

Albania

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|---|-------------|--------------------------------------|--------|
| Status Index (Democracy: 7.25, Market economy: 5.96) 6.61 | | Management Index 5.32 | |
| HDI | Value: 0.78 | Population | 3.1 mn |
| GDP per capita (\$, PPP) | 4.584 | Population growth¹ | 0.9 % |
| Unemployment rate | N/A | Women in Parliament | 6.4 % |
| UN Education Index | 0.89 | Poverty² | N/A |
| | | Gini Index (2002) | 28.2 |
| Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003. ² Population living below \$ 1 (1990-2002) | | | |

A. Executive Summary

While Albania has continued gradually toward democratic consolidation and establishing the framework for a market economy, internal political struggles have slowed its progress. Deficiencies persist in the rule of law, legal certainty and establishing a pluralistic society. The interests of society are often secondary to party power politics.

Although progress has been made in transformation, deficiencies persist, particularly in the functioning of the rule of law, legal certainty and standards of a pluralistic society. Party power is often put before the interests of society.

Signing the Stabilization and Association Agreement (SAA) with the European Union is the major challenge facing Albania in the near future. EU officials have stressed the importance of following their recommendations to achieve the conditions set by the agreement. These include free and fair general elections to be held in July 2005 and in accordance with international democratic standards, Albania's visible commitment to fighting corruption, and the urgency of substantial reforms to the country's judicial and administrative structures.

Albania's conflict-laden atmosphere has negatively influenced reforms and the country's stability. Nepotism and clientelism have infiltrated government administrative structures, the judiciary and business. Consequently, the judiciary does not act independently and fails to combat corruption. Time, human resources and actors' sustainability and predictability are key to change in Albania. It will take several years for Albania to achieve the goals of transformation toward a market-based economy according to international standards and norms. The lack of electricity and water utilities continue to be a problem in many areas throughout the country. Poverty is high and education standards are deteriorating. The percentage of women in politics is marginal. Whereas women have gained in

civil rights, they do not enjoy equal rights in society. Albania's youth, which represents the largest population segment (15-20%), have been hit hardest by unemployment and poor occupational prospects.

Financial support from international donors and remittances from those in the Albanian diaspora remain very important factors in the country's economic stability.

Albania has made progress in privatization, particularly in the telecommunications sector and with former state factories. Albania's also plays a constructive and active role in regional politics.

B. History and characteristics of transformation

Albania's social upheaval that began in 1990-1991 has evolved in an uneven and contradictory manner. The legacy of 40 years of communist dictatorship, bunker-like isolation and extreme backwardness left its mark throughout the entire country. The population had no experience with democracy or a market economy. Albania had the characteristics of a developing country, and initially depended on emergency international aid.

Elections in 1992 ushered in to power the newly formed Democratic Party of Albania (PDSH). Ineffective economic renewal and deficiencies in the perception and development of democracy threatened to explode during the crisis of state in 1997, which was brought on by questionable investment transactions that pushed a large portion of the population to the brink of ruin. International mediation allowed for early elections, which brought to power the Socialist Party (PSSH)—the successor to the Communist Party of Labor. Both elections were marred by conflicts. The PSSH has remained in power since 1997. During this period, transformation was obstructed by frequent changes at top levels of government resulting from struggles for power. The polarization of the two key political forces undermined any effort aimed at facilitating party pluralism and broad-based co-determination.

Other factors, including the murder of the PDSH politician Azem Hajdari in September 1998, the debates over the final approval of a new constitution in November 1998, the Kosovo war in 1998-1999 and the Macedonian crisis in 2001 further aggravated Albania's instability.

Parliamentary elections held in the summer of 2001 under international supervision, indicated a fundamental proclivity for a peaceful and free decision-making process. Members of the PSSH attempted political manipulation, as their party held on to a slim majority. This resulted in a boycott by the PDSH and to internal power struggles within the PSSH. The situation renewed confrontation in

the 2002 presidential elections. External pressure resulted in the election of a consensus candidate, which introduced a phase of stability and created the conditions for continuing and deepening transformation toward a market-based democracy. However, this phase was short-lived; local elections in 2003 failed to show progress. Politics is dominated by confrontation and accusations that hinder domestic issues from being resolved. During these years, Socialist Party Chair Fatos Nano eliminated all significant opposition with the party. Both Prime Minister Ilir Meta and Pandeli Majko were forced to quit. In 2003, Nano once again became prime minister and monopolized power within his party and government. The political landscape changed radically in 2004: The governing Socialist Party experienced its first-ever split. In September, a group of MPs, led by the former Socialist Primer Ilir Meta, founded the Socialist Movement for Integration. This party is currently in the process of establishing and consolidating its branches while recruiting members from the ranks of the socialists.

