

# Albania

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RISK & COMPLIANCE REPORT

DATE: March 2017

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<b>Executive Summary - Albania</b>	
<b>Sanctions:</b>	None
<b>FAFT list of AML Deficient Countries</b>	No
<b>Higher Risk Areas:</b>	US Dept of State Money Laundering assessment Non - Compliance with FATF 40 + 9 Recommendations Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.)
<b>Medium Risk Areas:</b>	World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
<p><b>Major Investment Areas:</b></p> <p><b>Agriculture - products:</b> wheat, corn, potatoes, vegetables, fruits, sugar beets, grapes; meat, dairy products; sheep</p> <p><b>Industries:</b> perfumes and cosmetic products, food and tobacco products; textiles and clothing; lumber, oil, cement, chemicals, mining, basic metals, hydropower</p> <p><b>Exports - commodities:</b> textiles and footwear; asphalt, metals and metallic ores, crude oil; vegetables, fruits, tobacco</p> <p><b>Exports - partners:</b> Italy 44.2%, Spain 9%, China 6.8%, Greece 4.9%, Turkey 4.7% (2012)</p> <p><b>Imports - commodities:</b> machinery and equipment, foodstuffs, textiles, chemicals</p> <p><b>Imports - partners:</b> Italy 34.9%, Greece 11.7%, China 7.5%, Turkey 5.6%, Germany 4.3% (2012)</p>	

**Investment Restrictions:**

The 'Law on Foreign Investment' is designed to create a hospitable climate for foreign investors and stipulates the following:

- No prior government authorization is needed for an initial investment and no sector is closed to foreign investment;
- 100 percent foreign ownership of companies is permissible;
- Foreign investment may not be expropriated or nationalized directly or indirectly, except for designated special cases, in the interest of public use and as defined by law;
- Foreign investors enjoy the right to expatriate all funds and contributions in kind from their investments; and
- Foreign investors receive 'most favored nation' treatment according to international agreements and Albanian law.

Additionally, in September 2010, the parliament approved several amendments to this law that provide special protection for foreign investment in the tourism, energy and agriculture sectors.

## Section 1 - Background

Albania declared its independence from the Ottoman Empire in 1912, but was conquered by Italy in 1939. Communist partisans took over the country in 1944. Albania allied itself first with the USSR (until 1960), and then with China (to 1978). In the early 1990s, Albania ended 46 years of xenophobic communist rule and established a multiparty democracy. The transition has proven challenging as successive governments have tried to deal with high unemployment, widespread corruption, dilapidated infrastructure, powerful organized crime networks, and combative political opponents. Albania has made progress in its democratic development since first holding multiparty elections in 1991, but deficiencies remain. International observers judged elections to be largely free and fair since the restoration of political stability following the collapse of pyramid schemes in 1997; however, each of Albania's post-communist elections have been marred by claims of electoral fraud. The 2009 general elections resulted in a coalition government, the first such in the country's history. Albania joined NATO in April 2009 and is a potential candidate for EU accession. Although Albania's economy continues to grow, the country is still one of the poorest in Europe, hampered by a large informal economy and an inadequate energy and transportation infrastructure.



## Section 2 - Anti – Money Laundering / Terrorist Financing

### FATF status

Albania is no longer on the FATF List of Countries that have been identified as having strategic AML deficiencies

### Latest FATF Statement - 25 February 2015

The FATF welcomes Albania's significant progress in improving its AML/CFT regime and notes that Albania has established the legal and regulatory framework to meet its commitments in its action plan regarding the strategic deficiencies that the FATF had identified in June 2012. Albania is therefore no longer subject to the FATF's monitoring process under its on-going global AML/CFT compliance process. Albania will work with MONEYVAL as it continues to address the full range of AML/CFT issues identified in its mutual evaluation report.

### Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Albania was undertaken by the Financial Action Task Force (FATF) in 2010. According to that Evaluation, Albania was deemed Compliant for 3 and Largely Compliant for 11 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all 6 of the Core Recommendations.

### Key Findings from latest Mutual Evaluation Report (2010):

Although Albania has made considerable progress to tackle ML and FT the risk of ML remains high. Albania has a history of organized crime with clan - based and hierarchically organized networks that are mainly involved in drug trafficking . The relative size of the cash - based informal economy facilitates the laundering and integration of proceeds of crime . The number of sectors identified with illegal practices , including illegal gambling establishments and exchange bureaus , as well as the vulnerabilities that relate to cross - border transportation of currency, also make Albania at risk for ML activity.

Despite efforts by the authorities to reduce the reliance on cash, the use of cash through the informal economy remains a problem in Albania. The use of the informal economy has an impact on the overall effectiveness of preventive measures as transactions facilitated through these channels circumvent the preventive measures established by the authorities. Albania also remains at risk regarding possible financing of terrorism activities. There is a record in the first half of the 2000s of the government freezing assets of terrorist financiers,

curtailing activities of suspect Islamic NPOs, and expelling individuals suspected of having links to terrorism.

Albania has fully criminalized ML largely in line with the requirements under the Vienna and Palermo Conventions. However, there have been few convictions for ML and demanding evidentiary requirements have had a negative impact upon Albania's ability to make effective use of the provisions. Also, the Albanian provisions that criminalize the financing of terrorism, although significantly enhanced in recent years, still fall short of meeting the FATF standard.

The Albanian FIU has improved its analytical processes resulting in higher quality financial intelligence; however the legal framework needs to be strengthened with regard to its operational independence. The FIU's responsibility to disseminate information regarding suspicious transactions should also be clarified.

Albania has updated the legal framework for preventive measures for financial institutions, but the requirements fall short of the international standard in some areas, such as for the identification of beneficial owners, and the lack of any customer due diligence (CDD) measures for customers that are foreign politically exposed persons (PEPs). In addition, the effectiveness of implementation of preventive measures remains a concern, with uneven understanding of the provisions amongst financial institutions and a lack of suspicious transaction reports. 8. Implementation of preventive measures by designated non-financial businesses and professions (DNFBPs) is limited. A large range of DNFBPs have been subject to supervision by the FIU however other designated supervisors have had limited engagement in AML/CFT activities.

The legal framework underpinning the supervisory authorities' power is sound but the supervisory role of the FIU should be clarified. Moreover, the Financial Supervisory Authority (FSA) has not undertaken any inspection of the securities and insurance sectors.

Domestic and international cooperation is good. Albania has established a number of domestic and international cooperation mechanisms that facilitate cooperation between competent authorities and foreign counterparts; however, cooperation mechanisms between supervisory agencies, both domestically and internationally, are underutilized.

## US Department of State Money Laundering assessment (INCSR)

**Albania is categorised by the US State Department as a Country/Jurisdictions of Primary Concern in respect of Money Laundering and Financial Crimes.**

### OVERVIEW

Albania is not a regional financial or offshore center. The country remains at significant risk for money laundering due to rampant corruption and weak legal and government institutions.

Albania has a large cash economy and informal sector, with significant money inflows from abroad in the form of remittances. Major proceeds-generating crimes in Albania include drug trafficking, tax evasion, smuggling, and human trafficking. Albania has a substantial black market for smuggled goods, and smuggling is facilitated by weak border controls and customs enforcement. Albania produces and exports significant amounts of marijuana, primarily for European use, and is a transit country for Afghan heroin and cocaine, serving as a key gateway for heroin distribution throughout Europe. Albania serves as a base of operations for regional organized crime organizations. Illicit proceeds are easily laundered.

## **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Real estate (particularly in the coastal areas), business development projects, and gaming are among the most popular methods of hiding illicit proceeds. Law enforcement recognizes the need to combat money laundering but remains largely ineffective in doing so. The Albanian State Police has a dedicated Economic Crime Unit tasked with AML efforts, while police and prosecutors continue to receive training on this subject. Better collaboration between police and prosecutors is needed.

## **KEY AML LAWS AND REGULATIONS**

In 2016, the Albanian parliament passed several significant constitutional and legal reforms aimed at tackling corruption and organized crime. The reforms, if implemented properly, will result in better enforcement of money laundering and other financial crime laws.

In recent years, Albania has made technical improvements to its AML regime. These include increasing predicate crimes covered by the AML law, establishing CDD measures for financial institutions, and improving the powers and processes used by authorities in responding to foreign requests for assistance.

Albania and the United States do not have a MLAT, but cooperation is possible through multilateral conventions.

## **AML DEFICIENCIES**

Albania has a substantial black market for smuggled goods, primarily tobacco, jewelry, stolen cars, and mobile phones. Smuggling is facilitated by weak border controls and customs enforcement.

The Albanian court system applies a high burden of proof in money laundering cases. Some, but not all, courts require a simultaneous conviction for a predicate offense before issuing a conviction for money laundering, even though the law specifically states that no predicate offense is necessary. The Supreme Court has not issued a controlling decision, so the law in this area remains in flux. The AML regime also is plagued by numerous technical deficiencies.

## **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

While the Government of Albania passed criminal code reforms and legislative amendments in 2012, implementation efforts have been weak. Despite a sizeable number of money laundering investigations, the number of money laundering prosecutions remains low. Through mid-year 2016, four money laundering cases were referred to the court for prosecution while seven defendants were convicted of the offense. In 2016 the Prosecutor General's Office hired a third forensic accountant to assist in the investigation of cases.

The government has taken steps to combat official corruption, but it needs to continue to address judicial and prosecutorial corruption. Since the lifting of immunity for judges and high officials in 2012, prosecutors have investigated at least 23 high-level officials, including 14 locally- elected officials, four judges, one court clerk, three prosecutors, and one police officer. Jurisdiction over judicial corruption and high-level corruption was transferred to the Serious Crimes Court in March 2014. Prosecutions led by the related Serious Crimes Prosecution Office have resulted in the convictions of two judges, one prosecutor, and one locally elected mayor on corruption charges. Two other judges and one prosecutor charged with corruption await trial.

On July 22, 2016, Albania passed substantial amendments to its Constitution to reform the justice system, including vetting judges and prosecutors for corruption and links to organized crime, and creating an independent, vetted, and monitored court and prosecutorial office for cases of high-level corruption and organized crime, which would include organized narcotics traffickers. Several laws necessary for the implementation of the constitutional changes were passed in October 2016. Albania must implement the laws effectively and continue to develop the effectiveness of its police and prosecutors that focus on corruption, money laundering, and economic crimes.

#### Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Albania does not conform with regard to the following government legislation: -

**Arrangements for Asset Sharing** - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

#### EU White list of Equivalent Jurisdictions

Albania is not currently on the EU White list of Equivalent Jurisdictions

#### World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

## **Failed States Index**

[To view Failed States Index Ctrl + Click here](#)

## **Offshore Financial Centre**

Albania is not considered to be an Offshore Financial Centre

### **US State Dept Narcotics Report 2017:**

Albania remains a significant source country for marijuana, as well as a transit route for cocaine and heroin destined for European markets. While Albanian authorities reported an increase in arrests and destruction of cannabis plantations in 2016, there were also reports of increased cannabis cultivation within the country. Albanian authorities continued regional cooperation with Italian Police surveillance units, and the number of drug surveillance flights increased from the previous year. With the exception of cannabis, Albania is not a significant producer of illicit drugs, precursor chemicals, or synthetic drugs. The Government of Albania does not maintain drug-use prevalence statistics. Except for marijuana, illegal drug use does not appear to be common.

