

# Albania 2016



**Total: 57.28**

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## Quick facts

Population:	2.889 million
Unemployment rate:	17.1 %
GDP:	10.683 billion EMU
GDP growth rate:	2.8 %
GDP per capita:	3 700 EMU

## Rule of Law

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### Independence of the Judiciary : 2.84

Political or other pressure and influence on judiciary, including through corruption, are a huge problem. Albania is struggling to establish the trust of its citizens in the judiciary. EU is also pressurizing it to push reforms through. Among the first steps in the implementation of the judicial reform strategy until 2020, a constitutional reform was initiated in 2015. By mid-2016, following a long debate, the amendments to the Constitution were about to be carried. They envisaged the change of the way High Council of Justice is selected. The composition and function of the High and Constitutional Courts will also change. General Prosecutor will get more responsibilities regarding corruption-related investigations. All those will expectedly decrease political influences on the judiciary as well as help fighting corruption in it.

### Corruption : 3.6

Transparency International signaled positive developments in its Corruption Perception Index 2015, where Albania rose to the score of 36, placing it together with 6 other countries as 88 (of 168), as compared to places 110 (of 175) and 116 (of 177) in the CPIs as of 2014 and 2013 respectively. Yet this result does not befit a candidate for EU membership. A number of activities were carried throughout 2015. As the European Commission noticed in its Progress Report 2015, Albania considerably improved the quantitative performance of its body for preventing conflict of interest (HIDAACI), while better targeting of the high risk areas is still to be achieved. The law on protection of whistleblowers (whose lack the EC warned of in the Report) was adopted in June

## **Protection of Human Rights : 5.9**

Progress has been made continuously during the past few years. The legislation regarding human rights is to a high degree in line with European standards, although implementation is improving slower. The main objections of the European Commission in 2015 were a delay in enforcement of property rights (registering, restitution and compensation), the enduring problem of exclusion or discrimination of Roma and Egyptians (amid the acceptable situation of other ethnic minorities) and the rights of children (especially regarding the juvenile justice system). In 2010, during its fact finding mission to Albania, FNF witnessed a huge gap between the laws on protection of LGBT people and their implementation. The-then total exclusion of the community from society is now gradually becoming history, with improved laws and by-laws and more sincere implementation. The community itself is becoming more self-confident and visible. Its NGOs regularly organize public events such as festivals of diversity or “gay motor/bike rides”. Homophobia is still strong, including in the institutions, but the changes in just half a decade are remarkable.

## **Political Freedom**

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### **Free and Fair Elections : 7.5**

Albania continues to provide, generally, free and fair electoral process for its citizens and political parties, although there are more than few violations that use to repeat throughout every election cycle, which still need to be eradicated. Local elections were held in June 2015 and were marked by monitors as peacefully and professionally conducted process, but they reiterated that activities like abuse of power and state resources, or vote buying and manipulations with voter lists, threatened to undermine the process. Reform of the voting districts, which was adopted in 2014, had its first implementation at these elections. The tradition of having two dominant political parties continued at this election as well. Their coalitions won 60 out of 61 Mayorships. Ruling Alliance for a European Albania (ASHE) led by Prime Minister Edi Rama confirmed its dominant position with 45 mayoral seats. Involvement of 50% gender quota requirements led to more women Mayors. From less than 2% their number rose to more than 14%.

### **Absence of Unconstitutional Veto Players : 5**

By taking control over some areas that refused state authority in the past - and were known for criminal activities - elected government got effective power to govern on the entire territory. However, other threats to government independence, such as organized crime, conflict of interest, or influential power of the country's wealthiest businessmen on politics, remained intact. Government did some actions in order to deal with pervasive corruption in Albania, but it broke down mostly on low level officials. A decriminalization law was adopted in the parliament, which aims to prevent criminals from taking public office. Also, new anticorruption portal was launched for taking charges of corruption by the citizens. Corruption within judiciary, a lack of resources and know-how and fear of retribution are still in place to prevent efficient prosecution and punishment process by the authorities.

## **Freedom of Press : 4.9**

Although more pluralistic and diverse – while reporting from different angles on the developments in the country - media outlets in Albania are considered to be partly free and relatively independent. Political and economic pressure on independent journalism caused self-censorship among some reporters. Owners, even if not directly involved in politics, often use their influence to broker lucrative business deals with the government, thus pressurizing journalists to show, in return, a more positive attitude towards ruling officials. There were several cases of harassment and physical violence against journalists. Some private outlets reported on corruptive behavior of public officials no matter that defamation was punishable by large fines.

