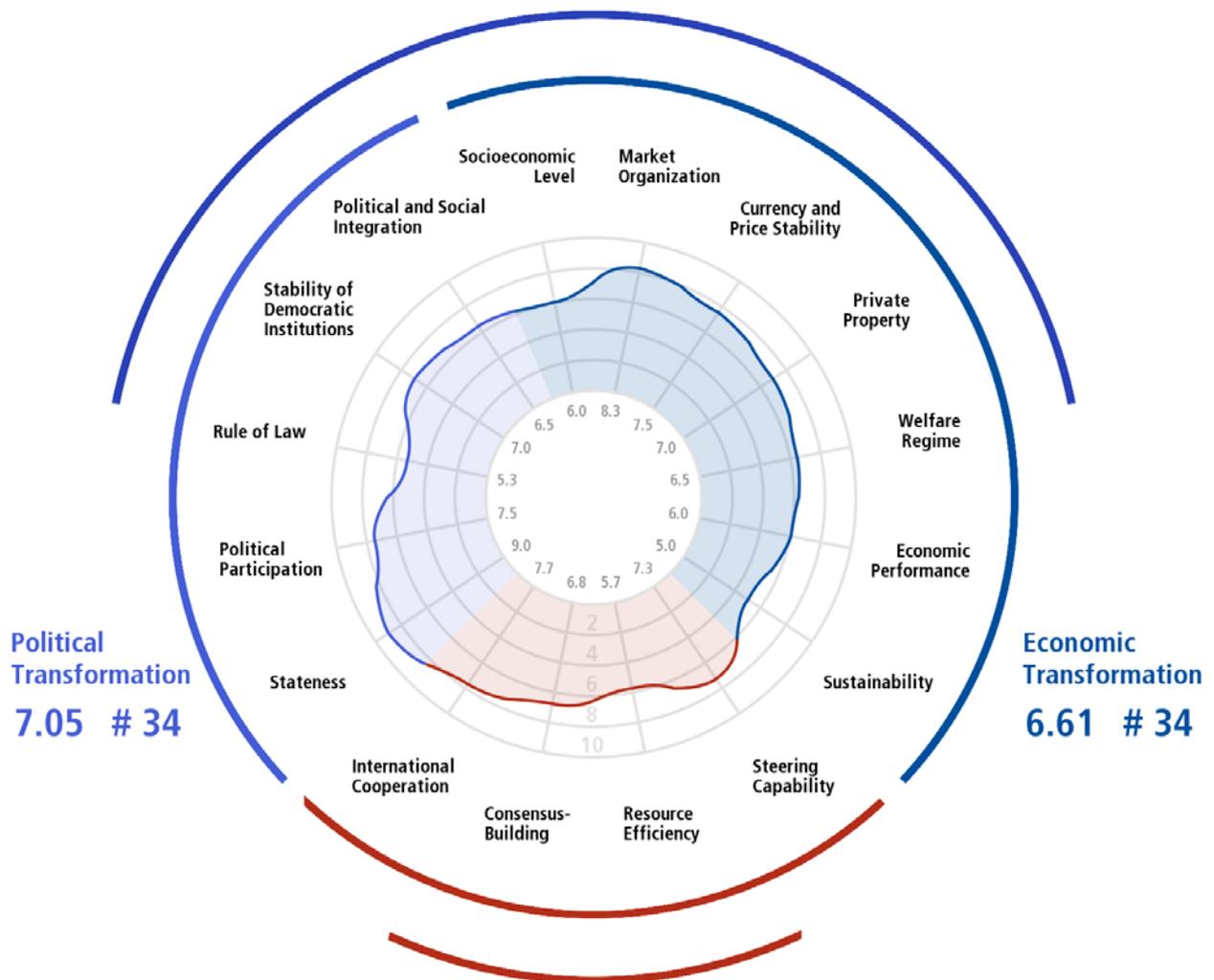


Albania

Status Index

6.83 # 30

on 1-10 scale out of 129



Political Transformation
7.05 # 34

Economic Transformation
6.61 # 34

Governance Index

6.02 # 24

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	2.9	HDI	0.764	GDP p.c., PPP \$	11929
Pop. growth ¹	% p.a.	-0.2	HDI rank of 188	75	Gini Index	29.0
Life expectancy	years	78.2	UN Education Index	0.741	Poverty ³	% 7.7
Urban population	%	58.4	Gender inequality ²	0.267	Aid per capita \$	116.0

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

During the period under review, January 2015 to January 2017, Albania pursued crucial state-building reforms. The most significant reforms related to the rule of law, which are key conditions for advancing the country's EU integration. Additionally, the ruling majority undertook important restructuring of the economy, which has begun to deliver.

Regarding reform of the rule of law, the governing actors encountered a deteriorating situation, which was the product of Albania's long unruly transition. There is substantial evidence that criminals with extensive criminal records are prematurely released from prison, investigations into extensive abuses of public office are suppressed, and judges and prosecutors enjoy extravagant lifestyles (e.g., properties and business shares) that their employment could not support. Reforming the judicial system has been central to a comprehensive package of reforms sponsored by the European Union and United States, and pushed for by the ruling majority. However, well-organized political and institutional actors, who profit from the current system, have used every opportunity to obstruct meaningful progress. Actors opposing the reform are politically linked and keen to protect each other, and will likely continue to undermine the implementation of the reforms.

Nevertheless, the parliament unanimously adopted a series of constitutional amendments in 2016 that promise to change Albania's institutional system of checks and balances and will affect how Albania's polity and economy operate. The judicial reforms include the re-evaluation of judges, prosecutors and legal advisers based on their integrity, ethical background and professional competence. The European Union has supported this process by deploying an International Monitoring Operation to Albania. In addition, the parliament has adopted secondary laws that are needed to re-organize the judiciary, and established specialized institutions to fight organized crime and corruption. Additional laws exclude people with a criminal record from holding public office and strengthen the protection of whistle-blowers. Whether these reforms will be implemented, given widespread institutional and political resistance, will largely depend on

whether international actors continue to support and supervise the process of implementation, particularly the screening of new institutional structures responsible for implementing the reform.

Regarding economic development, fiscal governance has significantly improved and the fiscal deficit declined from 5% in 2014 to 4% in 2015. A reduction in the budget deficit will gradually reduce the overall level of public debt, although to a lesser extent than was projected for 2017. The economic growth rate has increased during the period under review, contributing to a modest increase in the employment rate. This was due to the government belatedly paying the bulk part of several large public contracts and several major private sector investment projects, such as Devoll Hydro power plant and TAP. However, the macroeconomic policy mix, involving consolidated fiscal and expansionary monetary policies, has not always yielded the expected outcomes due to the euroization of the market, large informal economy, lack of human resource capacity and expertise, and widespread corruption.

History and Characteristics of Transformation

Albania is often treated as a “most difficult case” of regime change or an outlier compared to the other post-communist cases in Central and Eastern Europe. Its long, difficult, interrupted, at times chaotic and certainly ambiguous democratization and development of a market economy defied any enthusiastic expectations for a smooth democratic and economic transition.

The country has been burdened by democratic “deficit,” including a short experience with independent statehood, lack of previous democratic experiences, socioeconomic underdevelopment and the prevalence of authoritarian leadership. These historical deficits are often cited as key explanations for the country’s difficult transitional path and some of its contemporary problems. Throughout the recent process of regime change, democratization actors had to address in particular the legacy of one of the world’s most draconian communist constructs, which took root in the country in between 1945 and 1991. The communists’ total hold on power prevented the emergence of leaders with the vision and capacity to drive democratization. Hence, initially, post-communist Albania faced mounting reforms with no legitimate institutions and no leaders who could envisage such institutions. The inevitable clash between two antagonistic camps, conservative communists and fierce anti-communists, created the basis for a long-running ideological conflict. Often exacerbated by political groups’ interest in dividing the public and establishing a power base, the political conflict has brought the country to the verge of collapse more than once. Given these difficulties, Albania seemed doomed to a long and painful route to democracy and market economy.

In 1992, widespread public demands for regime change seemed to sweep away the legacies of communist repression. The first opposition, the Democratic Party (DP) which brought together different anti-communist movements won the 1992 elections with the promise of a quick “shock therapy” approach to political and economic reforms. By the mid-1990s, however, the promises of anti-communist governance had been broken, highlighting the deep resilience of the past.

Efforts to introduce new institutions were intertwined with de facto establishment of one-man rule, limited tolerance for debate, the oppression of political participation, the mismanagement of the economic transition and mushrooming of pyramid schemes, which swallowed up the meager savings of two-thirds of Albanian families and around one-third of GDP. The pyramid schemes flourished on money laundering related particularly to illegal contraband passing across the Adriatic Sea and the smuggling of fuel to Yugoslavia (at the time under a U.N. embargo). By 1997, protesters joined by the oppressed opposition and the many losers of transition, attacked state institutions, including army depots. The protests led to the proliferation of armed groups, which the governing authorities responded by arming their own militants. This brought the country almost to the point of total collapse. Afterwards Albania had to restart the process of transition amid the wider context of an unfolding conflict, deeply divided elites, armed protesters and collapsing state architecture.

Consequently, the country became dependent on international assistance and was commonly depicted as a weak state that requires foreign supervision to function as a proper state. Given the chaotic situation in the country, the Socialist Party (SP) that won the 1997 elections only had a weak hold on power but benefited from external intervention and abundant assistance to advance institutional reforms. The first post-communist constitution, adopted in 1998, followed on general international efforts to strengthen weak state institutions, and helped to frame formal checks and balances. The model of governance, however, continued to suffer from weak institutions, deeply divided politics, a protagonist style of leadership, centralization of power, and capture of the state by political and criminal interests.