According to Albanian State Police (ASP), a total of 30.14 metric tons (MT) of marijuana was seized in 2016, and a total of 2,4536,288 cannabis plants were eradicated. Italian Guardia di Finanza surveillance flights identified 2,086 suspected cannabis plantations and also measured a fivefold increase in the overall level of cultivation. The ASP also seized 57.33 kilograms (kg) of heroin and 7.16 kg of cocaine.

The ASP, including border police, arrested 1,349 people for offenses linked to drug trafficking during 2016. The Serious Crimes Prosecutors Office (SCPO) investigated 273 criminal proceedings for narcotics trafficking. Of this total, 115 investigations were carried over from previous years while 158 investigations were initiated in 2016. In 2016 the SCPO sent 55 cases to court against 81 defendants. The Serious Crimes Court rendered 65 guilty verdicts, to include verdicts in cases already pending in 2016.

Albania continues to receive assistance from the United States and European Union countries to enhance its drug enforcement capacities. The government implemented 31 joint operations with international law enforcement agencies through October, mostly in cooperation with Italian authorities. The United States continues to provide assistance for integrated border management with risk analysis to identify potential traffickers, counternarcotic investigations training, and judicial sector assistance programs. In 2016, the United States provided a two-week training course to members of the Albanian Coast Guard and the Border Police to enhance maritime interdiction capacity. To reduce demand for illegal drugs, the ASP and the Albanian Education Ministry, with U.S. support, continued to co-sponsor a drug-awareness and demand reduction project in 365 public elementary schools in 2016, reaching over 30,000 students.

### **US State Dept Trafficking in Persons Report 2014 (introduction):**

Albania is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Albania is a source and destination country for men, women, and children subjected to sex trafficking and forced labor. Albanian women and child victims are primarily subjected to sex

trafficking within Albania and in Greece, Italy, Macedonia, Kosovo, Belgium, Netherlands, Germany, Switzerland, Ireland, and the United Kingdom. Criminal groups fraudulently recruit women with offers of employment in waitressing, bartending, dancing, or singing in neighboring countries, specifically in Kosovo, Greece, and Macedonia, and subject them to sex trafficking. Victims from the Philippines and Albania were subjected to forced labor in Albania. There is an increasing problem of Albanian children, often of the Roma ethnicity, being subjected to forced begging and other forms of compelled labor in Greece, Kosovo, and within Albania. Some Albanian girls are subjected to sex trafficking or forced labor following arranged marriages.

The Government of Albania does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. In October 2013, the government appointed a new national anti-trafficking coordinator, who in December initiated the development of a special taskforce to improve coordination among police, prosecutors, and judges. Albanian law enforcement improved its understanding of a victim-centered approach to human trafficking, though further training is still needed to improve their operating effectiveness in identifying cases and leading them through prosecution. The government increased the number of victims identified, but prosecuted and convicted a small number of trafficking offenders. The government did not fund the NGO shelters that provided services to victims of trafficking. Victims received inadequate mental health services at the state-run shelter, and medical care staff needed training.

### US State Dept Terrorism Report 2015

**Overview:** Albania was a strong supporter of counterterrorism efforts in 2015 and continued its participation in the Global Coalition to Counter the Islamic State of Iraq and the Levant (ISIL), making significant donations of weapons and ammunition for Peshmerga forces in northern Iraq.

**Legislation, Law Enforcement, and Border Security:** Albania criminalizes terrorist acts; financing of terrorism; collection, transfer and concealment of funds that finance terrorism; conducting transactions with persons on the UN sanctions lists; recruiting and training people to commit terrorist acts; incitement of terrorist acts; and establishing, leading and participating in terrorist organizations.

In 2014, Parliament added three statutes to Albania's Criminal Code aimed primarily at strengthening the government's ability to address the problem of Albanian nationals who travel to fight in the Syrian conflict. The changes made it illegal to participate in; organize the participation of; or call for participation in military action in a foreign country.

While Albanian law enforcement actively detects and deters illicit activities related to drugs and smuggling, it also increased efforts to counter potential terrorist threats. With concern about terrorism increasing in connection with foreign terrorist fighters, the Albanian State Police expanded its Anti-Terrorism Unit from seven to 76 and, in collaboration with Albania's international partners, is developing plans and programs for the equipping, training, and further development of this unit. Significant efforts will be necessary before the ATU develops capacity to counter terrorism effectively.

Albania lacks the capacity to collect biometric data other than that contained on biometric identity cards and passports presented at border crossing points. DOJ's International Criminal Investigative Training Assistance Program (ICITAP), funded by the Department of State, provided information technology training to the Albanian government to help it incorporate online fingerprint identification functions, and fingerprint scanning equipment for all 26 border crossing points. This initiative will improve Albania's ability to collect entry and exit information of international travelers. The Department of State's Antiterrorism Assistance program supported Albanian participation in a series of border security-related courses aimed at addressing foreign terrorist fighter travel.

The Department of Justice's (DOJ's) Office of Overseas Prosecutorial Development Assistance and Training Program (OPDAT), funded by the Department of State, also provided mentorship, assistance, and training to prosecutors, law enforcement officials, and judges from Albania, Bosnia, Kosovo, and Macedonia, that work on foreign terrorist fighter and terrorism-related cases through its Balkan Regional Counterterrorism program located in Tirana.

Corruption, combined with a poorly functioning judicial system, continued to hinder Albania's law enforcement efforts at all levels.

**Countering the Financing of Terrorism:** Albania is a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a Financial Action Task Force (FATF)-style regional body. The General Directorate for the Prevention on Money Laundering, Albanian's financial intelligence unit, is a member of the Egmont Group.

In February, the FATF removed Albania from its list of High Risk and Non-Cooperative Jurisdictions. Since June 2012, Albania has been working with the FATF and MONEYVAL to address the identified weaknesses in its anti-money laundering/combating the financing of terrorism (AML/CFT) regime. In 2013, Albania adopted a new law against financing terrorism to comply with the FATF and MONEYVAL recommendations and focused on implementation in 2015.

Albania has established a preventive AML/CFT system that includes extended due diligence and the obligation to file suspicious transaction reports and currency transaction reports.

**Countering Violent Extremism:** The Government of Albania provided financial support to the Albanian Islamic Community, the official administrative body of the Albanian Sunni Muslim community, and actively engaged it to develop strategies and programs to address radicalization to violence and terrorist recruitment. The government also drafted and officially adopted a national strategy to combat violent extremism (CVE), and has been a committed participant in the White House Initiative to Combat Violent Extremism, which included hosting a regional CVE conference in May in Tirana. Prime Minister Rama spoke at the September Leader's Summit on Countering ISIL and Violent Extremism hosted by President Obama in New York; during his speech, Rama announced plans for a Regional Center Against Violent Extremism.

**International and Regional Cooperation:** Albania is a member of the UN, OSCE, NATO, Council of Europe, and the Organization of Islamic Cooperation. Albanian criminal justice

actors participated regularly in various regional associations, conferences, and other counterterrorism information-sharing exchanges. For example, Albania sent representatives to a U.S.-funded program on the role of the criminal justice system in the implementation of preventive and repressive strategies against foreign terrorist fighters, which was executed by the UN Office on Drugs and Crime's Terrorism Prevention Branch.

## International Sanctions

None applicable

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	39
World Governance Indicator – Control of Corruption	40

### **US State Department**

Corruption remains pervasive in Albania and affects all aspects of society. A culture of impunity is widespread and deeply rooted. Ordinary citizens and foreign investors alike can point to the judiciary, uneven enforcement of laws and property rights, a weak regulatory environment, and opaque government procurement as indicators of endemic corruption. Although the number of corruption cases investigated and prosecuted is rising, conviction rates remain low. Furthermore, high-level corruption cases of politicians or affluent business leaders very rarely end in conviction. Perception of corruption continues to be high and Albania ranked 116<sup>th</sup> out of 177 countries in the 2013 Transparency International (TI) Corruption Perception Index.

While anti-corruption legislation exists, enforcement lags behind. The government has amended anti-corruption legislation numerous times in recent years to strengthen the framework dealing with corruption and organized crime and to bring Albanian legislation in line with the civil and criminal conventions of the European Union. Under the Albanian Criminal Code, both active and passive corruption, abuse of office, and undue influence are considered criminal offenses. In addition to basic corruption offenses, there are specific criminal provisions addressing active and passive corruption by persons exercising public functions, high state officials and locally elected persons, judges, prosecutors, and employees of the judicial bodies and the private sector. There also are provisions addressing trading in influence. In March 2012, Parliament passed amendments to the Criminal Code addressing cases of bribery by foreign public officials and increasing the penalties for corruption in the private sector, closing existing loopholes in the legislation. In 2012, Parliament also approved constitutional changes, restricting the immunity of high level public officials and judges. The current government has denounced many previous middle and high-level government officials to the Prosecutor’s Office on corruption charges, but to date none have been prosecuted.

The government has ratified several corruption-related international treaties and conventions and is a member of major international organizations and programs dealing with corruption and/or organized crime. Albania has ratified the Civil Law Convention on Corruption (Council of Europe), the Criminal Law Convention on Corruption (Council of Europe), the Additional Protocol to Criminal Law Convention on Corruption (Council of Europe), and the United Nations Convention against Corruption (UNCAC). Albania also has ratified a number of key conventions in the broader field of economic crime, including the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (2001) and Convention on Cybercrime (2002). Albania has been a member of the Group of States

against Corruption (GRECO) since the ratification of the Criminal Law Convention on Corruption in 2001 and also is a member of the Stability Pact Anti-Corruption Network (SPAI).

Police authorities and the Prosecutor General's Office are in charge of criminal investigations and law enforcement, while the State Audit Commission and internal auditing units within various state institutions, inspect, assess, and report alleged cases of corruption. A Joint Investigative Unit against corruption and economic crime was established in 2007 in the Tirana District Prosecution Office. The unit is a multi-agency taskforce composed of police staff from the prosecutor's offices, the state, customs and tax police, and other relevant institutions, working together on specific investigations. Based on the first unit model, six more units were established in regions throughout Albania to prosecute corruption and economic crimes outside Tirana. The High Inspectorate for the Declaration and Audit of Assets (HIDAA), established in 2003, collects and audits the annual declaration of assets and properties of mid and high level public officials in central and local executive agencies and supervises the prevention of conflicts of interest.

The High State Control is the highest institution of economic and financial control. It supervises the economic activity of state institutions and other state juridical persons as well as the use and preservation of state funds by the central and local government institutions and state owned enterprises.

