIU and the Bank of Albania launched a series of joint inspections of currency exchange businesses in Tirana. The Ministries of the Interior and of Finance, the General Prosecution Office and the State Intelligence Service have set up a joint unit to investigate and prosecute financial crime, replacing the task force on economic crime and corruption at the Tirana prosecution office.

International operational cooperation is gradually improving. The FIU has signed cooperation agreements with 26 countries, including seven EU Member States, and is now negotiating agreements with six more. Albania ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of Proceeds of Crime and on the Financing of Terrorism. The police economic crime unit conducted some successful operations against currency counterfeiting, in which it seized counterfeit currency and arrested suspects.

However, practical results in the fight against money laundering remain poor. Albania's economy, in particular the private sector, remains largely cash-based. This makes it difficult for state control mechanisms to operate. Organised crime groups use Albania as a base for criminal activities in other countries. The country therefore remains at significant risk regarding money laundering. The Law on money laundering is being revised but is not yet in line with the *acquis* and the Financial Action Task Force and Council of Europe Moneyval recommendations. The current high threshold for making a transaction reportable on a mandatory basis has not yet been changed. Inconsistencies between provisions of the criminal and the customs codes have not yet been removed.

Investigative resources and expertise, technological support and cooperation between the institutions involved in fighting money laundering and technological support remain poor. The FIU remains dependent on the Ministry of Finance for its budget and staff. Staff recruitment and launching of operations at the new Joint Investigative Unit for Economic Crime and Corruption have been delayed. Insufficient staff numbers and experience are hindering the performance of the Agency for the Administration of Seized and Confiscated Assets. Implementing legislation to deal effectively with confiscated assets is not yet complete. Further support from the Ministry of Finance and the relevant international agencies is required.

There has been no progress on enforcing cash-control mechanisms. The level of reporting and sequestration remains very low and does not reflect the level of cash entering or leaving the country. No sanctions have yet been applied for non-reporting. The ratio of reports of

suspicious transactions to investigations, prosecutions and convictions is low. Preparations in the fight against money laundering are at an early stage.

#### 4.3.3. *Drugs*

There has been some progress in the fight against **drugs**, but drug trafficking remains a serious concern.

Police operations resulted in the seizure of significant quantities of drugs. The law penalising local authorities and local police inspectors for failing to report drug cultivation in their areas has increased the success of police operations. Domestic cultivation of cannabis has dropped by 70% and the price has gone up, indicating some success in restricting supply.

There has been some progress with implementing the action plan related to the national anti-drugs strategy and the recommendations of the Mini Dublin Group. Coordination between police anti-drugs units, the border police and the customs service has improved. Cooperation with the state intelligence service remains good. Greater use is being made of joint anti-narcotics task forces bringing together the agencies dealing with drugs issues. Cooperation with partners in other countries is improving. Cooperation with EU Member States through their police liaison officers has been strengthened. The police scientific institute has been supplied with new equipment. Proper storage infrastructure for seized drugs is being built.

However, the increasing demand for drugs in Europe as a whole continues to fuel the drug trade through Albania. Albanian drug traffickers have established strong links with international drug-trafficking networks. The main markets for drugs remain Italy and Greece, but the internal market is expanding, especially in Tirana. Quantities seized by the Albanian authorities remain low compared with the estimated amounts trafficked through Albania. Trafficking of weapons and ammunition is combined with drug trafficking in most cases.

Further progress is necessary on implementing the national anti-drugs strategy action plan and the Mini Dublin Group recommendations. Improved cooperation between the police and the judiciary is required to prosecute suspected drug traffickers, especially at high level, on appropriately serious charges. This also applies to those responsible for corruption related to the drugs trade at all levels in the public administration. Leakage of information on anti-drugs operations has not yet been criminalised. More stable staffing of police anti-drugs units is necessary to retain capacity and benefit fully from related international training initiatives. Public information about drugs and infrastructure to treat drug abusers remain limited. Alternatives to drug crops are not yet being promoted. No systematic attempts have been made to identify the scale and nature of domestic synthetic drug production and expertise is still limited.