The return of the DP in 2005, with a new image and an army of image professionals, promised to move things ahead. After 2005, Albania recorded some successes including NATO membership in 2009 and visa liberalization with the European Union in December 2010. However, these positive developments contrasted with European Union's unique rejection of Albania's application for membership on three occasions between 2009 and 2013. Indeed, EU authorities had repeatedly made it clear that the country was not ready to apply although their recommendations fell into deaf ears given then ruling majority's need to score results ahead of elections. The European Union's three refusals accompanied falling scores in almost all dimensions of economic and political transition, particularly on rule of law issues. A 2012 international report concluded: "Albania has experienced a shift to almost complete control by the ruling elite and extensive use of non-democratic procedurals where laws are used for exerting control by elites in power." This political control was visible particularly in the capturing of key independent institutions, such as the presidency, general prosecutor, key judicial appointments, security services and other institutions which remained independent only on paper. Once in power, the new governing actors encountered a highly politicized and DP-controlled network of independent institutions, which had everything to lose from substantial reforms.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

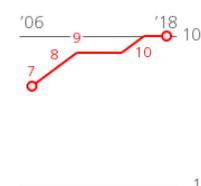
The state's monopoly on the use of force covers the entire territory of the country. The strengthening of police forces has achieved concrete results in the battle to control the mafia and criminal networks that defy state authority. During the period under review, police forces have undertaken highly publicized campaigns against various criminal groups operating in the country, particularly those related to drug-trafficking. A major challenge has been to identify and destroy cannabis plantations. After police forces took control of the infamous village of Lazarat, which for years had been the focal point of the cannabis economy, cannabis plantations had shifted to harder to control, isolated areas of the country. EU officials have acknowledged the efforts of Albanian authorities to tackle the cannabis economy. Official reports from units of the Guardia di Financia, which assist the Albanian police forces, collaborate substantial progress in terms of controlling areas of cannabis cultivation and identification of suspected criminal groups. While investigations into the criminal gangs behind drug cultivation and criminal proceedings are rare, this is due to the poor record of rule of law and non-functioning system of justice, currently subject to a major reform.

The large majority of the population accepts the legitimacy of the Albanian nation-state. All individuals and groups enjoy the right to acquire citizenship without discrimination. The sense of a common national identity, and widespread consensus on who is entitled to citizenship and what citizenship entails is facilitated by the homogeneity of the population. Around 90% of the population are of Albanian ethnicity. The country's legal framework also ensures equal rights for all citizens. Minorities enjoy broad cultural rights, which are monitored by the European Union, OSCE and neighboring countries. Existing discrimination and de facto marginalization of particular groups, particularly LGBT and Roma people, reflects the lack of sufficient resources and social services more than a legal or institutional problem.

Question
Score

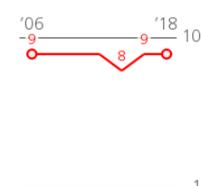
Monopoly on the
use of force

10



State identity

9



No relevant social or political groups contest the established framing and scope of citizenship. The marginal Red and Black movement, which tends to adopt a Pan-Albanian national rhetoric, has a weak following and no real social or political basis. The governing authorities have occasionally touched upon nationalist-oriented topics regarding the status of Albanians resident in neighboring countries. However, these references are usually in the context of a more assertive policy to protecting the rights of Albanians abroad or counteracting the Greek minority's claims of discrimination, which occasionally affects relations with Greece.

The Albanian state adheres to a historical tradition of secularism with religious dogmas having no influence on the legal order or political institutions. Article 10 of the constitution establishes that the state has no official religion but guarantees the equality and autonomy of all religious communities. Religious organizations can gain "legal personality" under the 2011 NGO law, which requires them to register with the courts in Tirana and enables Albania's legal authorities to check that their program is in line with state legislation. The constitution and secondary laws also impose clear restrictions on religious activity including the use of religious symbols in public institutions.

Citizens typically demonstrate strong support for the secular system and separation of religion from the public sphere. Religious organizations tend to maintain a restrained political and public profile while serving as the main conduits of the state's secular vision. Despite a concentrated effort from various globalized religious movements, including a range of radical Muslim networks to finance the revival of religion, radicalized ideologies have found little support in the post-communist context. Initially, around 100 Albanians were believed to have participated in Middle Easter conflicts, but this number has dropped to zero in the last two years. The phenomena of radicalization has become the target of active state policies to screen and control potential channels of radicalization. For the time being, radicalization remains a marginal phenomenon confined to a few individuals, internet forums and isolated places of worship that operate outside of the jurisdiction of the official organizations of the Muslim community.

The state has progressively developed a differentiated administrative structure which provides basic public services throughout the country. The strengthening of core administrative infrastructure and public services has been a major issue since the collapse of state authority in 1997.

During the period under review, the governing authorities have undertaken painful and large-scale reforms that pertain to the core structure of state services including territorial reform, education and health care services, state bureaucracy, regulation of illegal building, management of energy sector, and specific issues pertaining to the rule of law. Indeed, the rule of law is currently the most important policy area of reform. The functioning of public services, especially in selected sectors, is not always smooth. One can still find problems in public access to water and energy

No interference of religious dogmas

10



1

Basic administration

7



1

particularly in isolated rural areas but also some urban centers. Health care services in particular ensure broad coverage, but are considered cumbersome and insufficient. Education remains free but the quality has deteriorated substantially over the two decades of transition. Such issues often derive from deep-rooted problems of Albanian transition, including scarce public investment, widespread corruption, nepotism in political appointments, a lack of a meritocracy and a general absence of a civil service ethos. The current government has undertaken a comprehensive and long-term approach to strengthening state infrastructure. However, this much-needed approach necessitates strong leadership, resources and time to deliver.

2 | Political Participation

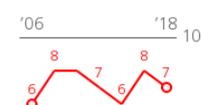
Political representatives are elected through electoral processes that increasingly qualify as universal, free and fair. During the period under review, the country has held local elections (June 2015) and is preparing to hold general elections in summer 2017. The 2015 electoral race featured 63 registered parties, most of which competed as part of the two large coalitions: the governing coalition led by the SP and its ally, the LSI; and the opposition parties led by the DP. Since most media outlets were affiliated with one of the main political parties, media pluralism and media access for candidates were limited. In the recent local elections, widely seen as a mid-term test of support for the governing coalition, the governing coalition won 45 out of 61 mayoral seats and a majority of the 1,595 contested local council seats.

A major and recurrent issue of the Albanian electoral process, politicization of the electoral administration, recorded improvement through the more open and effective functioning of the Central Election Commission (CEC). Yet, given that CEC members are appointed by political parties and are supposed to represent the political parties, politicization remains a problem. The 2016 EU progress report stated that “Concerns about the impartiality and professionalism of the electoral authorities and the overall politicization of the electoral process have yet to be addressed.” By the end of 2015, the parliament had created an ad hoc committee to identify and address problems ahead of 2017 elections. By the end of 2016, the committee had failed to address the core issue of politicization. Instead, the opposition parties conditioned their continued participation in the committee on the introduction of a new electoral voting system, despite the failure of a previous small-scale test to introduce the new electoral voting during the 2013 general elections (when the test was withdrawn at the last minute), and the lack of time to implement the necessary institutional, legal and administrative framework for such a shift.

This relates to another issue that pops up recurrently in Albanian elections, namely that results are often contested and not always for good reasons. The 2015 elections seemingly evolved in an orderly and lawful manner with incidents and irregularities confined to isolated cases, which is an improvement vis-a-vis cases of overt violence

Free and fair elections

7



1

and political pressure that marked previous polls. The involvement of criminal groups is also an issue at least partially addressed by the decriminalization law, an initiative carried out by opposition parties in order to clean the system of criminal elements that had entered Albanian politics. What is very telling about the decriminalization law, however, is that opposition appointees in the CEC voted against stripping their parliamentary member of the mandate on the basis of prosecutor's reporting of criminal activity. Other CEC members had voted unanimously to strip reported parliamentarians off their mandates.

Democratically elected political representatives have the effective power to govern. Limited groups of veto powers and political enclaves are increasingly pushed to the margins, although they can occasionally influence formal decision-making mechanisms.

The state's vulnerability to private sector interests has been a recurrent issue. Links between the highest echelons of political power and criminal groups hollowed out the role of formal institutions. These informal links manifest themselves in various forms: the influence of private business on political decisions, politicians' control of powerful businesses, connections between governing actors and criminal networks, and a general distribution of public funds through party cronies, clientelist networks and personal contacts. The dubious connections between politics, business and criminal interests feature almost daily in various media outlets. These connections cut across all political "families."

The 2013 elections saw an exceptional number of powerful businessmen competing and winning seats in the current legislature. There are at least two important cases, however, that show the government's increasing ability to resist and if necessary sideline such interests. The first case involves Tom Doshi, a Socialist Party (PS) member and one of the wealthiest members of the Albanian parliament. In early 2015, Doshi became center stage of a complex story marred by political accusations, illegal profiteering and political links. The second case involved Koco Kokedhima, a PS parliamentarian and another powerful businessman, who was also marred by accusations of political profiteering and beneficiary political connections. In an exceptional move in Albanian politics, both parliamentarians were stripped of any political roles within the SP structures. Additionally, they were both subjected to a formal investigation, which lent credibility to the government's efforts to insulate itself from private interests.

Individuals are free to form and join independent political or civil society groups, which also operate and assemble free of state intervention.

The Albanian constitution ensures a wide range of freedoms of assembly and association (Article 46). Individuals and groups can assemble freely. NGOs can register, manage their affairs and address all matters of public debate without state interference or restrictions. Civil protests have played a crucial role and often spurred

Effective power to govern

7

'06 '18 10

8 7

1

Association / assembly rights

9

change during crucial events in Albania's transition. NGOs, organized groups and particularly media outlets have also contributed in assessing the performance of their politicians, disclosing wrongdoings and to a lesser extent in analyzing specific policies. During the period under review, organized civil society groups have undertaken some highly publicized actions regarding environmental issues, education reform, protection of vulnerable groups and, occasionally, the agenda of EU integration.

Albanian citizens, civil society organizations and the mass media are generally able to express their opinions freely.

The constitutional framework guarantees freedom of expression, organization of mass media, and the right of information (Articles 22 and 23). The media landscape is very diverse, with each big party having its own mouthpiece. The wide range of media outlets has improved the coverage of political processes, government policies and wrongdoings (which daily receive a substantial share of attention). Most famous cases of political corruption and abuse of public office tend to start with media investigations. Birn, a region-wide investigative source has provided highly sought independent information on some high-level cases of political corruption. Fix fare and STOP, two satirical investigative programs by Top Channel and Klan, have also drawn attention to cases of corruption.

Yet, the fact that major media outlets are financed by owners with interest in other businesses complicates the quality of media reporting. For example, media owners sometimes use and when necessary rectify the line of political coverage in order to gain lucrative government contracts and political access. A clear example of this was the rapid 2015 privatization of a sport court along with a suspicious building permit to one of the country's major TV owners, Alexander Frangaj. This case prompted accusations of political and judiciary favoritism in the unfolding procedures.

Another problem, which lies outside the formal framework of media regulation, involves the growth in mysteriously financed internet forums that serve as a channel of denigration, unsubstantiated accusations and counteraccusation with a clear political line. Yet another issue, which affects the control of information, involves employment conditions for journalists. Journalists' contracts are unreliable, payments are often late and they receive no insurance. In 2016, the EU progress report suggested that the Albanian authorities should increase the transparency of state advertising, establish ownership limitations for national operators and strengthen the independence of regulatory authorities as a means to curtail political control.

