

Medlemmerne af Folketingets Europaudvalg  
og deres stedfortrædere

Asiatisk Plads 2  
DK-1448 København K  
Tel. +45 33 92 00 00  
Fax +45 32 54 05 33  
E-mail: um@um.dk  
Telex 31292 ETR DK  
Telegr. adr. Etrangeres  
Girokonto 300-1806



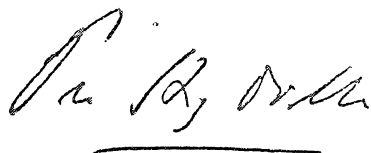
Bilag  
1

Journalnummer  
400.C.2-0

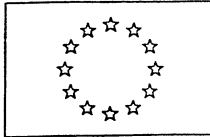
Kontor  
EU-sekr.

3. april 2003

Til underretning for Folketingets Europaudvalg vedlægges Kommissionens  
årsrapport vedrørende Stabiliserings- og Associeringsprocessen for landene i  
Det vestlige Balkan.

---



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 26.3.2003  
SEC(2003) 339

**WESTERN BALKANS REGION**

Meeting doc. 096/03/Ad1/EN

Origin Commission Date 26/03/03

**COMMISSION STAFF WORKING PAPER**

**ALBANIA**

**Stabilisation and Association Report 2003**

{COM(2003) 139 final}

# **ALBANIA**

## **Stabilisation and Association Report 2003**

### **TABLE OF CONTENTS**

<b>WESTERN BALKANS REGION.....</b>	<b>1</b>
<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>POLITICAL SITUATION .....</b>	<b>2</b>
<b>ECONOMIC SITUATION.....</b>	<b>13</b>
<b>IMPLEMENTATION OF THE STABILISATION AND ASSOCIATION PROCESS.....</b>	<b>18</b>
<b>EC FINANCIAL ASSISTANCE .....</b>	<b>33</b>
<b>PERCEPTION OF THE EU.....</b>	<b>35</b>

## EXECUTIVE SUMMARY

Limited progress has been made by Albania in addressing the many challenges it has to face. Recommendations included in the 2002 Stabilisation and Association process (SAP) report have been only partially addressed. The relative, although still fragile, political stability and renewed inter-party dialogue achieved in spring 2002 allowed the smooth election of a new President but has not yet translated into significant achievements in terms of reforms.

This new **political climate** has led to some progress in the implementation of the international community's recommendations to improve Albania's electoral procedures. However, it has not been sufficient to respond to the constitutional requirements regarding the restitution of or compensation for land expropriated during the communist era. While there has been progress in developing good regional co-operation, the implementation of the rule of law remains deficient, notably due to weak law-enforcement institutions, limited administrative capacity, corruption and organised crime. Individual freedoms and human rights are guaranteed by Albanian law, but there is clear room for improvement as regards implementation. Albanian attitudes towards minorities remain generally constructive, but there has been limited ambition to strive for higher standards.

GDP growth in Albania remained sustained and reached 4.5 to 5%, down from 6.5% in 2001. The overall **economic performance** has however fallen below expectations over the reporting period. The main reasons for this slowdown have been the continuing problems in the electricity sector, the generally depressed state of the world economy, limited growth in the agricultural sector and the insufficient performance of the customs and tax administrations. The authorities partly managed to cope with these adverse conditions: both the fiscal deficit and the inflation figures were within target. Progress in the privatisation process and the restructuring of the financial sector has been limited. The overall business climate has not improved significantly despite some initiatives aimed at supporting business promotion and encouraging local and foreign investment. Legal security remains insufficient and commercial laws inadequate to foster business development. Certain steps have been taken to improve the generally poor situation in the various Albanian economic sectors, such as transport, energy or agriculture, but these efforts will need to be sustained over the medium term in order to achieve any significant results.

After delays due to Albania's difficulties in guaranteeing political stability and implementing reforms, negotiations for a **Stabilisation and Association Agreement (SAA)** were officially launched at the end of January 2003. However, at the current pace of reform implementation, negotiations risk being long and drawn out. Before negotiations can be concluded, Albania will need to demonstrate its ability to implement the provisions of the future Agreement, and to address the priority issues identified by the European Union (EU) through its various reports and monitoring instruments. Albania should pay particular attention to the Justice and Home Affairs sector if it is to make meaningful progress in the Stabilisation and Association process (SAP). Some improvements have been noticed in controlling illegal migration towards the EU, but trafficking in human beings, drugs and other forms of organised crime, as well as corruption in key areas such as the judicial system, customs and police, remain matters of deep concern. Improvements in the judiciary have been limited and the prosecution of crimes poor, despite an increased number of detentions. Albania will only be able to address these difficult issues if there is real commitment by the Government, the Albanian political forces and the law enforcement bodies (including the prosecution office and the judiciary), and full determination to translate that commitment into action.

## POLITICAL SITUATION

### 1.1. Democracy and rule of law

Albania is still a young and rather unstable democracy. Relative progress in terms of political stability and dialogue between the political forces has been made, but it is still a very fragile achievement which might vanish rapidly. Sustained development and consolidation of a more consensual democratic culture remains necessary. This should help the country to afford the challenging reforms that it still needs to undertake.

Albania has taken steps as regards the implementation of the recommendations formulated by the Organisation for Security and Co-operation in Europe (OSCE)/Office for Democratic Institutions and Human Rights (ODIHR) on the conduct of elections, as well as for the preparation of the forthcoming local elections due in Autumn 2003. The process should now be completed in order to ensure full compliance with international standards. Independently of the technical issues, commitment by all political actors to free and fair elections will play a major role for the success of these and future elections.

There has been some progress in terms of public administration, but it has been regrettably offset by cases of political nominations and nepotism in a number of crucial areas. Civil society continues to be weak and the efforts by the Government to support its development, scarce.

Respect for and implementation of the rule of law in Albania remains deficient. The Albanian law enforcement bodies do not yet guarantee consistent enforcement of the law, in accordance with international standards. Widespread corruption and organised crime continue to be serious threats to the stability and progress of the country. The judicial system continues to suffer from serious deficiencies which prevent it guaranteeing rule of law enforcement. Albania has lacked ambition in addressing the upholding of human and minority rights.

#### *1.1.1. Assessment of democratic institutions and attitudes to the state.*

**Constitution:** The 1998 Constitution remains an adequate framework to sustain Albania's democratic development. It guarantees democratic freedoms, notably political pluralism, freedom of expression and religion, and respect of national minorities. However, the Constitution is not always adhered to: occasionally, Constitutional provisions, and even decisions of the Constitutional Court, are seriously challenged by the democratic institutions themselves and deadlines are not always met (e.g. the Constitutional Court decision on the dismissal of the former Albania's General Prosecutor, which was ignored by the Parliament, or the November 2001 deadline for new legislation on property restitution).

**President:** The President of the Republic is the Head of State and, according to the Constitution, plays only a limited executive role. The President is elected by the Parliament by qualified majority (3/5 of 140 seats = 84 votes). The current President, Mr. Alfred Moisiu, was elected in June 2002 for a five year period. The outcome of the presidential elections in Albania constituted a major success: the Albanian political forces took into account the opinions expressed by the international community that the Presidential elections should not lead to political instability, and the Albanian president was elected smoothly, with wide consensus among the Albanian political parties. The President has emerged as a guarantor of consensus and has often acted to promote party dialogue and compromise.

**Parliament:** In Spring 2002, a more constructive atmosphere between the main political parties allowed for the establishment of a number of bi-partisan (ruling party-opposition) Parliamentary commissions (i.e. on elections, on property-related issues, on Euro-atlantic integration) to deal with sensitive issues requiring a wide political support. There has been increased dialogue between the ruling party and the opposition over the reporting period.

This has enabled, for example, an open and rather constructive debate in Parliament on the 2003 budget. However, the impact of this renewed climate has not led to the significant results that one might have expected, and the reform process continues to progress at a slow pace. In addition, the political climate has recently deteriorated and sustained stability is far from being guaranteed.

Parliamentary elections were last held in June 2001. The Socialist Party (SP) and its allies won 88 out of 140 seats, or more than 62 %. The opposition coalition “the Union for Victory” led by the Democratic Party (DP) won 46 seats. Although these elections marked a certain progress over those in the past, international observers identified a number of isolated but serious irregularities. OSCE/ODHIR issued a report and made a number of recommendations to assist Albania in addressing the weaknesses identified. These recommendations have been discussed at length by the Albanian authorities, notably in the framework of the bi-partisan Parliamentary Commission on elections. Most relevant achievements to date have been the agreement on a package of Electoral Code amendments regarding the media, and some work concerning the drafting of amendments on election policing and procedures in the voting centres. Albania should now accelerate the recommendation’s implementation to underpin proper local elections in Autumn 2003. As a number of important preparatory activities for the elections depend on the final shape of the Electoral Code, particular attention should be devoted to the drafting and adoption by the Parliament of all the necessary amendments before the 31 March 2003, which is the deadline recommended by ODIHR experts.

**Executive:** Governmental stability was absent in the first seven months of 2002. Three Prime Ministers succeeded each other due mainly to internal quarrels within the ruling party (SP). Internal arrangements reintroduced a certain equilibrium within the party in the Summer of 2002. This has allowed the present Government to remain in place until now. The reform process over the last twelve months has not been immune from this situation and significant reforms have been scarce. European integration has remained a declared top priority for all Governments, but their actions have not always supported these declarations. In particular, the Albanian government should now demonstrate full commitment to combat pervasive problems such as organised crime and corruption, and take decisive action in close co-operation with the international community.

**Local government:** The end of the two-year-long boycott by the opposition to municipal councils (including Tirana and Durrës) in September 2002 was certainly a positive step. Over the last twelve months, the decentralisation process has continued in Albania and more responsibilities have been attributed to the local authorities. Implementation of decentralisation remains however challenging, notably due to insufficiently qualified staff and the lack of proper financial resources to implement the newly decentralised policies (for example, water management or urban planning). In order to ease the process and increase its coherence, a detailed implementation plan to support the de-centralisation of functions included in the “Albanian Strategy for Decentralisation” remains necessary. The new fiscal package approved in December 2002 aims, inter alia, to provide funds to the municipalities for the implementation of de-centralised policies and should therefore be helpful in this respect. Nonetheless, it is still too early to assess how these financial measures will impact on the daily implementation of decentralised policies.

**Public administration:** Some efforts have been made by Albania to strengthen its public administration. However, it remains weak, partly because of insufficient implementation of the public administration-related legislative framework, cases of corruption, political interference and difficulties by the central public administration institutions to defend their positions vis-à-vis the Government. The Civil Service Commission has now a chairman, is apparently duly staffed and has adopted its internal regulations, but should make further efforts to respond to its obligations under the law, i.e. to effectively monitor the Civil Service

Law and guarantee its implementation. In January 2003, the Law on the Organisation of the Council of Ministers was passed by the Parliament, which is a positive step. The use of fair and professional selection procedures appears to be more broadly accepted and implemented, but political nominations have still been far too frequent, in particular in the aftermath of the various changes of Government in 2002. This has had particularly adverse effects in some sensitive areas such as customs.

Albania has made progress regarding salaries and career prospects of civil servants. Salaries for civil servants have been substantially increased in 2002 (average 75% increase for the central administration). A new job classification has also been developed although, for the time being, it has only been implemented in the structures depending on the Council of Ministers. While these initiatives do not yet guarantee the recruitment, motivation and retention of competent staff, they are steps in the right direction. In order to enhance the credibility of the system and to ensure an improved civil service in Albania, it is now essential that the rules to determine job classification and job evaluation are properly implemented, and the related salary structure fully respected at all levels. Other important issues which would contribute to improve the functioning of the Albanian public administration are the clear definition and strengthening of the figure of the Secretary General in the Ministries and the widening of the scope of the Civil Service Law to cover sensitive sectors of the public administration such as customs, tax or public procurement officials. Despite the progress made in increasing salary levels, the adoption in September 2002 of new legislation on salary determination contradicting the Civil Service Law has created unnecessary confusion and action should be urgently taken by the Government to address this matter.

Efforts have also been made to train civil servants. A Strategy for the Training of the Public Administration has been prepared and a number of seminars, in Albania and abroad, have been held, in close co-operation with the international community. It is important that this strategy be properly implemented. In this context, it is also crucial that the Training Institute for the Public Administration be given all means to fully play its essential role regarding the training of civil servants.

**Civil society:** Limited progress has been made over the last twelve months and civil society in Albania remains at an early stage of development. Although most of the usual civil society structures exist in the country (Non-Governmental Organisations –NGOs–, trade unions, professional associations, ...), they are weak and need to develop further in order to efficiently contribute to Albania's political, economic and social development. Under these circumstances, the Government should have a more proactive role, notably by launching concrete initiatives aiming at supporting civil society development and increasing dialogue with the existing civil society structures.

