

# Albania 2018



**Total: 58.99**

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## Political Freedom

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

Politics is a divisive element in Albanian society. Divisions culminated prior to parliamentary elections in June 2017, when international instances mediated over the opposition's dissatisfaction with the overall political climate and with the lack of fairness ahead of elections. Electoral process in Albania is on a track of improvement, with last parliamentary elections having had been more competitive and fairer than the previous ones, however it was rather a result of foreign mediation than of home-born institutional improvement. Nonetheless, many problems with elections, such as voting irregularities and abuse of administrative resources, remained an issue. Central Election Commission is often criticized for its alleged lack of impartiality. The ruling Socialist Party (SP) led by Prime Minister Edi Rama captured single majority in the National Assembly, with 74 seats out of 140. New government was inaugurated in the middle of September 2017. Members of Albanian unicameral parliament are elected based on party proportional representation, in 12 constituencies.

### **Absence of Unconstitutional Veto Players : 5.83**

Democratically elected government in Albania has effective power to govern the country without interference from unconstitutional veto players. However, there are several actors with potential to undermine independent institutions and democratic decision making in the country. Most notably, it is the ruling political elite itself, including their close ties with business and criminal groups. With weak separation of powers in practice, with current strong domination of the SP over legislative and executive, and with SP's capabilities to influence the judicial sector, their actions can often go by with impunity. Business or criminal leaders can influence decision making process as well. Corruption in the country is widespread over all political layers.

### **Freedom of Press : 4.9**

Press in Albania is partly free. There is a huge number of printed, broadcast and online media outlets whose independence is limited by the pressure coming from politicians and media owners. They imposed control over both public and private media outlets, using poor economic situation in the journalist profession to manipulate their political and business interests through and to transform the media into their personal mouthpieces. To it, concentration of media ownership in Albania is high. Deep political polarization in the country is reflected on the media landscape as well, with many outlets providing a reporting biased in favor or against the dominant political parties. Additionally, journalists are often targets of verbal harassment coming from politicians in

power. For instance, the PM Edi Rama labeled some of them as public enemies and a poison of the society. Thus, hostile environment and extensive political and economic pressure contributed to high level of self-censorship among journalists. Defamation remained punishable by the law.

\* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

## Rule of Law

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### **Independence of the Judiciary : 3**

Entire system of law enforcement in Albania has been under heavy burden of political influence and pressure, corruption, nepotism or incompetence, resulting in impunity, or selective justice, or even police or judicial vendettas. Some improvements are notable regarding police treatment of detained persons, with less complaint put against alleged ill-treatment. Poor infrastructure and overcrowding still weigh on prisons, especially affecting detained juveniles. Implementation of the constitutional reforms adopted in 2016, including those aimed at improving the poor state of judicial independence from the executive, has lagged behind schedule because of the boycott by opposition and stalemate in the parliament, itself ended in spring 2017. Establishment of new bodies in charge of judiciary and adjacent nominations started in October 2017, alas, also with difficulties. In March 2018, the Justice Reform Commissioner, in charge of clearing the system of incompetent or corrupt judges and prosecutors, was himself fired. Later the same month, Vetting Commission has fired a Constitutional Court judge, for failing to provide sufficient information on his assets and their origin. The vetting process continued throughout mid-2018.

### **Corruption : 3.8**

Albania is a highly corrupt country, despite efforts, energized by the EU, to improve. Corruption and organized crime are the main stumbling blocks to her EU-accession. Bribery rates are high. Corruption among judiciary, police, customs, land administration, tax authorities and in public procurement is marked by the business portal GAN as either very highly or highly present. Long-time present impunity of the high-ranking state officials opened space for illegalities to numerous among them. In 2017-2018, the rules for scrapping immunity of MPs have even been toughened. Ruling majority had thus sheltered an MP and former Minister Interior from investigations into alleged drug smuggling, all until he, under pressure put from the EU onto the PM, voluntarily resigned his MP seat in May 2018. A couple of MPs were banned entry into the USA because of seeming corruption. On the positive side, improved protection of whistle blowers, noticed also by the EU monitors, is expected to eventually increase the reporting on corruption. In the Transparency International's CPI 2017 list, Albania is ranked 91-95/180, same as, for instance, BiH, with 38/100 points.