Another political force was founded during 2004 on the right of the political spectrum. Leka Zogu, a pretender to the throne, heads the Movement for National Development. The movement is comprised of several small political parties such as Legaliteti, PDR, and Balli Kombetar. Presenting themselves as an alternative to the right, they thus challenge the authority of the right's symbol, the Democratic Party.

C. Assessment

1. Democracy

1.1. Stateness

Albania has no problems of statehood regarding the form of the state, legal organization and international recognition. The government, the opposition and the majority of the population does not support demands for a possible annexation of Kosovo or Western Macedonia or the formation of a Greater Albania. Their views and positions are in full accordance with the international community.

The state monopoly on the use of force is anchored in the constitution. Public order and safety are largely ensured again, following unrest in 1997. The Minister of Public Order has recently expelled a number of high-ranking police officers

accused of corruption, taking bribes and involvement in organized crime, thus increasing respect for the police.

However, hotspots like Bajram Curri in the north and Lazarat in the south are still highly problematic and partly no-go areas for police. In the Lazarat case, EU

officials criticize the fact that political infighting between the ruling socialists and opposition democrats is diverting attention from the real issue, namely the fight against crime and trafficking.

In general, there is fundamental agreement about who qualifies as a citizen of the state; therefore, it is not a politically relevant issue. All citizens possess the same civil rights and the majority fundamentally acknowledges the state's constitution. The minorities have their own party, the Party for the Protection of Human Rights (PBDNJ), which is present in parliament, regionally active and influential. Church and state are separate, and the political process is secular. Religious dogmas have no noteworthy influence on politics or law, or on societal integration. There have never been feuds among the communities and marriages between religious denominations are normal.

Administration reform aimed at overcoming bureaucracy and enhancing decentralization is still in its initial phase. It continues to remain fragile due to inherited traditions and a low wage system.

1.2. Political participation

Albania has yet to convincingly pass the test of free and democratic elections. After the 2001 parliamentary elections, the Organization for Security and Cooperation in Europe's (OSCE) Office for Democratic Institutions and Human Rights (ODIHR) observed deficiencies in voter lists, which allowed for manipulation (for instance, checking voter identity and ensuring voting anonymity). There was evidence of multiple voting and allegations of interference with citizens' rights to freedom of expression and to engage in political activities.

Generally free and fair suffrage, as well as the right to campaign for office, is guaranteed by the constitution approved by referendum in 1998. Nonetheless, putting elections into practice has exposed problems in the process, leading to several revisions of the existing electoral law. The OSCE stated that after the 2001 elections, the 2005 election process would remain prone to abuse until it is reformed.

The tendency to identify the state with the party in power is still a prevailing phenomenon. Arguments over jurisdiction and interpretation blocked the work of parliament and the government for long periods. This also happened when the governing Socialist Party experienced its first split ever. The EU expressed its concern about the influence political parties have on the Albanian administration. So far, elected rulers' power to govern has remained unquestioned. However, this does not mean they are protected from boycotts by other forces.

Freedom of assembly is unrestricted within the basic democratic order. The right of free expression for citizens, organizations and the media is guaranteed by the constitution. Restrictions on journalists have significantly decreased. At the time of this writing, nearly everything could be published in Albania without consequence. This is possible primarily because of a lack of ethical standards in many media organizations, the struggle for scandals and news, as well as an obvious decrease in popular perception of the media's credibility.

1.3. Rule of law

The separation of powers between the legislature, executive and judiciary is fragile and intermittently damaged by jurisdictional arguments and conflicts over constitutional interpretation. The judiciary's independence has been repeatedly jeopardized by arbitrary interference from politicians of both the governing party and the opposition. The selection of the highest constitutional judges or prosecutors often resulted in extremely sharp controversies in parliament. Public trust in the judiciary has been undermined by lawyers' lack of professional experience and also by cases of blackmail by politicians. Albania's present justice system suffers general weaknesses, thus casting doubt on the country's ability to sign the Association and Stabilization Agreement with the EU in the near future.

