

Albania

Status Index (Democracy: 3.2 / Market Economy: 2.9)		6.1	Management Index		5.3
System of government	Parliamentary		Population		3.1 Mio.
	Democracy		GDP p. c. (\$, PPP)		3,680
Voter turnout	58.5 % (Election 2001)		Unemployment rate		15.8 %
Women in Parliament	5.7 %		HDI		0.735
Population growth^a	1.0 %		UN-Education Index		0.80
Largest ethnic minority	-		Gini-Index		43.0 (1998)
<p>Figures for 2001 – if not indicated otherwise. ^a Annual growth between 1975 and 2001. Sources: UNDP: Human Development Report Albania 2002. UNDP: Human Development Report 2003. Albanian National Bank. Albanian Homepage. Foreign Office, Berlin.</p>					

1. Introduction

Transformation in Albania has suffered serious setbacks in the past years, due to the crisis of state in the spring of 1997, renewed domestic unrest in autumn of 1998 and the impact of the Kosovo crisis.

This report on the status of democratic and market-economy transformation, from 1998 to 2002, concludes that the country is now on the path to gradual democratic and economic consolidation. The country's progress results from a renewed commitment to applying the rule of law consistently, maintaining domestic order, fighting corruption and organized crime, stabilizing the model of democratic representation, facilitating citizen participation, broadening the organization of the market and encouraging competition. Given the factors of time and human resources, as well as the sustainability and predictability of the actors, it is clear that the essential breakthrough in reaching international standards and norms, and in achieving democratic organization and market transformation, will take several more years. But the path to initiating negotiations on a Stabilization and Association Agreement (SAA) with the EU has now been cleared.

2. History and characteristics of transformation

The social upheaval that has gripped Albania since 1990-1991 has progressed in an uneven and contradictory manner. The initial internal conditions, overshadowed by

40 years of a communist dictatorship, bunker-like isolation and extreme backwardness, left their mark in every area—not least on the people themselves. They were completely unaccustomed to dealing with democracy and had no entrepreneurial experience with a market economy. In terms of the level of productivity and economic efficiency, Albania had the attributes of a developing country, and it initially depended on emergency international aid, which included food and medicines. Ineffective economic renewal and deficiencies in the perception and development of democracy threatened to reach explosive proportions 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.

In the 1992 elections, the newly formed Democratic Party of Albania (PDSH) took the reins of government, following the Socialist Party of Albania (PSSH). The PSSH was the successor party to the Communist Party of Labor and had come to power through an electoral victory still very much characterized by the preceding 40 years, during which there was a one-party system. In 1997, the PDSH had to hand power back to the PSSH. The elections were marked by conflicts in both instances, and the frequent changes of government, featuring politics based more on personalities and power than on reform platforms, have obstructed the country's transformation. The severe polarization of the two main political forces undermined any efforts aimed at party pluralism and broad codetermination.

The unstable situation in the country was also aggravated by other factors, including the murder of PDSH politician Azem Hajdari in September 1998, the debates surrounding the final passage of a new constitution in November 1998, the Kosovo war in 1998-1999 and the Macedonian crisis in 2001.

The parliamentary elections held in the summer of 2001, under international supervision, indicated a fundamental proclivity for peaceful and free decision-making, despite the previous irregularities. Members of the PSSH attempted political manipulation, while their party held on to a bare majority. This led to a boycott by the losing PDSH and to internal power struggles within the PSSH. The situation indicated renewed confrontations in connection with the presidential election in the summer of 2002. Only after external pressure led to the nomination of a consensus candidate was there a phase of internal calm, which created the prerequisites for continuing and deepening democratization and transformation to a market-economy.

Yet the political climate remains charged with conflict. There is not sufficient evidence of a native ability to solve problems. The country still needs to build up the capacity to provide the foundation for good governance, economic growth, legal certainty and increasing participation. This means that, currently, freedom of choice

does not exist in all areas of life. These problems are demonstrated by human rights deficiencies and a continued willingness by many to emigrate for economic reasons.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

In terms of transformation of the country's political organization, Albania has made progress in some of the areas evaluated. For example, the basic rights, which are set forth in the 1998 constitution and include the values of Western democracy, bear witness to that progress. Deficiencies arise in the implementation of these rights, in particular in the functioning of the rule of law, legal certainty and standards of a pluralistic society. The parties lack a culture of debate, so that political opponents are quickly labeled as the enemy and party power is put before the interests of society. This situation has led to crisis more than once, and outside pressure—from the EU and the Organization for Security and Co-operation in Europe (OSCE)—has been required repeatedly, to rein in the actors.