A few recent developments show a move to insulate media outlets from overt politic interference. Two vocally political editors, Armando Shkullaku and Alfred Lela, were removed from their influential editorial positions. Such moves did not follow the usual political fines or overt pressure, which previous governments have frequently resorted to in order to control media narratives. Furthermore, neither



1

Freedom of expression

7



1

political editor was replaced by a pro-government editor. Similarly, a 2015 court decision to close Agon Channel, a media outlet financed by a politically connected businessman accused of money laundering, was a good augur regarding regulation of the ambiguous links that entangle political and media interests.

3 | Rule of Law

The separation of powers is formally established but weak in practice. During the period under review, the parliament has been boycotted for prolonged periods, hampering its supervising functions on the executive. Additionally, the politicized style of the presidential office has negatively impacted the functioning of key independent institutions, particularly those subject to presidential nominations.

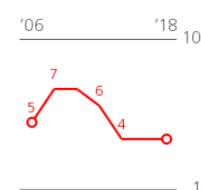
The Albanian constitution envisages a system of government based on the division and balance of powers (Article 7). According to the constitution, the presidential office represents the unity of the state. The implementation of a separation of powers and symbolic role of the presidential office, however, has been a continuous challenge throughout the country's simultaneous transition. The presidential office, where five out of six post-communist presidents were DP-nominated, has continuously been an instrument of state capture. During the period under review, the political services of the presidential office included several dimensions: contested nominations, objection to major legislative reforms, instigation of politically driven conflicts and politically motivated allocation of state medals. Most problematic during the review period was the promotion of judges from the High Council of Justice (HCJ), chaired by the president, who were known to be connected with the DP, the president's party.

Regarding the conflict with ruling majority and return of major legal reforms, the presidential office has followed the line of the DP by vetoing all major pieces of legislation, including the law on administrative territorial reform, law on international agreements, audio-visual media law, the law on property, the law on higher education and the law on tourism. The rejection of major legal initiatives is often accompanied with fierce presidential accusations of government intervention into his "independent" competences. The presidential office's input into key political debates, such as the rise in organized crime and drug trafficking, and involvement of criminal groups in the electoral process conform with the political line of the president's party. However, this does not corroborate the findings of international reports on these issues, which highlight the political bias of the presidency. The presidential office has occasionally spoken against international institutions when their findings don't conform to their political visions.

The awarding of state medals to highly contested political figures or for contentious historical events have also raised many eyebrows. Most problematic in this regard was the 2016 awarding of state medals to 67 unknown individuals. Several medals

Separation of powers

4



were awarded to historical figures who had likely collaborated with the occupying armies during the national liberation war. A couple of medals were awarded to historians who had condoned the president's specific interpretation of history. One of the medals went to the historical leader of the party to which President Nishani belonged, which drew particular scrutiny given that the figure is a contested protagonist of Albanian transition and stands at the center of major cases of abuse of office (e.g., the Gerdec Affair and the killing of four unarmed protesters), including a recent case on the privatization of state-owned energy company, which is currently the subject of a parliamentary investigation.

The independence of the judiciary is heavily impaired by underground political links and high levels of corruption. The judicial system consists of three instances – courts of first instance, courts of appeal and high courts – with the latter being the final instance in civil and criminal cases. Administrative courts decide on administrative cases. The Constitutional Court decides on the conformity of laws with the constitution. The Prosecutor's Office, a centralized institution, brings prosecutions to the court on behalf of the state. Judges of the first two instances are appointed by the president upon the proposal of the High Council of Justice (HCJ). Given that Albanian presidents have traditionally maintained political connections and the current president has taken a clearly partisan role in the concrete functioning of HCJ, appointments to the HCJ are highly political. Members of the High Court and Constitutional Court, and the general prosecutor are also nominated by the president, but require the consent of a parliamentary majority. These appointments were especially problematic when the president belonged to the same political party that held a parliamentary majority between 2005 and 2013, during which period several key appointments were renewed.

The politicization of the judiciary, however, is deeply rooted in the initial reforms of 1992 to 1996 when the then DP government removed former communist judges. The new personnel were educated through a short three- to six-month course and were often hand-picked from among the party militants, enabling the infiltration of party cronies into the highest echelons of the judiciary. The subsequent presidential nominees further consolidated a system of party patronage around key DP leaders, reducing all levels of judiciary to a politically controlled structure serving specific party agendas.

This kind of structure, moreover, encouraged corruption. Today, the judiciary is one of the most corrupt institutions, which is broadly believed to make decisions on the basis of who offers the highest bid. During the period under review, the media has reported explosive cases of corruption including judges demanding payment or sexual favors for their decisions, the extensive transfer of state-registered properties to private claimants, the release of criminals with excessive domestic and international criminal records, and doctoring of incriminating evidence against political leaders.

Independent
judiciary

5

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1

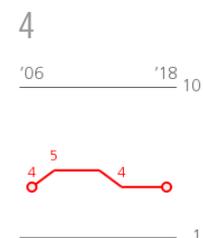
One of the most shocking cases that shows the current depth of corruption involved the early release from prison of an infamous mafia boss who had been convicted of several killings, international drug trafficking and extortion. The protagonist had continued to direct further criminal activities from prison, according to a 2015 police report. Various Albanian judges at different levels of the process gave him minimal sentence, systematically lowered his sentence and then released him for good behavior. The U.S. ambassador, at the time involved in ongoing negotiations regarding judicial reform, put it in an embarrassingly clear way: “I want to say to the corrupt judiciary that this is an unacceptable decision.”

Given that most Albanians have suffered the consequences of a corrupt judiciary (e.g., hefty fees, long delays and unfair decisions) there is overwhelming support for comprehensive reform. The European Union and United States have instigated and sponsored a comprehensive package of reforms, which is currently being implemented. The governing majority has seemingly supported the comprehensive reforms and deep international involvement in the process. The prolonged parliamentary negotiations over the package of reforms are due to the 2015 boycott of parliament by Democratic Party (PD) representatives and the vetoing of crucial reform proposals in 2016. Necessary constitutional amendments were consensually adopted in July 2016, but only after much international pressure. Even after that, one of the most important laws that would enable vetting of personnel was suspended by the Constitutional Court on the request of the DP. The Venice Commission’s review led the Constitutional Court to rule that the law was constitutional in January 2017. Related laws promise to shake the very roots of the politically controlled and deeply corrupt judiciary, but they are expected to be subject to further delays and resistance during the process of implementation.

Public officeholders who break the law and engage in corruption are generally not prosecuted. “Due” processes randomly slip through political, legal or procedural loopholes. Albania has a weak record on investigating abuses of public office, especially when it comes to high-level politicians. Although the European Union has persistently called for “a convincing track record of investigations, prosecutions and convictions at all levels,” the investigation of “delicate” political cases rarely if ever results in a conviction. Commonly, politicians accused of an abuse of public office are released at different stages of judiciary proceedings, even when there is substantial evidence of guilt. The links between the Albanian judiciary and political parties, and particularly the weak functioning of the Prosecutor’s Office, another key presidential appointee, have blocked any meaningful progress in this area.

A case in point is the investigation into the privatization and later collapse of CEZ, an Albanian power distribution company. The general prosecutor seemingly refused to initiate an investigation into the extensive evidence of a potential abuse of office by several ministers involved in the process of privatization. The High Court of Justice supported the general prosecutor’s decision and stopped any investigations

Prosecution of
office abuse



into the process. A parliamentary committee on the issue, however, continued to provide public information on the involvement of key political figures, including the then-prime minister, his son and several ministers. A third person, who seemingly enabled the deal between CEZ and Albanian politicians, received an amount totaling \$7 million for his “consultation,” a sum he withdrew in cash. According to phone registrations, the “consultant” had around 100 calls with the then prime minister in 2006, and allegedly facilitated meetings between the company and the prime minister’s son. Given the registered calls, the transfer of money, email communications, and evidence of meetings between the “consultant” and Albanian politicians, there is enough evidence to assume that this might become one of the key cases disclosing political corruption at the highest levels of political power. However, this case can only be investigated once the judiciary is reformed and the links between the judiciary and political actors are broken.

Institutional reform of the judiciary, including the Prosecutor’s Office, are currently underway. The country has certainly progressed, if not finalized the general institutional framework to address the root causes of the problem, namely the linkages between the judiciary, political class and criminal bosses.

Respect for civil rights is enshrined in the Albanian constitution and the Human Right conventions the country has ratified. The office of the Ombudsman is the main domestic institution following the enforcement of civil rights and has taken an increasingly proactive role in monitoring the situation. The ombudsman’s areas of intervention relate to areas of property issues, police abuse, undue length of judiciary proceedings, non-enforcement of judgments in civil cases, inadequate conditions in prisons and living conditions for the Roma minority. The country has sufficient legal regulations in place to protect vulnerable groups against discrimination, but the implementation of these rules is not always effective.

The EU 2016 progress report identified three areas where more needs to be done, including property rights, living conditions for Roma people and domestic violence. Enforcement of property rights relates mostly to property registration, restitution and compensation, and is often directly related to the high level of corruption within the judiciary. Roma and Egyptian communities continue to face informal discrimination, while children belonging to these groups may be subject to forced labor. Gender-related violence and services for victims could also be improved, but they are caused more by the lack of education and allocation of resources than a legal or institutional problem.

Civil rights

8

'06 _____ '18 10

8

_____ 1

4 | Stability of Democratic Institutions

Democratic institutions perform their functions in principle, but often are inefficient due to frictions between different parties and institutions. Indeed, all parties see conflict as a tool to divide and control supporters. During the period under review, the DP has adopted a particularly obstructive strategy that frequently refers to government members as a mafia group, boycotts important legislative reforms, and calls for protests to bring down the government, including calls for Albanians to arm themselves against their criminal governing authorities.

As of January 2017, the DP threatened yet another boycott of parliament this time on behalf of its proposal to use electronic voting, a request that the OSCE deemed to have been made too late to be considered for the 2017 elections. The siding of the presidential office with some of the DP's demands, boycotts and political causes has exacerbated tensions between the executive and presidential office as well as some of the independent institutions that the president nominates.

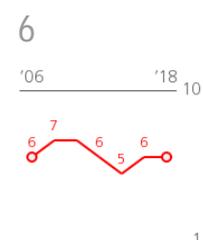
The government, for its part, has taken different initiatives to ensure inter-institutional coordination, with a focus on five priorities for opening EU accession negotiations. The EU 2016 annual report stated that “the government remained committed to EU integration and pursued the reform agenda.” Decentralization has also progressed under the framework of a new territorial organization adopted in 2014. Though, according to the European Union, “substantial efforts are needed to increase the administrative capacity of local government units.” Public administration has also been subject to extensive reforms since entry into force of a new civil service law in February 2014. The implementation of those reforms, which were one of the European Union's key priorities, were evaluated positively in the 2016 EU report.

