

BTI 2016 | Albania Country Report

Status Index	1-10	6.71	# 33 of 129	
Political Transformation	1-10	6.95	# 36 of 129	➔
Economic Transformation	1-10	6.46	# 37 of 129	➔
Management Index	1-10	5.77	# 38 of 129	

scale score rank trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. 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	0.716	GDP p.c., PPP \$	10428.5
Pop. growth ¹	% p.a.	-0.1	HDI rank of 187	95	Gini Index	29.0
Life expectancy	years	77.5	UN Education Index	0.609	Poverty ³	% 6.8
Urban population	%	56.4	Gender inequality ²	0.245	Aid per capita \$	103.0

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

In June 2013, Albania held new parliamentary elections, which were broadly considered a test of the fragile democracy. The winning coalition, featuring the Socialist Party (SP) and Socialist Movement for Integration (SMI), promised a systematic and fresh new approach to good governance, which appealed to an absolute majority of Albanians. Indeed, in the preceding years, the country had experienced a considerable fall on the key dimensions measured by the BTI's political, economic and management index, which mounted popular demands for change. The period under investigation, January 2013 through January 2015 shows improvement on some of the economic and political dimensions, which has won Albania a positive evaluation from the EU and the, much expected, reward of "candidate country" status in mid-2014. The EU's 2014 progress report further noted that "the new government undertook a number of reforms to bring the country closer to meeting the key priorities for progress toward the EU and deliver further tangible results in the area of rule of law." Sustainable political reforms require cooperation from a wide range of political players and independent institutions. Yet these have benefited from an unruly transition and have everything to lose from substantial reforms. Albania's chain of independent institutions, particularly different levels of the judiciary, have been filled with political appointees and defended by immunity, posing significant obstacles to any meaningful change in the area of rule of law. Given the close links between political and judicial structures, high-level officeholders found to abuse power are rarely investigated and almost never prosecuted. The judiciary for its part has become the subject of various media reports showing rampant corruption, politicized structures and largely non-functioning justice. Albanians are left with the impression that political wrongdoing and non-functioning justice are two sides of the same coin, which collaborates to enforce a vicious circle of state capture. This issue now tops the EU conditionality agenda and will be the single most important issue on which the future battle for integration will be fought.

Regarding economic development, some progress has been registered on building up the institutions necessary for a functional market economy. Considerable structural, institutional and legal changes are expected to pay off in long term. Tax revenue, one of country's main challenges, showed positive trends in 2014 and is expected to improve further. The public deficit is forecasted to decrease to acceptable levels in 2017, part of consolidated fiscal policies followed over the last two years. Nonetheless, expanded monetary policies have not been sufficient to change the path of significant economic contraction on a year per year basis. Indeed, these policies have not yielded the expected outcomes due to the market's large euroization, weak lending activity and the presence of a large informal economy. A progressive tax for households and increasing tax rates for corporate income are likely to deteriorate the already sensitive business climate. Unemployment also remains a major concern in the period under review.

The difficult starting conditions – the collapse of state authority in the early 1990s and then again in 1997 – and the protracted mismanagement of the economic and political transition ever since, present huge obstacles that governing actors must overcome in order to set the country on a sustainable transformation path. The new government has shown a will and capacity to pursue painful and comprehensive structural reforms necessary to advance on the path toward EU integration. However, politicization remains a widespread plague. Politicized nominations, some of which have been noted also during the period under investigation, hamper the government's credibility to bring in a new professional ethos in the state apparatus. The many institutional veto players installed during the unruly transition raises the question whether the country can indeed move into a phase where rules are implemented in good spirit and independent of particular political agendas. Fundamentally, this boils down to the issue of corruption, the main node which links some of the most problematic aspects of the transition: weak state institutions, fuzzy checks and balances, politicized “independent” institutions which serve their political masters, rent-seeking elites, conflicting politics, and a poor society dependent on state employment.

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 path to democracy and market economy has consistently put the country at the end of post-communist rankings of democratic and economic progress.

The country's historical “deficits” – including a short experience with independent statehood, lack of previous democratic experiences, socioeconomic underdevelopment, deeply divided elites and the prevalence of authoritarian leadership – are often cited when explaining its difficult path of transition and some of its contemporary problems. At the beginning of its transition, democratization actors had to address the difficult legacy of the draconian communist construct built in the country between 1945 and 1991. The communists gave in to popular demands only when they had no other solution to retain power and feared a similar end to that of Ceausescu in

Romania. Most importantly, the communists' total hold on power until the very start of regime change prevented the emergence of leaders and organizations that had the vision and capacity to lead the country toward democratization at the beginning of the transition. The clash between two antagonistic camps – conservative communists and emerging anti-communist movements – encouraged a chaotic mode of transition and brought the country on the verge of collapse more than once. Given the difficulties posed by such preconditions, Albania seemed doomed to a long and painful route to democracy.

In 1992, the first electoral victory of the anti-communist forces in the first real pluralist elections occurred amid a wave of popular democracy, which for a moment seemed to sweep away the memories of communist repression. The first opposition, the Democratic Party (DP) which brought together different anti-communist movements undertook a comprehensive “shock therapy” of political and economic reforms. The enthusiasm for this initial start is best captured in praises such as “rising star” that one encounters in both domestic and foreign evaluations of country's reforms during the first half of the 1990s. By the mid-1990s, however, anti-communist governance highlighted 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, and the mismanagement of the economic transition and mushrooming of pyramid schemes. By the end of 1996, these pyramid schemes had 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 (which was dissolving at the time and under a U.N. embargo). By 1997, armed protesters who had lost their savings, joined by the oppressed opposition and the many losers of transition, attacked state institutions and took the country to the brink of a “state of anarchy.” Indeed, state structures suffered an almost total collapse.

Afterwards, Albania became dependent on international assistance and was commonly depicted as a weak state that requires foreign monitoring and 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 stabilize checks and balances. The model of governance, however, continued to suffer from deeply divided politics, a protagonist style of leadership, centralization of state power and the overall subordination of institutions to the ruling majority of the day.

The return of the DP in 2005, with a new image and an army of image professionals, promised to move things ahead. Indeed, the 2005 elections were considered a substantial improvement over the previous elections because they enabled a smooth transfer of power. The EU integration perspective, which since 2000 was embedded in the Stabilization and Association Process, and a concrete promise of membership, encouraged a wide range of reforms. To be sure, after 2005, Albania recorded some successes in terms of integration. Positive international signals such as NATO membership in 2009 and visa liberalization with the EU in December 2010, however,

contrasted with the EU rejecting Albania's application for membership four times between 2009 and 2013. This reverberated through falling scores in almost all dimensions of economic and political transition. A report prepared by Bulgarian, German and U.S.-American NGOs in 2012 suggested that "Albania has experienced a shift to almost complete control by the ruling elite and extensive use of non-democratic proceduralism where laws are used for exerting control by elites in power." This political control was visible particularly in the capturing of key independent institutions. Once in power, the incoming new majority encountered a highly politicized and DP-controlled network of 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

Question
Score

The state's effective monopoly on the use of force and capacity to control its territory was seriously shaken at various times in the transition, particularly during and after the 1997 crisis, which challenged the very existence of the state. Abundant assistance from abroad especially related to illegal migration, trafficking, organized crime and border controls has contributed to strengthen the coercive capacities of the Albanian state. The country's preparation for and, since 2009, membership in NATO has also contributed to modernize the outdated military structures inherited from the communist regime.

