

COMPLIMENTS FOR THE CONFERENCE

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Governor Cani and honored guests:

Thank you for inviting me to speak at your conference on domestic reforms and European integration. I am pleased to be here to help celebrate the 10th anniversary of the Bank of Albania. And what a decade it has been.

It is difficult to imagine a more challenging economic environment, and through it all the Bank of Albania has remained a key institution in Albania's evolution from a state-controlled economy to a market driven one. This economic transformation is central to Albania's further European integration, and I think the bank has many reasons to be proud.

Today I would like to speak about the progress Albania has made in preparing for Euro-Atlantic integration and what this nation must do to continue that advance.

I think the fact that Albania has been invited to begin Stabilization and Association Agreement negotiations with the European Union sometime next year is the clearest evidence of this progress.

The success or failure of this effort will be determined by Albania's ability to create the conditions that not only maintain macroeconomic stability, but also support a democratic and stable political environment. The United States and our partners in Europe are increasingly calling upon Albania to contribute to regional stability by building its own internal stability. We are convinced that the overriding issue in this effort is the rule of law.

RULE OF LAW

We in the international community frequently use the term "rule of law" when discussing judicial and police reform, but what does it mean in the context of economic and political integration with Europe? The answer becomes clear if we look at the role of the rule of law in instilling in citizens a desire to comply with laws.

One of the main reasons Albania is pursuing European integration is the economic opportunity it offers, but few Europeans will be interested in furthering political and economic integration until Albanian society complies with its own laws. Enforcement is the critical first step in establishing the rule of law in any country, but a mature democratic society develops a spirit of compliance when citizens understand the benefits of the rule of law. It is that spirit of compliance that will inspire the confidence and trust in Albanian social, political, and economic systems necessary for your country to attract real foreign investment and achieve further European integration.

On a specific level, "rule of law" means that foreign companies can bid on projects in Albania knowing the contract will be awarded in a fair and transparent decision. It means these companies can be assured that a contract signed in Albania will be respected and all goods shipped to Albania will be subject to the same duties and customs procedures. It means that investors buying property can be confident that the deed will be authentic and disputes will be settled in a fair and unbiased court system. It means that

businesses and citizens alike pay their taxes and their electric bills. We have witnessed some measure of progress in this regard.

CUSTOMS

Customs reform is one example. With assistance from the European Commission and USAID, the Government has re-established the customs service and its ability to collect revenues. The numbers speak for themselves: Customs collect about 56% of Albania's total revenue. Customs revenues have increased by five percent this year, while duty rates have decreased by three percent revealing that Albania is making strides towards meeting its commitments under the WTO. In addition, import tax revenues have more than doubled since 1997.

Corruption and smuggling have decreased significantly, as evidenced by a marked increase in the volume of declared excisable commodities such as petroleum, coffee, beer, cigarettes and alcohol. The Government has made key improvements in strengthening the investigative and internal audit functions and in implementing a disciplinary system for official violators. Also, a performance-based reward system for customs inspectors has been adopted which provides incentives for honesty and integrity. Now Customs has created a pre-arrival system that will help move toward EU integration by expediting shipments from its neighboring countries of Italy and Greece. Soon, they will launch a two-way computer system in which customs officers can communicate immediately with their colleagues in those countries on the true quantity, nature and value of transported items.

TAX COLLECTION

Albania has also shown impressive results in the area of tax collections. Tax revenues as a percentage of GDP have increased from 5 percent in 1996 to more than 7 percent in the first three quarters of 2001. Domestic tax revenue improved as a result of an increase in the number of registered taxpayers, VAT reform, and the adoption of modern tax legislation which enhanced the ability of the tax administration to tackle fiscal evasion.

The government has also made substantial improvements in the efficiency of the tax administration and organizational structure. In fact, in the first three quarters of this year, revenues from profit taxes are 118 percent of targets. While revenue increases have

been impressive, tax evasion remains a pervasive problem, particularly personal income taxes and VAT. More can be done to improve revenue collection rates.

ELECTRICITY PAYMENTS

During the past year, the government has devoted significant attention to reforming the state electricity company KESH. Working with USAID and other donors, the government has developed a comprehensive energy strategy that is designed to improve collections and reduce theft, create an independent regulatory agency, diversify the sources of Albania's energy, and liberalize energy prices. The recent liberalization of prices is a positive move to improve KESH's financial situation, which should attract crucial new investments in the generation of power. It was a difficult decision to raise rates, but further economic progress is not possible without bold action. KESH has made significant progress in reducing non-technical energy losses and in meeting its targets to improve collections. KESH will need to do more to improve its collections from individuals, from businesses and also from Government users.

PRIVATIZATION

In its transition to a full market economy, the Government can also point to successes in privatizing strategic small and medium sized businesses. Several examples indicate progress toward strengthening the country's prospects for greater sustainability and growth. Two mobile telephone licenses have been awarded; the most recent provider became operational this year and brought the government revenues of around \$38 million. Both licensing processes were transparent and fair and brought better service and lower prices to Albanians.

Mining concessions in the chrome sector have been granted for a period of 20 years, jump-starting a positive cycle of production and export. The terms will result in total investments of close to \$35 million. Other investments in Albania's copper and chrome mines and metal processing plants will invest an additional \$25 million over the next decade and create significant employment for the country. Privatizations have notably influenced foreign direct investment, which has continued to improve GDP and stability in recent years. Future privatizations in the banking and telecommunications sectors and others should continue this positive trend.

POLITICAL STABILITY

The economic horizon for Albania is bright, and integration into Euro-Atlantic structures is definitely the road that leads there. The U.S. and the rest of the international community are here to assist Albania in this integration, but further progress depends on the country's ability to preserve and expand the stability it has achieved so far.

Albania has achieved a great deal since the anarchy of 1997. Albania's commitment to the peace process in neighboring Macedonia, and its support of the international community's efforts in Kosovo have been applauded by all who want to see a democratic future for the Balkans. But it is also in Albania's interest for there to be greater cooperation, understanding and commitment to the democratic process both between and within political parties. Political leaders need to take into account what their actions might mean for the future, long-term interests of the country – and not just focus on gaining day-to-day advantage.

Albania's parties must work together to solve this country's problems and move forward. Political opponents should be just that - opponents, not enemies – and there are many issues on which partisanship should play no role – combating organized crime and trafficking, integrating with trans-Atlantic structures, and fighting international terrorism. Parties must first demonstrate the political will and maturity to work together with the view that politics should not be viewed as "winner takes all" venture, but should be governed by restraint and compromise. Parties that do not participate in the process only harm themselves. They also harm the citizens who voted for them -- those supporters deserve someone in parliament representing their interests.

We look to all politicians, particularly those within the ruling Socialist Party, to find ways to work together so that there can be a strong and stable Albanian government.

CONCLUSION

I would close by saying again that Albania has made significant progress on the road to European integration. Albania's membership in the WTO is a significant step in eliminating trade barriers, reducing customs tariffs and increasing international trade. Through WTO accession you have begun to harmonize

legislation with the rest of the global economy. Albania is also making progress on negotiating free trade agreements with its neighbors, starting with Macedonia. Albania must now strengthen its institutions to move closer to European structures. It must continue to build stable civil institutions such as a fair judicial system free from corruption and bribery, an active and constructive political opposition, and an environment that fosters economic decisions based on merits and the market not connections. Albanians must be willing to change their individual behavior, and must expect the same from their leaders and their institutions.

Albania's future economic growth and integration depend on stability and the rule of law. As you progress, you can count on the support of the United States, and on America's enduring desire to see Albania continue along the path of integration with European and Euro-Atlantic institutions.

Thank you.