No relevant political or social groups contest the legitimacy of democracy or its constitutional arrangement.

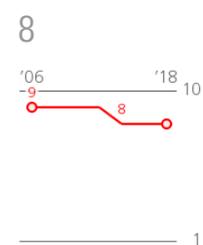
Levels of support for democracy tend to be very high. After the experience of one of the most totalitarian regimes in the communist world, Albanian politics and society have consensually embraced democracy. All major reforms are commonly recognized as a step toward the end goal of democracy.

Throughout the chaotic post-communist transition, however, major political actors have tended to conceive of democratic competition as a zero-sum game and of state institutions as property to be distributed among their followers. Pledges to democracy more often than not coincided with the capture of democratic institutions and their use for political and private gain. This abusive “winner-takes-all” mode of governance has shown slight decline during the period under review. To start with, the ruling coalition's governing program promised to address the root of state capture by initiating large-scale reforms. On several occasions, Prime Minister Rama has

Performance of democratic institutions



Commitment to democratic institutions



called on members of his own cabinet to resist corruption and clientelism, the hallmark of the Albanian system of governance.

5 | Political and Social Integration

Since the fall of communism, Albania has developed a bipolar political party system, which is dominated by the DP and SP. The two major parties have alternated power, through majority governments and thus maintained effective control over the course of transition. The DP ruled the country between 1992 and 1997, and 2005 and 2013. Meanwhile, the SP ruled the country between 1997-2005, and from 2013 to the present. Yet, the analysis of party systems, polarization and governing experience is often subject to ideologically led misconceptions, particularly related to party-connections with the past and the winner-takes-all style of governance.

The DP, created soon after the institutionalization of political pluralism in 1990, has represented the center-right and in a way monopolized the anti-communist agenda. Yet, as an umbrella party, the DP leadership included dissident groups and leaders well-connected to the outgoing regime. Sali Berisha, its leader between 1991 and 2013, represented the strata well-connected to the communist hierarchy. Indeed, when confronted with student protests, the communist leadership relied on Berisha to negotiate with them. At one of the initial student rallies, Berisha is recorded to have thanked communist reformers amid boos from the students. Berisha, however, quickly shifted gears and adopted a strong anti-communist rhetoric, while establishing control over DP structures and the state apparatus during his one-men presidency between 1992 and 1997, a move legitimized in the ideological context of anti-communism. The DP leadership that emerged after the DP's loss in the 2013 elections had little to do with party's historic anti-communist causes and was handpicked by Berisha, who still maintains a strong hold over the party's political line, including the fierce anti-communist rhetoric and revolutionary approach to politics.

The SP, created in 1991, emerged from the former communist organization. Hence, the party was often seen as the problematic successor to the communist dictatorship, although from early on it repositioned itself in the tradition of the European center-left. Indeed, the party has inherited some of the communist party structures, leadership and voter base. The party's leader between 1990 and 2005, Fatos Nano, came from the state intelligentsia of the communist regime. The party's highest organ, however, featured key leaders of the anti-communist student movement untainted by direct relations with the communist regime. Edi Rama, the leader of SP since 2005, was one of the most vocal anti-communist intellectuals prior to the regime's collapse and took an active part in student protests against the regime. Both Nano and Rama became targets of anti-communist zeal. Nano was arrested and Rama was beaten to the point of death, during DP's first government. Between 1992 to

Party system

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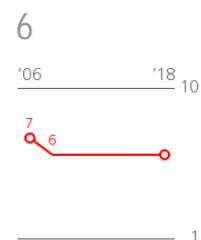
1997, intellectuals were also harassed and critics silenced in the name of anti-communism, a move which gained legitimacy in the context of broad antipathies against communism. Even international actors lent support to the anti-communist purges, while failing to see that new structures enforced a system of party patronage and destroyed the foundations of state power. Subsequent governing actors, international institutions and all reform initiatives have had to overcome the obstacle of militant-patronage networks infiltrated within the state.

The main “third” party, the Socialist Movement for Integration, is a split from SP following disputes within the SP over party leadership and distribution of state positions. Between 2009 to 2013, the party entered into a governing coalition with the SP’s ideological opponent, the DP, securing crucial ministerial positions supposedly to advance EU membership. Though a few months before the 2013 elections, the party switched and formed an alliance with the SP, a coalition that has persisted from 2013 to the present. The party’s tactical shifts, which have enabled it to remain within the governing structure despite governments’ ideological provenance, shows that Albania’s fierce ideological conflicts don’t mean much when it comes to maintaining power. Ideological conflicts more often than not provide a reason to legitimize unruly power-seeking methods and are easily reduced to simple power calculations. In general, smaller parties have difficulties consolidating their position and can secure political influence only when allying with one of the two big party families and their polarizing strategies. The regional proportional electoral system adopted in 2008 has reinforced the bipolar nature of the system, and increased the role of the leaders of the two main parties in determining who enters and stays in the system. Electoral volatility has decreased since 2001 and was relatively low in the 2013 elections (17%).

Albania has progressively developed a diverse range of interest groups. However, the major NGOs are donor-propelled and cultivate political links producing a latent risk of conflict while entangling donor funds in a potential conflict of interests.

The spectrum and activity of civil society has evolved amid the vacuum left by the totalitarian policies of the communist regime and the foreign assistance which was essential to create a non-existing sector. Indeed, the subject of civil society entered the country through Western donor’s aid policies that aimed at stimulating civil society participation, and strengthening democratic values and behavior. Foreign assistance has largely contributed to mobilizing local NGOs and enriching the public sphere. The number of registered NGOs is around 8,000, although only 200-300 are estimated to be active. NGOs cover different sectors and some NGOs have proved successful in advocacy work, monitoring government activities and providing expertise that educational institutions are not able to provide. Still, weakness of civil society traditions inherited from the past, strong political influence and heavy dependence on foreign funds have molded a particular type of civil society action. Such action is concentrated in the capital, oriented toward maintaining political

Interest groups



connections or the priorities of funders rather than society's concerns. Trade union movements remain very weak and prone to politicization especially due to the lack of large companies operating in the country.

With the gradual withdrawal of foreign funds, NGO sector is also squeezed in between search for funding and profitable political alliances. The creation of Agency for support of civil society since 2010 has not helped much because of the politicization of the agency. A 2015 OSCE report stated that civil society in Albania remains weak and politicized. Despite the structural problems of civil society development, the last two years have seen the development of a new legislative framework including a 2016 law on voluntarism and a law establishing a national council for civil society. The national council has improved the institutional framework for collaboration between the state and civil society regarding key national reforms and policy-making processes, especially on issues of EU integration. Coupled with the government's involvement and new laws on the rights of information, major sections of civil society have ample structural opportunities to engage with and potentially impact policy-making processes.

Having suffered one of the harshest totalitarian regimes ever built in the communist world, Albanians strongly support democracy. For example, the European Social Survey conducted in 2012 has shown that 92% of the Albanians found it important to live in a democratically governed country, which was the highest share among 28 European countries and exceeded the unweighted average of 12 post-communist countries by nine percentage points. No surveys so far have indicated decreasing enthusiasm for a democratic system even at the face of endemic crisis and many problems plaguing the transition.

Albanians, however, have more trouble in assessing how well democracy is functioning and evaluating the work of specific democratic institutions. Public trust in institutions continues to be low. A 2015 survey from the Albanian Institute for International Studies found that 64% of respondents had little or no trust in the courts or general prosecutor, which are the least trusted institutions. The vast majority of respondents, 83%, believe that there are people who are above the law, while 60% of respondents stated that they were disappointed by the political parties. In a context where local institutions have failed to stand up to public expectations, international actors typically remain the most trusted "institution" followed by the media. Citizens often prefer external actors to remain involved in the developments of the country.

There is a fairly high level of traditional forms of trust among the population and a substantial number of autonomous, self-organized groups.

In line with the structure of a traditional society Albanians have a strong sense of traditional forms of solidarity such as family and regional or clan loyalties. These traditional forms of social capital have been precious to sustain networks of cooperation and support during difficult phases of transition and meager social

Approval of
democracy

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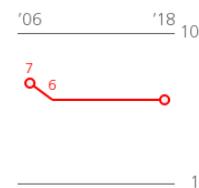
Social capital

6

welfare mechanisms. But, they do undermine the creation of a more civic culture of participation and solidarity beyond the narrow links based on blood, family or clan structures. In addition, the Albanian society today has developed highly individualistic trends, first as a reaction to extreme collectivism experienced during the former communist regime; and second, because of the ‘wild West’ nature of the Albanian capitalism.

According to a representative survey conducted on behalf of the European Bank for Reconstruction and Development in 2016, 17% of Albanian citizens declared that most people can be trusted. This share of respondents expressing interpersonal trust was the lowest among 17 central-eastern and southeast European countries.

Greater opportunities for social involvement in policy-making processes, a more open and collaborative government, and reforms that strengthen state authority beyond party-patronage links have improved the level of civil society engagement and confidence in the ability of civil society action to influence the political sphere. Yet, civil society remains weak and politicized. NGO leaders are often entangled in party structures. A few high-ranking politicians from all sides of political spectrum have established their own NGOs, which then benefit from their contacts and knowledge attained while in power positions. This interaction between NGOs, politics and external funding has damaged the perception and role of civil society as a possible independent watchdog of politics. Additionally, the presence of key NGO leaders within current governing structures shows that civil society groups often feature career-oriented individuals with little connection to the attributes of civil society.



II. Economic Transformation

6 | Level of Socioeconomic Development

Albania's modest economic growth rates have led to slight improvements in labor market patterns, and have contributed to reducing poverty and social exclusion. The 2014 EU candidate status for Albania report and repeated European Commission recommendations have motivated the government to pay greater attention to tackling poverty and social exclusion, which rarely taken into account by previous governments.

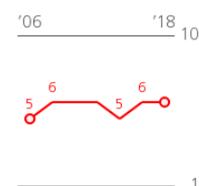
The government's strategy of opening offices around country to facilitate employment has proven successful. Particularly in rural areas, these policies have improved labor force participation rates and reduced poverty.

According to the World Bank, the poverty rate was 14% and the country's Gini Index was 29 in 2012 (most recent available data). Steady progress has been registered by

Question
Score

Socioeconomic
barriers

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the HDI, which ranked Albania 85 out of 187 countries in 2015. Still, the country remains below the average of neighboring countries as well as the average high level of human development for European and Central Asian countries. When adjusting for inequality, the development index deteriorates further.