Monopoly on the
use of force
10

During the period under investigation, police forces have conducted highly publicized campaigns and taken control of some remaining small enclaves such as the village of Lazarat, infamous for a marijuana "economy" and defying state authority. The strengthening of police forces has also catalyzed concrete results in the battle to control mafia and criminal networks operating in the country.

Albanian society and politics share wide consensus on who is entitled to citizenship and what that entails, a consensus which is facilitated by the homogeneity of the population (around 90% are of Albanian ethnicity). The country's legal framework also ensures equal rights for all Albanian citizens. Minorities enjoy broad cultural rights, which are monitored by the EU, OSCE and neighboring countries. Existing discrimination and de facto marginalization of particular groups, such as gays, lesbians and Roma, reflects more the lack of sufficient resources and social services than a legal problem.

State identity
9

The 2013 electoral campaign saw the rise of the Red and Black movement, which capitalizes on a Pan-Albanian national rhetoric. Calls to extend the right of citizenship to ethnic Albanians leaving in neighboring countries were embraced by the then governing center-right Democratic Party (DP). The proposal did not make it to parliament and the DP lost power in the next election, suggesting that nationalist

sentiments rate low among voter preferences. The incoming governing coalition has occasionally flirted with nationalist rhetoric, pledging a more assertive policy to protect the rights of Albanians living in other countries, particularly in the context of a rising anti-Albanian discourse since the clashes accompanying the football match between the national teams of Serbia and Albania in October 2014.

The Albanian state operates free of religious dogmas. Article 10 of the constitution establishes that the state has no official religion, and guarantees the equality and autonomy of all religious communities. Religious organizations can gain “legal personality” under the 2011 NGO law. In line with a clear separation between public and private spheres, secondary law establishes restrictions on religious activity and prohibits religious education including the use of religious symbols in public institutions. Radical interpretations have found no productive soil in post-atheist Albanian society. Citizens show strong support for the secular system and excising of religion from the public sphere: politics, education and the arts. Religious communities, which regenerated after the fall of communism, tend to maintain a restrained political and public profile. Between 100 and 200 Albanians are believed to have joined the conflict in Syria, but the phenomenon remains confined to a few individuals and has no influence on the formal structure of secularism or the position of the centralized organization governing the Muslim community.

No interference of
religious dogmas
10

After the deep crisis of state authority in 1997, the country has managed to rebuild core administrative structures and basic public services. Yet, the functioning of public services, especially in selected sectors, remains deficient. For example, it is practically normal to have access to water and energy interrupted in rural as well as urban areas. Health services ensure broad coverage, but are rather insufficient for dealing with the needs of the population. Education remains free but the quality has degraded during the two decades of transition. Meager financing, widespread corruption, nepotism and political appointments, lack of a meritocracy and a general absence of a civil service ethos adversely impact the quality of administrative services.

Basic
administration
7

Since the 2013 elections, the current government has taken steps to deal with some of the long-rooted problems in public services. Concrete steps have been taken particularly in the energy sector (which was reduced to a pitiful state because of accumulated debt and a lack of investment), education system (which had fallen prey to the uncontrolled expansion of private education) and welfare provisions for the poor and disabled (which had been, by and large, ignored throughout the Albanian transition).

2 | Political Participation

The last parliamentary elections, held in June 2013, were largely perceived as a test of Albania's fragile democracy since all previous polls had been marred by irregularities. The previous parliamentary elections in 2009 and local elections in 2011 were highly criticized and served to exacerbate the political stalemate in the country. If there were any doubts about political control over the functioning of the electoral system, the chairperson of the Central Electoral Commission, Arben Ristani, was promoted to vice minister of the interior once his mandate expired in 2012. After the 2013 elections, he was elected as an MP and became number two of the reshuffled Democratic Party (DP). His career trajectory within the DP tends to confirm suspicions raised about the partisan workings and political functioning of the DP-biased electoral commission during his chairpersonship (2009 to 2012).

Free and fair
elections

7

The 2013 elections were contested by two major political blocs. The ruling DP, led by its historical leader Sali Berisha, and the opposition bloc, a coalition between the Socialist Party (SP) and the Socialist Movement for Integration (SMI), led by Edi Rama. The ruling party promised to continue what it perceived as the major success of its previous two terms, while the opposition promised to bring in a new model of good governance. Electoral turnout was at 53.5%. Election observers noted political polarization, deadlocks in the workings of the electoral commission, missed deadlines as well as political pressure on public employees to attend electoral rallies of the then governing majority. According to the OSCE election observer mission, the Central Election Commission lacked a sound legal justification when it replaced all 89 members of Commissions of Electoral Administration Zones nominated by the second largest opposition party, thereby indicating a political bias in favor of the DP majority. Despite the many organizational odds, it was the rising alertness of foreign observers and consciousness of civil society that enabled a relatively smooth electoral process. The sound victory of the opposition block (58% of votes cast) also reduced the weight of legal appeals, which had been subject to many judicial irregularities in the past. The smooth transfer of power was in itself a historical achievement. Nonetheless, a 2014 report by the European Commission on Albania's Progress towards EU membership made clear that the country needs to strengthen "the independence of the election administration bodies."

The state's vulnerability to private sector interests is a serious problem and manifests itself in various forms: the influence of private business on political decision-making, politicians' control of powerful businesses, connections with illegal businesses and interests, and the clientelistic distribution of public funds. The dubious connections between politics and business 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 taking seats in the current legislature.

Effective power to
govern

7

The Albanian constitution ensures a wide range of freedoms of assembly and association (Article 46). NGOs can register freely, 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 change during crucial events in Albania's transition. NGOs, organized groups and particularly media outlets have also taken an active role in assessing the performance of their politicians. One such important moment was the collecting, by civil society groups, of 60,000 signatures needed for the referendum championed by the Alliance Against the Import of Waste. Another important moment was the civic movement against dismantling Syrian chemical weapons in Albania, which forced the government to abandon these plans.

Association /
assembly rights

8

Yet, the last years, including the period under investigation, have seen NGO's increasing entangled in politics: NGO leaders enter the political ranks, while politicians randomly create their own NGOs, which then benefit from connections with the donor community. Such an interaction has damaged the perception of civil society as a possible independent watchdog of politics. Currently, a few NGO representatives, particularly from the ranks of Mjaft, serve in high-level government posts, blurring the division between civil society and the government. Additionally, the presence of advocacy leaders within governing structures shows that crucial sectors of civil society often feature career-oriented individuals with little connection to the attributes of civil society and also that civil society in Albania operates as an appendix of the political structures.

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, a satirical investigative program by Top Channel, has investigated several cases of corruption.

Freedom of
expression

7

Yet, the media is usually financed by businesses, who tend to use them as a tool to gain political access and lucrative contracts in return for favorable political coverage. During the period under investigation, several journalists were promoted to political positions showing the informal relations between media and politics. The political battle for the control of media also unfolded in the choice of the chair of the Audiovisual Media Agency (AMA), who is responsible for the regulation of public and private radio and television. Ultimately, the job went to a former lawyer of Digitalb, which is connected with Top Channel and maintains a pro-government line of reporting.