Despite prevailing bipolarity that the PSSH and PDSH create, the party system is consolidated in the sense that rightist and leftist extremism do not enjoy any appreciable influence in society.

The percentage of women in politics is marginal. From a social policy perspective, women do not enjoy equal rights. Independent of the individual rights they have gained, women have joined forces against new discrimination in employment and the reinforcement of old patriarchal customs. Youths, who represent the largest segment of the population (15-20 %), are the hardest hit by unemployment and poor occupational prospects.

3.1.1 Political organization

(1) *Stateness*: Albania has no problems of statehood, in terms of its own form of state and legal organization or in terms of existing international recognition. Demands for independence by the Kosovo Albanians, involving a possible Albanian annexation or the formation of a Greater Albania, are not supported by the majority—whether one looks at the government, the opposition or the Albanian population as a whole. Alienation engendered by decades of separation continues to have its effects.

The state monopoly on the use of force is anchored by law in the constitution, but at times it could not be enforced during the period under study. The definition of which

people qualify as citizens of the state is not a politically relevant issue. All citizens possess the same civil rights. Church and state are separate, and the political process is secular. The various religions, Islam, Catholicism and Orthodox Christianity, have no appreciable influence on politics or the law.

Administrative reform aimed at overcoming bureaucracy and enhancing decentralization is still in its initial phase. Public order and safety are by-and-large ensured again, following the 1997–98 chaos, which almost reached the proportions of a civil war.

(2) *Political participation*: Generally free and fair suffrage, as well as the freedom to campaign for office, is guaranteed by the constitution. Nonetheless, electoral practice has required several revisions of the existing electoral law.

Albania has not yet convincingly passed the test of free and democratic elections. The only parliamentary elections that did not result in a crisis of legitimacy for the new government were the elections of 1992. The parties defeated in the elections of 1996, 1997 and 2001 each made serious accusations of electoral manipulations, and each initially refused to cooperate in Parliament. Frequent changes in personnel and offices based on political power rationales—including 10 changes of prime minister since 1991—weigh on administrative efficiency. The situation has crippled effective governmental rule on several occasions.

The tendency to identify the party in power with the state is a prevailing phenomenon. Arguments over jurisdiction and interpretation blocked parliamentary and government work for long periods of time. Citizens do not feel that they enjoy sufficient protection from the state in exercising their rights.

Freedom of expression for citizens, organizations and the media is guaranteed by the constitution, but this right is subject to constraints by arbitrary administrative actions, such as press bans and attacks on disagreeable journalists. The influence of state media has been eclipsed by private radio and television stations. Still, the very lively media scene has marked shortcomings, in political sophistication and professional depth.

Non-governmental organizations (NGOs) are overshadowed by the polarizing political parties, and they are given little consideration by the state. Nonetheless, they are gaining an audience, with support from abroad. The role of trade unions is marginal.

(3) *Rule of law*: The demarcation of the legislative, executive and judicial branches is fragile and intermittently damaged by jurisdictional arguments and conflicts over

interpretation of the constitution. The change from presidential power, which existed from 1992–97 under Sali Berisha, to a system that upgrades the authority of the head of the government, as per the 1998 Constitution, has changed little in that regard. Parliament's work has been blocked for long periods by the opposition parties' boycotts.

The judiciary's independence has been repeatedly jeopardized by arbitrary interference from politicians of both the governing party and the opposition. The personnel policy in selecting the highest constitutional judge or the senior prosecuting attorney was often the subject of extremely sharp controversies in Parliament. Jurists' lack of professional experience, and examples of their susceptibility to blackmail by politicians, have greatly undermined the public perception of justice. Criminal prosecution of corruption remains one of the most urgent problems. As long as top functionaries of all stripes are not called to account before the law because of political patronage, faith in the administration of justice will be clouded.

The lack of experience in exercising civil rights that are now anchored in the constitution can be traced to a perception of law suppressed by dictatorship, in which there was politicization of the administration of justice, with arbitrary interference and lack of legal representation for the defendant. This implies a learning process for both citizens fighting for their own rights and the judiciary, which must enforce its independence in practice.

3.1.2 Patterns of political behavior and attitudes

(1) Institutional stability: The year 2002 saw an increase in institutional stability. The opposition returned to Parliament. The new president, Alfred Moisiu, was elected by consensus of the parties represented in Parliament. There are indications of a new political culture that may be able to break through the crippling polarization of the main political forces. Internal stability is not yet sufficiently protected against renewed disruptions. The new government, in power since the summer of 2002, has yet to implement its plan for overcoming the consequences of corruption, abuse of authority and nepotism.

