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EUROPEAN UNION ENLARGEMENT IN SEE AND BEYOND

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ALBANIA

2015 Enlargement Strategy REPORT

by

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1. Introduction

In June of 2014, the institutions of EU (European Council) officially recognized Albania as a candidate member-state, because of the fact that the past years Albania has implemented smoothly its obligations under the Stabilization and Association Agreement (SAA).

2. Political Criteria

2.1. Democracy

2.1.1. Elections. The local elections of June 2015 were conducted smoothly without any major suspicious incident, however some concerns are raised about the impartiality and professionalism of the electoral authorities and the overall politicization of the electoral process.

2.1.2. Parliament. Some progress has been made in the functioning of Albanian parliament, in particular in the sector of improving the transparency of law-making. Moreover, a more substantive and constructive cross-party dialogue is needed. Also, the steps that were taken to prepare legislation for the exclusion of criminal offenders from public offices are in an initial stage.

2.1.3. Governance. The government of Edi Rama has mainly focused on addressing the key priorities for the opening of accession negotiations, aiming to fulfill a set of reforms necessary to advance in the EU integration road. Also, some progress has been made at local government level with the start of implementation of the territorial administrative reform and the adoption of the decentralization strategy. However, substantial efforts are needed to enforce the function of the newly created local government units and to increase their financial and administrative ability, for example the Ombudsman's role.

2.1.4. Civil society. Some good progress has been made towards establishing an legal and institutional framework for cooperation and dialogue with civil society, although in this phase it is important that existing provisions are fully implemented in practice.

2.2. Public administration reform

Albania is moderately prepared with the reform of its system of public administration. Good progress has been made in key areas on public administration reform, especially with the adoption of a comprehensive reform strategy and a new Code of Administrative Procedures. However, more efforts are needed also in other areas, especially on improving policy development and coordination

(ensuring a good policy-making system) and the effective capacity of administrative courts. Moreover, is needed to

- continue to demonstrate transparent and merit-based recruitment and dismissal of civil servants in all state institutions in order to achieve the objective of a professional and depoliticised public administration
- make accurate information on public service available through the Human Resources Management Information System, and connect it to the treasury system
- prepare for the implementation of the new Code of Administrative Procedures and carry out a parallel review and alignment of other relevant legislation.

2.3. Rule of law

The functioning of the judiciary. Albania's judicial system is yet at an early stage of preparation, but some progress has been made in the past year through the establishment, in November of 2014, of an ad hoc Parliamentary Committee on Justice Reform to carry out a comprehensive and inclusive reform process. Moreover, is needed to

- adopt a new judicial reform strategy and accompanying with specific actions, through an inclusive consultation process, with drafting and adopting the institutional, legislative and procedural measures necessary, taking into account European standards and best practices
- fill the vacancies at the High Court and the administrative courts, enforcing the independence, impartiality and the accountability of the judiciary
- extend the courts' unified electronic case management system and ensure its effectiveness, including an appropriate maintenance budget
- publish all court decisions with their respective reasoning within a reasonable deadline. Albania has reached some level of preparation in the fight against corruption and organized crime. A new anticorruption strategy and action plan were adopted, but corruption is widespread and more efforts are needed to make progress, so the independence of institutions involved in the fight against corruption needs to be enhanced, as they remain vulnerable to political pressure and other influence, and to establish an effective process of proactive investigations, prosecutions and final convictions in organized crime cases, eg. money laundering, and effectively dismantle criminal networks.

2.4. Human rights and the protection of minorities

The legal framework for the protection of human rights is generally in line with European standards, but the implementation is limited and the enforcement of human rights remains insufficient. So, is needed to enforce the property rights, to face the Roma and Egyptians social exclusion and discrimination, and to improve the juvenile justice system.

Conclusion

Albania has made steady progress in facing the key priorities for the opening of accession negotiations, particularly in public administration reform and in preparations for a thorough reform of the judicial system. But, a general constructive political dialogue is needed to ensure the sustainability

of the EU reforms process. Albania has continued to participate actively in regional cooperation and maintain good neighbourly relations in line with its commitments under the Stabilization and Association Agreement.