**Armed Forces:** The Albanian Armed Forces have continued to show willingness to actively co-operate with the international community. A thirty-man platoon has been detached to Afghanistan to support the international operation in that country. Albania has also been invited to participate in specific North Atlantic Treaty Organisation (NATO) exercises involving troops, command posts and civil emergencies. A long term Military Strategy on Defence was adopted in July 2002. This strategy includes the reform of the Albanian Armed Forces through the reduction of conscripts, establishing a professional army, and increasing the defence budget with an average of 0.1% GDP per year until 2010 (2003 total defence budget: 1.29% GDP). However, equipment and training remain poor, particularly by NATO standards. Albania needs now to ensure the proper and rapid implementation of the above strategy, and to make sustained efforts if it is to align itself to the standards required to become a NATO member, notably in terms of organisation, structures and equipment.

### *1.1.2. Assessment of judicial system, law enforcement and respect for the rule of law*

**Judicial System:** Limited progress has been made by Albania in this area. The Albanian judicial system remains weak. Infrastructure is generally poor. Magistrates, prosecutors, lawyers and administrative staff are not yet sufficiently trained. Rulings are not always executed. Corruption remains widespread and affects both judges and prosecutors. Furthermore, judicial proceedings for serious crimes frequently fail. As a consequence, there is a fundamental lack of trust by the Albanian population (including key actors in the sector such as lawyers) in the delivery of justice and in the judicial institutions.

Over the past months, the Parliament has taken a number of legal initiatives aimed at improving the functioning of the judicial system. The Law on the Organisation and Functioning of the High Council of Justice, a central instrument for the proper operation of the judicial institutions (including inspection and disciplinary mechanisms) was adopted in June 2002. The Criminal Procedures Code was amended with the aim of enhancing the fight against corruption and organised crime. The Ethical Code for public notaries and amendments to the Military Criminal Code were also adopted. In addition, during 2002 Albania ratified a number of international instruments, notably the Statute of Rome on the International Criminal Court, the Council of Europe (CoE) Convention on Cyber-crime, and additional protocols on mutual juridical assistance. Proper implementation and enforcement of this legislation and instruments should now be ensured.

Regarding training, the School of Magistrates continued to carry out its tasks with relative success. A number of seminars notably concerning the management of statistical judicial data, information management systems in courts, fight against organised crime for judges and prosecutors, civil and commercial procedures for the bailiff's office, as well as on European Community (EC) international and comparative law, have been held. On the other hand, the facilities in the law faculties continue to be poor, with consequent detrimental effects on the quality of professional skills and ethics of newly qualified legal professionals. Training efforts will need to be further enhanced and sustained if Albania aims to build a modern, well-trained judiciary.

Corruption and improper professional behaviour within the judicial system continue to constitute a serious problem. According to the Albanian authorities, during 2002, 12 prosecutors have been dismissed, and other disciplinary measures have been taken against 23. As regards judges, 5 judges have been dismissed from duty and 2 reprimanded. Nonetheless, this seems insufficient to eradicate corruption from the judicial system: when justified, judges and prosecutors should not only be dismissed, but also prosecuted.

The lack of successful prosecution of serious crimes in courts is of particular concern. According to the General Prosecutor's office, of the 213 cases opened against traffickers over the first nine months of 2002, only 37 went to trial; 176 were ultimately dismissed due to incapacity to collect sufficient evidence or to procedural errors. That no convictions have been handed out above the minimum sentences foreseen by the penal code denotes a certain lack of willingness on the part of the courts to recognise the seriousness of the offences.

Further efforts have been made to make the bailiff's office more operational, including through the implementation of a competition-based selection process and the adoption of provisions on its internal organisation and functioning. This appears to have had a positive impact on the number of rulings executed. According to the Albanian authorities, from a total of 15,444 rulings in 2002, 4,201 had been executed at the end of February 2003, while 3,920 had not been executed (the remaining 7,323 are rulings under continued execution, for example, allocations for child support, etc.) Nevertheless, lack of enforcement of judicial decisions is still a serious concern as the number of non-executed rulings remains high. Continued efforts will need to be made by the General Bailiff's Office if it wishes to be able

to respect its own plan, which foresees that final execution of all pending cases will be achieved before the end of 2005.

**Police:** Albania has continued to implement the Reform Strategy of the State Police, but at too slow a pace. Particular attention has been devoted to rationalising the Ministry of Public Order, as well as to preparations for the implementation of the Law on Ranks in the State Police and the completion of the legislative framework through the development of the necessary normative acts. The new structure of the criminal police has also been established. Despite this, substantially increased efforts remain necessary to ensure that the Albanian police force properly fulfils its functions in a way that contributes to the general development of and respect for the rule of law. The judicial police is neither trained nor equipped to carry out its duties, notably in regard to the fight against organised crime. There is also a continued lack of effective management of policing tasks, with even basic police duties, such as patrolling, poorly co-ordinated. Some progress appears to have been made regarding the selection procedures for police staff, but political intervention remains frequent. Corruption is still widespread and can affect all levels of the police hierarchy. Allegations of mistreatment by the police remain frequent. Some training initiatives have been undertaken with the support of the international community, but professional training, including in fundamental areas such as ethics and human rights, should become more structured and coherent so as to increase the overall level and performance of the Albanian police force.

In 2002, the Albanian police carried out sporadic operations against trafficking in human beings and other forms of organised crime with some success. Nevertheless, efforts should be more sustained to efficiently tackle these particularly difficult issues. Co-operation between the state police, the judicial police, other law enforcement bodies and the prosecutor's office continues to require substantial improvement. Not only should the police be more efficient, but the prosecution and the tribunals should make considerable additional efforts to bring cases to an end, thus preventing criminals from being released because of deficiencies in the judicial system.

**Penal system:** The Albanian prison population is approximately 1800. The legal framework for prisons is generally acceptable. Despite the completion in 2002 of the Rogozhina prison and Kruja Mental Institute, Albania's prisons generally remain in poor condition and there is a persistent problem of overcrowding. Approximately 400 sentenced prisoners remain in police stations as a result of overcrowding in prison cells. The completion of the prisons of Peqin, Lezha and Fushe-Kruja is expected by 2003/2004 and should improve the situation.

Despite the insistence of the international community, Albania has not paid sufficient attention to the situation of the prisoners held at police stations (approximately 900 prisoners on remand and 400 sentenced prisoners). The transfer of responsibilities on this matter between the Ministries of Public Order and Justice may be justified, but has not yet brought concrete solutions. It is therefore urgent that concrete action be undertaken by Albania in this area.

**Respect for rule of law:** Albania has made limited progress as regards the general respect for rule of law, which remains deficient notably due to weak law enforcement institutions, generally poor public administration and widespread corruption and organised crime.

Although Albania has developed, in close co-operation with the international community, a number of mechanisms to fight its strong systemic **corruption**, actual progress in this area remains insufficient. Albania has demonstrated its capacity to develop action plans, prepare matrices, and to set up specific institutions with the objective of fighting corruption. The last Action Plan against corruption adopted in mid-2002 for the period 2002-2003 and the successful organisation of international events on this topic confirm this. However, declarations of intent and multilateral venues are far from being sufficient. Fighting corruption requires full commitment and political will, and full and determined

implementation of action plans. The Albanian Government should be much more proactive and result-oriented in this area. It should urgently take the necessary measures to ensure, amongst others, increased institutional capacity to investigate and prosecute corruption, the provision of adequate witness protection and effective measures against bribery of public officials, and the adoption and enforcement of the long expected new law on the declaration of assets of public officials. Such measures should lead to a more effective prosecution of corruption, notably in the areas sensitive to this phenomenon such as the judiciary, prosecution, police, customs and tax administrations, and public procurement.

## 1.2. Human rights and protection of minorities

Human rights and fundamental freedoms are guaranteed by Albanian legislation. However, there is still considerable room for improvement as regards their upholding and no significant progress has been made in this area over the past months. More specifically, law enforcement bodies are not yet sufficiently acquainted with their human rights obligations and there have been serious allegations of mistreatment by the police. The judiciary still needs to be better prepared to properly address human rights cases. The Government should refrain from any attempt to interfere with the media. In the area of economic rights, land property rights continue to be particularly problematic.

The attitude of the Albanian government regarding the protection of minorities has generally remained constructive. However, Albania has lacked ambition to reach higher standards in this area.

### 1.2.1. Civil, political, economic and social rights

The Albanian Constitution of 1998 guarantees **human rights** and fundamental freedoms. However, there is still considerable room for improvement as regards their actual upholding. Little progress to achieve higher standards has been made over the reporting period and the Albanian Government should make determined efforts to improve Albania's overall human rights record. Serious allegations of mistreatment by the police, attempts by the Government to influence media, insufficient attention to issues such as trafficking in human beings or children's rights are still far too frequent for a country aspiring to become an EU Member State.

**Freedom of expression and press** in Albania seems to be generally respected although, as indicated, there have been allegations of harassment of certain media by the Government. Public television usually provides fair coverage of political views, including those of the opposition. Foreign ownership of broadcasting media is not restricted in Albania and Tirana has several television (TV) stations owned by foreigners. The large number of printed and electronic media (3 national TVs, 52 local TVs, 18 daily national publications and 42 local publications) raise questions on their long-term financial sustainability, their financial sources and ultimately, their independence and objectivity. The Albanian media sector should develop taking into account European standards. Legislation should be further improved in order to better support a balanced media development, and to ensure that media remain sufficiently independent from the various power centres (be it the Government, political parties or other) so as to perform in a professional manner. The independence of radio and television should be reinforced, and the transformation of the state TV and radio into an independent public broadcasting institution should be finalised. The allocation and adequate regulation of emission frequencies should also be completed rapidly. Regarding defamation, Albania should develop proper legislation and have it implemented.

The **right to seek redress, a fair trial or protection against arbitrary arrest or detention** exist in law. However, the implementation and upholding of these rights continue to be poor and a much more proactive attitude by the Government is necessary. **The right to vote** is

guaranteed by the 1998 Constitution and generally respected. However, the structural shortcomings of Albania's electoral system, notably the inaccuracies of the voter's register, lead to difficulties for the proper exercise of this right. In September 2000, Albania abolished the **death penalty** in peacetime. The **right of assembly and demonstration** is generally respected and opposition rallies normally take place without major incidents.

The establishment of the **People's Advocate (Ombudsman)** in 2000 was a major contribution to enhance the respect for human rights in Albania. During 2002, the Ombudsman office administered about 4,600 complaints, representing nearly a 70% increase over 2001, although 1,100 cases were found to be outside the competences of the office. From those admitted, 556 were resolved in favour of the complainant. The public awareness of the Ombudsman function has continued to grow. The most common complaints examined by the Ombudsman office have concerned police behaviour and lack of enforcement of court decisions. However, it has also contributed to resolve a number of highly controversial cases concerning property and blood feud, and helped to improve the conditions of detained people, for example by providing them with access to free phone lines. The further promotion throughout the country of the role of the Ombudsman as a proactive defender of human rights, accompanied with an adequate publicity over its jurisdiction and competence, should remain a key objective.

The **right to property** is legally guaranteed, but implementation remains problematic as regards land ownership. Since the 2002 SAP report, no concrete results have been achieved by Albania for it to comply with its obligations under Article 181 of the Constitution, i.e. "to issue by 28 November 2001 laws for the just regulation of the various matters related to expropriation and confiscation of land done before the approval of the Constitution". In Spring 2002, an ad-hoc Parliamentary commission, including representatives of the ruling party and the opposition, was set up. However, it has not been able to properly address this matter. Although this issue is now high in Albania's political agenda and efforts are being made to find adequate solutions in co-operation with the international community, the current situation remains dominated by a lack of clarity over property ownership, which represents a serious impediment to the creation of a functioning property market, discourages investments, holds back the development of agriculture and fuels social tension.

**Labour rights** are covered by the Albanian legislation. However, the organisational capacity of the trade unions continues to suffer from weaknesses in strategic planning and management structures. Trade unions remain financially dependent and dominated by the large political parties. **Academic and religious freedoms** are guaranteed by the Albanian Constitution and they are generally exerted without particular limitations. However, further and sustained efforts should be made to reform the education system and enhance its quality. The issue of education in minority languages deserves continued attention. **Gender equality** is not yet sufficiently enshrined in the Albanian society. While access of women to important political, social and economic posts is possible, the tradition of a male-dominated society remains predominant, particularly in rural areas. Efforts should be made to ensure equal access of men and women to resources, opportunities and benefits in the practical reality. Lack of knowledge of women rights and domestic violence are also issues to be addressed.

### *1.2.2. Minority rights and refugees*

Albania has three recognised national **minorities** (Greek, Slav-Macedonian and Montenegrin) and two "cultural minorities" (Vlach and Roma). The most important minority group in Albania is the Greek minority, represented through a civic association called Omonia. The rights of minorities in Albania are guaranteed by the 1998 Constitution. According to the Constitution, minority groups enjoy the same civil, economic, social and political rights as the Albanian majority. Albanian legislation on elections, political parties, media, education, as well as the Civil and Penal codes, spell out the rights of minorities and

contain provisions against discriminatory treatment. Albania is a signatory of the Council of Europe Convention on the protection of National Minorities, which entered into force on 1 January 2001.

