

# Albania 2017



**Total: 59.87**

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## Political Freedom

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

Albania held parliamentary elections on 26th of June 2017, as an event which aimed to end the political crisis that lasted for months. After relatively politically calm 2016, deep divisions along political lines - a situation characteristic for most of the Western Balkan countries - culminated in the opposition boycott of the Parliament and mass street rallies in February 2017. Opposition demanded from Prime Minister to resign and establish a technocratic government which would ensure free and fair parliamentary elections. Situation was not resolved until opposition parties refused to register for elections and international instances started to mediate negotiation process between the two sides, resulting in delay of the election date and giving a number of seats in the interim government to opposition, with the aim to increase transparency and fairness of the electoral process. According to OSCE ODIHR, this agreement led to less polarized and more inclusive campaign, but the implementation of the agreement endangered the rule of law in Albania. Allegations of vote buying and other voting manipulations were widespread - a characteristic which hasn't improved since previous election times. The ruling Socialist Party led by Edi Rama secured majority on its own, by winning 74 out of 140 seats in the parliament.

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

Albania improved its score regarding Absence of Unconstitutional Veto Players section of the Freedom Barometer 2017 index. Government took certain steps to ensure independence of judiciary and provide for more balance between branches of power. However, certain threats of illicit influencing the decision-making process by the officials and undermining the democratic governance of the country still exist. Major challenge is coming from tight connections between politicians and private businesses seeking for joint economic benefit, as well as from organized crime. Corruption in the country is pervasive at all levels, while mostly high level one passes with impunity. However, some steps towards reducing corruption have been taken, while first results of those measures are still to come.

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

Albania has relatively pluralistic and diverse media landscape. But, taken many challenges that media outlets or journalists are facing, it is to be considered as only partly free. Politicians and owners don't hesitate to use strong pressure to limit independence and objectivity of journalist reporting, which leads to more biased coverage by media in general. Measures, such as removing

people from their position, have been often used to silent critical journalism. The fear of losing job has been a significant driver of self-censorship among journalists. Intimidation and violence against journalists were also tools that limited media freedom in Albania, while a journalist known for his investigations into corruption was beaten in March 2017. Restriction of percentage of ownership in national broadcasting outlets was abolished, allowing owners to possess more than 40% of shares. Defamation remains punishable by fines.

## Rule of Law

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### **Independence of the Judiciary : 3.42**

In July 2016, Albania's parliament unanimously adopted constitutional changes. Those envisaged new procedure for the selection of the High Council of Justice, changed the composition of High Court and Constitutional Court and gave more responsibilities to the Prosecutor General in corruption-related investigations. The changes were aimed at preventing political interference into judiciary, thus also facilitating the struggle against corruption and organized crime. It was the beginning of the comprehensive reform of judiciary, which would encompass dozens of new laws and hundreds of by-laws. It would expectedly take several years to fully implement it and to establish a system of rule of law compatible with the desired Albania's membership in the EU. Along the new laws, some of which already passed, all judicial institutions in the country would be restructured starting from 2017.

### **Corruption : 3.9**

There have been positive developments in Albania regarding anti-corruption struggle. During the past four years, the situation has considerably improved, albeit from a low starting point. Transparency International, in its Corruption Perceptions Index 2016, ranked Albania as 83rd (of 176 countries), together with Bosnia and Herzegovina, Jamaica and Lesotho. Its score, 39/100, is considerably better than 31/100, as of 2013. However, another figure put by TI, in its Global Corruption Barometer 2016, is worrisome - Albania has the highest bribery rate in Western Balkans, 34% (comparable CEFTA or EU neighbors Montenegro, Macedonia, Greece and Kosovo have 16%, 12%, 10% and 10% respectively). Thus, Albania, NATO-member and EU-candidate, realized it needed a radical breakaway from the hybrid crony system entrenched in between the long-ago rejected totalitarian communism and the desired system of liberal democracy, market economy and rule of law. Constitutional changes as of July 2016 might be a real start. Other adjacent laws also aimed at the same - i.e. the law on whistle blowers. Carried in June 2016, it was meanwhile implemented through numerous by-laws.

### **Protection of Human Rights : 6.11**

There are fields in which Albania's human rights record is very good, e.g. rights of ethnic and linguistic minorities, religious freedom and tolerance among different faiths, freedom of association, etc. In some, the situation is improving, e.g. in protection of children, lessening the discrimination of LGBT persons through sincere implementation of the existing laws, or, especially, in fighting human trafficking (e.g. by creating a special fund, fed by assets seized from traffickers

while used for assistance and compensation to, and re-socialization of the victims). Finally, as Amnesty International warned in 2017, some areas are of special concern, such as rights of Roma and Egyptians, as well as the situation (including occasional cases of torture or other abuse) in detention facilities in general, especially in juvenile penitentiary centers (but also in some orphanages).