Criminal prosecution of corruption remains one of Albania's most urgent problems. As long as top functionaries are not held accountable by law, faith in the administration of the justice system will be clouded. Nano's anti-corruption campaign in 2003 became a farce when he returned ministers to power previously fired for corruption.

Cases of civil rights violations are decreasing. However, a 2005 Amnesty International report showed evidence that the use of torture by the police is still practiced.

1.4. Stability of democratic institutions

The election of the consensus president, Alfred Moisiu, in 2002 increased institutional stability. Democratic institutions perform their functions in principle. However, they are undermined by frictions between institutions and arbitrary interference from political actors. Institutions do not sufficiently protect the political neutrality of employees in public administration. Party membership is still considered more important than professional skills.

In power since the summer of 2002, the government has not convincingly implemented strategies for overcoming corruption, the abuse of authority and nepotism.

However, change began at the start of 2005 and brought an end to boycotts or the non-recognition of certain institutions.

1.5. Political and social integration

The party system is fragmented between two main blocs – the PSSH and PDSH. Several small parties on the left and the right have little social influence.

One major failure lies in party politics, which are oriented toward personalities and functions rather than platforms. Making use of their roots in societal structures, the parties aim to keep their networks of interest groups relatively close to independent players on the sidelines. Trade unions play only a marginal role.

The public has increasingly expressed disaffection with politics in recent years through a dwindling voter turnout. Key political players are growing aware of this problem and now aim to broaden their teams with well-educated and experienced professionals who have been trained abroad.

The majority of Albanians support democracy, although in a rather abstract way: most people first associate freedom of movement and freedom of expression with democracy. On the other hand, democracy is perceived as a constant power struggle between political parties and therefore also as a threat to their economic and social security.

The civic organizational landscape is diverse, greatly dependent on foreign assistance and funds and acts relatively independently in the country. Patterns of civic political behavior, which aim at enforcing democratic standards and values, have gained some credibility and attention through repeated resistance to abuse of power and corruption. An example of such activities is the internationally well-known anti-corruption movement MJAFT! (Enough!).

2. Market economy

2.1. Level of socioeconomic development

Albania's transition toward a competition-based market economy has been difficult for various reasons. Despite different expectations, Albania is still among those European countries with the lowest levels of socioeconomic development. Real economic growth has not resulted in higher living standards, welfare provisions, and educational or training opportunities. Major parts of the

population remain excluded from the benefits of growth. Poverty is high while unemployment is expected to rise from 14.8 % to up to 22 % by 2006. Women and the youth are hardest hit and do not enjoy equal opportunities.

Although per capita income has risen consistently since 2001, amounting to \$1,941 annually in 2003, the figure does not reveal its distribution. A significant social disparity divides urban and rural areas. Tied together in a strong network of self-interest, a small, corrupt political and business elite does not invest its money in a visible way.

The current HDI ranking of Albania (65th of 177 countries) may drop considerably in the near future.

2.2. Organization of the market and competition

Albania has succeeded in setting up basic conditions for market-driven competition. A strong institutional framework is still lacking, however. Weak administrative capacities, or a lack of interest by those in power, slow down progress in market regulation, fighting corruption (often caused by close ties between politics and business) and integrating the subsistent informal market into the economy. Consequently, market competition takes the form of barter capitalism, especially in those sectors that are not considered strategic for the country's development.

The risk of monopoly formation is generally not a major concern at the policy level. Nevertheless, the "intermarriage" between politics and business stimulates a system of oligarchies.

Albania's privatization of industries and the banking system is nearly complete. Ports, railway and metropolitan bus lines are the only transport systems that have remained public. The telecommunications sector is also in the process of privatization, as are other utilities (water and power supplies).

With the sale of the Savings Bank of Albania to the Austrian Raiffeisenbank two years ago, the national banking system and the capital market can be considered thoroughly differentiated. The Savings Bank held approximately 60 % of total deposits in Albania.