Despite some slight improvement in employment rates, gender differences in labor participation, public representation, education and property continue to be large. Further challenges involve minority groups, 87% of Roma men and 79% of Roma women work in informal jobs. In addition, 32% of Roma households have no medical insurance, a much greater proportion than in neighbor countries.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	12781.0	13219.9	11390.4	11926.9
GDP growth	%	1.1	1.8	2.6	3.5
Inflation (CPI)	%	1.9	1.6	1.9	1.3
Unemployment	%	15.6	17.5	17.1	16.3
Foreign direct investment	% of GDP	9.8	8.7	8.7	9.1
Export growth	%	7.7	1.8	1.0	12.7
Import growth	%	4.2	4.6	-3.2	7.4
Current account balance	\$ M	-1395.2	-1702.8	-1222.0	-1142.5
Public debt	% of GDP	70.4	72.0	74.1	73.2
External debt	\$ M	8821.6	8488.2	8350.3	8437.1
Total debt service	\$ M	552.5	695.8	914.7	553.9
Net lending/borrowing	% of GDP	-5.3	-3.1	-3.0	-
Tax revenue	% of GDP	16.5	18.3	18.5	-
Government consumption	% of GDP	10.9	11.5	11.2	11.0
Public education spending	% of GDP	3.5	-	-	-
Public health spending	% of GDP	2.8	2.9	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.4	1.3	1.2	1.2

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Since the beginning of transition, Albania has pursued an extremely open model of economic development that has resulted in limited barriers in factor movements. Prices are fully liberalized, and the Albanian currency is fully convertible. State involvement in the economy is limited, with the private sector accounting for 80% of employment.

Considerable progress has been made with respect to the World Bank's Doing Business report. In 2016, Albania ranked 58 out of 190 countries, though still below the regional average for Europe and Central Asia.

Progress has mainly been registered in protecting minority investors and trading across borders. Though previous progress had been made in dealing with construction permits and registering property issues. Several years ago, Albania ranked last out of 185 countries. However, the situation is still far from adequate. For example, dealing with construction permits, getting electricity and enforcing contracts are serious difficulties investors' encounters.

The government has made serious efforts to fight informality. Though the large informal sector, weak governance and corrupted rule of law continue to pose a significant obstacle to market activities and the development of a full market economy.

Structural progress has been continuously made in the area of antitrust policies. Albanian Competition Authority (ACA) is the main unit in charge of enforcing mergers or enacting fines on those that hamper market competition. Legislative framework on antitrust and mergers are in line with EU standards. However, enforcement capacity is low, mainly due to weak human resource capacity and a lack of expertise.

Compared to previous years, for unknown reasons ACA's activity has slowed down since 2015, with no fines imposed and all decisions on controversial mergers were positive.

The new terms of the concessionary agreement concerning Tirana airport management, which removed the monopoly position on international flights in 2016, was the most significant effort to tackle monopolistic practices in recent years.

Open trade is a crucial aspect of the Albanian economy. The country has removed all quantitative barriers on foreign trade since 1992 and introduced a range of tariff reductions since joining the World Trade Organization in 2000. According to the IMF, Albania has the lowest import tariffs in the region, while also recording limited

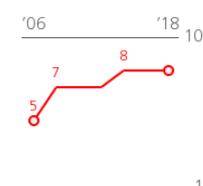
Market-based competition

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Anti-monopoly policy

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Liberalization of foreign trade

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non-tariff barriers and various regional free trade agreements, which overall show high trade liberalization.

In the period under review, Albania has improved its cross-border trading procedures. In 2017, the World Bank ranked Albania 24 out of 190 economies for ease of trading across borders, above the regional average for Europe and Central Asia. The newly implemented electronic risk-based inspection system has been successful in reducing the time for border compliance and easing export procedures. Also, the newly created Market Surveillance Inspectorate is expected to produce positive results in the near future. Meanwhile, the mandatory inspections rule for exports and imports has increased the cost and time required for border compliance.

Still, according to European Commission 2016 report the country lacks a national strategy on consumer protection, market surveillance and free movement of goods.

Following the collapse of widespread pyramid schemes and the subsequent economic and political crisis in 1997, all Albanian governments have prioritized structural reforms in the banking sector, including the privatization of state-owned banks and the liberalization of the financial services sector. The banking sector in Albania is completely privatized, while foreign-owned banks account for more than 90% of the asset share in the banking sector. However, there is no stock exchange market in country.

During the period under review, Basel III standards are yet to be implemented. The level of non-performing loans (NPL) remains high at over 20% of all loans. Measures introduced by the central bank, obligating the pay-off from banks balance sheet for non-performing loans older than three years, are expected to drastically reduce the level of NPL. Further improvements waiting to be implemented concerning clarification of tax on bad debt, improved collateral execution and assistance to corporations for recovery resolution plans are expected to improve lending activity in Albania.

Despite the level of NPL, the banking system in Albania remains well capitalized and robust in the period under review. The capital adequacy ratio is over 17%, while its obligatory minimum level is 12%. Private sector lending has slowed down in recent years, while banks hold 58% of the government's domestic debt. The share of foreign currency loans, and deposits remains high and a significant risk.

The limited integration of the country's banks into global financial markets and the decision to convert foreign bank branches into subsidiaries, subject to local supervision, has protected the banking sector from adverse external effects. For example, Greek subsidiary banks hold only 14% of all bank assets in Albania. The government's reduced borrowing from domestic banks to finance the budget deficit has increased available capital in the private sector.



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Banking system

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8 | Currency and Price Stability

Contrary to the stability of previous years, in the period under review, inflation has fluctuated in recent years. In 2015, the inflation rate was 1.9% and 1% in the first 8 months of 2016, far below central bank's target of 3%.

Central bank attempts to control the inflation rate by cutting the interest rate to its lowest ever level of 1.25% in 2016 had little effect due to the “euroization” of the financial sector, low commodity prices and below-potential economic output. Despite signaling its intention to keep the interest rate at low levels for an undefined period, the interest rate at the end of 2016 registered over 3%. Against the central bank's claim that this phenomenon is temporary, there is a widespread belief that the interest rate will continue to increase due to increasing government borrowing and the government's hesitation of being financed by domestic banks.

Despite some unprecedented fluctuations due to recent developments regarding Brexit, the local currency, the lek, has been relatively stable against the euro, although the country adopts a policy of floating foreign exchange rate.

The central bank is legally independent and able to determine monetary policies. Also, improvements in management and regulation, after the central bank counted an internal deficit which brought under investigation top layers of management including the governor of the bank in 2014, signaled a positive development. However, despite no official interference, the debt strategy followed by government hampers de facto the decision-making independence of the central bank.

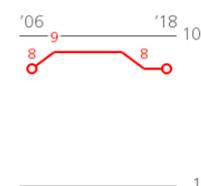
After the sharp increase in budget deficit from 2012, and increasing public debt due to expanded public expenses amid a strained government budget and general economic downturn, macroeconomic balance in Albania has been subject to a substantial revision. This was mainly motivated by the IMF agreement signed in 2014 and recommendations of the European Commission.

Prime Minister Rama's government has pursued improved fiscal governance to gradually reduce the public debt. Public debt is current over 70% of GDP, which is above the regional and surpasses the government's capacity to generate revenue. Indeed, ambitious fiscal rules adopted in June 2016 reduced the public debt limit to 45% of GDP, which was combined with budget adjustments to reach the targeted ratio. Interestingly, there is no deadline or monitoring authority for the target.

Despite government efforts to improve tax revenue to sustain public expenditure, tax raising ability remains poor due to weaknesses in the tax collection system and the large informal economy. Furthermore, low oil and commodity prices, below potential consumption, and weak export demand for Albanian goods have further exacerbated below expectation tax revenue. However, the government kept public expenditure

Anti-inflation /
forex policy

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Macrostability

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under budget, registering 4% of GDP in 2015 after the peak of over 5% of GDP in the previous years, which is expected to decrease public debt in the near future.

In the period under review, the macroeconomic policy mix applied by the government has been appropriate, and consolidated fiscal and expansionary monetary policy. However, the informal economy, the lack of human resource capacity and expertise, widespread corruption, and malfunctioning judicial system has drastically hampered the effectiveness of fiscal and monetary policies.

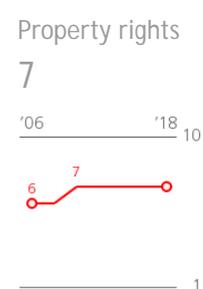
9 | Private Property

The uncertainty over land rights remains a crucial obstacle in the country's social and economic development. Unresolved property issues across the country, especially in highly populated urban and coastal areas, inhibit the development of important projects, including in the tourism sector. Political interests, widespread corruption, limited resources and weak institutions negatively influence the effective solution of property rights.

Some developments have been noted regarding compensation for properties confiscated during the communist era. A new law, which entered into force in February 2016, introduced a compensation mechanism, calculation formula and financial resources. However, complaints due to the constitutionality, legal certainty and equality of treatment have led to legal challenges made to the Constitutional Court and further to the Venice Commission.

Registering property, despite some modest improvements, continues to be problematic. Albania ranked 106 out of 190 economies for ease of registering properties according to the 2016 Doing Business report. Intellectual and industrial property rights have registered progress, where the legislative framework exists. Meanwhile, the 2016 Market Surveillance Inspectorate, which is charged with copyrights and industrial property rights, became fully operational.

Given the distortions in the rule of law, enforcing and ensuring property rights continues to be one of the major challenges facing the country. Property issues usually go through all instances sometimes several times, while judgments ordering restitution of properties are often not implemented. Cases addressing the breach of the principle of due process regarding property disputes are accumulated in the European Court of Human rights, and some have been won by the claimants. Corruption and abuse in such cases are especially acute given the lucrative value of these properties and the weak position of concerned individuals. Claimants often lack legal ownership documents because they were forced to destroy them during the communist regime, and sometimes judges who benefited from the Communist regime treat them with resentment.



The state's stake in the economy remains limited, while private sector accounts for over 80% of GDP and total employment. However, state presence in some key sectors is significant, particularly in the energy sector and natural resources. The situation was further aggregated after the unsuccessful privatization of state-owned energy power distribution company to the Czech power company CEZ. The company was initially privatized and later re-nationalized after a bilateral settlement agreement with an approximate cost to the Albanian government of €5 million.

Recently, the government managed to successfully privatize the 100% state-owned insurance company INSIG. After the failed privatization of the oil and gas company Albpetrol in 2013, when the winning bidder failed to provide the down payment, the legal and financial framework for privatization has been reformed. However, low oil prices have reduced investor interest in the privatization of Albpetrol, with the sale still pending.