Although Albania's attitude regarding minorities has continued to be generally constructive, little progress has been made over the last twelve months. There are still claims that minority rights are not properly guaranteed throughout the whole Albanian territory, notably as regards education, property rights and access to all levels of the administration. In Spring 2002, a working group was established to review Albania's current legislation on minority rights and to explore mechanisms to enhance minority protection up to the required international standards. The main conclusions of this working group were expected in January 2003 but have not yet been produced. As far as the size of minorities are concerned, the Albanian authorities have apparently used a Survey on Living Conditions to tentatively evaluate, on the basis of samples, the size of their minorities. Results were expected to be made available by the end of February 2003. A working group has also been established within the Ministry of Labour and Social Affairs to prepare a National Strategy to support the Roma population. This working group includes NGO representatives and Roma Associations. However, no concrete results have been produced to date and the National Strategy remains to be developed.

On the administrative side, Albania has made limited progress. Apart from the establishment of working groups and some reinforcement of the National Office for Minorities within the Ministry of Foreign Affairs, the strengthening of the administrative structures relevant for the protection and integration of minorities still seems insufficient.

The number of **refugees** in Albania continues to be small and does not constitute an issue.

Albania should not satisfy itself with the present situation as regards the protection of its minorities and should aim at meeting international standards, particularly the full implementation of the Council of Europe Convention. Albania will therefore need to seriously enhance its efforts to complete the minority-related legal framework, and to strengthen its administrative capacity so as to ensure appropriate implementation of minority rights throughout the country. In order to develop adequate policies, Albania should continue its efforts to obtain accurate data on the size of its minorities. Moreover, the National Strategy for the Roma should be developed and implemented without further delay.

### **1.3. Regional co-operation**

Albania has maintained a constructive attitude in connection with its multilateral and regional relationships. In the multilateral field, Albania has remained an active member of the Council of Europe (CoE) and OSCE, and contributed to the main initiatives for regional co-operation in South-East Europe. However, international requirements in the framework of the CoE and OSCE have not always been met due to the general difficulty Albania has in implementing and enforcing legislation. Albania has, overall, continued to fulfil its World Trade Organisation (WTO) commitments (the delay in the full liberalisation of the telecommunications sector is an exception).

Albania's relations with its neighbouring countries have improved and, in the commercial area, Albania has made significant progress in concluding Free Trade Agreements (FTAs) in accordance with the Memorandum on Understanding for Trade Facilitation under the Stability Pact.

#### **1.3.1. Multilateral Relations**

Albania is a member of the CoE and the OSCE, and participates in all relevant regional initiatives such as the Stability Pact for South Eastern Europe, the South-East European Co-

operation Process, the South East European Co-operation Initiative, the Adriatic-Ionian Initiative and the Black Sea Economic Co-operation forum. Albanian positions within all these fora have been constructive and contributed to regional dialogue and co-operation.

Albania has subscribed to a considerable number of international conventions sponsored by the CoE. Legal commitments undertaken by Albania upon accession to the CoE are, in general, being fulfilled. Reporting obligations resulting from the various CoE conventions are also being generally respected, but with delays in the presentation of reports. As in other areas, implementation of CoE conventions remains insufficient, mainly due to a lack of resources and proper administrative structures.

The OSCE established a Presence in Albania in 1997 with the mandate to give advice and assistance to Albania on democratisation, media, human rights, election preparation and monitoring, as well as to monitor the collection of the weapons looted during the 1997 crisis. The relative progress made by Albania in the framework of the Stabilisation and Association process, together with other internal considerations (notably an attempt to further increase efficiency) prompted OSCE to reduce the number of its field stations in the country. Nevertheless, the support of the OSCE remains central for Albania's progress, notably in areas such as the legal and judicial reform, border security, fight against trafficking, property-related issues, as well as the strengthening of the democratic process, in particular through electoral reform and support to Parliament. Albania is also striving to play a more active role in OSCE and, for example, it has held the chair of the OSCE's Forum for Security Co-operation during the first trimester 2003.

Accession to NATO remains one of the main political aspirations for Albania. At the NATO summit in Prague in November 2002, the Albanian President met with the Presidents of Croatia and the former Yugoslav Republic of Macedonia in order to map out a common strategy for their collective future integration into this organisation. Co-operation in this regards has since then continued, and NATO-related meetings between these countries are frequent.

Albania has been a member of the WTO since September 2000 and it continues to proceed with the trade liberalisation commitments undertaken upon its accession generally on time. For most of the planned tariff reductions, the country remains ahead of the WTO schedule.

### *1.3.2. Bilateral Relations*

The way in which bilateral relations between Albania and neighbouring countries have continued to develop confirms Albania's commitment to enhanced regional co-operation. Over the past twelve months, Albania has focused on the conclusion of Free Trade Agreements (FTAs) with the countries signatories of the 2001 Memorandum of Understanding (MoU) for Trade Liberalisation and Facilitation (Bosnia and Herzegovina, Bulgaria, Croatia, former Republic of Macedonia, Moldova, Romania and Serbia and Montenegro). Significant progress has been achieved in this respect and Albania has finalised all necessary bilateral negotiations in the context of the MoU, except with Moldova. This should contribute to the overall improvement of Albania's bilateral economic relations.

Traditionally, the grievances voiced by the important Albanian minority in the **former Yugoslav Republic of Macedonia** have not contributed to promote good relations between both countries. These relations have been occasionally tense during the months preceding the former Yugoslav Republic of Macedonia elections in September 2002. Some isolated border incidents and reciprocal complaints on the management of the common border have also been registered. However, tension has been kept under control and dialogue between Skopje and Tirana has been maintained. In Summer 2002, the FTA negotiated between both countries entered into force. Albania has, overall, continued its moderate policy as regards the former Yugoslav Republic of Macedonia. In future, this should continue to be a key

priority for the Albanian Government. Co-operation between both countries as regards the management of their common borders should be enhanced in order to prevent border incidents and to combat trafficking more efficiently.

Relations with the state of **Serbia and Montenegro** have improved substantially, with the re-establishment of full diplomatic relations in September, as well as increased dialogue at political level and the negotiation of a FTA which is expected to be signed during the first half of 2003. Other results have been the preparation of a number of agreements on taxes, the removal of the visa regime for diplomatic and duty passports, the promotion and protection of both countries' investments and co-operation in the health and commercial sectors. The resumption in December 2002 of direct flights between Belgrade and Tirana has been more of a symbolic event, but worthy of mention. Albania has continued to step up cultural, commercial and economic relations with Montenegro, and has also aimed at enhancing co-operation in the field of Justice and Home Affairs. A new border crossing point was opened between Albania and Montenegro since the last Sap report. Contacts with Kosovo have also been developing in the context of United Nations Security Council Resolution (UNSCR) 1244. Memoranda of Understanding on economic co-operation, transport and fiscal issues, as well as a letter of intent to begin negotiations for a FTA, have been signed between United Nations Mission in Kosovo (UNMIK) and the Albanian Government. New border crossing points with Kosovo have also been opened in view to facilitating circulation of persons and goods, specially at local level. Albania has generally maintained a prudent official position as regards Serbia and Montenegro internal affairs, and has supported the settlement of issues through constructive dialogue.

Relations with **Croatia** have continued to be good, although with little concrete co-operation. A FTA was signed in September 2002 and is expected to enter into force during the first half of 2003. Agreements on visa facilitation have also been signed between both countries.

There are no particular issues in the relations between **Bosnia and Herzegovina (BiH)** and Albania. The negotiation of an FTA with Bosnia and Herzegovina presented some initial difficulties due to BiH's requests for asymmetric treatment, but these were resolved and the FTA is expected to be signed during the first half of 2003.

Relations with **candidate countries** continue to be generally positive. Albania has made attempts to resolve the problems resulting from the visa requirements introduced by Romania and Bulgaria through increased dialogue between Tirana and Bucharest/Sofia and agreements on visa facilitation. Trade relations with these two countries (as well as with other non-EU countries of the region) continue to be at traditionally low levels. On the other hand, the negotiation of FTAs with Bulgaria and Romania has been completed. The FTA with Romania was signed in February 2003. The negotiation for a FTA with Turkey is expected to start during the first half of 2003.

The EU is the source of most Albanian imports and the destination for almost all Albanian exports. **Italy** is the first Albanian partner in terms of trade and Foreign Direct Investment (FDI). In 2002, Albanian imports from Italy represented over 30% of total imports. Albanian exports to Italy represented over 70% of total Albanian exports. Relations between Albania and Italy continue to be good and there have been several contacts at political and technical level aiming at increasing co-operation within the framework of the "Three-year Co-operation Protocol (2001-2003)" signed by both countries. Co-operation has addressed key issues such as the fight against trafficking and energy supplies. Dialogue has also been established between Albania and Italy in order to improve the situation of Albanian citizens residing in Italy and the possibility to grant a higher number of visas for those wishing to travel to Italy.

Relations with **Greece** have also remained at a good level, despite some occasional tension during the Summer 2002 due to the considerable number of Albanian returning to Greece after their holidays in Albania, and the issue of the Greek minority in Albania. Greece is Albania's second economic partner in trade terms and it is the second largest investor in Albania. In 2002, Albanian imports from Greece represented around 20% of the total imports. Albanian exports to Greece represented around 15% of the total exports. Similarly to Italy, co-operation with Greece is wide-ranging, covering numerous fields such as energy, agriculture, tourism, transports, finance, telecommunications and culture.

#### **1.4. Priority Areas Needing Attention in the Next 12 Months**

- Full commitment and determined action by the Government to combat organised crime, with concrete initiatives, properly co-ordinated with international partners, and tangible results. This is crucial for preventing organised crime from undermining the structures of the state and to ensure rule of law implementation.
- Substantially enhanced efforts to fight corruption. Full implementation of the 2002-2003 anti-corruption plan. Increased institutional capacity to investigate and prosecute corruption. Provision for adequate witness protection. Adoption of effective measures against bribery. Adoption and implementation of the draft law on the declaration of assets of public officials.
- Increased capacity and improved functioning of the Judiciary and other law enforcement bodies\*. Further progress in enforcement of court rulings\*\*. Ensuring the independence of the judicial system. Full implementation and enforcement of the Law on the High Council of Justice. Proper prosecution of serious crimes, related particularly to organised crime, trafficking and corruption. Proper prosecution of judges and prosecutors having committed serious offences.
- Adequate implementation of the law on the Judicial Police\*. Proper training of Judicial Police staff in order to ensure adequate implementation of the Judicial Police Law. Acceleration of the implementation of the Police Reform Strategy recommendations. Full and proper implementation of the Law on Ranks.
- Better functioning of the democratic institutions\*\*. Preservation of political stability and constructive dialogue between political forces with the objective to accelerate actual reform implementation in Albania.
- Implementation of OSCE/ODIHR recommendations regarding the electoral process\*\*. Adoption of all necessary amendments to the Electoral Code in time to allow proper preparation of the 2003 local elections. Conduct of free and fair elections in full conformity with international standards.
- Ensuring full implementation of the Civil Service Law and its secondary legislation. In this context, it is particularly important that: 1) Civil Service Commission and Training Institute for Public Administration become fully operational, 2) fair and professional selection procedures be implemented, 3) continued improvement salaries and career prospects of civil servants\*\*.
- Ensuring that the customs, tax and public procurement administrations are covered by the Civil Service Law.

---

\* Recommendation included in the 2002 SAp report, basically not implemented

\*\* Recommendation included in the 2002 SAp report, partially implemented

- New legislation on property rights and restitution should be adopted to address the existing legislative shortcomings in this area and to ensure better implementation of these rights in Albania, in line with the Constitution\*.
- Enhanced efforts to ensure the upholding of human rights and fundamental freedoms, notably as regards mistreatment by police, conditions of prisoners in police stations, increased attention to victims of trafficking and children's rights. Full guarantee of freedom of expression and press.
- Continued efforts to improve minority rights implementation, notably through the development of a comprehensive legislative framework and the strengthening of the relevant institutions to ensure the implementation of minority rights in full accordance with international standards, as well as through the adoption and initial implementation of the National Strategy for the Roma minority\*.
- Conclusion and implementation of all FTAs negotiated in response to the requirements of the 2001 Stability Pact Initiative for Trade Liberalisation and Facilitation. Maintain and further strengthen relations with neighbouring countries, also in crucial non-trade areas such as border management, energy, co-operation in the judicial field, and fight against organised crime and all types of illegal trafficking.
- Enhanced efforts to support civil society development.

#### ECONOMIC SITUATION

##### 1.5. Current Economic Situation

Although the main macro-economic indicators appear to have been maintained under control, a significant slowdown in economic growth is estimated for 2002, partly due to the energy crisis but also to failed privatisations and poor agricultural performance, which was severely affected by the September floods. Lower than expected tax revenues were more than offset by spending cuts such that the 2002 budget deficit was limited to 7.5% of GDP, whereas the current account deficit widened to close to 9% of GDP. Despite inflationary pressures during the year, the end-year inflation was limited to 2.1%.

On the basis of preliminary data, real **GDP growth** is estimated to have reached 4.5% to 5% in 2002, compared to 6.5% in the previous year. The reduction in growth reflects the continuing impact of the energy crisis, failed privatisations, as well as a decline in agricultural output. Having been adversely affected by flooding in September 2002, agricultural production is estimated to have expanded by a modest 2% and its contribution to GDP to represent 33.2% (compared to 34.2% in 2001). GDP per capita increased slightly to the range of € 1,400-1,500, but remains one of the lowest in Europe.