2.3. Currency and price stability

Albania's fiscal policy is generally considered compliant with goals set by the EU and the World Bank. However, the stability of the national currency, the lek,

mainly stems from the inflow of foreign money in the form of aid funds and loans as well as private capital sent by Albanian emigrants to their families. The share of money from public international banks (such as the European Bank for Reconstruction and Development, or EBRD, and the European Investment Bank) in domestic investments in Albania is relatively high. The incoming money from abroad also represents a major source of the country's currency reserves.

2.4. Private property

Overall, legislation for local and foreign private capital is in place and undergoes constant reform to create a favorable legal framework for private capital. Priorities in privatizing strategic industries include the telecommunications company (Albtelecom), the Albanian Savings Bank and the Albanian power corporation (KESH).

In other sectors, international donors support public-private partnerships, for example a project between the town Elbasan with Berlin Wasser International and the Credit Institute for Reconstruction (KfW).

An important law for foreign direct investment (FDI) has been passed, which allows foreigners to purchase real estate if they invest in businesses. Nevertheless, legal uncertainties in combination with a weak administration and judiciary increase risks to investors.

The investment rate in 2003 dropped to a FDI sum of \$178 million. Public investment decreased from 7 % to 5 %, private investors kept their commitment to the country with a remaining contribution of 13 %. This lack of increase in public investment despite the apparent need for FDI shows that major strategic foreign investors remain reluctant to engage in the country's development.

2.5. Welfare regime

A public welfare system is in place, constituted by social policy regulations and public institutions, but it is insufficiently equipped to give adequate support to the country's impoverished population. There are three basic schemes of social protection: unemployment benefits, pensions and social assistance to families suffering from abject poverty. Unemployment benefits are paid for a maximum of one year. Pensions have been increased by 10 % in urban and 25 % in rural areas. The percentage of families receiving social assistance is 22.6 %.

There are strong regional disparities causing internal migration from the poor countryside to urban areas. If the sharp increase in rates of poverty and the expected rise in unemployment (estimated at 22 % in 2005) are taken into

account, the government will not be able to solve these social problems without external assistance.

These deficiencies in the social security system reflect a lack of social consciousness on the part of citizens who are better off and earn more money. There is no understanding of a broader social contract between the state and its citizens.

The health care system is still in the process of reconstruction. It continues to suffer from chronic shortages of medicine and modern medical equipment as well as high levels of corruption.

While attendance in primary and secondary education is equally high for both men and women, women are disadvantaged in the labor market. Also, women earn on average half the income of men.

2.6. Economic performance

According to the 2003 EU assessment report, Albania's overall economic performance has fallen below expectations. This is due largely to internal deficits, such as continuing problems in the electricity sector, limited growth in the agricultural sector and the insufficient performance of the customs and tax administrations. The high internal debt of the state, amounting to 38 % of the Gross National Income (GNI), remains worrying.

Albania's financial situation remained stable between 2002 and 2004, and the country had a consistent price and monetary policy. Inflation was relatively stable around 2.2% from 2003 to 2005. The budget balance remained negative with a deficit of 4.9% of the GDP.

Albania's trade balance is still negative. The growth of imports has been slower than in recent years, however.

Growth in Albania's GDP has been on the increase since 2002, with an approximately constant rate of 6 %, largely due to successes in construction, small businesses and the service sector. Agriculture has a significant share in the GDP growth (24 %).

Albania's informal economy is still important, with an activity rate of 34.1 % of the GNI.

2.7. Sustainability

International bilateral and multilateral development institutions and the government pay increasing attention to environmentally friendly policies. The Ministry of the Environment identified all hot spots in the country and started a successful fundraising campaign for a clean up.

The most serious problem facing the population is the permanent energy crisis, marked by daily disruptions in the supply of electricity and drinking water.

Albania has a very low performance with respect to investments in human capital. There has been an alarming decline in school attendance in rural areas and an equally disturbing re-appearance of illiteracy. Many cultural institutions have had to close their doors. The Academy of Sciences and the universities do not have sufficient funds to proceed with national research projects.

The state's expenditure for education was 3.3 % of the public budget. The situation has changed slightly following a general strike by professors and lecturers from all universities in the country. The system remains highly problematic in remote areas because of a lack of proper schools and teachers.