The Prime Minister's office includes an Internal Administrative and Anti-Corruption Control department, which serves as an inspectorate for all central executive public institutions and investigates allegations of procedural irregularities and irregularities in the handling of public finances. In the Judiciary, the High Council of Justice is in charge of the appointment and removal of judges and prosecutors in district and appeals courts. Specialized inspectors investigate allegations of misconduct of judges and the High Council of Justice then takes the relevant disciplinary measures.

Transparency International (TI) Albania is the main international non-governmental watchdog organization in Albania. Other NGOs perform watchdog functions regarding corruption, but the role of the civil society in denouncing corruption is weak.

## **Corruption and Government Transparency - Report by Global Security**

### **Political Climate**

Transition from a one-party communist state to an electoral democracy has proven difficult in Albania, and successive governments have had to deal with high levels of unemployment, organised crime, and widespread corruption, as well as claims of electoral fraud. In June 2012, Albania's Parliament elected the Interior Minister Bujar Nishani as the country's new president, and the Democratic Party of Albania became the controlling party within the government's ruling coalition. Albania has had its application for EU candidate status turned down twice, as one of the requirements for EU membership is an increased fight against corruption. In fact, corruption has been perceived to be so widespread in Albania by the European Union, which has led the latter to repeatedly call for rigorous implementation of anti-corruption measures in the country, as report by Freedom House 2013. Nevertheless and on a more positive note, a 2012 Albania Progress Report by the European Commission notes that Albania's legal framework and inter-agency structures for fighting corruption is largely in

place. However, implementation of anti-corruption policies is still ineffective and demonstrated results are insufficient as a result of a low level of cooperation between the law enforcement agencies, lack of technical equipment for investigations, and lack of specialist expertise.

The Bertelsmann Foundation 2012 emphasises that Albania's deficiency in separation of powers is a major impediment to the country's democratisation. As for the legislative power, private interests have traditionally played a role in the elections, and the situation was facilitated by the fact that campaign funding was not transparent in the country and the auditing of the reported party income not satisfactory. GRECO 2011 reports that electoral campaign funding has now been regulated so that stricter financing rules apply and income disclosure is mandatory. As an example of the past irregularities, outgoing Prime Minister Berisha appeared several times in a TV-commercial that was financed with government funds during the 2009 electoral campaign. Criticism of the Prime Minister using state budget for a personal commercial purpose was compounded by the fact that neither the cost of the TV-commercial was disclosed nor was the contract awarded in a public bid, but directly assigned to the chosen producer. A prominent corruption scandal on the political arena took place in 2011, when Albania's former Economy Minister Dritan Prift made public a video where the former Deputy Minister Ilir Meta discusses corrupt deals. According to Freedom House 2012, Meta resigned from his position, but denied any allegations of active bribery. Following the scandal, mass protests were led by the opposition against the persistent corruption among the political elite of the country.

Albania's government has run an anti-corruption platform since the first term of pro-European Prime Minister Sali Berisha's first election, and the fight against corruption has since been on the political agenda. However, the government's efforts to tackle corruption are sporadic and continuously yield very poor results, due to lack of commitment and institutional enforcement, according to Freedom House 2013. Furthermore, governmental anti-corruption measures often lack concrete timetables and mechanisms that can be monitored. The government has adopted Albania's National Strategy for Development and Integration (NSDI) 2007-2013; however, the results have yet to be seen. According to Transparency International's Global Corruption Barometer 2013, two-thirds of all respondents believe that Albania's government is run by a few political entities in their own best interest. In contrast, Global Integrity 2010 mentions some progress in fighting corruption in recent years, including a well-developed system to support the transparency and fairness of public procurement. In 2012, under international pressure, the Albanian government adopted several constitutional amendments that will limit the immunity of public officials, judges, and lawmakers from prosecution, allowing for investigations without prior official authorisation.

### **Business and Corruption**

Foreign investment and increasing FDI inflows has been a top priority for the Albanian government. The country has taken measures to improve the business climate by streamlining business procedures through e-governance reforms, which have contributed to increased investor confidence. According to the US Department of State 2013, FDI inflows have more than doubled over the past decade in Albania, with a significant part of it coming from privatisations. The government has set up the Albanian Investment Development Agency (AIDA) to provide direct assistance to investors, attract FDI, enhance competitiveness of Albanian exporters and provide professional consulting to local SMEs. In addition to actively assisting companies in becoming established in Albania, the agency also

provides investors with information concerning the business climate in the country and legal requirements for doing business. Despite progress in reforms, the major factors hampering business operations remain widespread corruption, weak law enforcement, insufficiently defined property rights, a cumbersome bureaucracy, and frequent changes in the legal framework. Foreign companies continue to face significant challenges in entering the market, particularly in areas related to property rights.

Corruption is recognised as a major problem for the growth and development of the business sector in Albania, discouraging foreign companies from getting established in the country. In a similar vein, business executives surveyed in the World Economic Forum Global Competitiveness Report 2013-2014 identify corruption as the second most problematic factor for establishing business in the country. Public procurement represents a large source of revenues for many companies in Albania; however, despite the reforms in the procurement sector, companies continue to experience non-transparent processes when competing for government tenders. Furthermore, a 2011 Governance Report by the World Bank reports that the persistent politicisation of the Albanian public administration, weak separation of power, and political interference in the rule of law remain obstacles for the development of Albania and its competitiveness as an investment destination. This is further reinforced by the Global Competitiveness Report 2013-2014, which notes that favoritism by government officials when setting policies and awarding contracts is an obstacle to doing business in the country and that public funds are commonly diverted to individuals, companies, or groups, due to corruption.

The US Department of State 2013 reports that foreign investors believe corruption to be endemic in Albania and presents a major challenge to economic development. Perhaps one of the reasons behind these challenges is the presence of a significant informal sector in the economy facilitates tax evasion for certain companies. Furthermore, the US Department of State 2013 also notes that public procurement is an area rife with corruption. According to Transparency International's Global Corruption Barometer 2013, corruption within the business and private sector is perceived to be pervasive, with approximately 29% of respondents evaluating it as 'extremely corrupt'. Therefore, companies are recommended to use a specialised public procurement due diligence tool in order to help mitigate the costs and risks of corruption involving public procurement processes in Albania and are recommended to develop and implement integrity systems, and to carry out extensive due diligence before committing funds or when already doing business in the country.

### **Regulatory Environment**

Albania has sought to improve its governance in collaboration with the European Union and other international actors. In March 2012, the European Union financed a EUR 2.1 million project to help in the fight against corruption in Albania, according to a 2012 article by Balkans.com Business News. As a result of the previous collaboration with the European Union, progress has occurred in several economic sector; although, regulations pertaining to business reportedly remain cumbersome. The US Department of State 2013 reports that business registration has been streamlined considerably, eliminating numerous interactions with administrative offices. Instead, one single office, the National Registration Centre (NRC) and its local windows, are now responsible for processing the single form registration within 24 hours at a cost of approximately USD 1. Furthermore, Global Integrity 2010 reports that efficient control systems have been implemented in customs and tax administration. Also, some agencies have undertaken steps to consult with business and civil society about issues

in drafted laws and regulations. Despite these improvements, the US Department of State 2013 emphasises that the regulatory environment is still challenging and not sufficiently transparent, and companies have difficulties accessing legislation. Furthermore, laws and regulations are sometimes inconsistent, making their implementation unforeseeable.

Companies surveyed in the World Economic Forum Global Competitiveness Report 2013-2014 identify inefficient government bureaucracy and tax regulations to be among the most problematic factors for doing business. This is supported by the US Department of State, which notes that Albania's regulatory environment suffers from improper and uneven enforcement of laws and regulations, a rigid bureaucracy, extensive red tape as well as frequent changes to legislation. These hurdles provide breeding grounds for the occurrence of corrupt practices. According to the World Bank & IFC Doing Business 2013, it takes on average 4 procedures and 4 days at a cost of 22% of per capita income to start a company in Albania, which is significantly more costly compared to the regional and the OECD average.

Although Albania has made efforts to handle investment disputes in an appropriate manner, issues continue to hamper effective resolution of disputes, as reported by the US Department of State 2013. The judicial system is viewed by the business community to be non-transparent and corrupt, resulting in strong inefficiency into any settlement process. Furthermore, according to Global Integrity 2010, judges lack experience and competence in commercial law, and certain groups, mainly powerful defendants, receive preferential treatment by the courts. Albania accepts binding international arbitration in specific investment agreements, and has been a party to many arbitration disputes in foreign or international arbitration tribunals. The country is a signatory to several international conventions regulating the mutual acceptance and enforcement of foreign arbitration, including the New York Convention 1958 and the Washington Convention 1965. Access the Lexadin World Law Guide for a collection of legislation in Albania.

## Section 3 - Economy

Albania, a formerly closed, centrally-planned state, is making the difficult transition to a more modern open-market economy. Albania managed to weather the first waves of the global financial crisis but, more recently, its negative effects have put some pressure on the Albanian economy. While the government is focused on establishing a favorable business climate through the simplification of licensing requirements and tax codes, it entered into a new arrangement with the IMF for additional financial and technical support. Remittances, a significant catalyst for economic growth declined from 12-15% of GDP before the 2008 financial crisis to 7% of GDP in 2012, mostly from Albanians residing in Greece and Italy. The agricultural sector, which accounts for almost half of employment but only about one-fifth of GDP, is limited primarily to small family operations and subsistence farming, because of a lack of modern equipment, unclear property rights, and the prevalence of small, inefficient plots of land. Complex tax codes and licensing requirements, a weak judicial system, poor enforcement of contracts and property issues, and antiquated infrastructure contribute to Albania's poor business environment and makes attracting foreign investment more difficult. Inward FDI is among the lowest in the region, but the government has embarked on an ambitious program to improve the business climate through fiscal and legislative reforms. Albania's energy supply has improved in recent years mostly due to upgraded transmission capacities that Albania has developed with its neighboring countries. However, technical and non-technical losses - including energy theft and non-payment - continue to be a threat to the financial viability of the entire system. Also, with help from international donors, the government is taking steps to improve the poor national road and rail network, a long-standing barrier to sustained economic growth. The country will continue to face challenges from increasing public debt, having exceeded its former statutory limit of 60% of GDP in 2013. Strong trade, remittance, and banking sector ties with Greece and Italy make Albania vulnerable to spillover effects of debt crises and weak growth in the euro zone.