Recorded **unemployment** is expected to have remained broadly stable in 2002, compared to 2001. Depending on the source, it is estimated at approximately 16% (according to a report of the Bank of Albania on the 2002 economic climate in the country), or at about 14% (according to the National Statistics Institute). It should be noted that unemployment figures should be taken cautiously, as an important number of unemployed no longer register with social security services and are active in the informal economy.

The **energy crisis** which erupted about three years ago continues to represent a serious threat to a sustained economic growth and development in Albania. Causes at the root of this crisis are well known: poor infrastructure leading to important technical losses, widespread

electricity theft, weak management of the electricity company leading to low bill collection and uncontrolled consumption, and irregular weather conditions in a country where electricity is mainly produced from hydropower plants. The crisis, which has materialised in energy shortages, disruptions of production and higher subsidised imports, has seriously affected both the social and economic life and has put an additional strain on the budget (see also section 4.3.4).

In the first months of 2002, a surge in Consumer Price Index (CPI), mainly attributed to the energy crisis and higher imported food prices, was registered so that year-on-year **inflation** reached 6.6% in April. To reduce inflationary pressures, the Bank of Albania increased its repo rate by 0.5 percentage point in March and by 1 percentage point in April. These measures, together with improved performance in the agricultural sector during the first part of 2002, contributed to a reduction in inflation, which slowed down to 3.6% year-on-year in June. After a new peak in September, due partly to the depreciation of the national currency, the Lek, against the Euro, as well as partly to September floods that caused extensive damages, end-of-year inflation decreased to 2.1% in December, a figure well within the 2-4% target range.

The **2002 budget**, which aimed at a deficit of 8.5% of GDP, was revised in Spring 2002, to 8% of GDP. This was due to the postponement to 2003 of the privatisation of the telephone company Albtelekom, limiting receipts available for deficit financing. It now appears that the 2002 budget deficit (excluding grants) was limited to 7.5% of GDP since spending cuts more than compensated below target tax collection (tax collection in 2002: approximately 92% of the target). These spending cuts were designed to minimise the impact on poverty alleviation efforts, and therefore concerned essentially budgeted contributions to the reserve and contingency Fund, as well as investment and maintenance expenditures in non-priority areas. Domestic financing of the deficit (mainly T-bills) was estimated at 3% of GDP, privatisation receipts at 0.2%, with foreign financing covering the remaining 4.4%.

On the **external side**, the **current account deficit** is estimated to have widened in 2002 to 8.9% of GDP (from 6.3% in 2001), because of a larger trade deficit, a reduced balance of services and a return of remittances to normal level. The EU accounts for more than 90% of Albanian exports and more than 75% of Albanian imports. As of end-June 2002, both the trade balance and the current account balance deficits were broadly in line with projections: the trade balance deficit reached € 588 million, whereas the current account deficit reached about € 220 million, compared to a projected € 210 million. For the same period, remittances totalled € 300 million, an amount significantly higher than the projected € 245 million. Continued inflows of official financing contributed to an increase in foreign exchange reserves, which were covering the equivalent of 5 months of imports of goods and services at end-2002. According to the latest IMF programme projections, the balance of payments should not face any significant financing gap in the course of the programme.

The current **foreign exchange** regime is classified as independently floating. However, in spite of the importance of trade flows between Albania and the EU, the currency to which the Lek is currently informally pegged is the US\$. At end-2002, **foreign debt** is projected to have decreased to € 1.12 billion, or about 25% of GDP, compared to € 1.3 billion in 2001 (about 28% of GDP), on account of debt forgiveness related to a debt rescheduling agreement with Russia. While being quite low by international standards, this debt level can be considered as reasonable for a relatively poor country. Debt service was projected to increase to 8% of exports in 2002, compared to 3.8% in 2001.

As regards **relations with IFI's**, negotiations with the IMF on a new programme to be largely based on the Growth and Poverty Reduction Strategy - prepared by the Albanian

authorities and officially renamed National Strategy for Social and Economic Development (NSSD) - were initiated in July 2001 and concluded in March 2002. Prior actions – adoption by Parliament of the revised 2002 budget, implementation of the agreed action plan for the restructuring of the electricity sector, settlement of Albania's arrears on debts owed to Russia – were fulfilled, allowing the IMF Board to approve - on 19 June 2002 - a new 3-year economic programme to be supported by a US\$ 37 million concessional Poverty Reduction and Growth Facility (PRGF) in June 2002. The first IMF staff review mission under the programme took place in October 2002. Due to the failure by Albania to meet on time a principal programme requirement, i.e. the closure of duty-free shops at land borders, the IMF decided to postpone the discussion on Albania's economic programme. The IMF Board finally completed the programme review on 26 February 2003.

A new 3-year Country Assistance Strategy (CAS) was adopted by the World Bank Board on 20 June 2002. This CAS, the main aim of which is to reduce poverty by supporting Albania's NSSD, is considered as a roadmap for the World Bank Group's assistance program to Albania for the 3-year period. The CAS sets out three broad objectives: (i) improve governance and strengthen institutions; (ii) promote sustainable private sector growth; (iii) foster human development. Five credits, totalling US\$ 97 million, have already been approved in its framework: a Poverty Reduction Support Credit (US\$ 20 million), a Financial Sector Adjustment Credit (US\$ 15 million), a Power Sector Rehabilitation and Restructuring Project (US\$ 30 million) a Road Maintenance Project (US\$ 17 million) and a Municipal Water and Wastewater project (US\$ 15 million).

The EBRD's strategy, which was revised in 2002, focuses its action on private sector development and support to SMEs, participation in strategic privatisations, more particularly on banking and telecommunications sectors, and infrastructure financing and development, particularly in the energy and transport sectors. In 2002 the EBRD has signed projects for a total amount of € 43 million.

## **1.6. Existence of a Free Market Economy and Structural Reforms**

Price liberalisation is almost complete, with the exception of a few selected public services. Although some progress was registered in structural reforms, much remains to be done in the area of public administration reform and privatisation of strategic sectors. Privatisation of the remaining state-owned bank and of strategic utilities in energy and telecommunications sectors remain important challenges. The fight against corruption is a high priority.

***Enterprise privatisation and restructuring.*** Whereas the privatisation of all SMEs has been completed, some 80 large enterprises remain to be privatised. Inter-enterprise arrears represent an important impediment to the privatisation of most of the remaining state-owned enterprises. Poor management combined with a lack of payment discipline led to the accumulation of a large stock of inter-enterprises arrears and tax obligations within the public sector. In the context of the IMF programme, end-March 2003 has now been fixed as a deadline for determining the amount of domestic arrears within the public sector that can be cancelled through netting.

No debt forgiveness is foreseen in the privatisation process, except for companies with exceptionally bad balance sheet positions. The privatisation of the telecommunications company Albtelekom was twice postponed due to the lack of interest from international potential bidders. Both the unfavourable situation in the telecommunications sector in general and the accumulated arrears legacy were responsible for this failure. There are currently attempts to increase the company's market value before proceeding with its privatisation, now expected for 2003.

Restructuring of public companies, in particular loss-making utilities, remains a key challenge for the coming years. It is expected that the national electricity utility, KESH, will be restructured through the internal unbundling of the company into three cost centres (generation, transmission and distribution). A number of issues – such as the setting up of a computerised financial management system, a revaluation of assets, allocation of debts and receivables - need however to be solved before this unbundling can be carried out.

**Financial sector reform.** After some progress was registered in 2001 in the reform of the legal framework with the adoption of the law on securing charges, reform continued in 2002. Parliament adopted in March the deposit insurance law (limited to a maximum of around € 5000 per account), for the scheme to be operational in early 2003. However, the presentation of the law to Parliament led to a loss of confidence and withdrawals of about 10% of total bank deposits in the two main banks (the Savings Bank and the National Commercial Bank) in late March and early April. Both the Bank of Albania and the banks, more particularly the Savings Bank, reacted promptly and adequately. In particular, the high liquidity position of the Savings Bank, whose lending activities had been severely restricted by the monetary authorities, enabled it to weather these unforeseen needs. The Bank of Albania also decided in April on a new interest rate increase to encourage bank deposits.

Interest in buying the remaining State-owned bank, the Savings Bank, has so far been very limited. After the bank was tendered, there were only two Italian banks in the short list of bidders, both of which however withdrew from the tender in June after having concluded their due diligence of the bank. The prospect is now to streamline and strengthen the bank, in consultation with foreign partners. This should prepare for a second privatisation attempt, the timing of which has not yet been defined.

Some steps have been carried out in 2002 in order to improve the Albanian **business environment and investment climate**, notably through the establishment of an agency for foreign investment promotion, expected to provide “one-stop” facilities for investors and a credit information point, as well as the adoption of a new bankruptcy law. However, the persisting deficiencies of the Albanian judiciary and business-related administrations, repeated corruption cases and that unresolved issue of land ownership, continue to prevent a serious boost of investments. Key legislation such as the commercial law also remains to be improved.

## 1.7. Management of Public Finances

Despite the significant increase in revenue generation over the recent years, the performance in terms of revenue collection was disappointing in 2002. Therefore, further reform progress, notably in the fight against fraud, is needed to increase the level of tax collection.

The combination of the Medium Term Expenditure Framework (METF) and the National Strategy for Social and Economic Development (NSSED) provides a good framework for an improvement in public expenditure management. Further progress is however needed notably a strengthening of the monitoring functions in the line ministries.

Some progress was registered in the area of control of public finances, notably through the adoption by the Parliament (in February 2003, after considerable delays) of the Law on Internal Audit.

**Revenue generation** is one of the major elements of Albania’s fiscal consolidation. Between 1996 and 2002, tax revenue collection increased by more than 5 percentage points of GDP, from around 400 million in 1996 to an estimate of 925 million in 2002. Both the reform of VAT in July 1996 and progress in reform of the tax and customs administrations contributed

to this substantial increase. However, while tax collection shortfalls, which have appeared since end-2001, were partly due to lower-than-expected GDP growth, they also reflected delays in reforms and the inefficient management of tax and customs administration. As a consequence of unsatisfactory tax collection results, attention of the authorities has shifted from reform efforts towards high pressure on the relatively small base of regular taxpayers. In 2002, tax revenues reached 20.4% of GDP, a ratio still among the lowest in Eastern European countries with comparable tax rates, which indicates that fiscal evasion remains pervasive, but which also means that the potential for higher revenue collection remains considerable.

The need for Albania to combine limited budgetary resources and fiscal discipline requires expenditure prioritisation and good management, which was successfully achieved by the Albanian authorities in 2002 when they were facing lower than expected budgetary resources. The combination of the MTEF – adopted for the first time in December 2000 for the period 2001-2003 and revised on a yearly basis since then – and the NSSED, adopted in November 2001, has improved the medium-term budgetary planning. It also provides a strong framework for the preparation of the annual national budget with a clear prioritisation of expenditure towards poverty alleviation, essentially in the area of health care, education and infrastructure.

Further improvements are needed to strengthen public expenditure management and the quality of policy making. They include: a strengthening of the monitoring functions in the line ministries to improve policy evaluation; decentralisation of certain categories of spending to local authorities (together with decentralisation of tax perception); and the gradual elimination of subsidies for energy imports.

As regards **financial control and audit**, little progress was made during 2002. In 2000, the government had adopted a decree creating a central Public Internal Financial Control Department (PIFC) in the Ministry of Finance and decentralised units in other ministries and public institutions. However, the development and functioning of this department was dependent on the adoption of audit and financial control-related legislation. A positive development has taken place in February 2003 through the adoption, after considerable delays, of the Law on Internal Audit. Its rapid and proper implementation is now crucial to strengthen financial management and to support fight against corruption.

The Supreme Audit Institution (SAI, named High State Control in the Constitution) is responsible for external audit. The SAI Office seems to be sufficiently staffed (approx. 140 staff), although important efforts should still be made to improve its internal functioning and to enhance staff skills. The SAI carries out audits according to an Annual Audit Programme adopted by the Parliament. It regularly publishes its findings, and issues decisions and recommendations but, currently, there is no judiciary process ensuring their implementation. The SAI should still gain legitimacy and its independence should be better ensured. Although some improvements have been noticed as compared with the previous reporting period, SAI decisions and recommendations are not sufficiently taken into account by the relevant state bodies. This needs to change urgently as a pre-requisite for meaningful progress of Albania in the SAP.

### **1.8. Priority Areas Needing Attention in the Next 12 Months**

- Continued increase in revenue collection, with the aim of reducing further the reliance on external financing and the size of fiscal deficit. In particular, broadening the tax base, enhancing the VAT system and ensuring a more efficient fight against fraud and fiscal

evasion\*. In this context, adequate integration of the existing Tax Police Service into the structure of the General Department of Taxation (GDT); in the Customs area, ensuring that duty-free shops at land borders are effectively closed. The Government must support and encourage both services to implement sustainable change, without political interference, to ensure European standards of stability and ethics and to achieve substantially improved administration.