3. Economic Criteria and Chapters 4,6,8,9,17,19,20,22,29,32,33

Key economic figures	2013	2014
GDP (Gross Domestic Product per capita % of EU28 in PPS)	28	29
GDP growth (%)	1.1	2.1
Unemployment rate (female; male) (%)	15.9 (13.5; 17.8)	17.5 (15.2; 19.2)
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (female; male) (%)	67.6 (57.6; 79.2)	68.6 (57.3; 80.5)
Current account balance (% of GDP)	-10.8	-13.1
Foreign direct investment (FDI) (% of GDP)	9.6	8.1

Source: Eurostat

Economic Criteria:

- 3.1. The existence of a functioning market economy

“Albania is **moderately prepared*** in developing a functioning market economy. **Some progress** was made, in particular in improving **macroeconomic stability**. However, significant challenges remain, in particular the **need to lower the public debt burden**. **Growth prospects** have been improving, but they are still **vulnerable** to constrained bank lending. With a narrow export and production base, the **competitiveness** of Albania’s economy is **weak**. The **private sector** is **held back** by significant shortcomings in the regulatory environment and the rule of law. The level of **unemployment** and **informal employment** remains **high**.

In line with the ERP recommendations and in order to support long-term growth, in the coming year Albania should **pay particular attention** to:

→ sustaining **fiscal consolidation** and strengthening the budget management framework;

→ tackling the high level of **non-performing loans**;

→ **improving the business environment** by implementing **regulatory reforms** and adopting the new bankruptcy law.” (p. 24)

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

“Albania has **some level of preparation** in terms of capacity to cope with competitive pressure and market forces within the Union. **Some progress** was made particularly as regards **transport** and **energy** infrastructure. However, significant **investment** in **human** and **physical capital** is **necessary** to improve the country’s competitiveness. There is considerable scope for shifting **employment** to more **productive sectors** and for **diversifying export products** and **markets**. In line with the ERP recommendations and in order to support long-term growth, in the coming year Albania should pay particular attention to:

* All words in bold were selected for obvious reasons.

- improving the **quality of higher education** and continuing the restructuring of vocational education and training to **improve its market relevance**;
- adopting and **implementing the national transport and energy strategies**;
- **lowering non-tariff barriers to trade.**" (p. 29)

Chapters

- 4. Free movement of capital: Moderately prepared.** Albania should implement effectively **legislation against money laundering** at all levels and further strengthen the national anti-money laundering and countering the financing of terrorism (AML/CFT) system; implement the action plan on acquisition of property by foreigners. (p. 33)
- 6. Company Law: Moderately prepared.** Albania should strengthen the capacity and independence of the Public Audit Oversight Body. (p. 36)
- 8. Competition policy: Moderately prepared.** Albania should increase the operational independence of the State Aid Commission and strengthen the administrative capacity of the State Aid Control Unit. (p. 37)
- 9. Financial Services: Moderately prepared.** For banks and financial conglomerates, legislation on the capital adequacy ratio was amended. Preparations in financial market infrastructure, the securities market and investment services remain at an **early stage**. The Financial Supervisory Authority (FSA) should complete its board structure according to the FSA law. (p. 38)
- 17. Economic and monetary policy: Moderately prepared.** Albania should further strengthen the medium-term budgetary framework and increase commitment control, partly by adopting a well-designed fiscal rule in line with the Directive on requirements for budgetary frameworks; ensure better internal coordination and consultations with external stakeholders when formulating structural reform priorities, to strengthen ownership and implementation. (p. 45)
- 19. Social policy and employment: Some level of preparation** in social protection. The **employment rate** and **labour market participation** remain **low**, and the **informal economy** is still a **significant job provider**. Albania should finalise and adopt the 2015-2020 social protection strategy and ensure it is implemented effectively; make further progress in the social care reform; improve labour market statistics and develop social statistics in line with EU surveys. (p. 48)
- 20. Enterprise and industrial policy: Moderately prepared.** In line with the EU "Small Business Act". Albania should strengthen the capacity of the Albanian Investment Development Agency, including capacity for services to both local and foreign investors; improve further policy consultations. (p. 49)
- 22. Regional policy and coordination of structural instruments: Moderately prepared.** Albania should **strengthen project management** under the **IPA 2013** programme to minimise the risk of delays in the use of EU funds; increase programming capacity for sector policies and improve design of mature sector project pipelines, both at national and local level. (p. 50)
- 29. Customs union: Moderately prepared.** Albania should **strengthen the fight against smuggling** and imports of counterfeit products; ensure the interoperability of customs IT systems with those of the EU; continue fighting corruption and malpractice in the customs administration. (p. 70)
- 32. Financial control: Moderately prepared.** Albania should adopt **amendments** to the **Public Internal Financial Control** (PIFC) legislation; strengthen follow-up to the annual PIFC assessment addressing systemic weaknesses; ensure quality of external audit by further aligning State Audit Institution (SAI) operations to the standards of the International Organisation of Supreme Audit Institutions (INTOSAI). (p. 72)
- 33. Financial and budgetary provisions: Some level of preparation** in financial and budgetary provisions. Albania will need to set up a coordinating body in due course to steer pre-accession preparations in the own resources field. **Tax evasion** needs to be tackled. (p. 74)

4. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP “Acquis Communautaire”

Chapter 1: Free movement of goods

- **moderately prepared** in the area of free movement of goods there has been some progress, mainly in standardisation and accreditation. In the coming year, the country should in particular:

- approximate legislation with the acquis in the areas of metrology, ‘new and global approach’ product legislation and procedural measures;
- establish a market surveillance inspectorate.

Chapter 2: Freedom of movement for workers

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

Chapter 3: Right of establishment and freedom to provide services

- **moderately prepared** in the area of right of establishment and freedom to provide services. There has been **good progress**, mainly on aligning legislation with the postal acquis. In the coming year, the country should in particular:

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

Chapter 5: Public procurement

- **some level of preparation** in public procurement. Procurement is an area particularly vulnerable to corruption and **more efforts** are needed to prevent corruption from occurring in the procurement cycle. **Some progress** was made in the past year, especially through the adoption of amendments to the public procurement law. As regards concessions there was **backsliding**, with the introduction of measures incompatible with the acquis. In the coming year, Albania should in particular:

- ensure effective, efficient and transparent functioning of the public procurement system by implementing the public procurement part of the public finance management reform strategy
- implement a legal alignment plan to ensure increased harmonisation with EU public procurement rules, including in the area of concessions, and defense procurement.
- take steps to strengthen the public procurement review system by ensuring the Public Procurement Commission’s functional independence from the government.

Chapter 7: Intellectual property law

- **some level of preparation** regarding intellectual property rights. **Some progress** was made in the last year. **However**, Albania has **still not met its obligations** under Article 73 of the

Stabilisation and Association Agreement on the protection of intellectual and industrial property rights. In the coming year, Albania should in particular:

- adopt a new copyright law in line with European standards
- improve the functioning of the collective management agencies and payment of royalties to rights holders.

Chapter 10: Information society and media

- **moderately prepared** in the field of information society and audiovisual media.

There was **some progress** in the past year. The capacity of the Agency for Electronic and Postal Communications (AKEP) and the National Agency for Information Society (NAIS) was strengthened. A new 2015-2020 digital agenda strategy was adopted. E-services provided to public institutions and citizens increased. In the coming year, the country should in particular:

- increase the independence of the media regulator and the public broadcaster.
- implement, as a matter of urgency, the switchover from analogue to digital broadcasting.