3. Management

3.1. Level of difficulty

Considering the structural, social and economic conditions that determine the long-term political process, the level of difficulty of transformation must still be classified as high. The grassroots consensus on democracy and functioning party pluralism remains fractured and frail.

Albania's economic and social development suffered from disruptions in the transformation process that was aggravated by the country's political polarization into two main political camps dominated by the PSSH and the PDSH. This polarization undermined the broadening of democracy and a market economy. Albania's limited experience with civic, democratic and legal institutions (weak traditions of civil society) combined with external disruptions like the Kosovo war and the Macedonian crisis enforced deficiencies in transformation management.

Neither society nor the political elite is shaped by ethnic, social or religious differences. However, radical political actors do occasionally attempt to mobilize ethnic, religious or social groups for their ends, but with nearly no effect. The only relevant ethnic issue in Albania concerns the Greek minority in southern Albania, which receives support from Greek political and business circles. Potential social

conflicts, due to poverty and a lack of equal opportunities in remote areas, are marginalized by the dominant political conflict between the two major parties.

Profile of the Political System

| | |
|------------------------|----------------------------|
| Regime type: | <i>Democracy</i> |
| System of government: | <i>Parliamentary</i> |
| 1. Head of State: | <i>Rexhep Meidani</i> |
| Head of Government: | <i>Illir Meta</i> |
| 2. Head of State: | <i>Alfred Spiro Moisiu</i> |
| Head of Government: | <i>Pandeli Majko</i> |
| 3. Head of Government: | <i>Fatos Nano</i> |
| Type of government: | <i>oversized coalition</i> |

Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints to executive authority; i is the share of parliamentary mandates controlled by party i . Effective number of parties denotes the number of parties represented in parliament.

3.2. Steering capability

Politicians and the administration are going through a complicated learning process in organizing reforms toward democracy and a market economy. Centralist thinking and authoritarian methods of leadership remain widespread, which restricts citizen participation and leads to a lack of innovation and young faces. The Albanian political elite remains dominated by actors who were socialized under the old system and represent mindsets and habits of the past. EU representatives have supported young leaders' involvement, but the process of rejuvenation is just beginning.

The government and parliament address the process of transformation toward democratization, a modern constitutional framework and a social market economy by reacting to upcoming challenges rather than by developing a proactive strategy.

Compared to other countries in transformation, the political elite expects more external support, but remains slow in taking necessary initiatives on its own, thus casting doubts over Albania's reliability in achieving its goals. The political leadership regularly claims to pursue long-term aims, but individual interests (holding office and political bargaining) often overshadow these aims. This deficiency is not solely the responsibility of the governing center-left coalition, but also of the opposition. For a long time, the Democratic Party failed to act as a constructive corrective and to present itself as a credible alternative in elections. Internal party reform did not happen for a long time. New faces appeared first at the end of 2004, refreshing the party's image and credibility. Political parties have increasingly focused on winning elections rather than fighting for the improvement of social life. Public frustration with political parties, resulting in weak voter turnouts and a lack of trust in democracy and market economy, was

widespread in recent years.

The implementation of administrative reform is in its initial phase. The correct path has been laid out: decentralization and qualification of the civil service. This includes the country's planned territorial restructuring, which will reform the territorial arrangement of municipalities, districts and prefectures. The Albanian government under Nano, who was in power until the end of 2004, did not do enough to overcome regional economic disparities. It lacked the sufficient political will and organizational skills to continue with reforms unless they were crucial for further European integration and thus imposed from outside. One of the rare examples of visible changes and reforms is seen in the capital Tirana, where Mayor Edi Rama has implemented several unconventional projects and gained international recognition. Between 2003 and 2005 Tirana's urban districts were reconstructed, received a reliable water supply and electricity; illegal buildings were removed and streets repaired. In other areas of the country, these basic steps toward modernization have yet to be taken.

Mayor Rama is one of the few young politicians who, many believe, could play a positive role in Albania's future. However, in addition to innovative leaders, Albania needs efficient institutional structures. Fighting corruption, ensuring the rule of law or overcoming the energy crisis will only be possible within a functional separation of powers and the broad participation of diverse social groups.