- Substantial progress in the restructuring and the privatisation of strategic public utilities and the last remaining State-owned bank\*
- Enhanced efforts to implement the financial sector reform and to improve commercial legislation.
- Strengthening the management of public expenditure; completion of the Albanian public internal financial control and audit system, notably through the adoption and/or implementation of the relevant Financial Control/Internal Audit legal framework, and the strengthening of internal financial control and internal audit structures\*\*.
- Ensuring that due account is taken of the decisions and recommendations of the Albanian Supreme Audit Institution. Establishment of the necessary judicial procedures to prosecute the institutions incriminated as necessary\*\*.

#### IMPLEMENTATION OF THE STABILISATION AND ASSOCIATION PROCESS

### 1.9. General Evaluation

*Albania has made some formal progress in the framework of the Stabilisation and Association process. On 31 January 2003, negotiations for a Stabilisation and Association Agreement were officially opened. However, actual progress as regards the reforms necessary to address the shortcomings identified in the 2001 High Level Steering Group report has been limited. Most of the recommendations of the 2002 SAp report and of the various consultative task force meetings have only been partly implemented. Albania will need to show more determined and concrete efforts if it wants to successfully conclude SAA negotiations and so make meaningful progress in the SAp.*

#### 1.9.1. Current position

Following the Zagreb Summit of November 2000, an EU/Albania High Level Steering Group (HLSG) was set up, with the objective of stepping up co-operation between the EU and Albania, as well as to identify and support the reforms to be carried out by the latter in preparation for the negotiation of a Stabilisation and Association Agreement (SAA). On the basis of the works of the HLSG, the Commission concluded in its report of 6 June 2001 that taking into account political, regional, economic and SAA-related technical factors, it was appropriate to proceed with a Stabilisation and Association Agreement with Albania. Draft negotiating directives were submitted to the Council of the EU in December 2001, and an EU/Albania Consultative Task Force was set up with the objective to assist Albania to prepare for the negotiation of a SAA.

Technical discussions on the draft negotiating directives were finalised in June 2002. However, the EU Council decided that the mandate would only be adopted and negotiations

---

\* Recommendation included in the 2002 SAp report, basically not implemented

\*\* Recommendation included in the 2002 SAp report, partially implemented

opened after Summer 2002, depending on the political stability of the country and further progress on Albania's reform agenda. The relative progress achieved by Albania, mainly in terms of political stability through the smooth election of a new President in June 2002, allowed the adoption of the negotiating directives on 21 October 2002 on condition, however, that negotiations would be carried out on the basis of the negotiating approach proposed by the Commission. This approach implies, notably, that the negotiations should be conducted with a particular focus on ensuring that, prior to the conclusion of negotiations, Albania has developed the necessary implementation capacity, and that reforms have progressed sufficiently to guarantee adequate implementation of the future Agreement. The negotiating process was officially launched on 31 January 2003 in Tirana, by the President of European Commission, Mr. Romano Prodi.

Albania should now accelerate its reform efforts if it wants to make meaningful progress in the SAP and to conclude successfully SAA negotiations. In particular, it should concentrate on the following areas: preserving political stability, reinforcing democracy and ensuring free and fair electoral processes, improving the upholding of human and minority rights, intensifying the fight against fraud, corruption, organised crime and trafficking, substantially increasing implementation and enforcement capacities (notably through an enhanced public administration and judiciary), reinforcing the structures directly involved in the implementation of a future SAA as well as those responsible for implementing international financial assistance, improving fiscal sustainability, completing the privatisation process in all strategic sectors, properly addressing the energy crisis, resolving the land property-related issues and developing an efficient land market.

### ***1.9.2. General assessment of administrative capacity***

Overall, Albanian public administration remains weak and, in most cases, it is not yet in a position to ensure adequate implementation of the central instruments of the Stabilisation and Association Process, such as a future SAA or EC financial assistance. Equipment and infrastructures are limited, and human resources are scarce, thinly spread and not yet properly trained. The process of negotiations should bring added exposure to EU issues and perhaps, greater motivation to those limited resources.

Some steps have been taken over the past months for the Department for European Integration to better cope with the SAP-related requirements, but it should be further reinforced to cope with its increasingly demanding duties, notably leadership during SAA negotiations, co-ordination with the various line ministries and related institutions in the areas of negotiations, and co-ordination with line ministries and the international community regarding financial assistance.

Albania will need to further enhance its overall administrative culture if it wants to aspire to the successful conclusion of SAA negotiations within a reasonable timeframe. In addition to the reform of the public administration in general, Albania should ensure rapid and substantial strengthening of the state bodies which will be directly involved in the implementation of the key provisions of a future SAA. Special attention should be devoted to trade and internal market-related areas such as customs, phytosanitary and veterinary services, standards and certification, metrology and calibration, public procurement, competition and state aids, consumer protection, intellectual industrial and commercial property rights, as well as to the sector of justice and home affairs. Furthermore, enhancement of the Albanian administrative capacity to ensure adequate implementation of EC financial assistance also continues to be a priority. Proper use of financial resources would have a triple positive effect: 1) it would contribute to reform and to the overall progress of the country; 2) it would be a clear indicator of progress of Albania in terms of increased administrative capacity; 3) it would make it easier for Albania to argue for additional financial support in case it is available.

### *1.9.3. Impact of the prospect of an SAA on reform*

The prospect of a Stabilisation and Association Agreement continues to be a powerful motor for reform in Albania. This will be particularly true during the negotiations period. On the one hand, Albania is aware that, considering the Commission's approach to these negotiations, it will only be able to conclude them provided its implementation capacity, especially in the central areas of the agreement, is substantially enhanced and that it makes significant progress in its overall reform. On the other hand, Albania is eager to conclude SAA negotiations and to sign an SAA with the EU, as it rightly feels that this would imply a recognition of reform progress and administrative capacity, and would represent a leap forward in the SAP. It is hoped that these factors will act as a catalyst for concrete, significant and positive changes in the country.

### **1.10. Internal Market and Trade**

Albania's conditions for the movement of goods, services and capital, as well as those related to establishment, are relatively open. However, the lack of sufficient administrative capacity and widespread corruption continues to have an adverse impact on the actual implementation of these freedoms, and to make trade hazardous. The situation of key sectors of the Albanian economy remains poor, and efforts for their restructuring have been limited. Despite the completion of some road and rail segments, transport infrastructure overall is primitive. Limited progress has been noticed as regards water management. In the environmental field, some actions have been undertaken at the institutional and legislative level, but concrete improvement of the general environmental situation is still very limited. Efforts are being made to address the ongoing problems in the energy sector, but it will take some time for Albania to stabilise the situation in this area.

#### *1.10.1. Movement of goods*

Albania has continued its trade liberalisation in accordance with its WTO schedule. However, no additional liberalisation effort can be reported since the last SAP report and the maximum tariff rate remains at 15%. The EU is Albania's main commercial partner, representing about 75% of Albania's total imports and around 90% of the total exports. Albania's trade deficit with the EU has continued to grow and is expected to be around € 0.8 billion for 2002. Industrial products represent the bulk of EC/Albania bilateral trade. All Albanian industrial products and most of the agricultural ones have duty free access to the Community. However, to date, Albania has not been able to take real advantage of these autonomous trade preferences. As an attempt to partly overcome this problem, Albania intends to implement a recently adopted export promotion strategy and to establish an export promotion agency. However, substantial and co-ordinated progress in a number of areas such as overall product quality, quality control and certification, implementation of EU standards, enhancing veterinary and phytosanitary rules, developing trade channels, etc. will be necessary before Albania is able to significantly increase its export capacity.

Albania has already basic legislation in the field of **standards and certification**, but limited additional progress can be reported since the last SAP report. According to the latest information, Albania has adopted 32% of European Standards and it estimates that approximately 40% of European Standards will be adopted for the end of 2003. This appears to be more realistic than the 56% announced one year ago. The Albanian authorities have confirmed that all European standards under the new Approach directives have been adopted as Albanian standards. In July 2002, legal provisions were adopted aiming at transposing the EC directive on exchange of information in the field of standards and technical regulations into the Albanian legal system. In January 2003, a new law on metrology, apparently based on EC directives and on recommendations by the International Organisation for Legal Metrology (IOLM), was adopted. However, the important draft law on Accreditation which

would have allowed the split of the function of accreditation from those of standardisation and certification has not yet been adopted. The adoption of the new law on conformity assessment is also pending. The adoption and implementation of these new law will be instrumental for further progress in this area.

It is also to be noted that implementation of conformity assessment procedures in Albania remains limited, mainly due to insufficient human and technical resources, and to the lack of awareness by economic operators. Moreover, in the absence of a functioning market surveillance system and adequate product liability legislation, the New Approach directives could not be implemented effectively.

No significant progress has been observed in the field of **consumer protection**. A new draft law to replace that adopted in 1997 has been prepared, but not yet adopted. The service responsible for consumer protection under the Ministry of Economy has only been slightly reinforced and remains weak, with a total of four staff. Current implementation of the existing legal framework is poor and under the responsibility of several institutions which would need stronger co-ordination. Active participation of civil society in the consumer protection process is limited, and existing structures are not in a position to ensure adequate protection. As indicated previously, a proper market surveillance system, which is central to ensuring respect of the quality of consumer goods and the respect of safety standards, still needs to be developed.

#### ***1.10.2. Movement of persons, services and rights of establishment***

Albania has made considerable efforts during its WTO accession negotiations to open its economy to foreign companies and investments. Liberalisation is being progressively extended to **services**, including key areas such as the financial and telecommunications sector. However, Albania's liberalisation of the telecommunication sector, initially foreseen to take place on 1 January 2003 has been delayed to mid-2003.

Concerning the **movement of persons**, Albanian migratory flows towards Europe and the US have fallen somewhat, although they remain high due to a generalised lack of trust by Albanians on the possibilities that the country may offer them. The brain-drain experienced over the last decade certainly affects Albania's potential for development. Although there is little immigration into the country, Albania still needs to develop an appropriate legal framework. In the context of a future SAA, Albania will also need to ensure that the principle of non-discrimination of EU workers legally working in Albania is respected, in line with reciprocal measures that will be taken by the EU Member States in this regard.

Albania is a relatively open country in terms of **establishment**. EU firms can already establish themselves following similar procedures to those required for Albanian companies. According to the Albanian authorities, no discrimination exists between foreign and Albanian firms. This open approach seems also to apply to sensitive sectors such as the financial and transport sectors. However, some limitations remain when it comes to regulated liberal professions (doctors, dentists, etc.). The problem of corruption is, also in this area, a negative factor which may adversely affect non-discriminatory treatment and deter the establishment of foreign companies in Albania.

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

### *1.10.3. Movement of capital*

Albania is progressively introducing legislation for the liberalisation of capital movements. The Albanian legal framework already provides for protection of investments and for the possibility of repatriation of both investments and profits. Inward capital transfer has already been fully liberalised and, according to the Albanian authorities, current restrictions as regards outward capital transfers are expected to be removed before the end of 2004. Albania has not yet accepted Article VIII status under the IMF Agreement due to outstanding debit balances with a number of countries (China, Turkey, etc.). Rescheduling agreements are being negotiated with these countries. On the other hand, the Albanian authorities claim that there are no restrictions for any payments nor transfers on the current account of the balance of payments. Continued reform of the Albanian financial sector, and improvement of the monetary policy instruments and banking supervision remain crucial to allow for a complete liberalisation of current payments and movement of capital.

### *1.10.4. Customs*

Since the 1997 socio-economic crisis, Albania had been making steady progress in the field of customs. Customs legislation was adopted on the basis of EC legislation, including an EC compatible Customs Code and its implementing provisions. A customs enforcement division comprising anti-smuggling, intelligence and investigation units was also established. A personnel policy based on open and transparent procedures and a salary system partly based on performance criteria, appeared to be a good support for motivation, efficiency and the fight against internal corruption. Albania has also started the pilot phase for the implementation of a computerised system for customs declarations recording.

For the period 1998-2002, total customs revenue (including customs duties, Value Added Tax –VAT- and excises) has been constantly increasing, despite the progressive reduction of Albania's customs tariffs. In 2002, however, a number of decisions were taken by the Albanian authorities in the field of customs which can be considered a setback regarding the progress that had been achieved in the past. In April 2002, import reference prices were published against the advice of IMF and EC experts. In Summer 2002, the new Government made a considerable number of changes at key posts of the customs administration, disregarding legally binding human resources procedures and having a destabilising effect on the overall functioning of the customs administration. In addition, unusual transit control systems were introduced for sensitive excise goods (i.e. escorted transport of oil and cigarettes), again against the advice of EC experts. All this influenced negatively the revenue collection by the Albanian customs which, while still raising as compared with 2001, stood at approximately € 370 million or just 92% of the 2002 target revenue. In addition, the difficulties to adopt on time a law for the closing-down of duty free shops at land borders (which are considered as smuggling facilitators) prompted the IMF to delay the signature of its financial support Agreement until 26 February 2003.