### **Agriculture - products:**

wheat, corn, potatoes, vegetables, fruits, sugar beets, grapes; meat, dairy products; sheep

### **Industries:**

perfumes and cosmetic products, food and tobacco products; textiles and clothing; lumber, oil, cement, chemicals, mining, basic metals, hydropower

### **Exports - commodities:**

textiles and footwear; asphalt, metals and metallic ores, crude oil; vegetables, fruits, tobacco

### **Exports - partners:**

Italy 44.2%, Spain 9%, China 6.8%, Greece 4.9%, Turkey 4.7% (2012)

### **Imports - commodities:**

machinery and equipment, foodstuffs, textiles, chemicals

**Imports - partners:**

Italy 34.9%, Greece 11.7%, China 7.5%, Turkey 5.6%, Germany 4.3% (2012)

**Banking**

According to the Bank of Albania, the Central Bank, about 20 percent of the money in circulation is outside of the banking system. However, the use of cash cards and Point of Sales Terminals (POS) is growing. Despite the expansion of the banking sector, a significant portion of remittances enters the country through unofficial channels. It is estimated that only half of total remittances enter Albania through banks or money transfer companies.

**Stock Exchange**

The Tirana Stock Exchange is located in the capital city, Tirana. It opened in 1996, concurrent with the establishment of the Albanian Securities Commission, with a full membership in the Euro-Asian Federation of Stock Exchanges (FEAS). The market functioned as a department of the central bank until it was spun off as an independent entity in 2002.

### Executive Summary

Albania is a relatively small country with a population of approximately three million people and a landmass the size of Maryland. Albania largely was spared from the severe fallout of the 2008 financial crisis as its economy was not heavily integrated into the Euro-Atlantic system. Nonetheless, the prolonged European crisis, coupled with a challenging fiscal and budgetary environment, has caused economic output to slow since 2009. With the help of a 300-million euro International Monetary Fund (IMF) package, the government hopes to reduce its mounting budget deficit and to stimulate economic growth in 2014. Albania's GDP increased by approximately 1.7 percent in 2013 and the IMF expects the economy to continue to grow by two percent in 2014. Canada is the largest source of Albanian FDI, representing 19 percent of Albania's \$4.5 billion foreign investment stock, mostly in the hydrocarbon and mining sectors.

Albania has implemented a liberal foreign investment regime with the goal of increasing foreign direct investment. In recent years, the government has implemented reforms to improve the overall business climate in the country by streamlining business procedures through e-government reforms and improved legislation in a variety of sectors. Furthermore, the government that took office in September 2013 has stated that promoting foreign investment is a key part of its economic development plans. Opportunities for U.S. investors in Albania likely will increase in the coming years. The government plans to auction 13 oil and gas exploration licenses in 2014 and the beginning of construction on the Trans-Adriatic Pipeline (TAP), which will bring Azeri gas through Greece and Albania to Italy, both represent significant opportunities for U.S. investors.

The Albanian legal system does not discriminate against foreign investors and the "Law on Foreign Investment" allows 100 percent foreign ownership of companies and outlines specific protections for foreign investors. Albanian tax policy also does not distinguish between domestic and foreign investments. The U.S. - Albania bilateral investment treaty entered into force in 1998 and ensures that U.S. investors receive most-favored-nation treatment. Albania's banking system is well-capitalized and is a ready source for business financing.

Despite a legal framework designed to promote investment and significant emerging opportunities in the natural resources and energy sectors, major challenges remain for U.S. investors. Recent changes in political leadership have raised questions about the legal certainty of licensing and concession agreements signed by previous governments. Investors also cite endemic corruption, weak law enforcement, insufficiently defined property rights, government red tape, lack of developed infrastructure, and frequent changes in the legal framework as other major obstacles to investing in Albania.

#### **1. Openness To, and Restrictions Upon, Foreign Investment**

Albania has implemented a liberal foreign investment regime with the goal of increasing foreign direct investment. The Albanian government has taken measures to improve the overall business climate in the country by streamlining business procedures through e-government reforms and improved legislation in a variety of sectors. Despite progress in these reforms, major challenges remain, with investors citing endemic corruption, weak law enforcement, insufficiently defined property rights, government red tape, lack of developed

infrastructure, and frequent changes in the legal framework. Changes in political leadership have also raised questions about the legal certainty of licensing and concession agreements signed by previous governments.

### ***Legal Framework***

The 'Law on Foreign Investment' attempts to create a hospitable climate for foreign investors and stipulates the following:

- No prior government authorization is needed for an initial investment and no sector is closed to foreign investment;
- 100 percent foreign ownership of companies is permissible;
- Foreign investment may not be expropriated or nationalized directly or indirectly, except for designated special cases, in the interest of public use and as defined by law;
- Foreign investors enjoy the right to expatriate all funds and contributions in kind from their investments; and
- Foreign investors receive 'most favored nation' treatment according to international agreements and Albanian law.

Additionally, in September 2010, the parliament approved several amendments to this law that provide special protection for foreign investment in the tourism, energy and agriculture sectors.

The Law on Foreign Investments grants special state protection to real estate investments under the Albanian Concession Law. This applies to immovable property made available to the foreign investor by the Albanian state or an immovable property over which the foreign investor has rights based on a valid, legal, public document or act issued by a competent state-entity or public authority, where such investment exceeds or is foreseen to exceed the value of EUR 10 million. Under the special state protection, the foreign investor is represented in the judiciary process by the Albanian state and any injunction order issued by the court shall be executed over state properties.

The 'Law on Protection of Competition' governs incoming foreign investment whether it is through mergers, acquisitions, takeovers, or green field investments, irrespective of the industry or sector. In the case of particular share transfers in insurance and banking industries, additional regulatory approvals are needed. Also, transactions between parties outside Albania -- "foreign to foreign" transactions -- are covered by the competition law which explicitly states that it applies to all undertakings, whether domestic or foreign, whose activities have a direct or indirect effect on the Albanian market.

There are limited exceptions to this liberal investment regime, most of which apply to the purchase of real estate: agricultural land cannot be purchased by foreigners, but may be rented for up to 99 years; and commercial property may be purchased, but only if the proposed investment is worth three times the price of the land. There are no restrictions on the purchase of private residential property.

Investors in Albania are entitled to judicial protection of legal rights related to their investments. Foreign investors have the right to submit disputes to an Albanian court.

However, many companies complain about the sluggishness of the courts and the endemic corruption in the judiciary. In addition, parties to a dispute may agree to arbitration. The Albanian Code of Civil Procedure outlines provisions regarding domestic and international commercial arbitration.

### ***Taxation***

Albania's tax system does not distinguish between foreign and domestic investors. Reforms are aimed at increasing the efficiency of tax administration and reducing corruption, but rampant informality in the economy (some experts estimate 50 percent of the Albanian economy is informal) make tax administration a challenge. In an effort to address the sharp decline in government revenues during 2012-2013 and growing public debt, the government, in consultation with the International Monetary Fund, passed a new fiscal package in December 2013. The new fiscal package increased corporate income tax from 10 to 15 percent for medium and large companies and reduced the tax rate to 7.5 percent for companies with less than \$80,000 in annual turnover. The package also implemented a progressive personal income tax, removed the cap for health insurance contributions, and eliminated many tax breaks and incentives in the oil and gas sector.

U.S. exporters often complain about the unequal and inappropriate application of reference prices, which Customs uses to assess duties on goods imported into Albania. The new administration has pledged to gradually eliminate the use of reference prices and has promised that it will eliminate reference pricing for imports from the United States and the European Union by 2015.

### ***Visa requirements***

Visa requirements to obtain residence or work permit requirements are straightforward and do not pose an undue burden on potential investors. The only potential complication to obtaining a work permit is the requirement that a foreign employer maintain a mandated number of local employees. The Law on Foreigners approved in April 2013 states that a foreign employer will be granted a work permit provided that the number of foreign employees in his company does not exceed 10% of the total number of employees on the payroll for the 12 preceding months.

The Law on Entrepreneurs and Commercial Companies sets guidelines on the activities of companies and the legal structure under which they may operate. The government adopted the law in 2008 to conform Albanian legislation to the European Union's *acquis communautaire*. The most common type of organization for foreign investors is a limited liability company. (See "establishment" below for other forms.)

### ***Business Licenses***

The National Business Registration Center serves as a one-stop-shop for business registration. Starting a business is now easier with online publishing of forms and procedures, reduction of registration costs, and the consolidation of tax, health insurance, and labor registration into a single application. The opening of the Business Licensing Center in 2009 streamlined the licensing process by abolishing many licensing requirements and simplifying other licensing procedures.

### ***Public Procurement***

Albania improved public procurement procedures by introducing an e-procurement law in 2006. The government eliminated direct tendering (except for defense procurements) and introduced criteria to identify abnormally low bids. The Public Procurement Advocate performs functions similar to an ombudsman by safeguarding the rights and interests of bidders against acts or omissions by contracting authorities. However, companies continue to confront a nontransparent process when competing for public tenders whether it is 'fixed' technical specifications designed to lock out a potential bidder or a lack of clear communication with the relevant ministries. In one recent government procurement tender, the relevant ministry changed the terms of the tender after the process had begun, and after a number of international companies had already submitted bids.

### ***Concessionary Projects***

In 2013, Albania approved a new law on concessions and public-private partnerships. All contracts signed or negotiated prior to the new law remain subject to the provisions of the previous law. The new law aims to better align Albanian policy with EU legislation and clarify the distinction between concession contracts and public-private partnerships. The law establishes the framework for promoting and facilitating the implementation of privately financed concessionary projects and aims to enhance transparency, fairness, efficiency, and long-term sustainability in the development of infrastructure and public service projects. Concessions may be identified by central or local governments or through third party unsolicited proposals. The law applies to the following sectors:

- Electricity and heating: generation and distribution ;
- Health;
- Natural gas distribution;
- IT and database infrastructure: service and maintenance ;
- Prison and judicial infrastructure;
- Recycling projects, rehabilitation of land and forests;
- Industrial parks and mining;
- Housing, governmental buildings;
- Solid waste: collection, transfer, processing and administration ;
- Telecommunication;
- Tourism, leisure and hotels
- Culture and sports;
- Science and education;
- Transport (railway system, rail transport, ports, airports, roads, tunnels, bridges, parking facilities, public transport);
- Water: production and distribution, treatment, collection distribution and administration of waste water, irrigation, drainage, cleaning of canals, dams;

- Public services: management contracts, including those related to sectors specified above.

In order to promote investment in priority sectors, the government may offer concessions to local or international investors for the symbolic price of one euro but the law fails to define the specific cases. The Government may, with the proposal of other central government agencies or local government, authorize concessions in other sectors other than those listed above. The law does not apply to concessions that require a separate operating license, unless that is included in the framework of the concession agreement.

The government does not screen foreign investment and U.S. investors are popular with both government officials and ordinary citizens. Political change, however, can be of concern to foreign investors. Following 2013 elections and a peaceful transition of power, the new government has revoked or attempted to renegotiate numerous concession agreements, licenses, and contracts signed by the previous government with international investors. In numerous instances, the current government has stated that the previous government either awarded the concessions in an unlawful manner, or the concession holder or licensee is not complying with the terms of the agreement, or that the existing agreement simply is not in Albania's best interest. Companies interested in entering the Albanian market should contact the Albanian Investment and Development Agency (AIDA), which provides direct assistance to investors, promotes SMEs, Albanian exports, and tracks FDI.