The influence of international organizations - such as the OSCE or EU - on Albanian politicians remains high and their statements trigger frequent debates in Albania's media and political life. This was observed in public debates responding to the ODHIR's observations of the 2005 elections and EU statements after the poll concluded (with the former opposition of Berishas PDSH the winner of the election). Nonetheless, political leaders often lacked the willingness and ability to learn from these international counsels, which has prolonged the process of normalization in recent years.

3.3. Resource efficiency

There is little indication that Albania makes effective use of available personnel and organizational resources for transformation. Brain drain has deprived the country of many of its intellectuals. Recovery has begun, but many well-trained specialists remain either unemployed or underpaid. In addition, a large part of the youth remains underemployed, even though they have Internet abilities. Nonetheless, during the last two years, the number of Albanian citizens trained and living abroad, and now returning home, is increasing. Often employed by international organizations and businesses, these Albanians give a new impetus to institutions and companies upon their return.

There is still no social contract bringing together human and organizational resources through the cooperation of government, parliament, extra-parliamentary forces and NGOs.

The Socialist Party leadership strictly controlled and managed the work and coordination of the cabinet during its period in office. Intra-governmental frictions emerged from time to time due to personal disagreements and political clashes within the party. They were frequently solved by excluding the opponents from government work or by splitting the party, as in 2003-2004, when former Prime Minister Meta founded his own party. Prime Minister Nano and the party leadership avoided rivalries between different government branches through a mixed strategy of hierarchical rule combined with a patronage system of networks and a centralized decision-making process.

The socialist government - itself suspected of corruption - officially focused on the fight against corruption. At the time of this writing, the necessary legal framework is in place, but lacks implementation. Corruption remains the main obstacle to the country's reliability. Most mechanisms to ensure integrity remain ineffective or respective branches of power simply fail to install them, due to a lack of interest. The media openly discusses individual and structural cases of corruption. However, even when charges are substantiated, they rarely hold any consequence.

3.4. Consensus-building

All essential political and social actors agree on the goal of transformation: achieving democracy and a market economy and integrating the country into European structures. However, ideas on how to reach that goal vary. Reform often remains little more than a slogan, used for self-promotion by parties and politicians. The two primary parties have produced several minor spin-offs in recent years. These include the center-right Reformed Democratic Party (PDR), founded in 2001, the Socialist Movement for Integration (LSI) founded in 2004 by former Prime Minister Meta and the right-wing Movement for National Development, headed by the pretender to the throne Leka Zogu and founded in 2004. In the 2005 election smaller parties managed to break up the domination of the party spectrum by the PSSH and the PDSH and give new weight to party pluralism. There are no explicitly anti-democratic parties present in Albanian politics.

A broad social consensus that can successfully advance reforms still needs to be established. Society is politically split and remains in a social crisis due to poverty. Political leaders recently increased their efforts to promote the role of

NGOs, as Rama did in the beginning of February 2005 when he traveled to different Albanian cities to rally for a culture of civic initiatives. However, Albanian society lacks a tradition of volunteerism and most NGOs are financed from abroad. Solidarity beyond family - or party structures - remains uncommon. Unpaid civic engagement is almost non-existent.

Established NGOs' influence in shaping policy is significant, however. They focus primarily on supporting and monitoring democratic elections, and human, minority and women's rights. Most representatives of NGOs in Albania belong to the urban upper class and the political leaderships take their interests into account, considering their role as influential image-makers outside the country - even if they are critical of the government. This paradox means prominent NGO representatives' reliability is decreasing. The same is true of prominent analysts and journalists, considered by many citizens part of the urban establishment.

The reconciliation process between representatives of the former communist elite and those politically persecuted remains difficult - as is the willingness to accept responsibility. Victims of the communist past lack basic help and financial support. Secret service files remain closed to the public. Most leading politicians have a communist vita. The memory of historical injustices is frequently manipulated. While the political leadership recognizes the need to acknowledge injustices under communism, it does not take concrete steps toward reconciliation.

Albania is proud of its lack of significant religious conflict. The government actively promotes religious coexistence. Albanian President Moisiu launched a regional inter-religious conference in 2003 and 2004 in Tirana.

3.5. International cooperation

The leadership works with bilateral and international donors and tries to make use of international assistance. Actors such as the EU, OSCE, Council of Europe, NATO, the IMF, EBRD or Stability Pact for Southeastern Europe are highly influential and important to Albania's internal consolidation. However, these actors' involvement does not always significantly facilitate policy learning and improvement.