3 | Rule of Law

The Albanian constitution envisages a system of governance based on the division and balance of powers (Article 7), but the implementation of a separation of powers and independent institutions has generally been a continuous challenge during the country's transition. So far, all political majorities have considered the state a piece of property that can be distributed to their followers for political and/or economic benefit. The outgoing majority had a particularly weak record in relation to checks and balances, with independent reports suggesting an "in-depth consolidation of state capture by the ruling elite."

Separation of powers

4

In 2012, the election of Bujar Nishani, a member of the inner circles of the Democratic Party (DP), as president of the country was a major blow to what was left of independent institutions. Once in office, the incoming president followed the political line of the majority and replaced most leaders of constitutional institutions. The head of State Information Services was soon replaced by Visho Ajazi, another member of the cabinet and a highly contested figure of the security services during the 1997 turmoil. A 2014 parliamentary report showed that soon after Ajazi's nomination, the security services taped a long list of political and diplomatic persons while former Prime Minister Berisha used the information for political blackmail. The general prosecutor Ina Rama who was also openly attacked by the then-DP majority was also replaced with a new prosecutor. A range of investigations of high-level DP officials initiated by Rama lost steam afterwards. The High Council of Justice, which is chaired by the president and in charge of promoting judges, refused to transfer her into a new position in the judicial hierarchy. Additionally, at least two of the president's advisers kept active political positions in the DP.

The political profile of the president has informed an uneasy relationship with the incoming majority. The president has vetoed most of the legal initiatives, including the crucial Law on Administrative Territorial Reform enacted by the new majority. The president's positions, moreover, seem to be very much in line with the political family which placed him in that position, thus hampering any claims of his role as a guarantor of "independence" and "symbol of national unity" in the country.

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. A new law provides for the creation of administrative courts which will deal with administrative cases, but they are still not fully operational. The Constitutional Court decides on the conformity of laws with the constitution, while the Prosecutor Office brings prosecutions to the court on behalf of the state. Political pressure is often at the very root of what is perceived as a weak and corrupt judiciary system. Judges of the first two instances are appointed by the president upon the proposal of the High Council of Justice (HCJ). With the election of a partisan president, these

Independent judiciary

4

appointments became more vulnerable to political influence. Members of the High Court, Constitutional Court and the General Prosecutor are also nominated by the president, but require the consent of a parliamentary majority and are thus subject to even more political pressure.

All international indices show that the independence of the judiciary has been in a free fall since 2005 and reached the lowest point in 2013. Ultimately, the failure of the judiciary to ensure justice is has been particularly demonstrated in processes involving high-level politicians and abuse of office. In one of the most controversial cases, involving the killing of four unarmed protesters by the Republican Guard on 21 January 2011, the judiciary allegedly ignored evidence provided by the FBI. Afterwards, the U.S. embassy came up with a bold conclusion: “today’s verdict has undermined confidence in the ability and willingness of the Albanian judicial system to deliver justice in an impartial, transparent manner.”

Reforming a system which is packed with political nominees and protected with immunity is an almost impossible task given the polarization between the president and the new incoming majority. The internal functioning of the HCJ is a case in point. In mid-2014, Gjin Gjoni, a HCJ member, came under investigation for not declaring the value of his business shares (estimated at between 2.5 and 3 million dollars). Although he could hardly justify his many properties on the basis of his official income, his colleagues opted to vest him with immunity and protect him from prosecution. In a twist of political favors, the year before, the HCJ had chosen Gjoni to replace a member of the Board of the School of Judges, the crucial institution preparing new judges in Albania. The placement of Gjoni on the board effectively changed the balance of voting so that a DP affiliate, Neshat Fana, could be elected as head of the schools. At the time, the board had already voted to elect an internal professor as chair of the school, but the decision was reversed after Gjoni’s election. One should add that Gjoni does not even have a proper judicial education. He was trained as a “judge” during a course which lasted a few months, a system initiated in 1991 by the first DP government in order to replace judges of the previous regime with new politically suitable candidates. After a few months of education, Gjoni had a lustrous and fast career in different levels of the judicial system. When the investigation into his unjustified income started, Gjoni himself attacked the investigation structures for “unprecedented interference” in the work of the judiciary. He continued to decide on the promotion of judges at all levels of the system. He also went on to advise key international actors as one of the main “stakeholders” of judicial reform. The case illustrates the difficulties of balancing the independence and accountability of a judiciary in a system which is fraught with political cleavages, corruption, nonfunctional justice and protective collusion.

Given the close connection between politics and judiciary structures, officeholders who break the law are rarely investigated and almost never prosecuted. Albania has a very weak record in the investigation of abuses of public office, especially when it comes to high-level politicians. The new majority has shown some initial results, which was evaluated positively by the EU in its 2014 progress report. The progress report specifically notes that corruption cases referred for prosecution have increased by 33% compared to the previous year. Yet, it also notes the need to show “a convincing track record of investigations, prosecutions and convictions at all levels.”

Prosecution of
office abuse

4

Investigating high-level politicians remains taboo. Prominent cases opened during the period under assessment were usually prolonged and then closed without results. A 2013 case involving the mayor of Vlora, Shpetim Gjika, who was accused of violating tender laws and falsifying construction permits, was closed at the end of 2014. A 2013 case involving former Minister of Defense Arben Imami, who was also accused of violating tender laws, remained backlogged for months with the prosecutor until the file was withdrawn and the case effectively closed in January 2015. Another striking example of how cases are subject to political pressure is the 2014 investigation of a former governor of the Central Bank Ardian Fullani and some 700 million lek missing from the bank’s reserve. Investigations leaked in the media showed that during his term, the governor and his close aides allowed themselves extraordinary allowances (e.g., several houses and properties), compared even to international standards. Under his leadership, the number of bank employees with family connections to prominent politicians was very high, which arguably kept him on good terms with a variety of politicians. The wife of the current president was also employed at the bank after she lost her job in another state institution. In addition, the governor’s wife is a member of the High Court of Albania, which released the governor from prison, placing him first under house arrest and then allowing him to move freely while under investigation, even though the prosecutor had requested his isolation because of the delicate nature of the investigation. A few months after the case was opened, and while still under investigation, the former governor was invited to the president’s 2015 New Year gala. The daring prosecutor who requested the arrest and prepared the file was promoted to another position, and effectively removed from the case.

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 human rights institution. The new ombudsman elected in 2011 has taken an increasingly proactive active role in monitoring the situation of human rights and state accountability on the issue. His intervention relates 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. Roma and Egyptian communities continue to face discrimination and severe poverty, children belonging to these groups are subject to forced labor.

Civil rights

8

Albania has legal regulations to protect vulnerable groups against discrimination, but the implementation of these rules is deficient.

According to a report published by the European Commission in 2014, the Ombudsman's Office in 2013 requested the prosecution of 13 police officers due to substantiated allegations of torture, less than in 2012; the public prosecutor considered two of these cases to be torture, which represents an increase of legal actions compared to previous years. Cases of blood feud continue to occur mainly in rural northern areas of Albania.