Albanian governments, past and present, have implemented a number of fiscal and legislative reforms to improve the business climate for foreign investors. This is in line with a general economic strategy to attract investors and privatize strategic sectors, such as the banking, energy and communications sectors. Capital inflows have been crucial in financing the country's high current account and budget deficit.

In the Albanian context of weak governance and problematic institutions, however, general privatization has not resulted in sufficient restructuring and improvement of economic performance.

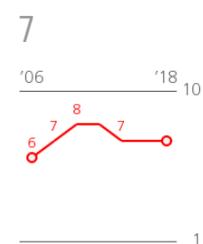
10 | Welfare Regime

A public welfare system, including regulations over social policy and institutions is in place, although the government struggles with insufficient sources to deal with the needs of vulnerable groups.

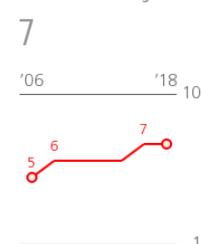
Recent World Bank studies report that the Albanian population is aging and the share of elderly people is expected to double by 2050. This will increase pressure on the pension system, which is largely financed by the state. Therefore, to ensure the sustainability of Albania's pension system, the government in cooperation with international technical assistance has introduced several measures. For example, a new pension reform program approved by parliament aims to re-establish a positive link between contributions and benefits, gradually raising the retiring age to 65 for women to equal the retirement age for men, while the pension ceiling has been removed. Previous delays on pension and disability payments were removed to a large extent.

The new national strategy on social protection aims to reduce poverty and discrimination, and establish a sustainable and equal social care system. Previously,

Private enterprise



Social safety nets



the system had been supported by donors. However, a social service project, which provides financial benefit payments to vulnerable groups electronically to reduce the abuse of funds, is waiting still to be implemented.

Roma and Egyptian communities continue to experience very low employment rates and difficulties accessing social protection services, leading to marginalization. Further administrative capacity-building and significant improvement in existing infrastructure is essential to improve a sector ignored through many years of transition.

Albania has been a signatory to most international agreements and has advanced national legislation ensuring equal opportunity. A law on gender equality is in place. The establishment of a Commissioner for Protection against Discrimination coupled with the last amendments to the Labor Code aim to prohibit discrimination based on gender or sexual orientation in the workplace. However, no progress was registered in ensuring equal opportunities between women and men.

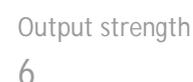
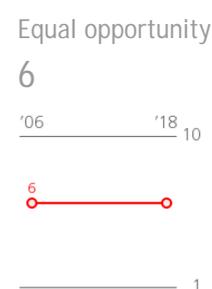
During the period under review, the Gender Gap Index ranked Albania 70 out of 145 countries. Indeed, the already low participation rate of woman in the labor force has further deteriorated. According to European Commission data, unemployment rates for men fell from 19.2% in 2014 to 17.1% in 2015, while the unemployment rate for women increased from 15.2% in 2014 to 17.1% in 2015. The literacy rate was 98%, the ratio of female to male enrollment was 1.0 and the gross enrollment ratio for secondary education was 96%, which was higher than in other southeast European countries (World Development Indicators 2016).

In addition, serious offenses and domestic violence against women have surfaced in the period under review, and no significant progress has been made in eliminating this phenomenon.

Despite several legislative amendments to protect minority groups, serious efforts are required to enforce policies that improve the living standards for Roma and Egyptian communities, and people living with disabilities. Particularly disabled people face serious difficulties accessing employment opportunities, and education and health care services, and freely exercising their right to vote.

11 | Economic Performance

The economic growth rate increased after 2013, following a period of decelerating economic growth. Modest but robust economic growth was registered during the period under review achieving 2.8% in 2015 and 3.2% in 2016 (estimated World Bank data). Private investment in major infrastructure projects, such as the Devoll hydropower plant and construction of the Trans-Adriatic pipeline, together with the



growth in the services sector contributed significantly to the overall increase in economic growth.

Expansionary monetary policy has had limited effect on increasing the inflation rate or domestic consumption. Despite a 1.25% interest rate, the lowest in modern Albanian history, the inflation fell to 1% in the first half of 2016, below the central bank's target of 3% set by central bank. This caused the government to indefinitely postponed permits for construction projects in the capital city of Tirana, creating a vicious circle for the construction industry, which indirectly affected several other economic sectors. The construction sector has been driver of economic growth over recent years. Despite falling commodity prices and weak export demand for Albanian products due to a contraction in EU markets, the current account deficit narrowed in 2015 to 11.3% of GDP from 12.9% of GDP in 2014. FDI flows continue to cover about 75% of the trade deficit, which accounts for 8.5% of GDP, while remittances have continued to decrease since the financial crises.

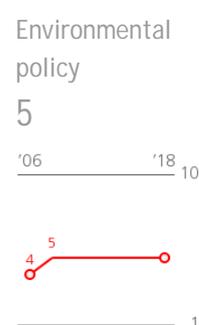
The government has proven able to ensure debt sustainability by consolidating fiscal policy, narrowing the budget deficit to about 4% of GDP in 2015 from over 5% of GDP in 2014, despite the belated payment of public contracts and weaker than expected tax revenue. Consolidated fiscal policies are expected to stabilize the overall public deficit, which currently exceeds 70% of GDP and has risen since 2011, and may even have caused it to decline from 2016.

The unemployment rate has moderately declined from 17.5% in 2014 to 17.1% in 2015. The service sector, particularly tele-services, employ a significant proportion of young people in Albania, and provide services to Italy and other European countries. Recent developments in Italy may restrict Italian companies to contracting tele-services from EU-based service providers, which threatens the jobs of about 30,000 young people in Albania.

12 | Sustainability

Environmental concerns receive only sporadic consideration and are often subordinated to economic growth. The legal and policy framework together with policy alignment and enforcement in the field of environmental protection are at an early stage of development in Albania. The country lacks the administrative and financial resources to appropriately regulate and monitor a national environmental protection strategy. There are no efforts to promote renewable energies or reduce CO2 emissions. However, a recently proposed law would reduce vehicle emissions and pollution.

Despite some foreign initiatives (e.g., UNICEFs' project to educate children about environmental issues), which are likely to deliver results in the long run, efforts have



not been enough to generate comprehensive and sustainable policies in the period under review. Environmental awareness among citizens is limited.

The 2011 law allowing waste imports was aggressively protested and some small amendments were proposed in 2016. However, the president rejected the amended bill and by January 2017 the bill was yet to be passed by parliament. However, the likelihood that the bill would be effectively implemented is poor given the country's weak rule of law, administrative capacity, institutional arrangements, monitoring system and poor physical infrastructure for waste management.

There is a large reported gap between the supply and demand for labor, which will need to be addressed by improving the quality and relevance of public education. Indeed, the unemployment rate among well-educated people is high. The government has introduced measures to stop the expansion of private universities, which are undermining the public education system. However, a 2016 EU progress report highlighted the high level of corruption in the education system, which is facilitated by the lack of transparency in recruitment processes.

Despite a government pledge to increase public expenditure, education spending is under 3% of GDP, the lowest in the region. Meanwhile, expenditure on research and development is almost none existent and amounted to only 0.4% of GDP in 2015. Considering that most businesses in the country provide low-technology, labor-intensive and low-cost products, there is an immediate need to increase funding for R&D. Though the R&D sector requires rebuilding from scratch.

Some progress has been noted in adopting a pre-education strategy. However, the quality of education needs to be improved as the country's low PISA results demonstrate. Furthermore, raising the quality of teaching needs to be combined with ensuring that students acquire the technical skills demanded in the labor market.

Education policy /
R&D

5

'06 '18 10

4 5

1

Year	Score
'06	4
'10	5
'18	5

Governance

I. Level of Difficulty

Structural constraints on governance in Albania are fairly high. The quality of basic education is low and poverty continues to be widespread. There are significant infrastructural deficiencies.

At the onset of democratic transformation in the early 1990s, Albania faced the legacy of one of the harshest dictatorships ever built in the communist world. The maverick communist regime (1945-1990) used Stalinist methods of repression until the very end of the regime, wiping out all sources of dissent. The lack of autonomous units within the state and society deprived the country of organized dissent, and even individuals able to envision democratic change and lead the country toward democracy.

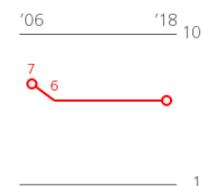
The collapse of public order in 1997 left behind an acrimonious political atmosphere, a vacuum of state authority, a deeply polarized society and lack of minimum security services. As a result, the very existence of the state was called into question. This was also the period when powerful businesses and criminal groups often well-linked to political party networks privatized decision-making mechanisms, and seized control of major sectors of the economy and politics.

Given the collapse of state institutions and their merging with informal patronage networks, every subsequent ruling majority faced the massive task of rebuilding state institutions. Most incoming governments however continued to exploit the weakness of the state and use the state as a piece of property to be distributed among their followers, cronies and networks. Unsurprisingly, for more than two decades, Albanians were left to believe that violating the rule of law would be tolerated. This included the theft of electricity, occupation of public spaces, illegal construction, corruption of public officials and tax avoidance. In general, a “solve it yourself” culture developed, which ultimately turned the state institutions into dysfunctional empty shells.

The development of civil society and its impact on the processes of transformation is also closely related to the legacy of the country’s authoritarian past. The communist regime adopted a harsh line against any forms of resistance or autonomy. The regime imprisoned autonomously minded intellectuals and professionals, while outlawing independent organizations at least since 1956. Instead, the regime created a widespread network of party-related associations, which were to educate and control

Structural
constraints

6



Civil society
traditions

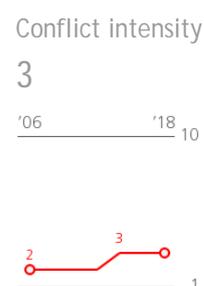
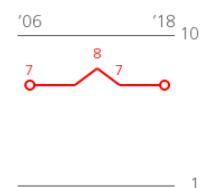
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the socialist citizen. Social control was so intrusive that it extended even into the private sphere of citizens' lives, and sought to control their musical preferences, book interests and even clothes. As a result of this deep oppression, civil society in post-communist Albania lacked the normative values and political will that civil society played in the process of regime change elsewhere in the former communist world.

After communism, civil society had to be built from scratch, while facing a strong public distrust toward voluntary work. In the past, unpaid work had been forced on the population by party organizations. Foreign assistance and donor support have contributed to creating a relatively active NGO sector, but civil society in Albania has still to develop both political autonomy, agendas independent of donor organizations, internal capacities and voluntary networks, which would make them sustainable and link them to social concerns. Despite these difficulties, the last two years have seen the development of institutional and legal framework that aims to encourage the involvement of civil society organizations in policy-making process and should help to activate civil society action.