The United States, especially, has a strong bilateral influence. The Albanian government and opposition have recently proven their willingness to meet EU conditions. The anticipated signing of a Stabilization and Association Agreement will signal a breakthrough.

Albania has pursued an active foreign policy aimed at non-violent conflict resolution in the Balkans; the administration proved itself constructive during the crises in Kosovo and Macedonia. Relations with neighboring states have

improved. The Albanian government promotes regional and international integration to improve its own security and promote economic exchange, including free trade agreements and joint efforts to fight terrorism, organized crime and smuggling. This also applies to relations with Serbia and Montenegro. Tirana and Belgrade have signed a free trade agreement, but economic results have yet to surface. Greece is the most important partner in the region and weighs heavily in all sectors. Bilateral relations with Kosovo are treated as inter-state relations without greater-Albania ambitions - although this remains suspect in the international community's eyes. Albanian-Macedonian bilateral relations have been normalized since the Ohrid Agreement.

Albania is pushing for NATO and EU integration. The country applied for membership to the NATO Cooperation Council as early as 1992 and was one of the first candidates for the Partnership for Peace program. In recent years, Albania cooperated closely with Macedonia and Croatia toward common NATO integration. The United States has already approved Albania's full membership in the North Atlantic Alliance in the next two years (by 2007). Albanian military units' participation in international peace missions in Bosnia, Iraq and Afghanistan underlines Albania's willingness to integrate. Albania openly supported the United States and the international community in their fight against terrorism as a strategic partner. The United Nations and the OSCE began to scale back their involvement. Both parties view cooperation with Germany as constructive and unproblematic. The German company Hochtief won a contract to modernize the country's only international airport. Generally, German aid is greatly appreciated for its reliability and concrete efforts to overcome infrastructural problems. However, the United States clearly enjoys the most trust and credibility for their political support of Albania's geo-strategic interests. Berisha's initial statements following his victory in the 2005 elections confirmed this relationship.

Generally, the government tries to act as a credible and reliable partner. However, key international actors still express doubts regarding its reliability. Foreign direct investment (such as the telephone company Vodafone, supported by the EBRD in 2004, or the investment in the electricity system, or KESH) will depend on international financial cooperation and the limitation of risk for foreign investors.

4. Trend of development

4.1. Democratic development

Fifteen years after the end of the Hoxha Regime and eight years after the 1997 crisis, the transformation process in Albania seems irreversible. However, democratic reform processes continue to suffer from the state's weaknesses and susceptibility, which must be understood in the context of a necessary transition period from semi-feudal conditions to a communist dictatorship that lasted 40 years. Democratic change was therefore crippled from the beginning by a significant lack of legal, civil society and democratic traditions. In light of this disadvantage, Albania has made enormous progress—despite the fact that political participation and the rule of law have not been improved upon to the desired extent from 2001 to 2005.

During the evaluation period, nearly all relevant political actors considered transformation necessary and non-negotiable. However, the process of transformation has been repeatedly undermined by partisan battles between the Socialist Party in power and the opposition, the Democratic Party. New political parties emerging at the end of 2004 have raised hopes that the political landscape might change.

Internationally, Albania is becoming less an object of events and more an active political subject. Nevertheless, the country remains a hotspot of organized crime, and human and drug trafficking. The government's assured commitment to fight these phenomena receives support from international organizations, Europol and others.

Advances in Albania's stabilization and democracy will ease the path toward integration in European structures. Holding free and fair general elections in summer 2005 is of great import; successful elections are a precondition of and step toward signing the Stabilization and Association Agreement with the EU.

4.2. Market economy development

The overall business climate has not significantly improved despite initiatives aimed at business promotion and encouraging local and foreign investment. Legal security remains insufficient and commercial laws inadequate to foster business development. Certain steps have been taken to improve the generally poor state of affairs in various Albanian economic sectors, such as transport, energy or agriculture. However, these efforts must be sustained beyond the medium term to yield significant results. Genuine commitment and determination to implement

policies on the part of the government and law enforcement bodies (including the prosecution office and the judiciary) is key to resolving the challenges facing Albania.