Albania's customs administration should urgently take steps to return to good practice in the field of customs and to redress the instability provoked by sudden changes of key staff. While it is important that Albanian customs attempt to reach targets in terms of revenue collection, it is also important that this be done following internationally accepted practices. Customs should achieve a proper balance between revenue generation, trade facilitation and other tasks under their competence, and its responsibility to protect society from organised crime. In this latter area, it is essential that they take action to improve their ability to combat organised crime (e.g. in illicit drugs) and to root out corruption, which remains a serious blight on Albanian society and fuels organised crime development. Moreover, progress regarding the development and proper implementation of customs legislation and procedures should continue. Upgrading the customs performance, notably in view of offering the necessary reassurances on the ability of customs to handle preferential trade, both on the

export and import side, is particularly important. The “EU Blueprints” remain a key reference for the modernisation and development of the customs administration.

During 2002 the EU noted a significant increase in **sugar imports** from the countries of the western Balkans. To ensure proper application of preferential arrangements for sugar declared as originating in western Balkan countries, the Commission published a notice to the importers in June 2002 leading to precautionary measures within the Community (e.g. deposit system and systematic import testing). This resulted in the discovery of an alleged fraud in August when traces on *cane* sugar were found in consignments declared as originating in Croatia and Serbia and Montenegro. Although Albania has no sugar production or refinement capacity, Albania must ensure, like its neighbours, that its customs services can guarantee proper application of preferential rules of origin.

#### ***1.10.5. Competition and state aids***

Despite efforts by the competent authorities, limited concrete progress has been made in the field of **competition**. Some seminars on this topic have been held. Advice has been provided, in particular under OECD sponsorship, and steps have been undertaken to draft a new competition law (undertakings) which should replace the current 1995 Competition Law. Action has also been taken to increase the staff of the Department for Competition within the Ministry of Economy, but the recruitment process is not yet completed. In the meantime, implementation of the current competition policy has remained limited. The prospects for establishing an independent and functioning competition office in the short term are not encouraging as this will only occur in the framework of the future competition law which, as indicated, is still in the drafting stage. The efforts made to train staff responsible for competition policy are steps in the right direction, but greater efforts are necessary to adequately prepare Albania to cope with the obligations deriving from a future SAA. In the area of **state aids**, encouraging steps have been taken to design a structure under the Ministry of Economy, which will be responsible to screen the situation as well as to follow-up developments. This is to be welcomed, considering that in the past, no focal point for state aids existed. This structure needs now to be properly staffed and trained in order that it becomes familiar with state aid concepts, and be progressively able to fulfil SAA obligations in this area. It is felt however that this will require a considerable amount of time, effort and resources.

The “de facto” situation in Albania, where the grey economy remains significant, continues to prevent fair competition between companies belonging to the formal and the “informal” economy. This has a serious detrimental impact on companies’ willingness to invest and legally operate in Albania and it should not be underestimated.

#### ***1.10.6. Public procurement***

Albania has made some progress in the field of public procurement, notably through the strengthening of its limited administrative capacity in this area. The number of staff at the Public Procurement Agency (PPA) has increased from 9 to 20. Efforts have been made to provide them with adequate basic equipment and training. Seminars have also been conducted in order to familiarise procurement staff from relevant procuring entities with procedures and good practices in this area. Some subsidiary pieces of legislation have been adopted to improve the legal framework for public procurement and efforts continue for the formal adoption of standard procurement and bidding forms. In September 2002, the PPA opened a web-site in order to disseminate information on public procurement (tenders, information on rules and procedures, etc.). According to the Albanian authorities, between January and September 2002, punitive measures have been taken against 23 responsible persons belonging to the Tender Evaluation Commissions or public procurement units for infraction of the public procurement law (fines up to approximately € 7,000).

Despite these efforts, public procurement continues to be particularly problematic in Albania. The Albanian State Audit Institution continues to report a considerable number of cases where irregularities have been identified during the public procurement procedures: inexplicable derogations to the principle of open tender, procedural mistakes, unjustified award of contracts, etc. These irregularities lead to frequent complaints, which do not always get appropriate treatment due to persisting institutional deficiencies. Fraud related to public procurement exercises, involving politicians and high level personalities, are frequently the object of articles in the press. Effective investigation and prosecution of these cases remains limited, although some arrests have taken place.

Albania needs to further step up its efforts in this area. Albania needs, in particular, to continue to strengthen the Public Procurement Agency, to train public procurement experts and to promote a “public procurement culture”. It should also improve public procurement-related legislation and ensure its compatibility with EC standards, avoid frequent derogations and direct contracts, further clarify Albanian procurement rules and take adequate measures to prevent and prosecute, at all levels, fraud and corruption related to public procurement. This is particularly pertinent in the perspective of a future SAA, where Albania will need to ensure adequate and fair access of EU companies to Albanian public procurement operations.

#### ***1.10.7. Intellectual, industrial and commercial property rights***

Albania is a member of the World Intellectual Property Organisation (WIPO) since 1992, and has already signed a considerable number of international conventions in the field of copyright and related rights. There is on-going co-operation between Albania and the European Patents Office (EPO), and the current co-operation agreement has been extended until January 2005. In the framework of its accession to WTO, Albania has undertaken to fully implement TRIPS, and copyright legislation in Albania has been amended to meet TRIPS requirements. However, Albania needs still to adhere to a number of important international agreements and conventions in this area, most notably the Hague Agreement Concerning the International Deposit of Industrial Design, the Nice Agreement Concerning the International Classification of Goods and Services, the Budapest Treaty on the International Recognition of the Deposit of Micro-organisms, and the Strasbourg Agreement on the International Patent Classification. Such adherence will be important for the full observation by Albania of future SAA requirements on IPR.

Some progress has been observed in this area over the last twelve months. There have been some initiatives regarding public awareness, including a guideline on IPR with practical and legal elements distributed to economic operators, courts, customs and police, and a number of seminars and workshops for the business community and law enforcement bodies. The Directorate of Patents and Trademarks was also reinforced (staff went from 6 in 2001 to 13 in 2002). On the other hand, little progress can be reported as regards copyright protection, except perhaps the preparations for the adherence of Albania to the Global Convention on Copyright.

Albania’s main challenge remains the implementation and enforcement of the overall legal framework in this area. The business community and law enforcement bodies are not yet sufficiently acquainted with IPR issues, and no significant progress has been made in training judges. Judicial procedures are still long and sentences unpredictable. A more determined and effective action against piracy and counterfeiting should also be carried out.

### **1.11. Sectoral Policies**

#### ***1.11.1. Industry and SME’s***

The Albanian industrial sector remains weak. Its contribution to the overall GDP growth in 2002 is estimated at 12.5 %. Efforts to restructure existing industries have been limited over

the past twelve months. Therefore, industry remains generally obsolete, non-viable and unable to compete with the European industry. Albania needs to rapidly develop a new national industrial basis including the few industries successfully restructured and privatised, as well as green field investments.

Almost all enterprises in Albania can be considered Small and Medium Size Enterprises (SMEs), as only 0.2% employ more than 100 employees. The number of SMEs has been continuously growing since the beginning of the transition and is now considerable for a country with a population of three million. Sixty two thousand small businesses are registered in Albania. They operate particularly in the sector of services, in retail and construction, and their contribution to the Albanian GDP is significant. Albania's main initiative to support SME development over the last twelve months has been the adoption of a new law on SMEs which foresees the establishment of a SME Development and Promotion Agency. However, in order to encourage further development of this promising sector, Albania would need, in particular, to ensure a continued strengthening of the institutional environment for SMEs, along with a more predictable legal and fiscal framework and improved SMEs access to credit facilities. In addition, the adoption and implementation of the principles enshrined in the European Charter for Small Enterprises is recommended, as it would further enhance the improvement of the business environment in line with good practice in EU Member States.

### ***1.11.2. Agriculture***

According to recent figures, the agriculture represents around 33% of the country's GDP. Over 50% of the Albanian population still rely on agriculture for a livelihood. During the transition, former collective farms were broken up into thousands of smallholdings, which have been operating at subsistence levels. Overall farm production decreased considerably between 1991 and 2000. More recently, Albanian agriculture has started to show some signs of recovery. However, this positive trend was adversely affected by the floods in September 2002 so that agricultural production is estimated to have expanded by a modest 2% in 2002.

At the institutional level, the Ministry of Agriculture was restructured in 2002 and has attempted to rationalise state owned assets in order to proceed with their privatisation as appropriate.

Albanian agriculture remains inefficient and not yet able to adequately respond to the internal needs of the country (which partly explains the considerable and growing imports of agricultural products). Serious efforts remain necessary if Albania wants to develop an efficient agriculture. These efforts are necessary not only to satisfy the internal market, but also to compete in EU markets. Physical infrastructure remains poor and agricultural-related services have not yet adjusted to the new reality of thousands of smallholdings. Adequate training of farmers is lacking. Albania needs to apply more modern production technologies and to substantially improve productivity and production quality. Further steps to improve animal health and veterinary services, phyto-sanitary services and food safety controls are also necessary to certify the quality necessary for export products. The solutions of the problems related with land ownership rights in Albania, the completion of the land registry process and a substantial improvement of the conditions for the access of farmers to credit are essential pre-conditions for a successful development of the Albanian agriculture.

### ***1.11.3. Environment***

Albania is facing severe environmental problems: toxic hot spots such as former chemical factories in the suburbs of Durrës and Vlora need to be urgently addressed. In addition radioactive waste products mainly cobalt, caesium and technetium (mostly used in the oil industry or hospitals) have been identified in Tirana and Fier. Although there is not yet a general problem of air pollution, some worrying factors must be taken into account: Tirana seems to be one of the most polluted European cities and CO<sub>2</sub> emissions per unit of GDP are

already ten to twelve times higher than the average for industrialised countries. This proportion would become unsustainable in case of continued growth of the Albanian economy. Waters remain highly polluted, notably in urban areas, due to poor sewage systems and water treatment infrastructures. Hot spots such as the oil refinery in Ballsh also contaminate waters. Untreated urban solid waste is dumped in landfill sites usually situated in suburban areas, or directly in rivers.

Albania remains the privileged habitat of a number of species, but these are beginning to be lost. A number of ecosystems and habitats are in danger across the country, including dunes, estuaries, coastal lagoons and wetlands. Forests still cover a large proportion of the surface area of Albania, but they continue to be under threat of illegal cutting and overgrazing. Citizens in general remain largely ignorant of environmental health risks, and environmental-friendly culture remains extremely limited. Civil society and authorities ought to be much more proactive in this respect, and civic education programmes should be developed and promoted. Such activities should be accompanied by enhanced efforts by the authorities to properly address the most usual environment-related programmes (such as urban waste collection and management) as a part of the development of a new environmental conscience. The Butrint National Park is a good example of how proper understanding of the environmental issues help to preserve nature and cultural heritage, and contribute to overall development.

From the institutional viewpoint, Albania has made some progress over the last twelve months. The implementation of the National Action Plan for the Environment is proceeding steadily. In January 2003, an eco-tax was introduced as part of the new Albanian tax package and the law on Environment Impact Assessment was adopted. The Ministry of Environment, established in 2001, is beginning to make its presence felt, notably through the development of a comprehensive legislative framework intended to enable Albania to tackle its environmental problems. It should be noted however that some time will be needed to ensure the Ministry fully controls the overall environment policy and for it to be in the position to address the acute environmental problems facing the country. Currently, no less than five national institutions, (none of which being directly linked with the Ministry), are responsible for monitoring the country's environmental situation, and there is not yet a feeling of a sound, overarching environment strategy. Moreover, implementation and enforcement of environmental law remain limited. The intentions by the Government to take concrete action against well identified polluting factories has not yet been translated into reality.

#### ***1.11.4. Infrastructure***

Albanian infrastructure is poor and needs to be substantially improved. As regards **transport**, the main priorities for the Albanian government remain the completion of the East-West (Durrës-Varna, through Tirana and Sofia) and North-South corridors (connecting Greece to Montenegro). In addition to international support, the Albanian Government is starting to allocate funds to the transport sector, in particular to support the costs of expropriation for road construction and to intervene directly to finance roads in the north of the country. In this context, in 2002 the Government approved a temporary, special tax to help the Government finance these projects.

Initial steps have been taken for preparing privatisation of the port of Durrës and for the construction of a new terminal at the Tirana international airport. In June 2002, work resumed to repair the railway line linking Albania and Montenegro, (the Shkoder-Bajze stretch), ripped up during the 1997 events. Since February 2003, Albania and Montenegro are connected again by railway.

Over the past months Albania has not significantly improved the underlying factors for the sound development of transport infrastructure. Albania should pay further attention to the development and enforcement of adequate urban and regional planning: illegal construction

persists along new roads, with serious implications both for road maintenance and road safety. The country should also immediately develop a comprehensive national transport plan. It should also improve co-ordination in transport planning policy between the key institutional actors such as the General Roads Directorate, the ports and the customs authorities and to reinforce these bodies in terms of professional know-how. The promotion of overall technical design standards for transport infrastructure remains a yet unachieved objective. Moreover, Albania should strictly respect the tax-exoneration provisions included in the Framework Agreements regulating international financial assistance (notably EC funds). Otherwise, the continuity of the much needed international support to this and other sectors could be questioned.