The homogeneity of the Albanian population (90% are ethnic Albanians) has mitigated the probability of internal strife that would challenge the terms of citizenship or the unity of society. Nonetheless, the leading parties' confrontational rhetoric and winner-take-all approach to power throughout the difficult experience of transition have nourished long-standing political divisions that sometimes overlap with regional divisions. Specifically, northern areas of the country, which were particularly targeted by the communist regime, tend to be stauncher DP loyalists and often receive preferential treatment when the DP is in power. The power base of the socialists is in the south, which is a stronghold of socialist party structures. Party patronage schemes and sometimes fierce ideological rhetoric tends to enforce partisan loyalties, especially as the parties tend to allocate public sector jobs through party networks and associates.

As already noted throughout this report, the period under review is marked by a fair share of political polarization and bickering between the two major political blocks that dominate the political spectrum. Insults and accusations are common in political speeches, political declarations and political TV shows. The Albanian parliament is often turned into an arena of mutual accusations and denigrations, which often surpass the limits of civilized political dialog. Most shockingly, opposition leaders have referred to the governing authorities as an "alliance of thieves, a "government of crime" and a "prime minister of drugs." On a few occasions, the governing authorities challenged the opposition, demanding evidence of their accusations in the court. However, the opposition provided no evidence and instead justified their accusations as political debate. In addition, the opposition has used every opportunity to make ultimatums, incite violent protests, boycott institutions and call for armed resistance even on issues that involve long-delayed reforms, such as the enforcement of delayed payments on energy consumption or control of illegal buildings.



II. Governance Performance

14 | Steering Capability

Since the end of communism, all Albanian governments (whether on the right or left) have set their priorities in line with the ultimate goal of integrating into European structures. This is among the few issues where Albanian politics avoids divisiveness and targets reforms closely related to the EU integration project. The European Union's 2010 comprehensive opinion on the country's preparedness to take on the obligations of membership identified a list of 12 priorities that have since focused on issues related to the rule of law. The most important single obstacle to opening accession negotiations is reform of the judiciary. The government has remained very focused on the issue of EU integration and various government strategies have set specific milestones regarding EU integration. The government has established a board on EU integration composed of the key government ministers in charge of key policy areas identified by the European Union. The EU 2016 reports stated that the government was engaged in EU-related reforms and continued to make progress in meeting EU objectives for opening accession negotiation. According to the European Commission, Albania has the necessary legal and institutional framework for policy development and coordination, although strategic documents are not sufficiently aligned with medium-term fiscal plans and lack appropriate cost estimates. The reforms undertaken so far, especially the painful reform of the judiciary, all attest to a coordinated and comprehensive effort to advance EU integration.

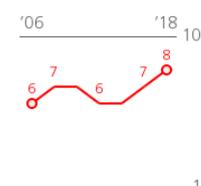
In Albania, legal commitments and implementation might well be two different things. As EU annual assessments note on almost every occasion, deficient implementation and weak institutional capacities hinder the realization of declared objectives and priorities. During the period under review, the government has shown determination to go through difficult reforms addressing informality, the judiciary, organized crime and the enforcement of state authority in general.

Proper implementation, however, requires the collaboration of a wide range of institutional actors – particularly independent institutions – which often have everything to lose from substantial reforms. During the period under review, an opposition prone to boycotts, a partisan presidency and the lack of independent state institutions have obstructed the implementation of reforms. Indeed, the big question here is how to reform institutions that are not interested in reforming. The foreign-supported judiciary reform, which advanced with the support of the governing authorities and its international sponsors, promises well for future of implementation. With this reform, the country has made a huge step toward depoliticizing the judiciary and tackling corruption within it. Furthermore, this promises to be a crucial step toward ensuring independent oversight, and strengthening checks and balances.

Question
Score

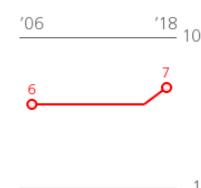
Prioritization

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Implementation

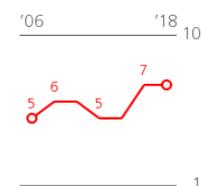
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Albanian political actors have been very flexible in shaping and adopting their strategies to the circumstances that have arisen in different stages of transition. Although much learning and adaptation has taken place at the level of individual personalities and political parties, a constant reshuffling of administrative staff has prevented institutions from accumulating the experience and expertise that characterizes modern state bureaucracies. During the period under review, the introduction of transparent rules for civil service recruitment and a certain stability of personnel at different levels have reduced the perceived politicization and inefficiency of the administrative structure. The young age of crucial members of cabinet, also related to NGO activity and advocacy works, has shaped a flexible model of governance more open to learning and external expertise.

Policy learning

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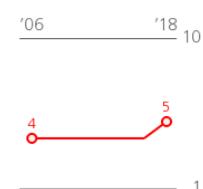


15 | Resource Efficiency

The Albanian government has increased its efficient use of available human, financial and organizational resources. Most of the reforms undertaken in the last two years fit into the government's pledges to deal with root causes of the state weakness and take a long-term vision to developing state capacities. Although Albania in the last two years looks like a huge and ongoing construction site of reforms, most of these reforms have started taking shape and even deliver. The reform of public administration to strengthen professionalism, stabilize staff turnover and mobilize administrative resources to achieve EU integration demonstrate a focused and strategic approach to human resource management. Similarly, increasing economic growth has enabled the government to increase public investment including in improving urban infrastructure, tourism and health care services. The preparation and implementation of the state budget has become more transparent and open to involvement of interest groups. Parliamentary debates on the budget, however, have generally been highly contentious and featured little in the way of content-oriented discussion. The government typically refers to the budget as one of "integration," whereas the opposition criticizes it as a budget of "crisis."

Efficient use of assets

5



According to a 2016 report of the European Commission, Albania has established procedures for merit-based recruitment of civil servants, although the capacity to implement the civil service law in practice and to effectively manage human resources in public administration remains limited.

Intra-governmental frictions and competition are limited. Most crucial policy initiatives tend to come from the office of the prime minister. Ministers in the new cabinet are part of the prime minister's close circle of political loyalists, a system which is to some extent enforced by the closed-list electoral system and a practice followed by all institutions. At the same time, the Rama government has moved to institutionalize mechanisms of policy coordination between different ministries, which is an improvement compared to the former centralization of all policy

Policy coordination

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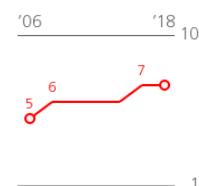
objectives within the office of the prime minister. Specifically, the creation of a new Department of Development, Programming and Foreign Financing at the office of the deputy prime minister aims to ensure that budget allocation, donor funding and strategic investments are consistent with key government priorities.

The SP-LSI coalition government has not always been smooth. The LSI, the second largest party in the coalition, controls key sectors such as the Ministry of Justice and Ministry of European Integration. In several cases, however, the LSI has articulated different positions from those of the ruling majority regarding the course of reform. Frictions between the ruling parties were particularly evident in reforming the judiciary when the LSI articulated its own separate positions on various issues. Having flirted with different political positions and having been in power since 2009, the LSI also has more vested interests particularly in certain sectors and institutions controlled by the party.

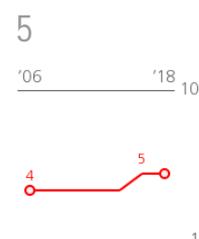
Corruption has been the buzzword of Albanian transition at least since the collapse of state structures in 1997. Corruption is associated with weak state institutions, poorly functioning checks and balances, politicized institutions, rent-seeking elites, clashing politics, and a poor society in which the state remains a major source of employment. State capture here involves a vicious cycle linking prominent politicians, sub-servient state officials, weak independent institutions and strong business interests. Dealing with corruption and state capture has attracted considerable public attention and substantial donor funds and now tops the country's EU-related reform agenda.

The Rama government has adopted a systematic approach to fight the phenomena at all fronts through legislation, the enforcement of related agencies, and attempts to strengthen the state's coercive apparatus, reforms which are evaluated positively in EU reports. These changes include: publishing senior officials' asset declarations, checking these declarations more regularly, punishing violations, assigning all cases of corruption to a specialized prosecution and court, creating a network of anti-corruption focal points in all line ministries, appointing a national anti-corruption coordinator, clarifying the procedure for lifting the immunity of high-level public officials and judges, introducing a new law on access to information among others.

Nonetheless, as to date, there is no record of the prosecution and conviction of high-level officials, even in the face of blatant evidence provided by the media. The general prosecutor is arguably very passive on the issue. Nominated by the DP-supported president, the general prosecutor is widely seen a "political weapon" serving the party that placed him in that position by dismissing almost all blatant cases of corruption. During the period under review, the judiciary has been at the center of a crucial reform, which was prolonged, resisted and delayed at every stage by key actors until confirmed by the Constitutional Court in December 2016. The involvement of international actors in key structures, which will be responsible for supervising the



Anti-corruption policy



vetting system, provide strong guarantees that corrupt politicians and criminal gangs will no longer be held above law. Though this all remains to be seen.

16 | Consensus-Building

All major political actors agree that the consolidation of democracy is a strategic, long-term goal of Albania's post-communist transformation. Yet major political, economic and social actors remain invested in the legacies of the country's authoritarian past, and an unruly system of rent and spoils that undermines the country's progress toward democracy. Much of the public sector's malfunctioning relates to poor conditions of rule of law, which has been subject to a major reform that promises to substantially improve the functioning of democracy.

Similarly, there is widespread consensus among key social economic and political actors on the goal of the market economy, although ensuring a functioning economy has been challenging. The ongoing reform of the judiciary promises to be a landmark achievement in promoting the development of functioning markets.

In Albania, reformers cannot completely control powerful anti-democratic actors, but they have increasingly gained the upper hand in limiting their influence. The country has seen young reformers with no links to the previous authoritarian regime gaining political power, which marks a significant shift away from the old structures that have long-dominated the political system. The current prime minister, Edi Rama, a young nonconformist politician has mobilized a range of young leaders in support of government-led reforms. Similarly, after the 2013 elections, the DP leadership went to Lulzim Basha, a former UNMIK employee who joined the party in 2005. Basha has introduced new voices and reshuffled party organs. Yet, the unruly transition has created deep-rooted vested interests that merge important sections of the political and economic scene, which have everything to lose from substantial reforms. To the extent they can still cultivate vested interests that have captured the state, younger leaders with no relations to the past are not necessarily a boon to transition. The prolonged negotiations regarding judicial reform highlight the power of anti-democratic actors within the government.