4 | Stability of Democratic Institutions

Core democratic institutions are in place but they are not efficient and are subject to political frictions. Since the 2013 elections, the DP opposition has abstained from major parliamentary work including ongoing administrative and territorial reforms. They also boycotted the parliament altogether after a violent incident in June 2014. An agreement involving EU representatives was eventually negotiated to bring the opposition back into parliament. The opposition has remained confrontational and spearheaded street protests and called for the government to step down. In 2014, the EU called on both sides to restore political dialogue.

The government, for its part, has taken different initiatives to streamline its work and ensure inter-institutional coordination, which were assessed positively by the EU. Decentralization has also progressed and a new law of territorial organization aims to increase the efficiency, financial sustainability and service capacity of local divisions. Public administration has also been subject to extensive reforms including the reshuffling of main functions and staff as well as the adoption of secondary legislation to implement the new civil service law. The reshuffling of staff following political rotation has been subject to heated debates, but given the poor state of public administration, a certain reshuffling is necessary in order to instill principles of meritocracy and stability as suggested in law. Yet, it remains to be seen whether these reforms will deliver results.

After the experience of one of the most totalitarian regimes in the communist world, Albanian political actors and society have consensually embraced democracy as the end goal of transition. No relevant political or social groups contest the legitimacy and constitutional set up of democracy. However, major political actors tend to conceive of politics as a zero-sum game and state institutions as the property of incumbent majorities, leading to a majoritarian, "winner-takes-all" mode of governance.

All major political conflicts are negotiated with the help of or direct intervention of external actors. Foreign ambassadors and representatives of international organizations enjoy high credibility and are widely perceived as necessary safeguard for newborn domestic institutions and immature and corrupt domestic politics.

Performance of
democratic
institutions
6

Commitment to
democratic
institutions
8

5 | Political and Social Integration

Since the fall of communism, Albania has consolidated a bipolar party system, which reflects the main post-communist divisions in society. The DP, created soon after the sanctioning of pluralism in 1990, has ever since represented the center-right and in a way monopolized the anti-communist movements that brought down the communist regime. Jet as an umbrella party, the DP structures included various dissident but also groups connected to the outgoing communist regime. The reshuffling of the party structures in 2013 has brought in a new class of professionals with little relation to anti-communist or dissident movements. The SP, created in 1991, hails from former communist organization, but has reshuffled itself after the European center-left and features a generation of young leaders coming from the anti-communist movement. The main “third” party, the Socialist Movement for Integration, is a split from SP. In general, smaller parties have difficulties consolidating their position and can enter political life only when allying with one of the two big party families. The regional proportional electoral system adopted since 2008 has reinforcing the traits of a bipolar system and increased the role of party leaders in determining who enters and stays in the system. Electoral volatility has decreased since 2001 and was relatively low in the 2013 elections (17%).

The two major parties have alternated in power through majority governments and thus maintained effective control over the course of the Albanian transition. Once in power, moreover, each party has adopted a “the winner-takes-all” approach giving way to control of the state by one majority or the other. The 2013 elections promise to be a turning point to the extent that the SP-LSI project was directed at all Albanians beyond political and regional divisions, but it still to be seen whether it will materialize into a more unifying system of governance.

The spectrum and activity of civil society has evolved amid the vacuum left by the totalitarian policies of the ancient 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 aid policies that aimed at stimulating civic participation and socializing people to democratic values and behavior. Foreign assistance has largely contributed to mobilize local NGOs and enrich the public sphere. The number of registered NGOs is around 1600, although only 150-200 are estimated to be active. NGOs cover different sectors and some of them proved successful to engage in advocacy work, cover monitoring roles and provide expertise that educational institutions were not able to provide. Still, the weak civic tradition inherited from the past, strong political influence, and heavy dependence on foreign funds have molded a particular type of civic action -concentrated in the capital, closely related to politics, and tailored to serve their financiers’ priorities rather than

Party system

6

Interest groups

6

society's concerns. Trade union movements remain very weak and apt to politicization especially due to the lack of large companies operating in the country.

With the gradual redrawing of the 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. An investigation of Birn shows that in the period 2010-2013 most grants were distributed among NGOs close to then-DP majority. At least two major grants went to Transparency International Albanian, run by a member of the board. The nomination of a new supervisory board, which Birn found to be close to the new coming majority, has not really improved the trend. Yet Government's openness and collaboration with major sections of civil society has increased the role of NGOs in the political process.

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 problem plaguing the transition. Albanians, however, have more trouble in approving how democracy is functioning in their country and the work of specific democratic institutions.

Approval of
democracy
8

Citizens' trust in institutions continues to be low. A recent survey of the Albanian Institute for International Studies show that courts and the Central Election Commission (CEC), scored a very high level of distrust (respectively 29 percent and 28 percent) while political parties are distrust outliers with 45 percent of respondents indicating that they have no trust in them.

Citizens often prefer external actors to mediate political disputes. All polls show that Albanian citizens have more confidence in foreign institutions, such as NATO and the EU, but low trust in their own institutions.

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 welfare mechanisms. But, they do undermine the creation of a more civic culture of participation and solidarity beyond the narrow blood, family or local links. 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.

Social capital
6

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers
5

In recent years, successive Albanian governments have focused on the political and economic criteria required for EU integration, often at the expense of social issues. The EU candidate status awarded in June 2014, brought Albania-EU relations to a new level. According to Commission's recommendations the actual government has paid increasing attention to policies tackling poverty and social exclusion, which have rarely been taken into account by previous governments.

Albania has shown light progress, ranking 95th out of 187 countries and positioning into the category of high human development countries in 2013. However, the country remains below the average of neighboring countries as well as the average limit of high human development settled for European and Central Asian countries. When adjusting the development index to inequality, it deteriorates further. The same applies to gender inequality and development index.

The unemployment rate has increased in recent years, reaching 17%, while 14% of the population live on the verge of poverty in 2014. Some 75% of unemployment, moreover, is considered as long term. Also, there is a large gap in gender differences when it comes to labor participation, public representation, education and property. Last, but not least, the share of youth unemployment is at 30%, twice the EU-27 average.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	8376.7	11927.0	12916.7	13370.2
GDP growth	%	5.5	3.7	1.4	1.9
Inflation (CPI)	%	2.4	3.6	1.9	1.6
Unemployment	%	12.5	14.2	16.0	-
Foreign direct investment	% of GDP	3.1	9.1	9.7	8.7
Export growth	%	-	0.6	6.1	9.2
Import growth	%	-	5.4	2.7	5.1
Current account balance	\$ M	-571.5	-1352.8	-1379.8	-1769.7

Economic indicators		2005	2010	2013	2014
Public debt	% of GDP	57.4	57.7	70.1	72.5
External debt	\$ M	2101.2	5200.6	7776.4	-
Total debt service	\$ M	81.4	194.3	412.5	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	9.3	11.2	10.9	11.0
Public expnd. on education	% of GDP	3.2	-	-	-
Public expnd. on health	% of GDP	2.7	2.5	2.8	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.3	1.6	1.4	1.0

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

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. The country has profited from a privileged trade agreement with the European Union, which has allowed it to export freely to European Union countries after 2009.