## **Economic Freedom**

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### **Security of Property Rights : 4.34**

Private property in Albania is not adequately protected. Main problems lie with the low judicial independence from powerful political and business interest groups. Enforcing contracts is another weak point of the legal system – with long procedures, high costs and corruption within the judiciary. In order to circumvent the local courts, foreign investors often use international arbitration tools for dispute settlements. However, in 2016 the government ignored rulings regarding a high level investment project, thus bringing new uncertainty to the legal system. Also, there are no specialized commercial courts. Courts do not use automated procedures. The cadastre service remains incomplete, diminishing certainties of real estate purchase, even though the introduction of public notary service has somewhat improved the situation. Private property expropriation carries a significant risk to property holders, because of the low compensation offered by the state, usually significantly lower than the perceived market value. Agricultural land possession is restricted only to domestic nationals, but foreigners can lease it for up to 99 years. This regulation can be circumvented by registering a legal entity in foreign ownership. Commercial property may be purchased only with a guarantee of threefold investment against the value of the land. Foreign ownership is also restricted to minority equity in several sectors, such as air transportation, electric power transmission and television broadcasting.

### **Size of Government: Expenditures, Taxes, and Enterprises : 8.14**

Size of government is more limited in Albania than in most European countries, with low levels of government expenditures, reaching only 30.3% of GDP in 2015. However, even in this situation public revenues are scarcer than government programs, giving rise to high budget deficits, which strongly elevated the public debt, to a substantial level of 73.3% of GDP in 2015. Still, the deficit in 2015 reached 4% of GDP and a substantial fiscal package had to be introduced under the auspices of the IMF in order to curb debt growth. There are relatively high government arrears, concentrated at the local level. Companies in the electric sector, KESh and OShEE, pose a significant risk for public finances, due to their inefficient management and operational policies, relying on government for financial transfers. Their restructuring has yet to be fully completed. SOEs are active in several important industries, most notably energy generation and transmission,

water supply, transport (ports and railways), insurance and postal services. The state of business performance of those companies varies. Government also holds minority equity in fixed telephony communications company. There are allegations of favoritism and corruption in their procurement procedures. Low public consumption makes room for low taxes: since 2014, personal income tax has been slightly progressive, with 13% and 23% rates, with a non-taxed threshold (standing at approximately 20% of average wage), while corporate tax is flat and set at 15%. Relatively low social security contributions lead to one of the lowest labour tax wedges in Europe, below 30%.

## **Regulation of Credit, Labour, and Business : 6.3**

Regulation is generally not too favourable to private enterprise in Albania, hence many improvements are necessary to create a truly business-friendly environment. Starting a business is relatively easy regarding procedures, but it is tied to high administrative fees. Getting electricity is a very expensive process, and issuance of construction permits came almost to a halt in 2015, making Albania a country with the worst practice in this domain. Corruption remains a phenomenon that is widespread among public officials, undermining actual implementation of many regulations. Tax regulation is overly complicated, with high number of payments and burdensome procedures. Labour market regulations are a mix of flexible and inflexible traits. There are no limits on maximum length of fixed term contracts, while redundancy rules are not stringent. However, working hours are not very flexible, with low number of weekly working days. Notice periods are long and severance pay for redundancy workers are high, and are even higher with more years in tenure, protecting more seasoned workers. The minimum wage is relatively high as compared to the average one. Collective bargaining is not imposing high costs since it is mostly concentrated in the public sector, and is prevalent in just some of the industries.

## **Freedom to Trade Internationally : 8.76**

Freedom of international trade is generally respected in Albania. Tariffs are low, with the average applied rate of 3.8%, majority of which is concentrated in the agricultural sector. Product standardization, however, serves as a non-tariff barrier to free trade, incurring high costs to importers. Custom procedures (border and documentary procedures) also pose difficulties. Furthermore, very poor transport infrastructure, especially the railroad, increases freight costs and impedes international trade. Main Albanian trade partners are EU member countries (most notably Germany and Italy), followed by China and Turkey. Therefore, Albanian trade is mostly conducted under the Stabilization and Association Agreement (SAA) for the EU countries, signed in 2009, and for the countries from the region under the Central Europe Free Trade Agreement (CEFTA). However, prospects of a stronger regional economic integration are not exploited due to poor transportation and too few previous contacts, so prospects of CEFTA are underutilized as well. Albania has been a World Trade Organization (WTO) member country since 2000 and trade with countries outside Europe is conducted under WTO rules. Albania also ratified the Trade Facilitation Agreement (TFA) in 2016, which is expected to further liberalize foreign trade. Controls on short term capital flows by the National Bank are still maintained, which is mainly connected to the exchange rate policy. Work permit issuance process is streamlined, but there is a restriction stipulating that foreign workers cannot encompass more than 10% of the total workforce of a company.