Chapter 11: Agriculture and rural development

- **some progress** in strengthening the capacity of the Agricultural and Rural Development Agency in preparation for entrusting it with budget implementation tasks. In the coming year, the country should in particular:

- increase the capacity of the National Authorising Officer and National Fund to implement the Instrument for Pre-accession Assistance for Rural Development.
- set up a farm register, establishing the land parcel information system and consolidating the animal register, as integral parts of its integrated administration and control system.

Chapter 12: Food safety, veterinary and phytosanitary policy

- some level of preparation in food safety, veterinary and phytosanitary policy.

There was some progress, mostly related to food safety controls. Improvements in this area would greatly help to increase export potential. In the coming year, the country should in particular:

- train staff and improve coordination among relevant institutions with a view to strengthening capacity to align with EU legislation in this field.
- adopt the strategy for restructuring the sector.
- implement food safety rules, including official controls, import conditions and controls, requirements for traceability of food and feed, and maximum pesticide residue levels.

Chapter 13: Fisheries

- preparations are at an **early stage** on fisheries. There was **no progress** in this area. In the coming year, the country should in particular:

- endorse the sector strategy.
- strengthen administrative capacity to ensure appropriate management of fish resources and enforcement of regulations.

Chapter 14: Transport policy

- **some level** of preparation in this area, where **some progress** was made in transport policy. In the coming year, the country should in particular:

- step up efforts to implement railway sector reform, in particular by ensuring necessary independence of train operations from infrastructure management in line with the acquis.

- strengthen administrative capacity for all modes of transport, in particular to ensure the implementation of legislation on dangerous goods.
- adopt and implement the transport strategy.

Chapter 16: Taxation

- **moderately prepared** in the area of taxation. **Some progress** was made, in particular as regards legislative approximation with the acquis on value added tax (VAT) and excise. Revenue performance in 2014 increased, as a result of tax increases and improvements in the tax administration, but did not increase as budgeted in 2015. In the coming year, the country should in particular:

- implement new VAT legislation effectively, which entails raising awareness among businesses and training tax officials.
- strictly implement measures to prevent new VAT arrears and address businesses' complaints about VAT refund delays.
- ensure the new IT system is effective in reducing arbitrary practices, fraud and corruption and improving information exchange.

Chapter 18: Statistics

- **some level** of preparation in statistics. **Some progress** was made, notably in harmonising methodology with EU standards in some statistical areas. **However, significant efforts are needed** to strengthen the human and financial resources of the Institute of Statistics (INSTAT) to comply with European standards, to improve the quality of statistics and to ensure the alignment of agriculture, business and social statistics. INSTAT's role as coordinator of national statistics system should be enhanced. In addressing the shortcomings outlined below, in the coming year, Albania should in particular:

- strengthen the position of INSTAT in the public administration through adjustments in the salary structures and civil servants job positions.
- improve the professional independence of INSTAT through changes in the statistical law, among others, guaranteeing the professional independence of INSTAT in recruitment and staffing.
- further align statistics with the European system of accounts (ESA 2010).

Chapter 21: Trans-European networks

- **some level** of preparation in the area of trans-European networks. **Some progress** was made, notably in developing road infrastructure and interconnecting energy networks. In the coming year, Albania should in particular:

- continue work on the development of the transport and energy networks in line with the infrastructure investment priorities for the core network, agreed under the regional connectivity agenda.
- step up efforts on transport infrastructure maintenance and land expropriation.

Chapter 23: Judiciary and fundamental rights

- **some level** of preparation for implementing the acquis and the European standards in this area. **Some progress** has been achieved. As regards the judiciary, the ad hoc Parliamentary Committee on Judicial Reform was set up to carry out comprehensive reform. Full independence and accountability of judges and prosecutors is not ensured. Administration of justice is slow and judicial decisions are not always enforced. A new anticorruption strategy and action plan were adopted. Corruption remains widespread in many areas and continues to be a very serious cause of concern. In the area of

fundamental rights, further efforts are needed across the board as effective implementation of relevant legislation and strategies remains limited. In the coming year, Albania should in particular:

- strengthen the accountability of judges and prosecutors and fight corruption within the justice system.
- demonstrate further progress with a view to establishing a solid track record of investigations, prosecutions and convictions in the fight against corruption and organised crime at all levels.
- improve institutional mechanisms to ensure child protection, the protection of victims of domestic violence, and gender equality, enhance efforts to bring existing legislation on juvenile justice in line with international standards, step up efforts to establish a solid antidiscrimination case law, and boost efforts to find a sustainable long-term housing solution for vulnerable groups.
- make further progress with the implementation of the 2012-2020 strategy on property rights, and the processes of property registration, restitution and compensation.