The international framework for market activity has improved. However, the pace of reform remains inadequate. Economic growth is rooted primarily in improvements in construction (9.1 %), agriculture (24.7 %) and transportation (10 %). The service sector, at 46 %, still accounts for the majority of GDP, while industry contributes only 10.2 % to GDP (German Foreign Office, Albania).

Socioeconomic development has dropped to the level of the lowest ranking European reform countries. Sporadic improvements observed in infrastructure, the construction industry, and services have resulted in the creation of new jobs.

Table: Development of macroeconomic fundamentals (2000-2004)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---------------------------------------|------|------|------|------|-------|
| Growth of GDP in % | 7.3 | 7.2 | 3.4 | 6.0 | 6.0 |
| Export growth in % | | | | 18.9 | 27.5 |
| Import growth in % | | | | 43.1 | 39.4 |
| Inflation in % (CPI) | | 3.5 | 1.7 | 3.3 | 2.2 |
| Investment in % of GDP | | | | | |
| Tax Revenue in % of GDP | | | | | |
| Unemployment in % | 16.8 | 16.4 | 15.8 | 15.2 | 14.8 |
| Budget deficit in % of GDP | | | | | -4.9 |
| Current account balance in billion \$ | | | | 61.2 | 132.3 |

Source: World Bank, Instat, Albanian Government

D. Strategic perspective

The slow, yet growing awareness of Albania's key political actors allow a tentative optimism regarding the future of transformation in Albania. Both domestic pressure from voters and emergent political players have influenced this process. The country is focusing on consolidating its development by expanding the rule of law, overcoming the domestic energy crisis, waging a determined battle against corruption and nepotism, and a coordinated fight against international terrorism and organized crime. In so doing, Albania is undergoing a catharsis of sorts that will render the behavior of political actors more transparent and predictable.

Parliamentary elections scheduled for July 3, 2005 showed only limited progress in poll conduct, as compared to previous elections. While conducted within a generally peaceful atmosphere, the process was marred by a few violent incidents, with one fatality. Initial results show Sali Berisha as the likely victor, which will lead to a new right-wing government.

More effort is needed to develop the rule of law and stability before criteria such as the integration of civil society, conflict resolution and the adoption of legal structures operate, at least minimally. Establishing this framework is also important for good governance, economic growth, legal certainty, increasing participation and reducing poverty, particularly in remote areas. Albanian citizens' lack of experience in exercising their civil rights means they must learn to fight for these rights and the judiciary must protect its independence. Doing so is key to stemming the desire to emigrate for economic reasons. This would also provide the basis for battling human rights violations—a sad reality. (See Amnesty International's recent report on torture used by Albanian police forces.)

Clearly, evolutionary success will depend on long-term prospects regarding direct international support and advice. Transformation will be sluggish if not all aspects of political, economic, social and cultural development are integrated holistically.

Reform in Albania faces several hurdles on its way to meet the criteria of structural and qualitative inclusion in Europe.

Following the consolidation of a sufficient legal framework, foreign investors have only recently begun exploring fields of potential interest in Albania. The Albanian government has begun a systematic search for direct foreign investment, built an agency to support this process and has been working hard to fulfill all legal and security requirements. Key sectors of long-term investment are found in infrastructural development: streets, airports, electricity and telecommunication. Although important steps have already been taken with companies such as Hochtief or Vodafone, much more needs to be done, as there are other areas of potential interest to foreign investment. Tourism, for example, could be developed. The framework for large-scale tourism is rudimentary and in need of development. This would involve building the necessary infrastructure with environmental considerations in mind. Albania's productivity in terms of industrial and agricultural production remains low due to delayed privatization and the lack of technology enabling the country to use its resources in a modern and efficient manner. Foreign investment programs to stimulate this sector are currently underway.

As a small country with a young, dynamic population of only 3.2 million, reforms and change can be applied relatively easily. However, in order to do so, Albania must combat corruption and crime decisively. For example, the government must undermine the prosperous benefits of drug plantations and trafficking. Albania must also improve opportunities for further education among its youth; strong

investment in human capital is urgent. As private economic activity increases, the role of civic initiatives is likely to increase both in the economic and education arenas. These initiatives will supplement reform measures at the state level.

External financial support combined with a policy of pressure and rewards from donors and European politicians remains necessary to advancing the goal of Euro-Atlantic integration.