**Water management and infrastructure** remains inadequate throughout the country although, according to the Albanian authorities, improvements have been made as regards the availability of running water for households, which seems to be now around 8 hours/day in average. In urban areas, around 80% of the population has access to piped water but, in general, water supply and sanitation systems are outdated (50-60 years old). Water quality is poor. It is estimated that well over 50% of Tirana's water is wasted due to leakage, and illegal connections proliferate. Only about 40% of the urban population has a sewerage connection and sewage treatment is virtually non-existent. Privatisation in the sector is ongoing but has not yet produced the expected results on the quality of service and maintenance/development of infrastructure, partially due to inadequate management.

With the support of international assistance, the Government has recently prepared an action plan aimed at improving the commercial performance of the still state-owned water utilities in preparation for their eventual privatisation. However, water policy in Albania remains weak. Little attention has been paid to improving the quality of service to the population and to ensuring adequate urban and regional planning. National technical standards for water infrastructures have not been developed and progress in improving infrastructures has been slow. The Government has now prepared a comprehensive draft National Strategy for Water Supply and Sanitation. Its adoption and its strict implementation remain the key issues.

The ongoing **energy** crisis continues to threaten Albania's economic stability. Limited improvements have been noticed during the Winter 2002/2003 as compared with the Winter 2001/2002. Power cuts have still been frequently affecting industry, businesses and households. Despite efforts made since 2000 under the international community-sponsored Action Plan, Albania's electricity sector remains in a precarious situation due to many years of mismanagement, where maintenance and new investments were almost non-existent. Albania's large hydropower generation capacity has been drastically reduced during the period 1999-2002 due to persistent drought, and has been incapable of responding to increasing internal power requirements (growing at an average of 6%/year since 1995). This has led to a continued increase in electricity imports (Albania produces ca. 12 million kWh/day but requires over 20 million kWh/day). The cost of these imports has multiplied tenfold in just three years (10 million € in 1999, 100 million € in 2002). Rainfall which occurred in late 2002 and early 2003 has increased the water levels in Albanian dams and generation prospects seem now more encouraging.

The limited and weather-dependent electricity generation capacity is not the sole problem faced by Albania. Despite the achievements under the Action Plan (decreased losses from approximately 50% to 40% over the last 12 months), transmission and distribution losses remain high. The relative improvements experienced in terms of revenue collection remain too limited to absorb the increasing cost of imports, which continue to severely impact on the state budget. The restructuring of KESH has also made some progress and a substantial reduction of personnel has occurred. However, a stricter and more disciplined approach by the national utility seems necessary to improve overall financial management and to prepare the company for eventual privatisation. In addition, Albania needs to continue to encourage

regional co-operation, in particular in establishing a true and competitive regional energy market.

Attempts to improve electricity generation continue through efforts to rehabilitate existing hydroelectric power plants (HPP), to upgrade the thermal power plant (TPP) in Fier and to construct a new TPP in Vlora. Moreover, it is envisaged to increase import capacity from Greece, Montenegro and the former Yugoslav Republic of Macedonia, and to build new interconnection lines in different parts of the country. Energy diversification is another objective, but steps have had a limited impact despite the increase in electricity prices (5% for household consumers, and 10% for non-household consumers) and some fiscal measures in favour of energy sources other than oil and electricity such as LPG. On 15 November 2002, Albania subscribed to the Stability Pact sponsored Memorandum of Understanding for the establishment of a regional electricity market and its progressive integration with the EU electricity market.

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

In the **telecommunications** sector, mobile penetration has drastically increased. According to recent information, the number of mobile users has raised from approximately 370,000 in 2001 to approximately 800,000 by the end of 2002. Apparently, 80% of the Albanian territory, corresponding to 90% of the population, is already covered by mobile operators. Mobile penetration is estimated at around 25%. Fixed line penetration has remained more or less static, at around 220,000 subscribers or 7%. This suggests an unsatisfied demand for services which the Government should seek to address through a reform of the regulatory framework in support of fair competition and its enforcement by an independent regulatory authority. After a slight delay (in contradiction to WTO commitments), the liberalisation of the sector is expected to take place by mid-2003. Internet use in Albania is limited. Internet subscriptions are approximately 1,500 and users are estimated to be around 10,000.

## **1.12. Co-operation in Justice and Home Affairs**

Full commitment and political will are essential to ensure significant progress in this area. Over the past twelve months, Albania has carried out sporadic actions against organised crime. However, it has failed to ensure proper prosecution of a considerable number of arrested suspects. A more determined and sustained action by the Government remains necessary.

Some progress has been made by Albania regarding the control of illegal migration towards the EU and in concluding readmission agreements with EU and other countries. However, border management continues to require substantial improvement. Readmission by Albania of third country nationals and stateless persons is not really operational. Little progress has been made in terms of fighting money laundering. While some steps have been taken to combat local drug production and legislation on precursors has been adopted, very limited progress has been made in addressing trafficking of hard drugs such as heroine or cocaine.

Albania's position regarding the fight against terrorism has continued to be constructive.

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

The Albanian legislative framework in the field of **asylum** is rather comprehensive and, overall, it meets international requirements. However, this legislation is not fully implemented, and functioning of the asylum-related institutions has not yet been upgraded to meet international standards. A number of initiatives regarding the improvement of

institutional relations in the field of asylum, the operation of the Albanian Office for Refugees and the management of reception centres for asylum seekers have been launched, but concrete results are not yet visible.

Albania is working on the development of an adequate asylum system under the co-ordination of the National Commissioner for Refugees and with the support of international organisations. However, until its full development, Albania continues to rely on the current ad-hoc temporary system for the classification of intercepted persons (economic migrants, refugees in need of protection, trafficked persons) through interviews by the police (the so-called “pre-screening”). Where implemented, this “pre-screening” appears to be working rather well. It should be noted, however, that its non-implementation at border crossing points (allegedly due to lack of operative infrastructure) represents a major handicap. Albania should make particular efforts to rapidly address this deficiency, while stepping up its efforts to establish a fully-fledged asylum system in line with international requirements, also increasingly involving civil society, and to ensure sufficient institutional and administrative capacity to operate it. In addition, Albania should devote particular attention to the strengthening of the principle of non-refoulement for asylum seekers and to properly regulate the procedures of for expulsion of rejected asylum-seekers.

In the field of **legal migration**, there have been some attempts to address gaps in the relevant Albanian legislation, notably through the drafting of legislation on the entry, stay and treatment of foreigners in the Republic of Albania as well as the preparation of a new draft-law on migration. This legislation, which according to the Albanian authorities is due to meet EC standards in this area, is being drafted with IOM support. However, eventual legislative progress in this area will need to be matched through the corresponding institutional strengthening, notably through a clear definition of the roles of the main institutions involved (Ministries of Public Order & Foreign Affairs, relevant structures dealing with migration, but also judges and prosecutors), as well as through adequate training on migration issues for the relevant staff. Albania also needs to sign and ratify a number of important international conventions in this area, notably the ILO Migration for Employment Convention (1949), the ILO Migration Workers Convention (1975), as well as the European Convention on the Legal Status of Migrant Workers (1977).

**Border management** in Albania still remains insufficient and requires substantial improvement, particularly in the northern part of the country. The presence of an important number of mines in border areas with Kosovo remains an unresolved problem. De-mining activities supported by the international community are currently under preparation and expected to be implemented late 2003. Some initiatives have taken place during the last twelve months, both in terms of control and local transit facilitation. The co-operation agreement which was signed between Albania and The Kosovo Force (KFOR) in February 2002 should somewhat contribute to improved security at the Albania/Kosovo border. Albania has also opened new border control posts with Greece and with Serbia and Montenegro (with Kosovo and with Montenegro). Trans-border co-operation with Greece has been strengthened, despite some practical difficulties experienced over Summer 2002 due to the combination of a great number of transit through the border and malfunctioning computer networks. In October 2002, the Albanian Police and UNMIK signed a Memorandum of Understanding for the opening of two new police border control stations with Kosovo and collaboration with the Italian “Guardia di Finanza” has continued regarding improvements in sea border control.

However, despite these initiatives, much remains to be done in the area of border management. The co-operation agreements signed between Albania and its partners should be translated into effective co-operation. Co-operation should be more effective in preventing the isolated but still too frequent incidents observed on most of Albania’s external borders (Kosovo, Greece, FYROM). Greater efforts should be made to prevent trafficking

into, through and from Albania. Continued efforts to establish professional and well equipped border police, improve border-crossing points, develop and implement strategies to control the maritime and green borders, remain paramount. Albania's risk analysis and intelligence continues to be insufficient and it is unable to efficiently combat trafficking and smuggling. An integrated border management strategy, which would take into account 1) the need to better co-ordinate the activities of the various law enforcement bodies operating at the borders and 2) to find the right balance between efficient controls and border crossing facilitation, remains a top priority. In this context, a clear definition of the roles of the border police and customs officials operating at the borders, adequate training, as well as the development of efficient operational procedures, is particularly important.

The current Albanian **visa regime** determines the countries for which a visa is and is not required upon arrival in Albania. Amongst the countries for which a visa is required, a further differentiation is made between countries for which the visa can be obtained on arrival in Albania (land borders, sea ports, airports) and those for which the visa can only be obtained at Albanian consular offices abroad. This regime differs from that applied by the EC: the practice of issuing many visas at the border is not acceptable and should be addressed; the current visa stamp system should be replaced with a visa sticker system, which include adequate security features; the adjustment of the Albanian lists of countries for which a visa is required (or not) should be undertaken by Albania in its efforts to align visa legislation to that of the EC. Albania has 33 consular offices abroad issuing entry visas. Notification of visas issued is made by the Consular Office to the Ministry of Foreign Affairs, which in turn informs the border authorities. However, a computerised network will need to be gradually developed. Albania is also attempting to sign agreements with neighbouring countries in order to facilitate visa procedures (including candidate countries such as Bulgaria and Romania). In this respect, Albania signed an agreement with Croatia in November 2002.

In the field of **readmission**, in November 2002 the Council authorised the Commission to negotiate a Community level readmission agreement with Albania. This readmission agreement will include provisions not only for Albanian nationals, but also for third country and stateless persons which have illegally entered the EU through Albania. It will have precedence on existing bilateral agreements between Albania and EU Member States. To date, Albania has concluded readmission agreements with Italy, Switzerland and Hungary. A bilateral readmission agreement, which does not cover third country nationals, was already signed with Belgium in 2001. Readmission agreements with Bulgaria and Romania have been signed and ratified, but have not yet entered into force. Agreements with Croatia, Germany and the United Kingdom have also been concluded, but not yet ratified. Readmission procedures also operate with Greece, although through no formal Readmission Agreement, but on the basis of a readmission clause included in a police co-operation agreement. Negotiations for readmission agreements are on-going with the Netherlands and Luxembourg. At present, Albania is also attempting, without success, to negotiate agreements with the former Yugoslav Republic of Macedonia and Moldova.

Overall, the current and planned readmission agreements provide adequate guarantees for asylum seekers and refugees, in conformity with the provisions of the 1951 Geneva Convention. Notwithstanding, there are serious concerns about Albania's capacity to implement readmission agreements, notably when these include provisions regarding the readmission of third country or stateless nationals. Albania has expressed concern for the difficulties it faces in negotiating readmission agreements with the countries of origin of most of the illegal migrants transiting through Albania (Turkey, Moldova, Iraq) or with certain neighbouring countries. Consequently, it has asked for EU support on these matters.

### *1.12.2. Money laundering*

Although Albania has established basic legislation on the prevention of money laundering and is party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, the Albanian legislative framework remains insufficient to address this problem. There have been timid attempts to have it completed, but proper legislation to strengthen money laundering prevention and, most importantly, to ensure its prosecution, has not yet been adopted. Structures to fight money laundering are still too weak (and not duly supported by the current legal framework) to confront this difficult issue. Attempts for improved co-ordination between the Ministry of Finance, the Bank of Albania and the General Prosecutor's Office have not yet delivered concrete results.

Albania should therefore clearly enhance its efforts in this area. In a mainly cash driven economy, money laundering is more difficult to combat. Steps should be taken to prevent and prosecute money laundering not only within the banking/financial sector, but also in other economic sectors which are frequently used for this purpose (e.g. the construction and tourism sectors). In all cases, the authorities should be capable of seizing assets and investments resultant of criminal activities. As citizens cannot be forced to deposit their money in banks, cash purchases over certain amounts or the use of cash in particular types of transactions should be targeted. Those dealing mainly in cash should be compelled by law to comply with anti-money laundering requirements or be made aware of the dangers of money laundering. Albania should ensure that legislation and structures are developed in accordance with the above realities with the purpose of deterring money laundering. It continues to be surprising that, to date, no conviction has been made on money laundering-related activities.

### *1.12.3. Drugs*

Albania remains primarily a transit country for illicit drugs, although drugs consumption is also increasing. Drugs production and processing in Albania concerns mainly cannabis. Over the past twelve months, progress has been observed in the fight against the local production of this narcotic, notably through the destruction of plantations. According to the Albanian data, around 14 000 kg of marijuana has also been seized. The adoption of legislation on precursors has also been a positive step. However, results concerning the main drugs-related problem, i.e. the trafficking of heroine and cocaine through Albania en route to the EU countries, remain very poor. According to Albanian statistics, approximately 72 kg of heroine and less than 1 kg cocaine have been seized in Albania in 2002 while, for example, over 1.500 kg of heroine proceeding from Albania have been seized in Italy. This shows the permeability of the Albanian borders (but also that of its neighbours). There is a clear need for Albania to step up efforts at national level, including, for example, strengthening the relevant police structures, improving border management, enhancing co-ordination between the various law enforcement bodies, and increasing international co-operation, especially within the region.