## Economic Freedom

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### **Security of Property Rights : 4.8**

Private property in Albania is not adequately protected. The biggest concern is low judicial independence from powerful political and business interest groups. Contract enforcement is plagued with many other problems: long procedures, high costs and corruption within the judiciary. Foreign entities often use international arbitration tools for dispute settlements in order to avoid local courts, and arbitration rulings are mostly respected. There are no specialized commercial courts, nor are there automated procedures. All those undermine efficiency of the judiciary system. The cadastre service still remains incomplete, with a significant proportion of land without a clear title, which increases uncertainties of real estate purchases. Property registration involves high fees. Low compensation offered by the state, usually significantly lower than the perceived market value, poses a significant problem in cases of private property expropriations (but they are rare). Agricultural land possession is restricted only to domestic nationals, but it can be leased for a period of up to 99 years. Commercial property may be purchased only with a guarantee of a threefold investment against the value of the land. However, if a legal entity in foreign ownership registers a company in Albania, it can avoid those restrictions. Foreign ownership is also restricted to minority equity in several sectors, such as air transportation, electric power transmission and television broadcasting. Political changes can lead to attempts by the new government to revoke or renegotiate already settled concessions, licenses or contracts. The process of restitution has yet to be finalized. In practice, lots of obstacles are faced by claimants due to unclear rights, slow judicial procedures or corruption.

### **Size of Government: Expenditures, Taxes, and Enterprises : 7.97**

Size of government in Albania is modest as compared to many other European countries, with low levels of government expenditures, reaching only 29% of GDP in 2016. High public deficits during previous years piled up a substantial public debt, reaching 73% of GDP in 2016. But the fiscal consolidation program supported by the IMF put the deficit under control, cutting it in half, which, combined with growth rates, finally put the debt on a downward path. Local government arrears, although still high, have been curbed. State owned enterprises in the energy sector, KESh and OShEE, still pose a significant risk for public finances, due to inefficient management and operational policies, although resources allocated to them have decreased. SOEs are active in several important industries, most notably in energy generation and transmission, utilities, transport (ports and railways), insurance and postal services, while government holds minority equity in the fixed telephony company. The process of privatization of state companies and their assets, when they are bankrupt, is progressing slowly. Privatization of Albpetrol, the state oil

company, is in question, since it was postponed several times. Low public consumption makes room for low taxes: since 2014, personal income tax has been slightly progressive, with 13% and 23% rates and a high non-taxed threshold (at approximately 65% of the average wage). Corporate tax is flat and set at 15%, except for the special rate of 5% for small companies, while the general VAT rate is set at 20%. 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 : 6.67**

Regulation is generally not too favourable to private enterprise in Albania. Starting a business is relatively easy regarding procedures and no paid-in minimum capital, but it is tied to high administrative fees. However, 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, which had almost stopped due to moratorium enacted in 2013 in order to combat illegal construction, has finally resumed. But the process is complicated by numerous procedures and long time limits. On the other hand, getting electricity is very expensive. Corruption remains widespread among public officials, undermining impartial implementation of regulations. It is especially visible in public procurement. Legislation is often difficult to interpret – e.g. outright contradictory - which serves for manipulation and extortion, while regulatory changes are made without proper consultation with the business community. Tax regulations are overly complicated, with high number of annual payments and burdensome procedures. Those are top problems for business development, alongside tax rates. The newly introduced online system for filing and paying taxes is expected to improve the situation at least partially. 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 are not very flexible, with a low number of weekly working days. Notice periods are long and severance pay for redundancy workers is high. Both rise with the longer number of years in tenure, thus protecting more seasoned workers. The minimum wage is relatively high as compared to the average one, but it has stagnated since 2013. Collective bargaining is not imposing high costs to businesses since it is mostly concentrated in the public sector, and is prevalent in just some of the industries.

## **Freedom to Trade Internationally : 8.77**

Freedom of international trade in Albania is generally respected. Tariffs are low, with the average MFN-applied rate of 3.8%, and with tariffs higher on agricultural than on manufactured goods. Product standardization procedures, however, serve as a barrier to free trade, incurring high costs to importers. Border and documentary custom procedures also pose difficulties, which were recently further exacerbated by the introduction of mandatory scanning inspections for exports and imports, which increased both time and costs for border compliance. 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, while for the countries from the region under the Central Europe Free Trade Agreement (CEFTA). 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. In November 2016, the European Commission (EC) published a recommendation to have opened accession negotiations with Albania, conditioned by the successful implementation of the current judicial reform. The future accession negotiations would have a direct impact on Albania's trade policy, since it will have to implement the EU common trade policy. But this will not happen in near future. 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 is streamlined, but there is a restriction stipulating that foreign workers cannot encompass more than 10% of the total workforce of a company.