Seizures at border crossing points are minimal. Detection measures and equipment at border crossing points and the green border need to be improved. Drug storage and disposal procedures and data need to be improved and standardised. In the fight against drugs, Albania is advancing moderately.

#### 4.3.4. *Police*

There has been good, but uneven, progress in the **police** field. Parliament adopted a new State Police Law (*see section on Government*) which provides for improved management of human, material and financial resources. The new law devolves these functions from the Ministry of

the Interior to the police. This is an important step towards de-politicisation of the police. A new organisational structure for the police was approved by the Minister of the Interior. The work of the police during the February 2007 local government elections was professional and unbiased.

Albania has signed a strategic agreement with Europol. This provides for closer cooperation and better exchanges of information. Albania ratified the South-East Europe Police Cooperation Convention. A cooperation agreement on tackling financial crime and corruption offences was signed between the Ministries of the Interior and of Finance, the State Intelligence Service and the prosecution office. A working group is addressing the issue of improving attribution of police ranks. A community policing strategy has been approved.

A reduction in police staff from 11,300 to 10,500 was necessary, but was made without due attention to maintaining the capacity and management continuity of several key units. Successful investigation and prosecution is still hampered by poor communication and incompatible case management procedures between the police and prosecutors, particularly at district level. Police management, including performance management, and internal control structures need to be strengthened. A manual of procedures for all police officers has not yet been put into operation. Further effort is required to make sure that police officers are prosecuted for criminal offences where appropriate rather than simply dismissed.

Police capacity for preventing and accurately recording crime remains weak. Draft legislation allowing use of seized vehicles by police and prosecutors is still pending in parliament. Tighter control by the traffic police and better educational work are required to improve road traffic safety. Preparations in the police field are advancing, but structural improvements now have to be followed by operational results.

#### 4.3.5. *Fighting organised crime and terrorism*

Uneven progress has been made in the fight against **organised crime**, a key European Partnership priority. Organised crime remains a very serious problem in Albania.

A number of high-profile organised crime arrests both in and outside Albania have improved the security situation in Albania's cities and helped to increase public trust in the police. Police response to serious crimes has improved and in most cases perpetrators have been arrested within 48 hours. New tactical and investigative equipment has been introduced, increasing police capacity to address organised crime and robberies involving use of weapons.

Cooperation between Interpol Tirana and its counterpart offices, especially in neighbouring countries, has improved. This has allowed a considerable number of international arrest warrants to be executed, resulting in extradition of suspects to Albania to face court proceedings. Cooperation with neighbouring countries on tackling vehicle theft has improved. Several successful police operations against weapons trafficking resulted in the seizure of considerable amounts of weaponry and ammunition, most of which had been looted from army depots in 1997.

However, considerable scope remains for improving results in terms of prosecutions for related offences and confiscation of the proceeds. Many international arrest requests have not yet been acted upon by the Albanian authorities. Cooperation between police and prosecutors, in particular on use of special investigative means, needs to be improved. Efforts against organised crime are seriously hampered by corruption at all levels of law enforcement. Investigation and prosecution of cases of corruption in the police and the judiciary are not yet



sufficiently determined. No substantial progress has been made on strengthening strategy and coordination between law enforcement officials and agencies in charge of overseeing public expenses and procurement. Weaknesses in witness protection continue to hamper prosecutions for organised crime (*see also the section on the judicial system*).

The potential of the police Criminal Intelligence Unit cannot be fully tapped until the computers at police headquarters are connected to the new MEMEX database servers at the Ministry of the Interior. The police Special Operations Unit is hampered by a lack of management continuity. The national action plan against the trafficking of stolen vehicles has not yet been approved. The issue of stolen vehicles involves police, customs and vehicle registration authorities and tax offices. Poor coordination between these bodies hampers success in fighting vehicle theft. The police are developing a national strategy for combating the trafficking of stolen vehicles, but it is not yet complete. In the area of fighting organised crime, Albania is advancing moderately.