The political leadership and political parties, divided into two rigid "ideological" camps – democrats and socialists – have often been the effective managers and indeed beneficiaries of political, regional and local divisions. Indeed, political parties have fueled this division as a strategy to distinguish and strengthen their basis of supporters, particularly in the context of winner-take-all style of governance. The DP leaders, coming mostly from the north, have usually emphasized their anti-communist credentials, which find broad appeal among northern regions, many of which were subject to particular repression by the former regime. The socialists, whose main leaders tend to come from the south, have usually found appeal in the southern regions, which was the former communist organization's primary power

Consensus on goals

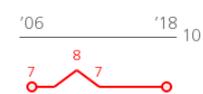
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Anti-democratic actors

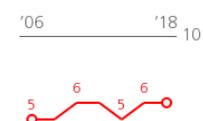
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Cleavage / conflict management

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base. These divisions are also reflected in employment in central and local administration levels, with most positions filled by fierce anti-communist northerners when the DP is in power and with southerner supporters when the SP controls the majority.

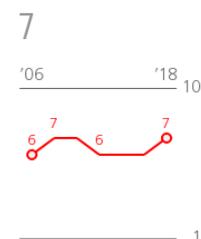
These political and ideological divisions, however, have increasingly become a straitjacket and enjoy less appeal as Albanians gain experience with democracy. The 2013 elections were a breakthrough in this regard to the extent that the SP-LSI coalition articulated a unifying message of good governance, which was directed at all Albanians despite political loyalties. The electorate has also increasingly refused to submit to long-standing ideological or regional divisions typically furnished by the parties. The regional divisions are still a topic that pops in the DP's political discussions in terms of accusing the government of discriminating against northern parts of the country, typically connect to DP and anti-communism. Such issues, however, are an effort to maintain political support by stressing "cleavages" that are losing appeal among voters.

Civil society is in principle free to participate in all steps of policy-making and policy implementation. The legal and institutional framework has increasingly moved toward incorporating civil society into political decision-making processes. Yet, weak institutional capacities, the shifting of personnel between politics and NGO positions, and withdrawal of donor funding have undermined active civil society engagement in policy-making. Another key issue is the underlying connections between political actors and major NGOs, which often lead to conflicts of interest in the distribution of foreign funds and development of political agendas.

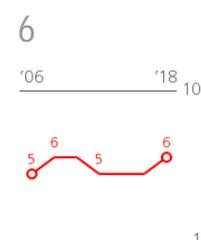
The government has also taken a proactive role in building an environment conducive to the development of civil society by establishing the National Council for Civil Society in November 2015. Civil society representatives are also given seats in the national council for EU integration, a forum designed to incorporate civil society in the process of EU integration.

In 2015, the Albanian parliament adopted a new initiative that made former communist files publicly available. The initiative was based on the German model and received substantial assistance from German authorities. Evidence of crimes committed by the communist regime had been suppressed following the collapse of regime and all previous initiatives had been selectively applied. However, the new framework has raised hopes that Albanians will be able to learn who collaborated with the dictatorship and how the system functioned. The initiative also promised to reduce frequent accusations used by Albanian political actors to denigrate other political figures based on unsubstantiated connections to the past. Because no one except for a few political leaders previously had access to the files, the information kept in these files had become a major source of speculation and rumor, which could not be independently and impartially verified. The institution responsible for handling and publicizing the files was finally established by the end of 2016, but it is

Civil society participation



Reconciliation



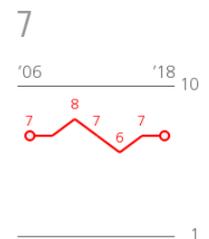
still too early to assess its effectiveness. Public confidence in the willingness of Albanian politicians to disclose their former links to the communist regime is low. It is also plausible that Albanian politicians have destroyed any compromising files, leaving little incriminating or embarrassing evidence. Whether the newly created structures are sufficiently independent or professional to improve transparency regarding these long-standing issues remains to be seen.

17 | International Cooperation

Since the beginning of transition, Albanians have adopted an outward-oriented policy vision motivated by the need for economic and technical assistance as well as the promotion of EU integration. Hence, the country has managed to attract substantial foreign assistance, with the European Union being the biggest donor both alone and as an aggregate of bilateral donors. International intervention has gained intensity following the collapse of the state in 1997. Since 1997, the international community has been forced to intervene and maintain order, mediate potentially explosive political conflicts, monitor elections, and often even set reform priorities. Since the extension of promise of EU membership to all Balkan countries in 2000, EU integration has emerged as the key goal against which all policy challenges and reform achievements are measured.

Over the last two years, the governing majority has pursued a similar foreign-oriented and EU focused development strategy. The government has also used foreign support effectively (e.g., funding, and technical, legal and institutional assistance), especially to advance crucial reform agendas, such as reform of the judiciary. Given the high level of corruption within the judiciary and the judiciary's connections with specific parties, reform of the judiciary would not have been possible without the radical intervention of international structures, including the role of international organizations in screening the judiciary for political links and evidence of corruption. The ruling majority has readily accepted the active role of international organizations in designing reforms and ensuring an impartial system. Sometimes, short-term needs and political interests dominate the relationship between key political actors in Albania and international actors, and the type of international assistance received. During the discussions over reforming the judiciary, for example, senior EU and U.S. diplomats in the country became the targets of accusations from key members of the Albanian opposition and opposition-oriented media. Such accusations show the delicate relationship between foreign support and political backing, especially where sensitive interests are at stake (e.g., involving corruption, control of the judiciary and abuse of power for personal benefits).

Effective use of support



Albanian political actors commonly rely on international assessments, ratings, declarations, and even personal meetings or photo opportunities with well-known international leaders to gain legitimacy. Sometimes this involves making hefty payments to lobbying companies to arrange these meetings or photo opportunities, especially in Washington D.C. Beyond such lobbying efforts, during the period under review, the Albanian government has gained more respect as a reliable partner and has gone beyond empty rhetoric to deliver on its EU policy commitments.

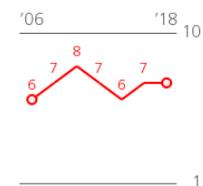
A certain rapprochement with Germany, which has emerged as a promoter of EU enlargement in the Balkans, was facilitated by the so-called Berlin Process. Additionally, Prime Minister Rama seems to enjoy good relations with key German leaders. For example, Chancellor Merkel visited Albania in 2015 and welcomed the Albanian prime minister to Berlin in 2016. During their joint press conference in Berlin, Merkel congratulated Prime Minister Rama for the country's "steady progress" and hinted at her optimistic expectations for further reforms. In general, Albania has presented itself as a reliable partner in priority areas for neighboring European countries, such as illegal trafficking, organized crime and terrorist threats.

The country has ratified most international human rights conventions, but has had problems in fully enforcing internationally recognized human rights, for example, regarding children's rights, prison conditions, domestic and gender-based violence. The net inflow of foreign direct investment is among the highest in southeast Europe (9% of GDP in 2015 to 2016), reflecting foreign investors' sustained trust in the country's economic potential.

Albania participates in several regional cooperation initiatives and is a member of the Central European Free Trade Agreement. The country has maintained a constructive attitude toward regional integration in terms of nourishing good neighborly relations and cooperating in proliferating regional initiatives, including bilateral agreements on areas like legal assistance in civil and criminal matters, fighting crime, trafficking, migration, border management as well as economic and investment development. In 2016, the Western Balkan Fund and Regional Youth Cooperation Office were established, and headquartered in Tirana, a testimony of the country's proactive role in the region. The country maintains good relations with all neighboring countries including Greece and Italy. It has also taken a constructive approach in the conflict over Kosovo by supporting Kosovo's independence, while also developing good relations with Serbia. Since the first visit of Prime Minister Edi Rama to Serbia in November 2014 (the first visit of Albania's head of state to Belgrade in 68 years), visits of the Albanian and Serbian Prime Ministers to each other's countries have since become a normality and do not draw particular attention. Perhaps more noticeably, both Albanian and Serbian Prime Ministers jointly opened a business forum in Nish and called for joint investments in October 2016.

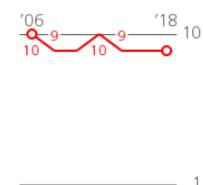
Credibility

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Regional cooperation

9



Strategic Outlook

In the years ahead, Albania will face one major challenge in particular, namely the implementation of the proposed reform of the judiciary. The reform promises to radically change the rules of politics, economics and public management. The country's politicized and corrupt judiciary is a key impediment to political and economic transition, and a mechanism facilitating state capture, political corruption and organized crime. The implementation of the reform is also key to opening negotiations over joining the European Union.

The difficulty in realizing the package of reforms is due to well-organized political and institutional networks of resistance. Political parties have infiltrated the judiciary and public institutions are dependent on systems of party patronage, while many in the members of judiciary are keen to avoid scrutiny of their careers. The unusually frank exchanges between the U.S. ambassador and the general prosecutor of Albania clearly highlighted the obstacles currently hindering the reform process. According to the ambassador, "for 18 months, the general prosecutor has spoken persistently and loudly against reform. . . ., the prosecutor selected only three nominees without transparency to the new council for judiciary appointments. Luckily, those who drafted the reform have foreseen that powerful authorities would attempt to manipulate the new councils." A few days before this unusually frank statement, the U.S. embassy revoked U.S. working visas for 23 members of judiciary due to alleged corruption, including the general prosecutor and key members of the Constitutional Court. The general prosecutor stated that the ambassador's claims amounted to "pressure [that] . . . tries to manipulate public opinion and devalue the institutions." The prosecutor's additional reference to Soros' impact on the ambassador is indicative of certain Albanian institutions; strategies designed to counteract international involvement. In Tirana, Soros is seen as an adversary of the Trump administration, and the reference to Soros is an attempt to encourage the Trump administration to control the ambassador and reduce their interference in the reform program. The general prosecutor immediately submitted a letter of complaint and then met the DP-elected president and LSI-chair of the parliament. Both parties had appointed the general prosecutor in that position. The prime minister and leader of the governing majority, an outspoken supporter of reform, were left out of the general prosecutor's complaints. Given the politically orchestrated and institutionally embedded resistance, future reforms will largely depend on the commitment to reform of future governments, and above all the consistency of U.S. and EU involvement.

Regarding the economy, any future progress depends on promoting domestic investment, attracting international investors and increasing gross fixed capital formation. A \$70 million World Bank loan approved in January 2017 demonstrates increasing international confidence in Albania's of economic development. Yet, serious planning and more investment are required in the R&D and education, considering that most economic players in the country are involved in low-technology, labor-intensive and low-cost products. Policies must be developed in close collaboration with enterprises and equip students with the necessary technical skills to meet labor market demand. Tackling land insecurity, corruption and the problems associated with a weak judiciary will be indispensable to improving economic performance in the long term.