### **Key Benchmarks**

Moody's Investors Service assigned Albania its first-ever sovereign rating in 2007, with the current rating for long term local and foreign currency standing at B1. On April 2014, Standard and Poor's (S&P) upgraded Albania's economic outlook from "negative" to "stable."

**TABLE 1:** The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	116 of 177	<a href="http://cpi.transparency.org/cpi2013/results/">http://cpi.transparency.org/cpi2013/results/</a>
Heritage Foundation's Economic Freedom index	2013	54 of 177	<a href="http://www.heritage.org/index/ranking">http://www.heritage.org/index/ranking</a>
World Bank's Doing Business Report "Ease	2013	90 of 189	<a href="http://doingbusiness.org/rankings">http://doingbusiness.org/rankings</a>

of Doing Business”			
Global Innovation Index	2013	93 of 142	<a href="http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener">http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener</a>
World Bank GNI per capita (USD)	2012	4,030	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">http://data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

**TABLE 1B - Scorecards:** The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) or \$4,085 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here:

<http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC’s indicators and a guide to reading the scorecards, are available here:

<http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf>

MCC scorecard	2014	2013	2012	2011	2010	2009	2008	2007
MCC Government Effectiveness	n/a	0.24	n/a	n/a	0.08	0.00	-0.15	-0.33
MCC Rule of Law	n/a	-0.03	n/a	n/a	-0.24	-0.22	-0.20	-0.47
MCC Control of Corruption	n/a	-0.09	n/a	n/a	0.09	-0.12	-0.30	-0.34
MCC Fiscal Policy	n/a	-5.0	n/a	n/a	-4.20	-3.60	-3.98	-4.41
MCC Trade Policy	n/a	79.8	n/a	n/a	85.80	75.80	63.20	57.40
MCC Regulatory Quality	n/a	0.62	n/a	n/a	0.60	0.24	0.01	-0.01
MCC Business Start Up	n/a	0.959	n/a	n/a	0.98	0.97	0.97	0.39
MCC Lands Rights Access	n/a	0.80	n/a	n/a	0.87	0.81	0.73	n/a
MCC Natural Resource Management	n/a	58.8	n/a	n/a	97.29	79.65	79.43	n/a

## 2. Conversion and Transfer Policies

The Central Bank of Albania (BOA) formulates, adopts, and implements foreign exchange policies and maintains a supervisory role in foreign exchange activities in accordance with the 'Law on the Bank of Albania' No. 8269 and the 'Banking Law' No. 9662. The Regulation on Foreign Exchange Activities (FX Regulation) is the most specific piece of legislation regarding foreign exchanges.

### **Capital Controls**

The Banking Law does not impose any restrictions on the purchase, sale, holding, or transfer of monetary foreign exchanges. However, the Law on the Bank of Albania authorizes the bank to temporarily restrict the purchase, sale, holding, or transfer of foreign exchanges in order to preserve the foreign exchange rate or its official reserves. In practice, the Bank of Albania rarely uses such measures. In 2009, the Bank temporarily tightened supervision rules over liquidity transfers by domestic banks to their foreign mother banks due to the widespread lack of liquidity in international financial markets. It also asked banks to not distribute dividends and to use them to increase shareholders' capital instead. The Bank lifted these restrictions in 2010.

The 'Law on Foreign Investment' guarantees the right to transfer and repatriate any funds associated with an investment from Albania into a freely usable currency at a market-clearing rate. Only licensed entities (domestic banks, foreign bank branches, and foreign exchange offices) may conduct foreign exchange transfers and the central bank requires these entities to report their foreign exchange activities on a regular basis. These entities also are obliged to complete and maintain all documentation required for transfers abroad. Both Albanian and foreign citizens entering or leaving the country must declare assets in excess of lek 1,000,000 (approximately USD 10,000) in hard currency and/or precious items. Failure to declare such assets is considered a criminal act and punishable by confiscation of the assets and imprisonment.

Although the Foreign Exchange Regulation provides that residents and non-residents may transfer capital within and into Albania without any restrictions, capital transfers out of Albania are subject to certain documentation requirements. Physical persons must submit a request indicating the reasons for the capital transfer, the amount of capital transferred outside the territory of Albania, and the address to which the capital will be transferred. Such persons also must submit a declaration on the source of the funds to be transferred. Delays in value added tax (VAT) reimbursements from the government remain a serious issue for both domestic and foreign investors, with delays exceeding 60 days and occasionally reaching to several months or even years. The new government has pledged to pay back VAT arrears and to streamline VAT reimbursement procedures in order to avoid accumulation of arrears in the future.

The Bank of Albania maintains a floating free exchange rate regime for its domestic currency, the Lek. Foreign exchange is readily available at banks and exchange bureaus. However, in case of large amounts, preliminary notification is necessary as the exchange market in Albania remains small. The Lek is a historically stable currency and the risk for devaluation over the next year is unlikely. Albanian authorities do not engage in currency arbitrage and do not view it as an efficient instrument to achieve competitive advantage.

Albania is a member of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a Financial Action Task Force-style regional body.

### **3. Expropriation and Compensation**

The Albanian Constitution guarantees the right of private property. According to Article 41, the expropriation or limitation in the exercise of a property right only can occur in the public interest and with fair compensation. In the post-communist period, expropriation has been limited to land needed for the public interest, mainly infrastructure projects such as roads, energy infrastructure, water works, airports, etc. Compensation has generally been below market value and owners have complained that the compensation process is slow and unfair. Civil courts are responsible for resolving such complains.

There are many ongoing disputes regarding properties confiscated during the communist regime. \_ Identifying land titles and ownership in Albania is a perpetual problem that makes restitution for expropriated properties extremely difficult. The restitution and compensation process started in 1993, but has been slow and marred by corruption. Many U.S. citizens of Albanian origin have long-running restitution disputes. Court cases tend to drag on for years without a final decision, forcing many to take their case to the European Court of Human Rights in Strasburg, France. The Court has so far issued 10 decisions in favor of Albanian citizens, but there are still 379 applications pending for consideration. Even once a case is settled in Strasburg, enforcement of the decision is often slow or nonexistent.

The GOA has presented three methods of compensation for confiscation claims: restitution; compensation of property with similarly-valued land in a different location; and cash settlement/financial compensation. In practice however, a lack of funding and the large amount of claimants has significantly slowed the restitution process.

Albanian governments have not engaged in expropriation actions against U.S. investments, companies or representatives. There have been limited cases when the government has revoked licenses, especially in the mining and energy sectors, based on contract violation claims.

### **4. Dispute Settlement**

#### ***Legal System***

Albania has a civil law system similar to that of most other European countries. The Albanian Constitution provides for the separation of legislative, executive, and judicial branches; thus supporting the independence of the judiciary. The Civil Procedure Code enacted in 1996 governs civil procedure in Albania. The civil court system consists of district courts, appellate courts, and the Supreme Court. In 2012, Albania approved the law on administrative courts, and these courts began operation in late 2013. The administrative courts of first instance, the Administrative Court of Appeal and the Administrative College of the High Court, now adjudicate administrative disputes. Administrative courts aim to enable fast adjudication of administrative cases, but their efficacy remains to be proven. The Constitutional Court reviews whether laws or subsidiary legislation comply with the Constitution and in limited cases protects and enforces the constitutional rights of citizens and legal entities.

Parties may appeal the judgment of the first instance courts within 15 days, while Appellate Court judgments must be appealed to the Supreme Court within 30 days. A lawsuit against an administrative action is submitted to the administrative court within 45 days from notification and the law stipulates short procedural timeframes enabling faster adjudication of administrative disputes.

Albania does not have a specific commercial code, but defines commercial legislation through a series of commercial laws. Relevant laws include:

- Foreign Investment Law;
- Commercial Companies Law;
- Bankruptcy Law;
- Environmental Law;
- Corporate and Municipal Bonds;
- Transport Law;
- Maritime Code;
- Secured Transactions Law;
- Employment Law;
- Taxation Procedures Law;
- Banking Law; Insurance and Reinsurance Law;
- Concessions Law;
- Mining Law;
- Energy Law;
- Water Resources Law;
- Waste Management Law;
- Excise Law;
- Oil and Gas Law;
- Gambling Law;
- Telecommunications Law;
- Value Added Law;
- Sports Law.

### ***Bankruptcy***

The Bankruptcy Law governs the reorganization or liquidation of insolvent businesses. It sets out non-discriminatory and mandatory rules for the repayment of the obligations by a debtor in a bankruptcy procedure. The law establishes statutory time limits for insolvency procedures, professional qualifications for insolvency administrators, and an Agency of Insolvency Supervision to regulate the profession of insolvency administrators. A simplified insolvency procedure for small businesses is also in place.

## ***Investment Disputes***

In the past ten years, there have been two major investment disputes between the Albanian government and U.S. companies. Both disputes were settled in International Arbitration, one in favor of the U.S. company and the other in favor of the Albanian government. In both instances, both parties respected and enforced the findings of the arbitration.

## ***International Arbitration***

An alternative to dispute settlement via the courts is private arbitration or mediation. Parties can engage in arbitration when they have agreed to such a provision in the original agreement, when there is a separate arbitration agreement, or by mutual agreement at any time when the dispute arises. Legislation distinguishes arbitration of international disputes from arbitration of domestic disputes in that the parties involved in an international dispute may agree to settle through either a domestic or foreign arbitration tribunal.

Under the Albanian Constitution, ratified international agreements prevail over domestic legislation. Albania has signed and ratified the 1966 Convention "On the Settlement of Investment Disputes" between States and Nationals of Other States (Washington Convention) as well as the Convention of 1958 "On the Recognition and Enforcement of Foreign Arbitral Awards" (New York Convention). It also has ratified the 1927 Convention and the European Convention on Arbitration (Geneva Convention).

In order to have an arbitration settlement recognized by the government, a claimant must bring the award before the Court of Appeals. The Albanian Appellate Court may refuse to recognize the foreign arbitral award because:

- The foreign arbitration has no jurisdiction to resolve the dispute;
- The defendant/respondent was not duly notified if the foreign arbitration has ruled in its absence;
- The same case between the same parties is subject to a decision of the Albanian courts;
- Albanian courts are examining an action filed with the Albanian courts before the foreign arbitration award became final and enforceable;
- The foreign arbitration award is issued in breach of the foreign country legislation;
- The award does not comply with the basic principles of the Albanian legislation (i.e. public policy).

The procedures for the recognition of a foreign arbitral award typically last around one month and either party may appeal the Court's decision to the Supreme Court. The appeal must be filed within 30 days from the date of decision or notification of the other party (if absent). However, the appeal process does not suspend enforcement of the award unless ordered by the Supreme Court upon special request submitted by the defendant.