Chapter 24: Justice, freedom and security

- Albania is at an **early stage of preparation** in this area and made **some progress**. Steps have been taken to improve the capacity of institutions in the areas of border management, asylum and the fight against terrorism. Albania has started issuing identity and travel documents to refugees and is ready to issue such documents to people granted subsidiary protection too. The alarming increase of unfounded asylum applications lodged by Albanian citizens in the EU is a matter of serious concern. In the coming year, Albania should in particular:

- step up intelligence-led investigations on money laundering and financial crimes, and increase confiscation of criminal assets.
- further pursue efforts to sustainably prevent and fight terrorism by strengthening the counterterrorism directorate, increasing inter-institutional coordination and implementing targeted policies to prevent radicalization.
- step up efforts to effectively address the negative phenomenon of unfounded asylum applications, and prioritise investigations of facilitators of irregular migration.

Chapter 25: Science and research

- preparations are at an **early stage** in the area of science and research. There was **no progress** in the past year. In the coming year, the country should in particular:

- build capacity and increase investment in research to ensure integration into the European Research Area and contribute to the Innovation Union.
- increase efforts for successful participation in the research and innovation framework programme Horizon 2020.

Chapter 26: Education and culture

- **moderately prepared** in education and culture. Apart from the adoption of the new law on higher education, **no progress** was made in the past year. **Further efforts are needed** to ensure the inclusiveness, credibility, transparency and quality of the education system. In the coming year, the country should in particular:

- implement the new law on higher education with the aim of improving quality
- continue to implement competence-based curricula with learning outcomes, and complete teacher training for it.
- continue the restructuring of vocational education and training to improve its market relevance and enhance links with private sector.

Chapter 27: Environment and climate change

- Albania is at an **early stage** of preparation in this area. There was **some progress** on environment and climate change; however, industrial control and monitoring of emissions and waste management remain poor. Overall, resources remain limited and substantial investment is needed. In the coming year, the country should in particular:

- establish systematic strategic planning, start implementing the Intended Nationally Determined Contribution (INDC) to the expected 2015 Paris Climate Agreement.
- monitor the quality of the environment and increase administrative capacity.

Chapter 28: Consumer and health protection

- Preparations are at an **early stage** in the area of consumer and health protection. There was **some progress** over the last year. In the coming year, the country should in particular:

- align legislation with the acquis on tobacco control, substances of human origin and serious cross-border health threats, including communicable diseases.
- adopt the national strategy on consumer protection and market surveillance.
- set up a market surveillance inspectorate.

Chapter 30: External relations

- **moderately prepared** in the area of external relations. There was **some progress** in the past year. Albania continued to cooperate well with the EU in the World Trade Organisation (WTO). In the coming year, Albania should in particular:

- strengthen trade coordination/consultation policy mechanisms.

Chapter 31: Foreign, security and defence policy

- has a **good level of preparation** in foreign, security and defence policy. There has been **some progress** in the destruction of surplus of conventional ammunition and small arms and light weapons. On the common foreign and security policy, Albania aligned itself with all relevant EU declarations and European Council conclusions (100% alignment). This trend has been consistent for the last few years, thus demonstrating a very clear commitment in supporting the positions promoted by the European Union on issues related to international peace and security. Albania has also continued to participate in civil and military crisis management missions. In the coming year, the country should in particular:

- make full use and ensure maintenance of the online register of weapons and ammunition under the management of the State Police.