The country has made considerable progress according to the World Bank's Doing Business 2015 report, ranking 68th and progressing 40 ranks compared to a year ago. The progress is registered mostly in the process of starting a business, dealing with construction permits, and registering property issues. The progress is more obvious when noting that two years ago the country scored last out of 185 countries because of difficult procedures in dealing with construction permits, which prevented 'private builders from legally obtaining a building permit.' According to a 2014 report by the European Commission, the existing bankruptcy procedures do not appropriately support efficient debt resolution.

The government led by Prime Minister Edi Rama has intensified efforts to preserve the balances for a functioning market economy and has taken concrete steps to protect foreign investors. Example to this is solving the mutual debt conflict with CEZ, an energy conglomerate based in the Czech Republic, which privatized energy

Market-based
competition

7

distribution in Albania in 2009, but ended with license revoked in 2012. The agreement paved the way to improvement in energy sector and strengthened investors' confidence in the country. Moreover, the government established a National Economic Council in 2013 to involve the business community in the legislative process and the consultation of economic reforms. In addition, Albania signed a Memorandum of Understanding with the European Bank for Reconstruction and Development (EBRD), in order to promote investments and growth in the country. Yet, the presence of informal economy, estimated at 35%-40% is significant enough to hamper country's progress toward a full market economy.

Structural progress has been continuously made in the area of antitrust policies. Albanian Competition Authority is the main unit in charge of enforcing mergers or enacting fines on those that hamper market competition. New rules on state aid for high-risk capital and for environmental protections are also introduced in the last years as part of the EU Stabilization and Association Agreement obligations and in order to align with the EU acquis.

In 2013, the Albanian Competition Authority has performed investigations and imposed fines in the areas of telephony, public transport, insurance etc. in response to 39 complaints as compared to 12 the previous year. However, most of the fines imposed by the Authority have never been collected and court appeal decisions are long pending. Weak law enforcement is still a serious problem. The functioning of the authority has been also undermined by the lack of human capacities and legal competences. An improved structure of the Authority is waiting to be approved by the parliament.

Despite the global decrease in oil prices, Albania continue to have among the highest prices in the region, which raised allegations on the existence of oil trade monopoly. The EU 2014 report assessed that "preparations in the area of state aid remains at an early stage."

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

The Interim Trade Agreement with the European Union, which since 2009 has replaced the Asymmetric Trade Regime, permits the country to export most products to EU countries tariff-free. Despite the considerable progress in the free movement of goods, legislative improvement is needed in order to align with the acquis and fully benefit from the trade regime. Albania is still lacking a national strategy on consumer protection and market surveillance. In its last report in 2014, the EU Commission pointed at the urgency of establishing a market surveillance inspectorate.

Anti-monopoly
policy
8

Liberalization of
foreign trade
10

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. At the time of writing, the banking sector is completely privatized, while the asset share of foreign-owned banks accounts for more than 90%.

Banking system

8

During the period under investigation, Basel II standards have been in place while preparations for Basel III are in course. A new supervisory policy, seeking to regulate the credit risk administration, risk management of banks' exposure and a guideline on recovery plan was adopted as part of aligning to EU risk assessment system. The level of non-performing loans has continued to increase reaching the peak and the highest level in the region at approximately 25% in 2014. Despite the non-performing loans, the capital adequacy ratio has increased to 17.9%. Outgoing government's late payment to the private sector have had its effect in the loan arrears. The issuing of payments with the support of international financial institutions starting in 2014 should improve the payment potential of private sector as well as loan installment liquidation process. New measures introduced in the civil code in order to facilitate the execution of the collateral are expected to help the banks to write off loans and decrease the rate of non-performing loans from their balance.

The limited integration of the country's banks in world financial markets and the decision to convert foreign bank branches into subsidiaries, subject to local supervision, has protected the banking industry from adverse external effects. The government's slowdown of borrowing from domestic banks as a last resort to finance the budget deficit has improved available capital for the private sector.

8 | Currency and Price Stability

In the recent years, inflation was kept into the range of 2- 4%, while in 2013 it fell to 1.9%, slightly below the Bank of Albania tolerance range. In response, the central bank has intervened continuously, cutting the interest rate to its lowest level - 2.5% in May 2014 and to 2% in early 2015. The effects of this expansionary economic policy however remain limited due to the "euroization" of the financial sector.

Anti-inflation /
forex policy

8

The high level of non-performing loans on banks' balance sheet and policies of high risk aversion have prevented the expected effects of monetary policies on falling aggregate demand. Meanwhile, the local currency "Lek" has been relatively stable in recent years, remaining within a range of 2% against the euro although the country adopts a policy of floating foreign exchange rate.

The central bank is legally independent to pursue economic policies. In 2014, the bank counted an internal deficit which brought under investigation top layers of management including the governor of the bank. The investigations have exposed in open light the risky interactions with politics, which de facto hamper the legal independence of the central bank.

Albania has managed to avoid the direct effects of the 2008 global economic crisis, mainly because of the close supervision of the banking sector and fiscal stimulus policies. It was the only country in Southeastern Europe with growth rates over 3% in three subsequent years. However, growth has slowed down dramatically after 2012, and the country's macroeconomic balance is subject to substantial revisions. Albania's current account deficit increased to 10.6 and an estimated 11.7% of GDP in 2013 and 2014, respectively. The deficit was largely financed by foreign direct investment inflows that accounted for 9.5 and 8.3% of GDP in 2013 and 2014, respectively (net values, IMF data).

Contrary to the policies of the previous government headed by Prime Minister Sali Berisha, the Rama government has increased the excise, taxes to fuel and building, as well as corporate incomes taxes from 10% to 15%. The new fiscal policy is part of a new agreement with IMF that was agreed in February 2014. It is important to remind that the Berisha government's "divorce" from IMF in 2009 led to increasing public expenses amid a strained budget and a general economic downturn, which was financed by expensive loans from domestic banks and Eurobonds. Since 2013, the Rama government has responded by implementing an expansionary policy, which however has not triggered the expected results. The low tax revenue combined with the burden of last elections expenses, led to a budget deficit exceeding the initial target of 3.5% to 4.8% in 2013. In 2014, the deficit increased to 6.5%, mainly due to the clearance of government arrears to private sector, which amounted to around 2.5% of GDP.

Some positive signs of recovery in the area of fiscal consolidation were noted in 2014 mainly because of the increase in overall revenues. The public debt, which reached 70% of GDP in 2013, is forecasted to decrease to 53% in 2017. However, the introduction of a progressive personal income tax might have adverse effects on household budgets, while the corporate income tax raise will reduce the companies' profitability, and their interest to invest in the country.

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.

Property rights
7

Some progress has been noted in the field of industrial property rights, where the legislative framework is existent, but the administrative capacity lacks behind. There is some limited progress also toward intellectual property rights. Yet, a new copyright law and inspection capacities need to be dealt with. With a property registration process not completed and general weak law enforcement, issues of the expropriation of land confiscated during the communist era are also yet to be solved and remain a major obstacle for the economy.

Ensuring property rights of those who have been expropriated during Communism remains a problem. 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.

According to a 2014 report by the European Commission, Albania's private sector accounts for about 80% of GDP and 82% of total employment. The 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, but also privatize strategic sectors such as banking, energy and communications. Capital inflows thus obtained have been crucial in financing the country's high current account and budget deficit.