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

**Organised crime** in Albania continues to be a very serious problem. It is thought that organised crime is able to permeate Albania's power centres, be it at political or economic level. This situation undermines the prospects for proper rule of law implementation and, ultimately, Albania's chances for sound and sustainable development, and for EU membership. As stressed by the London Conference on Organised Crime in South-Eastern Europe (November 2002), only with the highest political will and commitment and sustained efforts by sufficiently trained and equipped enforcement agencies will Albania be able to achieve significant progress in this difficult area.

Albania is signatory to a considerable number of international conventions on organised crime. It has been developing legislation aimed at combating this issue and setting-up a

number of anti-gang structures. These include special units to combat the smuggling of weapons, drugs and trafficking of human beings, and a specialised unit comprising police, prosecutors and judges with a specific mandate to fight against organised crime. The country has also developed international co-operation in this area. In June 2002, Albania signed and ratified an agreement with Romania on the fight against terrorism, organised crime and illegal trafficking of narcotic substances and other illegal activities. Sporadic actions against the trafficking in human beings have been carried out over the past twelve months, including raids against traffickers, their equipment and infrastructures. In May 2002, an agreement on the assistance and treatment of trafficked persons and their return to their countries of origin was signed between the Albanian Ministry of Public Order and the International Organisation for Migration (IOM). In February 2003, a reception centre for the rehabilitation of victims of trafficking was officially opened in Tirana.

Nevertheless, Albania's capacity and determination to fight organised crime remains limited. For the time being, the police does not have the necessary investigative capacities, and the matter is aggravated by the prominent lack of co-ordination/co-operation between the state police, judicial police, specialised structures, the prosecutor's office and the courts. The inadequacy of procedural laws, dealing for example with issues such as telephone interception, confiscation and stolen cars, is hampering effective investigations. This situation frequently leads to the unsuccessful prosecution of the arrested gang members. The implementation of the Albanian Anti-trafficking strategy also requires further action. The Vlora Anti-trafficking Centre, inaugurated on 15<sup>th</sup> October 2001 and often cited as "the example" of Albania's will to combat this issue, has been chronically understaffed, lacking a clear mandate and the necessary support to become truly operational. The need for the Albanian authorities to properly enforce and implement existing legislation on trafficking in human beings remains. In 2002, less than 5 prosecutions have resulted in sentences of more than the strict minimum provided for in the Albanian penal code. As already indicated in the 2002 SAp report, greater emphasis should be placed on making a clear differentiation between victims and traffickers; increasing efforts to prosecute traffickers and organised crime; re-directing resources to assist victims; securing protection for victims and potential witnesses; taking radical measures against members of the police involved in trafficking; and strengthening border management in close co-ordination with Albania's neighbours.

Albania is committed to the fight against **terrorism** and has fully supported EU and US positions in this respect. In April 2002, a Co-operation Agreement on the fight against terrorism was signed between Albania and the Republic of Egypt and in August 2002 the Albanian Parliament approved the participation of a special forces company in the "Enduring Freedom" operation in Afghanistan. Despite good intentions, Albania's contribution in this area remains limited, due mainly to the lack of the necessary security intelligence, and adequate human and technical means. In the short term, Albania's efforts should continue to be devoted to increasing air and airport security, to adhering to and implementing all relevant UNSC Resolutions and UN Conventions and to following up and combating extremism within Albania.

### **1.13. Priority Areas Needing Attention in the Next 12 Months**

- Substantially enhanced and sustained efforts to combat organised crime, particularly all types of trafficking (human beings, drugs, weapons, etc.)\*. Increased efforts and concrete results in fighting heroine and cocaine trafficking. Increased efforts to fight money

---

\* Recommendation included in the 2002 SAp report, basically not implemented

\*\* Recommendation included in the 2002 SAp report, partially implemented

laundering in a country dominated by cash economy, notably through the adoption and implementation of all necessary laws.

- Strengthening of border management, including the development and implementation of an integrated border management strategy including the “green” and “blue” borders\*. Progressive alignment of Albania visa requirements to those of the EC. Concrete steps to substantially enhance security and anti-trafficking measures at Rinas airport.
- Continued efforts to control migratory flows from and through Albania. Conclusion and implementation of readmission agreements covering also “third country” nationals and stateless persons\*\*. The negotiation and conclusion of a readmission agreement at Community level is essential. Particular attention should also be paid by Albania to the proper implementation of readmission agreements with EC Member States and the conclusion of agreements with neighbouring countries and countries of origin of migrants transiting through Albania.
- Re-ensure proper functioning of the Albanian customs administration through stable and qualified personnel, efficient fight against internal corruption, removal of inadequate practices and full co-operation with international experts. Concrete action to improve customs management and anti-trafficking notably at the ports of Vlora and Durres and key land border crossing points, e.g. Qafe-Thane, Kakavia, Morine and Kaphstica. Upgrading the customs performance, notably in view of offering the necessary reassurances on the ability of customs to handle preferential trade.
- Substantial strengthening of the public administration and its implementation capacity at an horizontal level, but also in particular in SAA-related areas, notably trade and internal market-related fields such as customs, phytosanitary and veterinary services, public procurement, competition and state aids, consumer protection, intellectual, industrial and commercial property rights, standards and certification, metrology and calibration, as well as in the field of justice and home-affairs related issues. The main European Integration structures and particularly the Ministry of State for European Integration need further reinforcement\*\*.
- Substantial strengthening of the Albanian administrations involved in the management and implementation of Community and other financial assistance, notably the Ministry of State for European Integration, and units in other Ministries involved in project implementation\*.
- Enhancing efforts to restructure the energy sector and to resolve the difficulties relating to electricity supply. Strict implementation of the 2002 Action Plan\*\*.
- Developing a fully-fledged asylum system, in line with international standards, and implementing it.

#### EC FINANCIAL ASSISTANCE

Between 1991 and 2002, Albania has received approximately € 1 billion in EC assistance. This financial support has covered a large number of sectors, including humanitarian aid, macro-financial assistance, infrastructure, agriculture, health, education, public administration reform, judiciary and law enforcement, democracy and human rights, and cross-border co-operation.

---

\* Recommendation included in the 2002 SAp report, basically not implemented

\*\* Recommendation included in the 2002 SAp report, partially implemented

Since 2001, the Community Assistance for Reconstruction, Development and Stabilisation (**CARDS**) programme has been the main EC financial instrument for co-operation for the Balkan countries. For the period 2001-2004, € 181.4 million has been earmarked under the CARDS national programme for Albania. The main priorities for financing under the CARDS programme emerge from the Albania Country Strategy Paper (CSP) which was issued in 2001. These priorities are: **Justice and Home Affairs** – including the strengthening of the judiciary, enhancing public order, improving border management, and fighting organised crime, fraud and corruption; **Administrative Capacity Building** – including the improvement of the overall implementing and enforcement capacity of the Albanian public administration, particularly as regards specific areas of the future Stabilisation and Association Agreement; **Economic and Social Development** - including certain key areas such trade, education and local infrastructures; **Environment and Natural Resources** – including institutional strengthening (with particular emphasis on implementation and enforcement issues), improved monitoring of pollution indicators and better urban and regional planning; **Democratic Stabilisation** – addressing particularly the strengthening of civil society in Albania.

The first annual programme under CARDS was adopted by the Commission at the end of 2001 (€ 37.5 million). In July 2002, the Commission adopted the second annual programme (€ 44.9 million). In addition Albania benefits from the CARDS Regional Programme. The EC also provides some limited funding under specific budget lines in the fields of environment, human rights, Justice and Home Affairs, and the VI Framework programme in Research from which Albania can benefit on a case-by-case basis.

In 1999 the Council had approved a € 20 million **macro-financial assistance** loan in favour of Albania. Due to the better than expected balance of payments situation and indications by the Albanian authorities and the IMF that this loan would not be needed, the assistance has been de-programmed in 2002.

Since 1995, the **European Investment Bank (EIB)** has signed loans worth € 130 million, essentially in transport infrastructure and the energy sector. Out of this amount, some € 48 million have effectively been disbursed.

**Implementation** of the Community programmes in Albania has had mixed results. Albania has lacked the administrative capacity to properly manage the implementation of financial assistance programmes, particularly under “decentralised” procedures. The implementation of the PHARE programme has been carried out by the Albanian authorities through Project Management Units (PMUs) which frequently have had insufficient human and financial resources to ensure correct and timely project implementation. Project “ownership” by the beneficiary institutions has often been poor, relying excessively on technical assistance that has not always responded to requirements for sound project implementation. Albania has also had difficulties in correctly implementing the EC procurement and contracting procedures, which have led to frequent repetition of procurement exercises, resulting in serious delays. Albania’s weaknesses have been aggravated by heavy EC procedures, painful restructuring of EC assistance-related services and years of insufficient resources to properly assist the country. As a result of the lack of proper and timely implementation, in 2002 the Commission decided to cancel a total of 20 programmes amounting to € 13.7 millions, notably in the areas of water, transport and agriculture.

As a part of the restructuring of the EC external assistance, EC programmes are de-concentrated. This implies that the European Commission's Delegation in Albania is formally responsible for the implementation of the CARDS programme as of 1<sup>st</sup> December 2002. This process is expected to result in speeding up the implementation and to enable closer co-operation with the Albanian authorities. The EC Delegation staff is being reinforced and the Delegation is expected to be fully operational by the end of the summer

2003. Despite this, it will take some time to re-absorb the current backlog. As an example implementation of CARDS 2001 national programme has only recently commenced and CARDS 2002 is not yet under implementation.

In order to match EC efforts, Albania should substantially strengthen its assistance related-administrations, and enhance project ownership. The three Albanian bodies dealing today with international financial assistance (i.e. the Ministry of Finance, principally for World Bank and the IMF; the Ministry of Economy for PHARE assistance; and Department of European Integration for CARDS assistance) should now be much better co-ordinated.

Donor's co-ordination should also be further improved and Albania's coaching should be more efficient in order to achieve better results. In addition, Albania should develop the capacity to play a more prominent role regarding donor co-ordination issues.

#### **PERCEPTION OF THE EU**

Albania's progressive integration into EU structures remains the main Albanian political aspiration. This is often reflected by the attitude of the political and administrative elite. Close contacts between the Community and that "elite" have favoured the development of a relatively good understanding of the semantics of the integration process. There is a clear official policy in favour of EU integration, which is frequently presented as a reform facilitator. However, dialogue and good understanding are not sufficient to ensure proper reform implementation.

The Albanian population is certainly influenced by its political leaders, and generally share with them the importance of EU rapprochement. Public attitudes towards the EU are positive. First attempts by Albania to measure the attitude and understanding of the population as regards the EU integration process show a number of interesting elements, for example: the support for European integration is much higher, naturally, than the understanding of the process which should lead to it; most Albanians wish to join the EU as soon as possible; most Albanians expect Albania to join the EU within 5 to 10 years; a considerable number of Albanians consider that the EU should admit Albania even if Albania is not ready for accession because this would favour real reforms. In the Albanian opinion, the most significant benefit that EU accession would bring is the free movement of persons. In addition, public administration and media appear to have an acceptable understanding of the process, whilst the business community and local NGOs seem to be less informed.

But the first opinion polls also confirm a number of misperceptions on what the EU really means, as well as what Albania has to do to become an EU Member State and why. These misperceptions should be corrected as soon as possible through realistic and encouraging messages. According to Albanian sources, it is crucial to raise awareness on the real efforts and time in order to haul Albania into the EU. Otherwise, the risk is high that today's misperceptions become tomorrow's frustrations.

Media coverage on the European Community and Community's activities continues to increase and is fairly comprehensive, covering the main events concerning bilateral relations between the Community and Albania, including financial support-related issues. There is an effort to analyse and disseminate the most important EU-related events. However, the current limitations of the Albanian media (a certain lack of professionalism and independence, limited knowledge of the Community institutions and their functioning), together with the temptations to "politicise" EU-related events, still provoke distortions and misunderstandings.

The Albanian authorities and the Community should further enhance their efforts to provide Albanian society with precise information on the values, principles, objectives, activities and overall functioning of the EU. It is also important that Albanians are properly informed on the implications of the integration process, including constraints and efforts required. Public

opinion in Albania on EU matters should be regularly monitored through opinion polls. Particular attention should be devoted to informing journalists and opinion-makers on the main EU issues affecting the country, notably the Stabilisation and Association process. Moreover, Albania and the Community should work closely to develop co-ordination mechanisms aiming at ensuring proper dissemination of information.



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 26.3.2003  
SEC(2003) 340

**WESTERN BALKANS REGION**

Meeting doc. 096/03/Ad2/EN

---

Origin Commission Date 26/03/03

**COMMISSION STAFF WORKING PAPER**

# **BOSNIA AND HERZEGOVINA**

**Stabilisation and Association Report 2003**

{COM(2003) 139 final}