There has been some progress in the fight against **trafficking in human beings**, which the government has continued to investigate and prosecute vigorously. Border controls have become somewhat more effective. Cooperation with neighbouring and other countries has improved. The penal code was amended to criminalise trafficking in human beings. A nationwide toll-free help line for trafficking victims was opened. Albania ratified the Council of Europe Convention on Action against Trafficking in Human Beings and a bilateral anti-child-trafficking agreement with Greece. The government has continued its modest efforts to protect and reintegrate victims of trafficking. The Ministry of Labour, Social Affairs and Equal Opportunities implemented a micro-loan programme for female victims of trafficking to help them start small businesses, foster reintegration and prevent re-trafficking.

However, Albania is still a significant transit country and levels of sex trafficking of women and children (mainly from the Roma community) within the country have risen. Staff cuts reduced the capacity of the police anti-trafficking unit. The planned victim case-tracking database is not yet operational. In 2006 only 20 out of 227 suspected or identified victims of trafficking were willing to testify against their traffickers, due to weak witness protection. Better coordination between the bodies involved would improve the identification, protection, reintegration and rehabilitation elements of the national anti-trafficking strategy. Separate facilities for returning women and children are not yet in place in border reception centres. Albania's network of operational cooperation agreements with regional and international partners on trafficking in human beings needs to be expanded. Albania is only partially meeting its objectives in the fight against trafficking in human beings.

In the fight against **terrorism**, Albania is advancing. Counter-terrorism structures in the police and the intelligence service are now cooperating well. Cooperation with the relevant international players has been good. Albania ratified the Council of Europe Convention on the Prevention of Terrorism. Albania adopted an export control law for military commodities and technologies which is in line with the *acquis*.

The police counter-terrorism directorate is developing a national strategy against terrorism, which should clarify the division of tasks between state bodies, but it is not yet complete. Further work is needed to bring Albania's legislation into line with its international obligations on the prevention of terrorism. This includes the definition of terrorism which, in Albanian legislation, covers acts that are not internationally recognised as terrorist acts. Equipment and training for counter-terrorist analysts and investigators remain insufficient. Preparations in the fight against terrorism are moderately advanced.

#### 4.3.6. *Protection of personal data*

There has been limited progress in the area of protection of personal data. The Ministry of Justice is revising the 1999 Law on protection of personal data to bring it into line with the *acquis* and Council of Europe standards. However, an independent data protection supervisory authority with sufficient powers over the public and private sectors and sufficient resources is not yet in place. Preparations in the field of protection of personal data are at an early stage.

## Statistical annex

### STATISTICAL DATA (as of 5 October 2007)

#### Albania

Basic data	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Population (thousand)	1)	3 088	3 061	3 049	3 058	3 063	3 084	3 103	3 120	3 135	3 149
Total area of the country (km <sup>2</sup> )		28 750	28 750	28 750	28 750	28 750	28 750	28 750	28 750	28 750	28 750

National accounts	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross domestic product (GDP) (million national currency)		346 198	409 209	471 579	523 043	583 369	622 711	694 098	751 024	817 374p	:
GDP (million euro)		:	2 419	3 209	3 945	4 541	4 705	5 048	5 883	6 582	:
GDP (euro per capita)		:	790	1 052	1 290	1 483	1 526	1 627	1 885	2 099	:
GDP (in Purchasing Power Standards (PPS) per capita)		:	:	:	:	:	:	:	:	:	:
SI: GDP (in PPS per capita, EU-25=100)		:	:	:	:	:	:	:	:	:	:
SI: Growth rate of GDP (national currency, at constant prices, % change on previous year)		-10.8	9.0	13.5	6.7	7.9	4.2	5.8	5.7	5.8p	:
SI: Employment growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		:	:	:	:	:	:	:	:	:	:
SI: Unit labour cost growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
SI: Labour productivity (GDP in PPS per person employed, EU-25=100)		:	:	:	:	:	:	:	:	:	:
Gross value added by main sectors (%)											
Agriculture		31.6	28.8	25.8	25.5	23.6	23.4	23.5	22.3	20.7p	:
Industry		8.8	7.4	7.3	7.8	7.3	6.9	8.7	10.0	9.7p	:
Construction		6.1	5.0	6.0	8.3	10.4	12.0	13.7	13.9	14.3p	:
Services		53.5	58.8	60.9	58.5	58.6	57.6	54.0	53.8	55.3p	:
Final consumption expenditure, as a share of GDP (%)		107.5	102.4	92.7	86.0	80.9	86.0	86.1	89.2	87.0p	:
Households and NPISH, as a share of GDP (%)		97.3	92.2	82.7	76.6	70.5	74.8	75.2	78.2	76.2p	:
General government, as a share of GDP (%)		10.2	10.3	10.0	9.5	10.4	11.2	10.9	11.0	10.8p	:
Gross fixed capital formation, as a share of GDP (%)		20.5	21.0	23.0	31.7	38.4	37.9	40.5	37.2	36.3p	:
Changes in inventories, as a share of GDP (%)	2)	-3.5	0.3	0.7	2.4	1.3	0.8	-1.8	-4.0	1.2p	:
Exports of goods and services, relative to GDP (%)		9.7	10.8	15.8	17.9	18.4	19.6	20.4	22.0	22.8p	:
Imports of goods and services, relative to GDP (%)		34.2	34.6	32.2	38.1	39.0	44.3	45.1	44.4	47.3p	:

Industry	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Industrial production volume index (2000=100)		:	:	:	:	:	:	:	:	:	:

Inflation rate	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
SI: Consumer price index (CPI), (total, % change on previous year)	3)	:	8.7	-1.0	4.2	3.5	1.7	3.3	2.2	2.0	2.5

Balance of payments	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Balance of payments: current account total (million euro)		- 313	- 61	- 129	- 185	- 315	- 422	- 331	- 288	- 493	- 535
Balance of payments current account: trade balance (million euro)		- 474	- 537	- 626	- 897	- 1 149	- 1 218	- 1 177	- 1 277	- 1 477	- 1 685
Balance of payments current account: exports of goods (million euro)		140	185	258	277	340	348	395	486	530	631
Balance of payments current account: imports of goods (million euro)		615	722	884	1 174	1 489	1 567	1 572	1 762	2 007	2 316
Balance of payments current account: net services (million euro)		- 30	- 38	96	12	100	- 8	- 72	- 41	- 140	- 67

Balance of payments current account: net income (million euro)		36	69	71	115	156	138	151	143	135	238
Balance of payments current account: net current transfers (million euro)		155	445	330	586	578	666	767	887	989	1 009
of which government transfers (million euro)		25	73	156	105	31	41	53	61	61	43
Foreign Direct Investment (FDI) in the reporting economy (million euro)		42	40	39	157	231	141	157	278	224	259

<b>Public finance</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government deficit/surplus, relative to GDP (%)		-12.7	-11.8	-9.0	-7.6	-6.9	-6.1	-4.9	-5.1	-3.4	-3.3
SI: General government debt, relative to GDP (%)		49.8	53.5	53.7	60.2	58.5	63.9	61.5	58.3	55.3	59.7

<b>Financial indicators</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross foreign debt of the whole economy, relative to GDP (%)		15.0	17.0	16.1	17.0	17.2	22.1	21.1	19.0	16.6	16.9
Gross foreign debt of the whole economy, relative to total exports (%)	4)	153.4	156.3	101.6	94.9	93.1	112.5	103.5	86.5	73.0	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		537	496	701	936	1 113	1 154	1 053	1 354	1 833	2 011
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		950	1 180	1 631	1 995	2 376	2 453	2 542	3 066	3 431	3 882
Money supply: M3 (M2 plus marketable instruments, million euro)		1 162	1 418	1 993	2 475	3 069	3 148	3 261	3 973	4 654	5 479
Total credit by monetary financial institutions to residents (consolidated) (million euro)		:	105	135	175	218	292	369	548	982	1 554
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:	:	:	:	:
Lending interest rate (one year), per annum (%)	5)	43.0	25.0	25.8	24.0	11.9	16.0	10.5	13.7	12.2	11.2
Deposit interest rate (one year), per annum (%)	6)	27.8	16.5	9.1	8.0	7.8	9.3	7.6	6.0	5.6	5.5
Euro exchange rates: average of period - 1 euro = ... national currency		:	169.164	146.960	132.580	128.470	132.360	137.510	127.670	124.190	123.080
Effective exchange rate index (2000=100)		:	:	:	:	:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		500	573	488	696	853	902	908	1 103	:	:

<b>External trade</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Trade balance: all goods, all partners (million euro)		- 433	- 565	-754u	- 896	-1 145	-1 259	-1 252	-1 344	-1 585	:
Value of exports: all goods, all partners (million euro)		121	185	329u	283	341	331	395	479	532	:
Value of imports: all goods, all partners (million euro)		555	750	1083u	1 179	1 486	1 590	1 648	1 823	2 118	:
Terms of trade (export price index / import price index, % change on previous year)		91.3	96.2	106.8	100.2	101.5	99.9	98.2	99.0	80.3	100.6
Share of exports to EU-27 countries in value of total exports (%)		89.8	94.2	95.6u	93.2	91.3	92.6	93.8	90.9	89.4	:
Share of imports from EU-27 countries in value of total imports (%)		89.9	88.0	82.8u	80.7	80.3	77.0	74.3	70.5	67.2	:

<b>Demography</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)	1)	14.1	13.7	13.5	11.4	12.5	9.5	9.3	8.1	7.2	5.5
Net migration rate: immigrants minus emigrants (per 1000 inhabitants)		:	:	:	:	:	:	:	:	:	:
Infant mortality rate: deaths of children under one year of age per 1000 live births	1)	22.2	15.0	12.2	11.9	10.8	10.2	8.4	7.8	7.6	7.4
Life expectancy at birth: male (years)	1)	:	:	71.7	72.1	72.1	72.1	72.1	72.1	72.1	73.9
Life expectancy at birth: female (years)	1)	:	:	76.4	78.6u	77.5	77.9	78.6	78.6	78.6	78.0

<b>Labour market</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)	7)	:	:	68.3	66.2	62.3	61.8	60.1	58.8	57.8	:
SI: Employment rate (15-64): share of population aged 15-64 that is in employment (%)	7)	:	:	55.7	55.0	52.1	52.1	51.1	50.3	49.7	:
Share of male population aged 15-64 that is in employment (%)	7)	:	:	69.0	66.0	64.0	63.9	62.6	61.2	60.0	:
Share of female population aged 15-64 that is in employment (%)	7)	:	:	42.3	44.1	39.6	39.7	39.1	38.9	38.8	:
SI: Employment rate of older workers (55-64): share of population aged 55-64 that is in employment (%)		:	:	:	:	:	:	:	:	:	:

Employment by main sectors (%)												
Agriculture	7)	69.6	70.8	72.1	71.8	57.7	57.7	58.2	58.5	58.5	:	
Industry	7)	7.9	7.7	7.7	5.4	6.0	7.6	7.2	8.1	7.9	:	
Construction	7)	1.4	1.0	1.0	1.2	6.1	6.1	6.0	5.5	5.5	:	
Services	7)	21.0	20.5	19.2	21.5	28.5	28.6	28.5	27.9	28.1	:	
SI: Unemployment rate: share of labour force that is unemployed (%)	8)	:	:	18.4	16.8	16.4	15.8	15.0	14.4	14.1	:	
Share of male labour force that is unemployed (%)	8)	:	:	16.4	14.9	14.2	13.6	12.9	12.4	12.1	:	
Share of female labour force that is unemployed (%)	8)	:	:	21.4	19.3	19.9	19.1	18.2	17.5	17.2	:	
Unemployment rate of persons <25 years: share of labour force aged <25 that is unemployed (%)	9)	:	:	:	:	:	26.8	:	:	:	:	
SI: Long-term unemployment rate: share of labour force that is long-term unemployed (%)		:	:	:	:	:	:	:	:	:	:	

<b>Social cohesion</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Average nominal monthly wages and salaries (national currency)		:	:	:	:	:	:	:	:	:	:
Index of real wages and salaries: index of nominal wages and salaries divided by CPI (2000=100)		:	:	:	:	:	:	:	:	:	:
SI: Early school-leavers: share of population aged 18-24 having not completed upper secondary education and not currently in education or training (%)		:	:	:	:	:	:	:	:	:	:

<b>Standard of living</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of passenger cars per 1000 population		24.9	29.7	30.3	37.5	43.6	48.2	56.4	60.9	62.2	71.5
Number of subscriptions to cellular mobile telephone services per 1000 population		:	:	:	:	120.8	259.4	370.6	403.5	488.0	561.8

<b>Infrastructure</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Density of railway network (lines in operation, per 1000 km <sup>2</sup> )		:	:	:	13.9	14.3	15.0	15.0	15.1	15.0	15.5
Length of motorways (thousand km)		-	-	-	-	-	-	-	-	-	-

<b>Innovation and research</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
SI: Spending on human resources (public expenditure on education) relative to GDP (%)		3.3	3.2	3.3	3.1	3.3	3.0	3.1	3.2	3.2	:
SI: Gross domestic expenditure on research & development, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
SI: Percentage of households who have Internet access at home (%)		:	:	:	:	:	:	:	:	:	:

<b>Environment</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
SI: Total greenhouse gases emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:	:	:	:	:
SI: Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)	10)	:	510.2	427.4	394.4	383.1	353.9	369.2	383.9	:	:
SI: Share of renewable energy in electricity consumption (%)		:	:	:	:	:	:	:	:	:	:
SI: Road freight transport as a share of total inland freight transport (modal split) (%)		:	:	:	:	:	:	:	:	:	:

<b>Energy</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Primary production of all energy products (thousand TOE)		:	1 345	1 113	987	933	896	1 012	1 178	:	:
Primary production of crude oil (thousand TOE)		360	365	323	314	335	308	359	443	:	:
Primary production of hard coal and lignite (thousand TOE)		40	49	33	20	15	5	19	19	0	0
Primary production of natural gas (thousand TOE)		18	17	14	12	8	8	12	9	11	11
Net imports of all energy products (thousand TOE)		:	626	761	858	1 001	965	1 043	1 080	:	:
Gross inland energy consumption (thousand TOE)		:	1 971	1 874	1 845	1 934	1 861	2 055	2 258	:	:
Electricity generation (thousand GWh)		5.2	5.1	5.4	4.7	3.7	3.2	4.9	5.5	5.5	5.6

<b>Agriculture</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Agricultural production volume index of goods and services (producer prices, previous year=100)		:	:	:	:	:	:	102.9	105.1	101.2	:
Total utilised agricultural area (thousand hectare)		1 145	1 144	1 144	1 144	1 139	1 140	1 121	1 122	1 077	1 120
Livestock: cattle (thousand heads, end of period)		771	705	720	728	708	690	684	654	655	634e
Livestock: pigs (thousand heads, end of period)		97	83	99	103	106	114	132	143	147	152e
Livestock: sheep and goats (thousand heads, end of period)		3 006	2 923	3 061	3 045	2 933	2 773	2 919	2 739	2 701	2 770e
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		850	861	907	948	984	1 010	1 060	1 064	1 076	1 102e
Crop production: cereals (including rice) (thousand tonnes, harvested production)		602	603	498	566	503	519	489	499	511	508
Crop production: sugar beet (thousand tonnes, harvested production)	11)	51	56	40	42	39	39	50	40	40	:
Crop production: vegetables (thousand tonnes, harvested production)	12)	572	605	610	620	677	669	675	678	685	688

SI: Structural Indicator

e: estimate

f: forecast

p: provisional

u: uncertain

1. Source: Eurostat.
2. Change in inventories and statistical discrepancy.
3. Variation between December of one year compared with December of the previous year.
4. Total exports are calculated according national accounts concepts; debt outstanding disbursed (DOD) cumulative stock covering external public debt and external publicly guaranteed debt, but excluding IMF credit.
5. Average weighted rate applied on new 12-month loans over the respective month, on 12-month maturity.
6. Average weighted rate for newly accepted deposits over the respective month, on 12-month maturity.
7. Break in series starting with 2001 due to the change of data source.
8. Administrative data; unemployment refers to registered unemployment.
9. 2002, based on the Living Conditions Survey of 1998 and the Living Standards Measurement Study of 2002.
10. Eurostat estimates.
11. 2004-2005, FAO estimations.

12. Including melons.