Private enterprise
7

In the Albanian context of weak governance and problematic institutions, however, general privatization has not resulted in sufficient restructuring and improvement of economic performance. After the 2010 decision to privatize "everything," which substantially meant completing the privatization of the little left from communist era, privatization has advanced at full speed. There are still some public stakes in insurance, telecommunication, oil and energy sector to be privatized.

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. Particularly Roma community seemingly lack access to and are often excluded from social protection services, leading to the marginalization of this group. Public health expenditure accounted for 6% of GDP in 2012; the average life expectancy at birth increased slightly to 77.4 years in 2012, approximately two years more than the mean life expectancy in 17 East-Central and Southeast European countries (unweighted average, World Bank data). According to the World Bank, the share of the population living from less than two dollars a day (at purchasing power parities) decreased to three percent in 2012. Income inequality remained limited, reflected in a Gini index of 29 in 2012.

During the period under review, positive steps have been taken regarding social protection; previous delays on pension and disability payments were removed to a large extent. IMF's advice on restoring the sustainability of public finances and reviewing the country's welfare system have encouraged broad reform over the pension system with a new legislative amendment approved in July 2014. The new pilot project of social service that provides financial benefit for vulnerable groups electronically, is expected to reduce the abuse of the funds and shows government's renewed attention to vulnerable group and social welfare in general. However, 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. However, progress on ensuring equal opportunities particularly between women and men has shown meager progress. According to Gender Inequality Index 2014, the contribution in the economy of Albania and the representation in public of woman is low. In addition, serious offences and domestic violence against women have surfaced in the period under review. Specific legislation on protecting minority groups is not sufficient and there is much space for improvement of Roma's situation particularly regarding access to employment, education and health care.

Social safety nets

7

Equal opportunity

6

11 | Economic Performance

2011 has marked the start of a rapid economic deceleration after country's successful 3+% of GDP growth in several consequent years. In 2013, the GDP growth mounted at only 0.4%, far from predictions of 1.6%. Growth has recovered at 2% in 2014. Primary determinants of the economic slowdown are internal and external: a contraction in demand from Albania's main external partners, particularly Greece and Italy; weak domestic demand and business confidence due to slow credit growth; declining remittances; and the difficulties that companies face in collecting government bills and VAT refunds. This has been partially reversed with late payments performed during 2014. Economic contraction in European countries however will continue to affect the demand of domestic products and the level of remittances, and will contribute to increasing unemployment. The return of migrants in the last two years has increased rates of unemployment at over 4%.

To ensure liquidity, Albanian government has adopted progressive taxes on personal income and increased the corporate income taxes from 10% to 15% pursuant to IMF advice. Slight tax revenue increase in 2014 and the clearance of arrears of more than 30% of the collected public debts have not been sufficient to "turn the page". Added burden on income taxes, combined with contracted lending and investment, contraction of demand from Western markets and increasing level of unemployment poses a challenges in an already shrinking Albanian economy. The employment rate estimated by a 2013 labor force survey decreased to 49% in 2013, and the survey indicated that the unemployment rate increased to 17% in the fourth quarter of 2013.

Output strength
6

12 | Sustainability

Environmental concerns have rarely been taken into account during the Albanian unruly transition. Foreign Initiatives, such as the United Nations Children's Fund (UNICEF) project to educate children about environmental issues, are likely to deliver results in the long run. However, foreign initiatives have not been enough to generate comprehensive and sustainable policies. In a 2014 report on Albania, the European Commission noted that 'there has been little progress in the fields of environment and climate change. Significant further efforts are needed in all areas to strengthen administrative capacity and to ensure proper implementation and enforcement of legislation.' For example, most waste is disposed of in legal and illegal dumpsites or burned. In 2014, there were only five functioning wastewater treatment plants in Albania. The authorities do not monitor the discharge of pollutants from industrial plants.

Environmental
policy
5

The lack of resources and expansion of private education has challenged existing institutional structures. The mushrooming of private education without proper institutional controls has created new opportunities but also many chances to subvert the system.

Education policy /
R&D
5

During the period under review, the government has pledged to increase public expenditure, which has not been steady or sufficient. Education's share in the budget remains the lowest of the region with only 3% of GDP. There are no reliable qualitative data over R&D public expenditure but that was also a suffering sector which needs to be regenerated almost from scratch. The R&D sector has benefited from EU funds and Albania's inclusion in the Seventh Framework Program (FP7), which allows for the potential of exchange and learning via participation in research projects. An independent commission for higher education and scientific research reform was established with the aim of reforming governance of the education system, including the finalization of the draft law on higher education.

The country's literacy rate is above the regional average although there are differences among urban and rural areas. Roma children have particularly low school enrollment rates. Field specialists strongly suggest there is substantial need for creating fiscal space for enhancing public expenditure on education and R&D, in order to increase an educated labor force and technology potentials in the country, thus improving investment climate.

Transformation Management

I. Level of Difficulty

At the onset of transformation in the early 1990s, Albania faced a particularly difficult legacy of communism. Albania's maverick communist regime (1945-1990) had managed to wipe out all sources of dissidence, thereby effectively depriving the country of potential leaders and organizations able to lead the country toward change. Unsurprisingly, the regime collapsed under the pressure of widespread dissatisfaction manifest in demonstrations in the major cities and the public's push for change. When it collapsed so, too, did its institutions and Albania had to start almost from scratch, without democratic actors, failed state institutions and a weak economy.

Structural
constraints

6

The difficult and uncertain path of change led to another collapse of state structures in 1996. People took to the streets this time to protest the ruling anti-communists' mismanagement of economic and political transition, in particular the mushrooming of fraudulent Ponzi schemes, which wiped out most Albanians' savings. This collapse left in its wake an acrimonious political atmosphere, a vacuum of state authority, a deeply polarized society, and sociopolitical chaos which called into question the very existence of the state. Afterwards, the country was often considered a "client" state in need of foreign intervention to bring about normality.

The development of civil society and its impact in processes of transformation is also closely related to the legacy of the authoritarian past. Albanian communism, which banned any independent organizations since at least 1956 and created a net of party related associations to control society, was particularly harsh in the field of social control. As a result, civil society, both as a concept and in practice lacked the normative attributes it enjoyed elsewhere in post-communist countries.

Civil society
traditions

7

After communism, civil society had to be built up almost from scratch while facing a strong distrust of voluntary work which, in the past, had been forced upon people by party organizations. Foreign assistance and donor support have contributed to creating the NGO sector, but NGOs still have to develop both internal capacities and voluntary networks that would make them sustainable and linked to society. Current organizations must also demonstrate autonomy in an increasingly politicized context.

The homogeneity of the Albanian population (90% are ethnic Albanians) has mitigated the probability of internal strife that challenges the unity of the state and society. Nonetheless, the leading parties' confrontational rhetorics and winner-take-all approach to governing throughout the difficult experience of transition have nourished political divisions that cut across internal regional divisions and consumed considerable political energy.

Conflict intensity
3

As already noted throughout this report, the period under review is marked by ongoing political polarization between two major political blocks. Insults and accusations are commonly waged in political speeches in the Albanian parliament. Particularly prominent members of the opposition refer to governing politicians as "criminal bands," "a destructive force" or "immersed in crime", without any evidence whatsoever to support such claims. Additionally, the DP-opposition has not missed any opportunity to deliver ultimatums and announce massive protests, even on issues that involve necessary and long-delayed reforms, such as the enforcement of delayed payments on energy consumption and the control of building illegally in public areas.