### **Protection of Human Rights : 6.04**

During communist times, Albania's regime was among the most brutal in the world. In the post-communist era, citizens' desire has been strong to reach the highest standards of the free and democratic world. But attempts to derail or make shallow the lustration and restitution process are also strong. Thus there is so much gap and paradox in various aspects of human rights. Recovery of mass graves from pre-1991 era (hiding the remains of estimated 6.000 victims), removing impunity of the-then perpetrators, enabling free access of survivors into the secret police files, or restitution of the private property nationalized after 1944, all face occasional serious obstacles and setbacks, and are still on. Cooperation with ICMP was established in June 2018, after eight years of negotiations. Assistance to recent victims, such as those of human trafficking, is improving, but the practice is still a major security threat. Some minorities enjoy high level of protection and acceptance by majority, while others (such as Roma) remain discriminated. Freedom of religion is highly respected and tolerance is practiced. Once (during communism) officially an atheist country where religion was banned, Albania is nowadays a role model of a secular country in which everyone's worldview is respected. Not so tolerant is the attitude regarding sexual minorities, who on one hand face loud proclamations of equality, anti-discrimination laws and legalization of their NGOs and public gatherings by the authorities, yet on the other hand feel pressure from within conservative society (or from hypocrite politicians), suffer occasional homophobic violence and still live in a climate of fear. Nonetheless, the improvement in this field has been enormous during this decade. In 2018, a furious debate was opened in Albania over protection of privacy, e.g. on how to protect the data on citizens, collected by public schools or health care centers, against political, pre-election manipulations.

## Economic Freedom

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### Security of Property Rights : 4.93

Private property in Albania is not adequately protected. The biggest problem is low judicial independence from powerful political and business interest groups connected to the executive branch of government. The judicial reform that is a prerequisite for EU accession negotiations has been under implementation since 2016, but its effects are unclear. Contract enforcement is ineffective due to very long legal procedures – 1.5 year on average, high fees involved and corruption that is still present within the judiciary. There are no specialized commercial courts, but there are such departments among district courts. Automated procedures are not well developed and there is a large body of backlogged cases, all of which undermine efficiency of the judiciary system. Recent amendments to the code of civil procedure established a simplified procedure for small claims. Bankruptcy procedures are long, lasting 2 years on average, and lead to a moderate recovery rate of 44% through piecemeal sale of assets of the bankrupt company. A new bankruptcy law was introduced in May 2017, with the aims of dealing with the existing loopholes, reducing fraud and easing recover procedures. The cadaster service still remains incomplete, with a significant proportion of land without a clear title, which increases uncertainties of real estate purchases. Property registration is slow, and involves very high fees, while there is also corruption within the cadaster service. Public notaries were recently given access to registries and can now confirm ownership of land and real estate. Private property expropriation is rare, restricted mostly to infrastructure projects, but the level of compensation offered is lower than the perceived fair market value. Another problem in the area of property rights are illegal buildings, whose number is estimated at 440 000. The wide demolition campaign of the construction inspectorate does not

involve due legal process, ignores citizen complaints and is partial in choosing targets. Foreign nationals face restrictions in owning agricultural land, but they can lease it for a period of up to 99 years. Commercial property, on the other hand, can be purchased but only with a guarantee of a threefold investment against the value of the acquired land. These restrictions can easily be avoided through registering a local company in Albania. There are few restrictions on foreign ownership in the country, the most notable ones regarding air transportation, electricity transmission and television broadcasting, in which foreign ownership is restricted to minority equity. The process of restitution, which started in 1993, is yet to be fully implemented. Property restitution claimants are facing many challenges in practice, due to slow judicial procedures or corruption, leading to unclear property rights. The new property compensation legislation was recently introduced in order to provide a solution to the pending claims. This legislation envisages three methods of compensation (property restitution, compensation with a property of similar value and pecuniary compensation) and a 10 year long timeframe for resolving the restitution claims. Political changes can have a significant impact on businesses and investments, due to attempts of the new government to revoke or renegotiate already settled concessions, licenses or contracts, thus significantly negatively influencing property rights.