The efficiency of democratic institutions is often negatively impacted by arbitrary interference from political actors. These institutions do not sufficiently protect the political neutrality of employees in public administration. Inefficiencies are considerable in the interplay among institutions.

(2) Political and social integration: The party system is unstable and does not satisfactorily reflect the opinions and expectations of the people, who have

increasingly shown their disaffection with politics in recent years through a dwindling voter turnout. The major failure involves the parties' policies, which are oriented primarily to personalities and functions and less to platforms. At its core, there is a two-party system in Albania, with a high degree of fragmentation within the two main parties, the PSSH and the PDSH, and with numerous small parties of little social influence, on both the left and the right, trailing in their wake. The parties' lack of a social base leads to a situation where positions of power, once attained, are transformed into strongly personalized, patronage-based positions.

Political actors' ready willingness to engage in confrontation cripples political and social integration while encouraging regionalism and clan structures. Byzantine attitudes are at work when politics are driven primarily by power calculations, and political opponents are slandered and combated like personal enemies.

New social associations, gathering such groups as young entrepreneurs, have not yet achieved broad impact and influence on the country's political organization. The state has done little to integrate NGOs. Social interest groups exist only in isolated segments of society, they do not collaborate with each other, and their impact amounts to little overall.

The civic organizational landscape is still greatly dependent on foreign advice and financing. The few politically active civic organizations—such as the Helsinki Committee for the Protection of Human Rights and Minority Rights and women's aid organizations—represent only a limited corrective to the policies of the state and political parties. Civic culture aimed at enforcing democratic standards and values has gained some credibility and attention through repeated resistance to abuse of power and corruption. The growth of their influence on politics is hindered, however, by widespread regionalism and the increase in individualism that have come to typify current Albanian society, replacing the collectivism and egalitarianism that was common under the dictatorship.

The majority of the people supports democracy. Repeated domestic political crises, and the resulting threats to the governability of the country, have created openings for other social models, up to, and including, the return of the monarchy, an idea that garnered the support of one-third of the population in a 1997 referendum. The popularity of this model was primarily the result of the uncertainties of the situation, which provided impetus to calls for a strong and unifying hand.

3.2 Market economy

The transition to a market economy was made more difficult by an industrial decline and repeated interruptions in progress as a consequence of the crisis of state unleashed in 1997 by fraudulent investment transactions that consumed about \$1.2 billion, half of the Albanian GDP in 1996. The situation put the country into one of the lowest rankings among reform states. The enforcement of macroeconomic parameters—such as liberalization, currency stability and a relatively increasing rate of growth in the GDP—has laid the groundwork for market development, but without attaching the required importance to social considerations. Under these conditions, poverty among the elderly, high unemployment and deficiencies in the educational system are not ancillary phenomena. The investment component of the economy remains minor.

3.2.1 Level of socioeconomic development

(1) Developmental status: The introduction of macroeconomic parameters—including price liberalization, reduction of inflation and the budget deficit, the abolition of government subsidies and the introduction of free competition—made Albania one of the trailblazers among reform states. The conditions and recommendations of the EU, the IMF and the World Bank were largely followed, but this shock therapy did not have a stimulating effect, because the necessary prerequisites for growth were missing. The country is saddled with an exhausted industrial base, moribund infrastructure, inefficient agriculture, a continuing tradition of centralism, a lack of capitalization and inexperienced business management. Serious social disparities, with a high rate of poverty, followed the shock treatment. Imbalances between rural and urban areas increased. To date, Albania has not witnessed the formation of monopolies that would destroy the competitive regime, primarily because of the small dimensions of the market.

3.2.2 Market structures and competition

The fundamentals of market competition are present in Albania. Institutionally, the market is weakly regulated and transpires more as “spontaneous” exchange capitalism, with a well-established informal sector.

The country has not yet succeeded in separating business from politics, without robbing the state of its function in setting overall market conditions. The strong personification of politics impacts on economic development as well, by transforming the post-communist state administration into a corrupt, impenetrable system that irresponsibly misuses already limited resources in its own interests. A small group

gains from immense profiteering while the mass of citizens is pushed further into social isolation.

The financial system, including the establishment of an effective banking system and capital market, is still in the developmental stage.¹ Foreign trade has been liberalized. Despite a slightly increasing tendency, the balance of trade is negative. Exports amounted to about 20.6 % of import volume in 2001.