The possibility of bringing an action before the local court in order to avoid arbitration proceedings is remote. According to explicit provisions in the Albanian Code of Civil Procedure, if a party brings actions before local courts despite the parties' agreement to arbitrate, the court would, upon motion of the other party, dismiss the case without

entertaining the merits of the case. The decision of the court to dismiss the case can be appealed to the Supreme Court, which has 30 days to consider the appeal.

## **5. Performance Requirements and Investment Incentives**

### ***Performance Requirements***

Albania does not have any performance requirements that are inconsistent with the WTO Trade-Related Investment Measures (TRIMs) obligations. Albanian law does not impose performance requirements on foreign or domestic investors. Furthermore, the bilateral investment treaty between the two countries prohibits either party from mandating or enforcing performance requirements as a condition for the establishment, acquisition, expansion, management, conduct, or operation of a covered investment.

According to Albanian law, a foreigner can purchase commercial property only if the investor plans to improve the value of the property by three times the purchase price. Although visa, residence, and work permit requirements are straightforward and do not pose an undue burden on potential investors, the new Law on Foreigners approved in 2013 requires foreign investors to prove that foreign employees are less than 10 percent of total employees before granting a work permit.

### ***Investment Incentives***

The 2005 'Law on State Aid' regulates Albanian investment incentives for both foreign and domestic investors. The law governs all sectors of manufacturing and services, excluding agriculture and fisheries, and applies to both the central and local governments as well as other entities acting on behalf of the state that confer benefits to particular enterprises. Some of the major incentives are listed below:

- Tax exemption of dividends designated for investments; Dividends and profit share paid by a resident or non-resident company to a resident taxpayer will not be subject to corporate income tax for the resident taxpayer.
- The government may lease or provide a concession for public property of more than 500 square meters for the symbolic price of one euro if the investor will use the property for manufacturing activities with an investment exceeding 10 million euros or for active processing activities.
- The government may lease or provide a concession for public property for the symbolic price of one euro for investments of more than two million euros for activities that address social and economic issues in a certain area, as well as activities related to sport, culture, tourism, and cultural heritage. Criteria and terms are decided on a case by case basis through a decision of Council of Ministers;
- Machinery and equipment purchases for investments worth more than \$500,000 are value added tax exempt. Machinery and equipment imported exclusively to meet investment contracts related to the active processing or agribusiness sectors also are VAT exempt.
- Apparel and footwear producers are exempt from VAT and customs tariffs on raw materials as long as the finished product is exported.

- Albanian-registered entities that import certain machinery and equipment (as defined by law) for use in their business activity are exempt from customs duties.

### ***Energy Sector Incentives***

- The government ensures favorable pricing for the sale of electricity generated from new hydro power plants with less than 15MW installed capacity for a period of 15 years, approved annually by the Energy Regulating Entity. The Law on Concessions establishes the necessary framework for promoting and facilitating the implementation of privately financed concessionary projects.
- Cement and iron imported for the construction of hydropower plants is VAT exempt.

### ***The hydrocarbons sector (exploration – exploitation)***

- Licensees operating in the hydrocarbon sector pay profit tax at the rate of 50 percent, but may deduct capital, operating, and administrative expenses, in accordance with the respective hydrocarbons agreement.
- The import of goods or services related to the performance of the exploration/research phase of petroleum operations, carried out by contractors who work for these operations, are VAT exempt.

## **6. Right to Private Ownership and Establishment**

Albanian law permits private ownership and establishment of enterprises and property. Foreign investors do not need additional permission or authorization beyond that required of domestic investors. The government applies restrictions only on the purchase of real estate: agricultural land cannot be purchased by foreigners, but may be rented for up to 99 years. Commercial property may be purchased, but only if the proposed investment is worth three times the price of the land. There are no restrictions on the purchase of private residential property.

Both foreign and domestic investors continue to experience significant issues in resolving property disputes arising from unclear or incomplete documentation.

Foreigners can acquire concession rights on natural resources and on resources of the common interest, as defined by the 'Law on Concessions.' The National Licensing Center (NLC) serves as a one-stop-shop for business licenses. More information on the types of licenses and application procedures is outlined at [www.qkl.gov.al](http://www.qkl.gov.al)

The 2007 'Law Establishing the National Registration Center' (NRC) allows business entities to register in a single place, in one day, for one euro. More information on the NCR can be found at [www.qkr.gov.al](http://www.qkr.gov.al). Both NLC and NRC were established with assistance from the Millennium Challenge Corporation Albania Threshold Program as e-government initiatives, and save investors valuable time in establishing and carrying out business operations, while also increasing transparency and reducing opportunities for corruption.

Foreign and domestic investors have numerous options available for organizing business operations in Albania. The 2008 'Law on Entrepreneurs and Commercial Companies,' and 'Law Establishing the National Registration Center' (NRC) allows for the following legal types of business entities to be established through the NRC: Sole Entrepreneur; Unlimited Partnership; Limited Partnership; Limited Liability Company; Joint Stock Company; Branches

and Representative Offices; and Joint Ventures. More details can be found by visiting NLC at [www.qkl.gov.al](http://www.qkl.gov.al)

## **7. Protection of Property Rights**

### ***Real Property***

Real Estate is registered at the Real Estate Registration Office or Registrar's Office. The procedures are cumbersome and there are frequent issues regarding claims to property titles. Recent changes in legislation allow a notary public to have access to real estate registers and confirm the legal ownership of property. For large transactions, it is still advisable to hire an attorney to check documents and procedures for property registration.

In 1991, following the fall of communism, the Albanian government undertook reforms to acknowledge ownership rights for property that had been expropriated during the communist regime. The property restitution and compensation process started in 1993 and remains unresolved. Despite some progress, immovable property rights remain unclear. The process of registering property is cumbersome and difficult to navigate, a significant reason why approximately 15 percent of properties nationwide still are not registered, mostly in urban and high value coastal areas. Illegal construction is a major impediment to securing property titles. The legalization process to address large scale illegal construction started in 2006 and is still ongoing. There are an estimated 350,000 illegal buildings in Albania.

Property legislation has developed in a piecemeal and uncoordinated way resulting in overlapping property titles and lengthy legal disputes. The civil court system manages property rights disputes. Decisions from civil courts often take many years and authorities often do not enforce court decisions.

These unresolved property issues have undermined efforts to develop a functional land market. In an effort to address the negative impact, the Albanian government approved a law in 2010 that grants special protection to foreign investors who make investments in excess of \$13 million on property made available by the government.

### ***Intellectual Property***

#### ***Copyright***

Albania is not and never has been on the Special 301 Watch List or Priority Watch List. However, IPR infringement and theft are common due to weak legal structures and poor enforcement. Albanian law protects copyrights, patents, trademarks, stamps, mark of origin, and industrial designs, but there remains a significant gap between the law's intent and its enforcement. Regulators are ineffective at collecting fines and prosecutors rarely press charges for IP theft. U.S. companies should consult an attorney experienced in IPR issues and avoid potential risk by establishing solid commercial relationships and drafting tight contracts.

The Albanian government persists in failing to enact key legislation that would strengthen IPR enforcement and address shortcomings in existing legislation. The new law "On Copyrights" has remained in draft form since 2009 and is unlikely to pass in 2014.

The main institutions responsible for IPR enforcement include the Albanian Copyright Office (ACO), Audiovisual Media Authority (AMA), the General Directorate of Patents and

Trademarks (GDPT), the General Directorate for Customs, Tax Inspectorate, Prosecutor's Office, police, and the courts. Most IP-related fines are never collected and the few cases that the regulatory agencies refer to prosecutors are rarely enforced. Political disputes over who should be the AMA director have further reduced the organization's ability to fight cable and content theft.

The Albanian Copyright Office (ACO), established in 2006, is the main institution responsible for monitoring and implementing Albanian copyright law, but the ACO lacks administrative and institutional capacity. Law enforcement on copyrights remains virtually nonexistent and copyright violations are rampant. The AMA, which regulates broadcast and cable television, has been ineffective in fighting content theft in the broadcast sector. The number of cases of violation of copyright law brought to court remains low. ACO sanctions are not effective and the low fines it levies are rarely collected and do not serve as an adequate deterrent. In 2010, a 'Law on Administrative Contraventions' was adopted to improve collection of fines for infringement of copyrights, but enforcement of this law remains weak to non-existent.

### ***Patents and Trademarks***

The Directorate General for Patents and Trademarks (GDPT) is responsible for the registration and administration of patents, commercial trademarks and service marks, industrial designs and geographical indications. In 2008, the Albanian government approved the Industrial Property Law and a number of by-laws and regulations, but the GDPT still needs further capacity building and additional human resources. The General Directorate of Customs includes an IPR protection directorate and has the powers to act ex officio to seize counterfeit goods.

Albania became a contracting party to the WIPO Patent Law Treaty and a full member of the European Patent Organization in 2010. The government became party to the London Agreement on the implementation of article 65 of the European Convention for the Patents in 2013.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

### ***Contact at Mission who covers IP issues at the post:***

- Name: Donald Brown
- Title: Economic and Commercial Officer
  
- Mobile: 00355684077037
  
- Landline: 0035542247285 ext. 3115
- Email address: [BrownDA8@state.gov](mailto:BrownDA8@state.gov)

### ***Country Resources:***

Post's link to public list of local lawyers: [http://tirana.usembassy.gov/list\\_of\\_attorneys.html](http://tirana.usembassy.gov/list_of_attorneys.html)

Local American Chamber of Commerce: [www.amcham.com.al](http://www.amcham.com.al)

## **8. Transparency of the Regulatory System**

Albania's regulatory system has improved in recent years but still faces many challenges. Improper and uneven enforcement of legislation, rigid bureaucracy, frequent changes to legislation, and lack of transparency in developing legislation and regulations are all a burden for the business community. Foreign investors often note the lack of proper law enforcement and extensive red tape that leads to the prevalence of corrupt procedures and practices.

Albania has adopted legislation and established agencies that superficially provide transparent rules and regulations to foster competition and attract investment. The government has amended the 2003 'Law on Protection of Competition' several times and created the Agency for the Protection of Competition in 2004. The law seeks to secure "clear rules of the game." However, the legislation's uneven enforcement is one of the major reasons for distorting competition in the market. The operational independence and administrative capacity of the Competition Authority also needs to be strengthened so it can serve as an able watchdog

Other independent agencies and bodies, including the Energy Regulator, Telecom Regulator, and other major institutions operate to ensure transparency in specific sectors. New legislation on public procurement introduced e-procurement and resulted in improved transparency in public procurements. However, as in many other areas, the proper enforcement of the law remains a challenge and problems with tender procedures are frequent. Business registration and licensing are streamlined through the one-stop-shop centers for registration and licensing. Although business registration is an easy step, licensing still remains cumbersome in some sectors. Albanian legislation includes rules on disclosure requirements, formation, maintenance and alteration of capital, mergers and divisions, takeover bids and shareholders' rights, as well as corporate governance principles. The 'Law on Accounting and Financial Statements' includes reporting provisions that stipulate large companies will apply International Financial Reporting Standards, while small and medium businesses will apply National Financial Reporting Standards.