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

### **7.89**

Size of government in Albania is modest as compared to many other European countries, with low levels of government expenditures, slightly below 30% of GDP in 2017. Public deficit has been put under control following the fiscal austerity program introduced in 2015, but high public deficits during previous years piled up a substantial public debt, itself reaching 72% of GDP in 2017. High level of debt poses a significant fiscal risk in case of another recession, but here are also problems arising from a slowdown in reforms and piling up arrears, including VAT refunds and unbudgeted investment projects. SOEs operate in so called strategic industries, such as transport, energy generation and distribution, postal services and hydrocarbon sector. The state also owns significant minority equity in big companies that operate freely in the market, such as the Albtelekom. SOEs in the energy sector, KESh and OShEE, still pose a significant risk for public finances due to inefficient management and operational policies. Both companies declared losses in 2017 due to droughts, but systematic problems within their operation persist. Privatization of Albpetrol, the state oil company, has been postponed several times, and the company has recently announced restructuring. Low public consumption makes room for low taxes. Personal income tax is slightly progressive, with the rates of 13% and 23%, and a high non-taxed threshold. Corporate tax is flat and set at 15%, but there are also 5% and 0% rates for small companies with turnovers below certain thresholds. The general VAT rate is set at 20%, while the preferential rate is 6%. Relatively low level of social security contributions leads to one of the lowest labour tax wedges in Europe - below 30%.

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

### **6.32**

Regulation is generally not too favourable for doing business in Albania. Corruption and favouritism among public officials, in their dealings with business entities, remain widespread, undermining impartial implementation of regulations. Corruption is especially visible in the process of public procurement. Legislation is often difficult to interpret, being ambiguous, inconsistent or outright contradictory, which can be used for manipulation and extortion, while regulatory changes are made without proper consultation with the business community. Starting a business is

relatively easy and quick, with low number of procedures and no paid-in minimum capital, but it is tied to high administrative fees. In order to boost registering of new businesses, the government waived the taxes on new business ventures during their first year of operation, which has been a great boost to small and micro enterprises. Issuance of construction permits finally resumed and gained momentum after the moratorium that had been enacted in 2013 in order to combat illegal construction. However, this process is complicated by numerous procedures and long time limits, lasting 10 months on average. The process of getting electricity is, on the other hand, not burdened with numerous procedures, yet it is very expensive. Tax regulations are overly complicated, with high number of annual payments. The newly introduced online system for filing and paying taxes has somewhat improved the situation, but it remains burdensome. Tax rates and corruption remain among the top problems for doing business in the country. Labour market regulations are a mix of flexible and inflexible traits. There are no limits to the maximum length of fixed-term contracts, but those are prohibited for permanent tasks. Working hours regulation has recently been made less flexible through the decrease in the maximum number of workdays during a week. Notice periods and severance pay for redundancy workers rise significantly with the years in tenure, thus protecting more seasoned workers. The minimum wage is relatively high as compared to the average wage. There are two types of it: the minimum wage for private and for public sector (the latter being higher by a half). Collective bargaining is mostly concentrated in public sector, while outside it is prevalent in just a few industries.

## **Freedom to Trade Internationally : 8.78**

Freedom of international trade in Albania is generally respected. Tariffs are low, with the average MFN-applied rate of 3.6%, but product standardization procedures serve as significant impediments to free trade, incurring high costs to importers. Poor quality of transport infrastructure, especially of the railroads, also increases freight costs and impedes international trade. Border and documentary custom procedures also pose difficulties. Mandatory scanning inspections for exports and imports increase both time and costs for border compliance. Corruption in the customs office and unequal treatment resulting from it also pose problems. Main Albania's trade partners are EU member countries (most notably Germany and Italy), closely followed by China and Turkey. Therefore, majority of the Albanian trade is conducted under the Stabilization and Association Agreement (for the EU countries) and the CEFTA for the countries from the region. Albania has been a World Trade Organization (WTO) member since 2000, so trade with countries outside Europe is conducted under WTO rules or bilateral free trade agreements. The European Commission (EC) recommended to the European Council to open accession negotiations with Albania, which may start next year, and which will have a significant impact on its trade policy, since it will have to align its technical standards and tariffs with the *acquis*. Albania also ratified the Trade Facilitation Agreement (TFA) in May 2016, which is expected to further liberalize foreign trade when it becomes operational. Controls on short term capital flows by the National Bank are still maintained, mainly due to the exchange rate policy and low foreign currency reserves. Work permit issuance process for foreign nationals is streamlined, but the legislation stipulates that foreign workers cannot encompass more than 10% of the total workforce of a company.