3.2.3 Currency and price stability

An increasingly stable financial situation, with consistent price and monetary policy, could be observed during the reporting period. The inflation rate was 3.1 % in 2001, compared to the previous year. Inflows of foreign aid funds and loans ensure the stability of the national currency, the lek, and a relatively comfortable cushion of currency reserves.² The budget deficit remains problematic, primarily because of low receipts from taxes and customs duties. Only recently has there been evidence of a tendency to greater payment discipline and more qualified employees in customs organizations.

The investment rate was 20 % in 2001: 7 % was public investment, and 13 % was private investment. Major strategic investors have held back to date. The share of money from public international banks—such as the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank—in domestic investments in Albania is relatively high. The investment from these sources is primarily in infrastructure and energy projects. Private foreign capital has been limited to transactions and investments of smaller dimensions. The investors often come from the Albanian Diaspora.

3.2.4 Private property

Thorough privatization of the Albanian economy is hampered by conditions of backwardness, an insufficient legal framework and an attitude of centralized state direction that impinges on competitiveness.

In the areas of services, agriculture and small business, privatization can be considered complete. That covers approximately 80 % of the GDP. There is still no solution to the issue of returning property or paying reparations for property owners

¹ INSTAT Tirana, September 2001.

² BfAI (Federal Office of Foreign Trade Information) December 2002.

who were expropriated in the land reform of 1945, or for areas divided up among farm families after the disintegration of agricultural cooperatives after 1991. Foreigners can purchase real estate if it includes appropriate investments.³

Priorities in privatizing strategic industries include Albtelecom, the telecommunications company, the Albanian Savings Bank and the Albanian power corporation, KESH.

The forms and modalities of privatization have changed often over the course of recent years, further hampering the progress of transferring industrial enterprises to private ownership. The most important forms of privatization were direct sale, sale by auction and transfer of ownership to former employees by issuing shares or privatization certificates (*bono privatizimi*) to the population. Most interested Albanian parties lacked the necessary capital to take over these businesses, which were generally in a state of disrepair. Working with such worn-out plants would not result in capital formation. Niche production—including textiles and shoe manufacturing as out-sourced processing in cooperation with foreign firms, bruyère pipes and medicinal plants—was most likely to provide a chance for survival.

3.2.5 Welfare regime

The social safety net to compensate for poverty and social risks is only partially effective. It is predicated on appropriate revenues and the necessary tax discipline on the part of citizens. The most recent period has witnessed a slight improvement in living standards. According to official information, living standards rose by a factor of 1.3 compared with 1993. Pensions through the social security system were increased in urban areas by 10 % and in rural areas by 25 % in 2001. Per capita income was \$1,100 in the same year, compared to \$830 in 1996. Officially registered unemployment was reported at 14.6 % for 2001. The figure for hidden unemployment may well be double that. Unemployed family members in small, privatized agricultural operations are not included in the count.

Health care suffers from chronic shortages of medicine and modern medical equipment. If patients or their families cannot provide additional financial contributions, medical treatment is hard to come by. The health insurance system is still under construction.

In regard to the social situation, Albania occupies one of the lowest ranks among European reform countries in terms of its level of development. The status of many

³ Home page, Albania, Department of Foreign Affairs, Berlin.

social groups has changed drastically. Women and youths are the most disadvantaged, because they have the least prospects of employment. The average wage in the public sector increased from \$96 in 2000 to \$140 in 2002.⁴ Thirty % of the country's inhabitants, or 920,000 people, are considered poor, and more than 500,000 people, living on less than \$2 per day are classified as very poor.⁵

The country's social stratification includes economic refugees as well. They send home a large share of the money needed for the survival of their families in Albania. In neighboring Greece, there are about 350,000 to 400,000 Albanian citizens, most with seasonal employment, while 100,000–150,000 Albanians reside in Italy, and about 12,000 Albanian emigrants live in Germany. About 25 % of the citizenry has left their home country in the last 10 years, seeking better working and living conditions abroad. The internal migration from the poorest regions, in particular the rugged mountain area in the northeast, has depopulated these rural areas, with dramatic consequences for the infrastructure of the overburdened urban centers.

3.2.6 Strength of the economy

Albania's GDP growth has never dipped below 7 % since 1998, though the low starting point must be taken into account. Since 2000, a slight decline in the growth rate has been noted once again.

There has been no success in reactivating key areas of the Albanian economy, such as chrome ore and cooper extraction and processing. Oil and natural gas production have actually declined, due to spent production capacity and unsuccessful drilling in shelf areas. Natural gas production in 2002 reached 350,000 tons, for which the state invested 1 billion leks.