Although the government publishes all laws on the Official Gazette and online at [legislacioni.gov.al](http://legislacioni.gov.al), the business community often complains that the government does not publish draft laws and regulations for public comment and does not consult stakeholders before passing new regulations or legislation. Even when there is a public consultation on certain legal initiatives, the time frame for comment is generally short and stakeholder input often is not incorporated into the final version. The recently established National Economic Council pledges to improve the legislative consultation process with stakeholders, but its impact remains to be evaluated.

## **9. Efficient Capital Markets and Portfolio Investment**

In the absence of a functioning stock market, the country's banking sector remains the main channel for business financing. It is sound, profitable, and well-capitalized, although a growing rate of non-performing loans remains a concern. At the end of 2013, nonperforming loans reached 23.5 percent of all private loans compared to 4.3 percent before the financial crisis of 2008. However, capital adequacy at 18 percent -- far above Basel requirements -- indicates the sector currently has sufficient assets, which totaled USD 13 billion in 2013. The banking sector is fully private and consists of 16 banks, most of which have foreign shareholders. The Austrian Raiffeisen Bank predominates with approximately 23 percent of all

banking sector assets, followed by the Turkish National Commercial Bank with 21 percent. The market share of Greek banks has significantly decreased in recent years, with French and Italian banks filling the void. The two main Albanian banks possess approximately 10 percent of sector assets. Raiffeisen, Intesa San Paolo, Societe General, and Alfa bank are the most internationally recognized banks.

Albania's banking sector weathered the financial crisis better than many of its neighbors, largely due to a lack of exposure to international capital markets and domestic housing bubbles. There is sufficient liquidity in the market to enter and exit sizeable positions. The sector remained profitable even during the peak of the financial crisis when it suffered a reduction of deposits of about 15 percent. In 2013, profits reached USD 88 million with a 0.5 percent return on assets and 6.4 percent return on equities. Market concentration remains high as the five largest banks dominate the market with about 72 percent of total assets. As of December 2013, there were 549 banking outlets nationwide. The number of debit/credit cards, ATM, and Point-of-Sales terminals continues to grow rapidly. The annual volume of transactions with debit/credit cards however, is only 1.3 percent of total deposits.

The Bank of Albania has the flexibility to intervene in the currency market to protect exchange rates and official reserves, but only for a period not exceeding 12 months. In 2009, following the global financial crisis, the central bank restricted the distribution of domestic banking sector profits in order to maintain sufficient liquidity in the sector but lifted the restriction in July 2010. The Bank of Albania further loosened monetary policy in 2013 and again in February 2014, with official central bank interest rates reaching a historical low of 2.75 percent.

### ***Commercial Credit***

The Albanian government has adopted policies promoting the free flow of financial resources as a mechanism to promote foreign investment in Albania. The government and Central Bank refrain from restrictions on payments and transfers for international transactions. Foreign investors have no requirements to establish a bank account or to receive credit from banks operating in Albania. The credit market is quite competitive but interest rates can be high, currently between 10 and 14 percent. Most mortgage and commercial loans are denominated in euros as rate differentials between local and foreign currency average 3-4 percent. Commercial banks have improved the quality and quantity of services they offer and the private sector has widely benefited from the expansion of these instruments. Nonetheless, businesses report that high interest rates, distrust of the banking system, and high bank operating costs remain concerns for investors looking for access to credit.

Portfolio investments remain limited mostly to company shares, government bonds, and real estate.

### **10. Competition from State-Owned Enterprises**

The privatization process of State Owned Enterprises (SOEs) in Albania is nearly complete and the few remaining SOEs primarily are in the utilities sector. SOEs operate in the energy generation, electricity transmission, water supply, ports, railway, insurance, postal services, and hydrocarbon sectors. In recent years, the government also has granted concessions for a large number of services previously performed by state owned companies.

SOEs are defined as legal entities which are entirely state-owned or state-controlled and operate as commercial companies in compliance with the Law on Entrepreneurs and Commercial Companies. They are not delegated any governmental powers and do not enjoy any advantages when it comes to financing. The corporate governance structure of the SOE includes the Supervisory Board and the Directorate. The Supervisory Board is comprised of 3-9 members, who are not employed by the SOE and are appointed one third by the Ministry of Economy, one third by the Ministry of Finance and one third by the line ministry or institution to which the company reports. The Supervisory Board and the Shareholder's Assembly, which is the highest decision making authority, appoint the Administrator for the SOE. There are no requirements for the SOEs to adhere to OECD guidelines.

In general, there is no discrimination between public and private companies operating in the same sector. The government requires SOEs to submit annual reports and undergo independent audits. SOEs are subject to the same domestic accounting and international financial reporting standards as all other commercial companies. The High State Audit is the institution that audits the activity of the SOEs. SOEs also are subject to public procurement law.

### **11. Corporate Social Responsibility**

Public awareness of corporate social responsibility (CSR) in Albania is low and CSR remains a relatively new concept for the majority of the business community. Efforts from international organizations to promote CSR awareness, however, are beginning to bear fruit. The small amount of CSR engagement in Albania primarily comes from the energy, telecommunication, heavy industry, and banking sector and tends to focus on philanthropy and environmental issues. The government maintains relatively robust CSR, labor and employment rights, consumer protection, and environmental protection legislation, but enforcement and implementation is inconsistent.

The Corporate Governance Code for unlisted joint stock companies incorporates the OECD definitions and principles on corporate governance, but is not legally binding. The code provides guidance for Albanian companies, aiming to provide a best-practice framework above the minimum legal requirements, and assists Albanian companies in developing a sound governance framework.

### **12. Political Violence**

Political violence is rare. Albania's June 2013 elections and subsequent September 2013 transition to a new government were peaceful. However, four protesters were shot and killed by security forces during a violent political demonstration on January 21, 2011.

Albania is a source of stability in the region and maintains friendly relations with all neighboring countries.

### **13. Corruption**

Corruption remains pervasive in Albania and affects all aspects of society. A culture of impunity is widespread and deeply rooted. Ordinary citizens and foreign investors alike can point to the judiciary, uneven enforcement of laws and property rights, a weak regulatory environment, and opaque government procurement as indicators of endemic corruption. Although the number of corruption cases investigated and prosecuted is rising, conviction

rates remain low. Furthermore, high-level corruption cases of politicians or affluent business leaders very rarely end in conviction. Perception of corruption continues to be high and Albania ranked 116<sup>th</sup> out of 177 countries in the 2013 Transparency International (TI) Corruption Perception Index.

While anti-corruption legislation exists, enforcement lags behind. The government has amended anti-corruption legislation numerous times in recent years to strengthen the framework dealing with corruption and organized crime and to bring Albanian legislation in line with the civil and criminal conventions of the European Union. Under the Albanian Criminal Code, both active and passive corruption, abuse of office, and undue influence are considered criminal offenses. In addition to basic corruption offenses, there are specific criminal provisions addressing active and passive corruption by persons exercising public functions, high state officials and locally elected persons, judges, prosecutors, and employees of the judicial bodies and the private sector. There also are provisions addressing trading in influence. In March 2012, Parliament passed amendments to the Criminal Code addressing cases of bribery by foreign public officials and increasing the penalties for corruption in the private sector, closing existing loopholes in the legislation. In 2012, Parliament also approved constitutional changes, restricting the immunity of high level public officials and judges. The current government has denounced many previous middle and high-level government officials to the Prosecutor's Office on corruption charges, but to date none have been prosecuted.

The government has ratified several corruption-related international treaties and conventions and is a member of major international organizations and programs dealing with corruption and/or organized crime. Albania has ratified the Civil Law Convention on Corruption (Council of Europe), the Criminal Law Convention on Corruption (Council of Europe), the Additional Protocol to Criminal Law Convention on Corruption (Council of Europe), and the United Nations Convention against Corruption (UNCAC). Albania also has ratified a number of key conventions in the broader field of economic crime, including the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (2001) and Convention on Cybercrime (2002). Albania has been a member of the Group of States against Corruption (GRECO) since the ratification of the Criminal Law Convention on Corruption in 2001 and also is a member of the Stability Pact Anti-Corruption Network (SPAI).

Police authorities and the Prosecutor General's Office are in charge of criminal investigations and law enforcement, while the State Audit Commission and internal auditing units within various state institutions, inspect, assess, and report alleged cases of corruption. A Joint Investigative Unit against corruption and economic crime was established in 2007 in the Tirana District Prosecution Office. The unit is a multi-agency taskforce composed of police staff from the prosecutor's offices, the state, customs and tax police, and other relevant institutions, working together on specific investigations. Based on the first unit model, six more units were established in regions throughout Albania to prosecute corruption and economic crimes outside Tirana. The High Inspectorate for the Declaration and Audit of Assets (HIDAA), established in 2003, collects and audits the annual declaration of assets and properties of mid and high level public officials in central and local executive agencies and supervises the prevention of conflicts of interest.

The High State Control is the highest institution of economic and financial control. It supervises the economic activity of state institutions and other state juridical persons as well as the use

and preservation of state funds by the central and local government institutions and state owned enterprises.

The Prime Minister's office includes an Internal Administrative and Anti-Corruption Control department, which serves as an inspectorate for all central executive public institutions and investigates allegations of procedural irregularities and irregularities in the handling of public finances. In the Judiciary, the High Council of Justice is in charge of the appointment and removal of judges and prosecutors in district and appeals courts. Specialized inspectors investigate allegations of misconduct of judges and the High Council of Justice then takes the relevant disciplinary measures.

Transparency International (TI) Albania is the main international non-governmental watchdog organization in Albania. Other NGOs perform watchdog functions regarding corruption, but the role of the civil society in denouncing corruption is weak.

#### **14. Bilateral Investment Agreements**

The United States and Albania signed a bilateral investment treaty in 1995, which entered into force in January 1998. This treaty ensures that U.S. investors receive national or most-favored-nation treatment and provides for dispute settlement. There is no free trade agreement or bilateral taxation treaty between the two countries.

As of June 2013, Albania has concluded bilateral investment treaties with the following countries:

Austria, Belgium, Bosnia and Herzegovina, Bulgaria, China, Croatia, Czech Republic, Finland, France, Germany, Greece, Hungary, Italy, Netherlands, Portugal, Republic of Korea, Romania, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, USA, Denmark, Tunisia, Russia, Poland, Malta, Israel, Egypt, Lithuania, Kuwait, Macedonia, Malaysia, Moldova, Ukraine, Azerbaijan, Islamic Republic of Iran, Qatar, San Marino, Serbia, Kosovo (UNMIK), and Cyprus.