II. Management Performance

14 | Steering Capability

Question
Score

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.

Prioritization
7

The EU's 2010 comprehensive opinion on individual country's preparedness to take on the obligations of membership identified a list of 12 priorities for Albania. The single most important issue highlighted by the EU is the rule of law. In mid-2014, the EU's Progress Report stated that "the Albanian government has shown concrete action and political will in the areas of EU-related reform..." and "the structural reforms illustrate an all-encompassing approach ... to include a wide range of institutions." Indeed, in May and June 2014, it adopted a roadmap for addressing priorities of EU integration and a National Plan for European Integration 2014-2020, which finally led to Albania being granted official candidate status. The government identified six priorities (good governance, water, energy, land, foreign direct investment, structural reform) and created "delivery units" in all line ministries to monitor their implementation. The reforms undertaken so far all attest to a coordinated and comprehensive effort to advance along the path of EU integration.

In Albania, legal commitments and implementation might well be two different things. As the 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 corruption, organized crime and the enforcement of state authority in order to deal with structural problems.

Implementation
6

Proper implementation, however, requires the collaboration of a wide range of institutional actors – judiciary, public administration, and other independent institutions - which often have everything to lose from substantial reforms. As shown in the investigations of high-level cases of abuse of powers, politically controlled institutions vested with immunity may act as veto players that obstruct substantial reform. Indeed, the big question here is how to reform institutions that are not interested in reforming. It is unclear if Albanian democracy will be able to build independent institutions able to enforce rules independent of specific political interests.

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. The reshuffling of personnel at different levels has also continued during the period under analysis.

Policy learning
7

At the same time, the appointment of a minister of state for innovation and public administration and the strengthening of the department of public administration facilitated improvements made to human resources management. The current government has also made use of some high-level international expertise and consulting, including Tony Blair and experts from Harvard University, in order to improve its policies. The young age of crucial members of cabinet, also related to NGO activity and advocacy works, has shaped a flexible model of governance open to learning and external expertise but with little governing experience.

15 | Resource Efficiency

The Albanian state lags much behind in terms of developing a professional and efficient state bureaucracy. Since the fall of communism, all the governing parties have commonly perceived the state as a piece of property to be distributed among their supporters. This has inhibited meaningful progress in terms of building up an effective bureaucratic structure operating with adequate budgetary sources and a professional career management system.

Efficient use of
assets

4

Every political turnover, including that of 2013, translates into reshuffling of all layers of administration. The adoption of yet a new law for the civil service system in 2013 and the extensive reorganization of ministerial structures after the elections promised to improve the quality of human management sources. This cannot be said about high-level political nominations, which are subject political criteria rather than adequate job expertise. A large number of current ministers, for example, have limited to no experience in government positions or even professional background and expertise, with most of them hopping in and out from political to well-paired advocacy positions. Some high-level political nominees come from key positions in private universities, which the government itself found to produce non-certified diplomas in return for high economic returns. Instead of being investigated for helping to produce fake diplomas, some of these individuals are recirculated into key governing positions. This demonstrates a gap between the intention to introduce a new professional ethos into the state apparatus and highly politicized nominations with little professional credentials.

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.

Intra-governmental frictions and competition are limited. Most government 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. Replacements in key state institutions reinforce this pattern of control.

Policy
coordination

7

At the same time the Rama government has moved to institutionalize mechanisms of policy coordination between different ministries, which is a big improvement compared to former centralization of all policy objectives in the office of the prime minister. Specifically, the creation of a new Department of Development, Programing 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.

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, subservient state officials, weak independent institutions and strong business interests. Dealing with corruption and state capture has attracted considerable public attention and substantial donor funds. Corruption also tops the country's EU candidacy reform agenda.

Anti-corruption
policy

5

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.

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. In a recent debate in the European Parliament, members of parliament visiting Albania expressed their concern that nobody has confidence in the general prosecutor. He was elected by the DP-supported president and has been in office since before the shift in government. Given the institutional weakness of anti-corruption bodies and the presence of many veto players, rooting out corruption will be extremely difficult. According to a 2014 EU assessment, "corruption remains prevalent in many areas and remains a particularly serious problem."

16 | Consensus-Building

All relevant social and political groups share a wide consensus on the pursuit of democracy and a market economy as the main goals of transition. Yet many key political, economic and social actors remain invested in the legacy of authoritarianism and power abuses undermining the country's progress. Interviews with protagonists of the democratic revolution of the 1990s show that at least some of the leaders that emerged at the helm of the post-communist political movement held close relations to the former regime, thereby maintaining intransparent linkages able to influence important political groups and leaders. It is, however, important to

Consensus on goals

8

note that none of the major actors has actively opposed key institutions or the principles of democracy in general.

Establishing a functioning market economy is also a consensual goal of all relevant social and political groupings, but this has proven difficult to establish.

Young reformers (i.e., political actors with no links to the past) have gradually gained ground and taken leading positions in all political groups. The election of Edi Rama, a young anti-conformist politician from the anti-communist movement, marked a shift away from the old structures that have dominated Albania's transition.

Anti-democratic
actors

7

After the 2013 elections, the historical leader of the DP, Sali Berisha, also withdrew, allowing Lulzim Basha and new voices to gain relevance. Despite the installation of new leaders, none of the parties have managed to rid the political system of corruption (including suspicious connections with business interests). Both parliamentary groups now feature a high number of business leaders turned politicians. The co-optation of civil society and media structures into party politics blurs further mechanisms of social and political accountability.

Political parties, divided into two rigid camps – democrats and socialists – have been the effective managers and indeed beneficiaries of political, regional and local divisions that hamper the country. Indeed, political parties have fueled this division as a strategy to distinguish and strengthen their basis of supporters. The DP leaders, coming mostly from the north, have usually stressed their anti-communist credentials, which finds 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 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.

Cleavage /
conflict
management

6

The 2013 elections signal a major breakthrough regarding these divisive appeals. Probably for the first time in the history of transition, the SP-LSI coalition articulated a unifying message of good governance that was directed at all Albanians. The voters' refusal to submit to long-standing divisions between the north and south led to a remarkable outcome for the opposition, which received a majority of seats in 11 out of 12 electoral districts, including those considered to be the DP's historical strongholds, such as Shkodra.

Civil society is in principle free to participate in all steps of policy-making and policy implementation. The legal and institutional framework encourages civil society's participation in political processes, but the weak capacities, current shifting of personnel between politics and NGO positions, and active political efforts to co-opt various NGOs into political parties' agenda have undermined the independent role of civil society.

Civil society participation
6

Most leaders and board members of civil society groups have implicit and sometimes explicit affiliations with political parties. The candidature of distinguished civil society leaders in the last two parliamentary elections confirms an increasing trend of politicization in an already weak civil society. Dwindling foreign funds, which have so far kept NGO structures from collapsing, have exacerbated NGOs' need to develop alliances with political parties which, in turn, rely on NGOs for increasing public support and legitimacy.