#### **15. OPIC and Other Investment Insurance Programs**

The U.S. Overseas Private Investment Corporation (OPIC) signed a bilateral agreement with Albania in 1991. Albania also has ratified the World Bank's Multilateral Investment Guarantees Agency (MIGA) Convention. Both instruments provide investment guarantees against certain non-commercial risks (i.e., political risk insurance) to eligible foreign investors for qualified investments in developing member countries. MIGA's coverage is against the following risks: currency transfer restriction; expropriation; breach of contract; war; terrorism; civil disturbance; and non-honoring of sovereign financial obligations. MIGA and OPIC often cooperate on projects.

In 1998, OPIC supported the Southeast Europe Equity Investment Fund (SEEF), which invested heavily in southeastern Europe. OPIC supported its successor, SEEF II, managed by Bedminster Capital. SEEF II has invested in the Albanian health and IT sectors.

For more information on OPIC please see [www.opic.gov](http://www.opic.gov).

For more information on MIGA see [www.miga.org](http://www.miga.org).

#### **16. Labor**

Pursuant to the Labor Code and the "Law on the Status of the Civil Employee," individual employment contracts regulate labor relations between employees and management. Albania has been a member of the International Labor Organization (ILO) since 1991 and has ratified 44 ILO international labor conventions. The Albanian government has established the National Council of Labor, composed of government officials, trade unions, management, and employers' associations, to improve social dialogue between stakeholders. The institutions governing the labor market include: Ministry of Welfare and Youth, Ministry of Innovation and Public Administration, National Employment Service, State Labor Inspectorate, and private actors such as employment agencies, and vocational training centers.

Both employees and managers have the right to form trade unions. Trade unions are organized both at the national level (according to industrial sector) and at the company level. The Labor Code guarantees the right to strike as part of the right to negotiate wages and working conditions. Employment contracts are applicable both to union and non-union workers. The two main national-level trade unions, both affiliated with the International Trade Union Confederation (ITUC) are the Confederation of Trade Unions (KSSH) and the Union of the Independent Trade Unions of Albania (BSPSH). Employment contracts can be for a limited or an unlimited period, but typically cover an unlimited period of duration if not specified in the contract.

Albania has a labor force of about 1.1 million people. The official estimated unemployment rate in the last quarter of 2013 was 17 percent, but unemployment for people aged 18-29 was estimated at 28 percent. Approximately 45% of the population is self-employed in the agricultural sector. Almost 1.2 million Albanians have emigrated to Italy and Greece since 1991 and a majority of young Albanians speak English, Italian, or Greek as a second language. Other foreign language skills are common, as well.

While some members of the labor force are highly skilled, many work in low-skill industries or have outdated skill sets. Albania has a tradition of a strong secondary educational system, while vocational schools are less prevalent. University education remains uneven and studying abroad remains the best option for qualified students. In 2013, the average salary in public administration was 52,150 lek (USD 520) per month. In July 2013, the government raised the minimum monthly wage applicable to both public administration and the private sectors to 22,000 lek (USD 220), which still is among the lowest in the region.

## **17. Foreign Trade Zones/Free Ports**

Albania currently has no operating free trade zones or free ports, although the legislation is in place to create them. The Law on the Establishment and Functioning of Economic Zones regulates the establishment of free trade zones and industrial parks near ports, airports, or at the crossroads of international transport. The Ministry of Economy proposes free trade zones, which are ratified by the Council of Ministers on a case-by-case basis. The Council of Ministers has the power to define the status of the zone (either a "free zone" or an "industrial park"), area and boundaries, the economic activities to be performed within the zones, time constraints, the type of permission (lease, concession, etc.), and selection procedures for the developer. Industrial parks may be used for production, manufacturing, agro-processing, export-import, and supporting activities.

Following the approval of the Law on the Establishment and Functioning of Economic Zones in 2007, the government approved the construction of the following economic zones:

1. Economic zone with the status of "Industrial Park" in Koplik, Shkoder.
2. Economic zone with the status of "Industrial Park" in Shengjin, Lezhe.
3. Economic zone with the status of "Industrial Park" in Spitalle.
4. Economic zone with the status of "Industrial Park" in Vlora.
5. Economic zone with the status of "Industrial Park" in Shkoder.
6. Economic zone with the status of "Industrial Park" in Lezhe.
7. Economic zone with the status of "Industrial Park" in Laknas, Tirana.
8. Economic zone with the status of "Free Zone" in a territory in Vlora.
9. Economic zone with the status of "Industrial Park" in Rrashbull, Durres.

However, the majority of these projects have not moved beyond the licensing phase, with only a few advancing modestly.

## 18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

**TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy**

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)  Albania (Bank of Albania, Albanian Institute of Statistics)
<b>Economic Data</b>	Year	Amount	Year	Amount	
Gross Domestic Product (GDP) <i>(Billions U.S. Dollars)</i>	2012	12.3	2012	12.6	<a href="http://www.worldbank.org/en/country">http://www.worldbank.org/en/country</a> <a href="http://www.instat.gov.al/">http://www.instat.gov.al/</a>
<b>Foreign Direct Investment</b>	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country <i>(Millions U.S. Dollars, stock positions)</i>	2012	23	2012	-2	<u>(BEA)</u> click selections to reach.  Bureau of Economic Analysis  Balance of Payments and Direct Investment Position Data

					U.S. Direct Investment Position Abroad on a Historical-Cost Basis  By Country only (all countries) (Millions of Dollars)  Bank of Albania <a href="http://www.bankofalbania.org/">http://www.bankofalbania.org/</a>
Host country's FDI in the United States ( <i>Millions U.S. Dollars, stock positions</i> )	2012	Not available	2012	0	( <a href="#">BEA</a> ) click selections to reach Balance of Payments and Direct Investment Position Data  Foreign Direct Investment Position in the United States on a Historical-Cost Basis  By Country only (all countries) (Millions of Dollars)  Bank of Albania <a href="http://www.bankofalbania.org/">http://www.bankofalbania.org/</a>
Total inbound stock of FDI as % host GDP ( <i>calculate</i> )	2012	Not available	2012	0	

Sources: Bank of Albania <http://www.bankofalbania.org/>

Albanian Institute of Statistics <http://www.instat.gov.al/>

### TABLE 3: Sources and Destination of FDI

The data on Albania on the IMF website <http://cds.imf.org> are available only for 2011.

Direct Investment from/in Albania 2011					
From Top Five Sources/To Top Five Destinations ( <i>US Dollars, Millions</i> )					
Inward Direct Investment			Outward Direct Investment		
Total Inward	3,927	100%			
Canada	732	19%			
Greece	680	17%			
Austria	611	16%			

Italy	482	12%			
Turkey	365	9%			
"0" reflects amounts rounded to +/- USD 500,000.					

Source: <http://cds.imf.org>

The Bank of Albania's data on FDI are available only until 2010 (*US Dollars, Millions*)

Direct Investments	2005	2006	2007	2008	2009	2010
Foreign Direct Investments	258	315	639	874	925	1,091
Inward Foreign Direct Investments	262	325	663	959	965	1,103
Outward Foreign Direct Investments	-4	-11	-24	-84	-39	-12

Source: Bank of Albania <http://www.bankofalbania.org/>

Stock FDI data by Bank of Albania 2008-2012 (*US Dollars, Millions*)

Country	2008	2009	2010	2011	2012
Total FDI	3,017	3,132	3,228	4,734	4,500
Canada	12	141	358	737	907
Switzerland	201	150	90	758	651
Austria	272	306	469	618	640
Greece	828	776	797	706	579
Italy	470	482	513	595	558
Turkey	278	326	248	262	338
Netherlands	275	287	296	352	312
Cyprus	79	69	80	180	172
Germany	97	103	111	117	108
France	35	36	53	71	98

International Organizations	37	48	61	75	94
Cayman Islands	-	-	-9	79	68
United States of America	110	33	-130	-65	23

Source: Bank of Albania <http://www.bankofalbania.org/>

**TABLE 4: Sources of Portfolio Investment**

No data available for Albania on the IMF webpage <http://cpis.imf.org>

The Bank of Albania's data on Portfolio Investments are available only until 2010 but no breakdown according to sources (*US Dollars, Millions*)

	2005	2006	2007	2008	2009	2010
Portfolio Investments	-6	34	84	-38	27	312
Inward Portfolio Investments	-	-	58	46	9	421
Outward Portfolio Investments	-6	34	27	-83	19	-109

Source: Bank of Albania <http://www.bankofalbania.org/>

## Section 5 - Government

### Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

### Legal system:

civil law system except in the northern rural areas where customary law known as the "Code of Leke" prevails

### International organization participation:

BSEC, CD, CE, CEI, EAPC, EBRD, EITI (candidate country), FAO, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IDB, IFAD, IFC, IFRC, ILO, IMF, IMO, Interpol, IOC, IOM, IPU, ISO (correspondent), ITU, ITUC (NGOs), MIGA, NATO, OAS (observer), OIC, OIF, OPCW, OSCE, PCA, SELEC, UN, UNCTAD, UNESCO, UNIDO, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

## Section 6 - Tax

### Exchange control

There are no foreign currency exchange controls.

### Treaty and non-treaty withholding tax rates

Albania has also signed agreements for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital with several countries. These agreements supersede Albanian domestic laws. The following countries have ratified treaties for the avoidance of double taxation with Albania: Poland, Romania, Malaysia, Hungary, Turkey, Czech Republic, Russia, Macedonia, Croatia, Italy, Bulgaria, Sweden, Norway, Greece, Malta, Switzerland, Moldova, Belgium, China, France, Egypt, Netherlands, Kosovo, Serbia, Montenegro, Austria, Slovenia, Latvia, South Korea, Bosnia and Herzegovina, Ireland, Luxemburg, Spain, Estonia, Germany, Kuwait, and Singapore.

Tax treaties negotiated, awaiting signature: Slovakia, Lebanon, Ukraine and India.

Tax agreements in process: Qatar, Pakistan, Thailand, Mexico, Indonesia, Australia, Morocco, Vietnam, United Arab Emirates and Syria.

## Methodology and Sources

### Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

### Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
<a href="#">FATF List of Countries identified with strategic AML deficiencies</a>	Not Listed	AML Deficient but Committed	High Risk
<a href="#">Compliance with FATF 40 + 9 recommendations</a>	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
<a href="#">US Dept of State Money Laundering assessment (INCSR)</a>	Monitored	Concern	Primary Concern
<a href="#">INCSR - Weakness in Government Legislation</a>	<2	2-4	5-20
<a href="#">US Sec of State supporter of / Safe Haven for International Terrorism</a>	No	Safe Haven for Terrorism	State Supporter of Terrorism
<a href="#">EU White list equivalent jurisdictions</a>	Yes		No
International Sanctions <a href="#">UN Sanctions</a> / <a href="#">US Sanctions</a> / <a href="#">EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International)</a> <a href="#">Control of corruption (WGI)</a> <a href="#">Global Advice Network</a>	>69%	35 – 69%	<35%
<a href="#">World government Indicators (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Failed States Index (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Offshore Finance Centre</a>	No		Yes

### **Section 3 - Economy**

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

### **Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

### **Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

### **Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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Gary Youinou

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