Past connections with and crimes committed by the outgoing communist regime still remain a taboo subject, even 25 years after the end of communism. Short-term political interests have harmed all of the major initiatives to legalize an impartial and consistent model of transitional justice. The first lustration law of 1995 was adopted by then-DP majority a few months before the 1996 elections and was selectively applied to undermine political opponents' campaigns rather than ensure a transparent process of justice. A similar attempt was made in 2008, but the legislation was blocked by the constitutional court. Both attempts envisaged a secretive process with security files hidden from the public and institutional structures operating under the pressure of politics. Meanwhile, obscure accusations of "collaboration" in the past loom large in the political discourse and are commonly used as a tool to denigrate politicians and members of independent institutions, particularly by the DP which dominates the anti-communist discourse.

Reconciliation
5

In 2014, civil society and the current government prepared two alternative legal proposals addressing the transparency of security files. Paradoxically, the DP, which has traditionally pursued an anti-communist agenda and pushed for lustration legislation twice before, has not supported any of the projects. In 2015, the government pushed for its own proposal, referring to the German model. The initiative still has yet to be implemented, but the governments' decision to follow the German example instead of consulting domestic actors involved in the issue, does not bode well for the future of the process. Frequently, Albanian politicians borrow external templates that often come with foreign funds. The problem is that external models without extensive consultation do not sit well in the society. The public in general is left with the bitter feeling that the country lacks the will and independent institutions able to bear the weight of a comprehensive process designed to uncover intricate crimes and invisible links that keep the country hostage to the authoritarian past.

17 | International Cooperation

Since the beginning of transition, Albanians have adopted an extremely outward-oriented policy vision motivated by the need for economic and technical assistance as well as the desire to be integrated into Europe. Consequently, the country has managed to attract substantial foreign assistance, with the EU being the biggest donor both alone and as an aggregate of bilateral donors. International intervention has gained new intensity after the collapse of the state in 1997, whereas internationals were forced to cover even sensitive political issues such as the mediation of political conflicts, monitoring of elections, and setting of reform priorities. Since the prospect of EU membership has been granted in 2000, political actors have increasingly portrayed EU integration as the driver behind much-needed reforms and as the reference point for deciding on domestic issues.

Effective use of
support

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The current majority has continued on similar premises by showing concrete action and sustained political will in the area of EU-related reforms. Yet, the extent of external intervention has created a culture of dependency in which internationals typically enjoy higher credibility than do domestic referees. This was evidenced also during this review period, when the opposition insisted on an EU-mediated agreement in order to resume its functions in parliament. Albanians in general, however, have become increasingly aware that international actors with different interests and priorities cannot replace their domestic institutions.

Albanian political actors commonly rely on international assessments, ratings, declarations and even photos with members of the international community in order to gain legitimacy for their policies and programs. They are particularly inclined to ally with international initiatives, especially when this comes with investments and assistance. During the period under investigation, the government has gained more respect as a reliable partner that can go beyond empty rhetoric and actually held its commitments and complied with EU policies. This applies in particular to priority sectors such as illegal trafficking, organized crime and terrorist threats, each of which affect neighboring European countries. In June 2014, the EU granted Albania candidate status as a means of recognizing the government's commitment to economic, democratic and rule of law reforms. In February 2014, the IMF approved a three-year Extended Arrangement with Albania to support economic reforms. The current government has also shown determination to attract foreign investors, including from China and Turkey, which seems to be a new trend, given the domination of regional and European sources of economic interaction so far.

Credibility

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Albania has maintained a constructive attitude toward regional integration in terms of nourishing good neighborly relations and cooperating in regional initiatives that include bilateral cooperation agreements on areas like legal assistance in civil and criminal matters, fighting crime, trafficking, migration, border management as well as economic and investment development. The country maintains good relations with all neighboring countries including EU member states Greece and Italy. It has taken a constructive approach in the conflict over Kosovo by supporting its independence but also keeping good relations with Serbia.

Of particular importance during the period of reporting was the political rapprochement between Albanian and Serbia that took place through Edi Rama's much-discussed visit to Serbia (the first high-level visit in 68 years). Although the visit triggered passionate and heated debate on the issue of Kosovo in particular, it signaled a shift in discourse on relations between the two countries. During his visit, Rama emphasized that both countries needed to collaborate in order to ensure a common future in Europe and that they have a common enemy, which is not each other but unemployment and a faltering economy. As the EU stated in 2014, "Albania continued to play a constructive role in contributing to the stability of the region and implementing the SAP commitments in this regard."

Regional
cooperation
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Strategic Outlook

Corruption has been at the core of most problems burdening Albania's development: a captured state, weak administrative capacities, fuzzy checks and balances, politicized institutions, the winner-takes-all approach to politics, rent-seeking elites and a poor society depending on state employment. Corruption has continued to flourish, despite the promises made by various political parties to effectively tackle the issue and introduce sound anti-corruption strategies and legal reforms. The outgoing majority had achieved some success in curtailing small-scale corruption, but no tangible results in constraining high-level corruption. Rampant high-level political corruption and the wholesale capture of institutions tasked with investigating and prosecuting the abuse of power are the key problems still facing the country today.

The incoming majority has shown the will and capacity to pursue painful and comprehensive structural reforms that are geared to advance the country along the path of EU integration. Given that corruption and the broader issue of a consistent adherence to the rule of law top the EU's required reforms, present and future governments face considerable challenges in achieving EU integration standards. Key institutions remain politicized, which hampers the government's credibility as it aims to introduce a new professional ethos. The many institutional veto players installed throughout the process of an unruly transition, meanwhile, make it all the more difficult to fight corruption. As discussed elsewhere in this report, many state institutions, in particular the judiciary, remain filled with political appointees subject to political influence and protected by immunity, which serves as an obstacle to sustained and meaningful change. In addition, the implicit political affiliation of the president with the previous majority now in opposition has hampered major efforts to revamp deeply politicized institutions. Assessments conducted by international observers, often hesitant to mention names and specific offices, have failed to deliver a clear message on what is wrong with Albania's institutions and how to deal with them. Ultimately, this creates a vicious circle in which political elites can use the state for their own personal benefit and enjoy the protection of politically subservient institutions shielding them from proper investigation and prosecution.

Genuine progress requires the introduction of a new mode of governance as well as the will and capacity to enforce rule of law structures and especially the judiciary. Sending clear signals that the government is serious about ensuring the proper investigation of abuses of power would be crucially important in the short term. High-profile examples are missing thus far, and the higher echelons of the judiciary seem adamant in protecting their political masters. Though more symbolic, it would also prove helpful if international actors would speak more resolutely on the subject and forego public hand-shaking with Albanian politicians accused of abusing power or criminal linkages.

Economically, Albania continues to remain dependent on remittances, FDI flows and the privatization of public stakes. However, there is not much left to privatize, and FDI flows and

remittances have decreased proportional to crisis in the euro zone (e.g., Italy and Greece). New policies targeting these deficiencies need to be improved. Promoting domestic investments and attracting international investors willing to invest not only in non-tradable goods, but also in enhancing technology, new operational facilities and gross fixed capital formation can offer a way out. Urgent measures and adequate employment policies need to be introduced with regard to unemployment, which is growing with the return of migrants from western markets. Resolving land insecurity problems, in addition to corruption and the problems associated with a weak judiciary and rule of law, are indispensable to improving and restructuring the economy in the long term. Last but not least, the collection of economic statistics, particularly those with direct impact on policy design and evaluation, can be improved.