The most serious problem facing the population is the permanent energy crisis, marked by daily disruptions in the supply of electricity and drinking water. The power system, which uses hydroelectric power plants and relies on natural water resources that are more abundant here than in most of Europe, was quite trouble-prone in past years. The system was plagued by breakdowns caused by weather conditions, an overburdened distribution system and considerable theft of power by the citizenry. One of the administration's current priorities is the gradual enforcement of power rates for the private consumer that cover costs.

⁴ Home page of the Department of Foreign Affairs, Albania.

⁵ INSTAT Tirana, July 2001.

Agricultural output based on private family operations provides primarily for the needs of a population that still lives mainly in rural areas. Export potential is circumscribed by low quality and long and time-consuming transportation channels, and the agriculture sector is not standing up to the competition posed by products from neighboring countries moving into the Albanian market.

3.2.7 Sustainability

Environmental consciousness is not particularly strong in Albania. Illegally constructed buildings, sometimes used as a form of money laundering from questionable transactions, as well as a growing volume of consumer refuse and a lack of refuse disposal facilities, have led to enormous environmental destruction in the cities and countryside. Urban wastewater drains into rivers and from there to the sea. Interference in the natural processes in alluvial areas led to massive flooding in the autumn of 2002. Deforestation of entire wooded areas for heating fuel has increased land erosion.

The state's expenditure for education was 3.3 % of the public budget. A considerable shortage of funds makes it difficult to provide materials to schools and institutions of higher education. Occasional financial and material aid from outside the country, including funds derived from development aid, charitable efforts, support from renowned foundations and self-help projects, has contributed to rebuilding destroyed schools and thus set a certain example. There is an alarming decline in school attendance in rural areas and an equally disturbing reappearance of illiteracy. Many cultural institutions, such as theaters, libraries, sports facilities and civic centers, have had to close their doors. The Academy of Sciences and the universities do not have sufficient funds to proceed with national research projects. Expenditures for research and development are minimal.

4. Trend

(1) *Democracy*: The first positive efforts were discernible in demarcating the authority of the executive, the parliament and the judiciary in 2002. These steps indicate a reactivation of reform policies and an effort to avoid renewed blockades. After repeated crisis-level disruptions, the criteria for the state's monopoly on violence, for an efficient administration, for the working capacity of the courts and for ensuring public safety and order are now increasingly the focuses of Albanian politics.

The role of the state in the social division of labor has not yet been completely resolved. At issue is the need for privatization versus the desire for a strong ruling hand to bring order.

Administrative reform is in its initial stages. This work involves the greatest possible decentralization and reduction of bureaucracy. It also requires forming a professionally qualified civil service, which is less influenced by party interests and corruption.

A new election law is supposed to preclude opportunities for manipulation and arbitrary intervention by political actors. A central election commission has been established as an independent standing body that is supposed to function between elections as well.

Despite the progress made in fighting the widespread practice of corruption, decisive steps are needed, so that judicial bodies act according to the law, regardless of personalities or reputation.

Citizens are deeply dissatisfied with the functioning of the state and the political parties, because their integrative efforts have had little to do with reform policy. The population is constantly rattled by crisis and has lost faith. But an understanding of democracy is predicated on citizens meeting their obligations to the state, for example by paying taxes and customs duties, along with exercising their rights.

(2) *Market economy*: The international framework for market activity has improved. But the pace of reform is still inadequate. Economic growth is grounded primarily in improvements in construction (16.1 %), the service sector (20 %) and transportation (3.6 %). Agriculture, at 49 %, still accounts for the lion's share of the GDP, while industry contributes only 11.3 % to the GDP.⁶

Socioeconomic developmental status remains at a low level. Sporadic improvements were seen in the construction industry, infrastructure and services, and these improvements have resulted in new job creation.

Table 2: Development of socioeconomic modernization indicators

	HDI	GDP Index	Gini Index	UN Education Index	Political Representation of Women	GDP per capita (\$, PPP)
1998	0.713	0.560	0.43	0.780	7.1%	-

⁶ Home page of the Department of Foreign Affairs, Albania.

2001	0.764	0.603	-	0.876	5.7%	1,332
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Sources: Human development report, Albania 2002, Tirana; <http://www.undp.org.al>

Table 3: Development of macroeconomic fundamentals (1997–2002)

	1997	1998	1999	2000	2001	2002
GDP growth as a %	-7.0	8.0	7.3	7.8	6.5	4.7
Foreign trade (1996=100)						
Export growth	89.9	136.2	216.7	171.7	195.2	189.5
Import growth	83.1	108.8	151.6	151.0	181.7	180.9
Inflation as a % (CPI)	42.07	20.6	0.39	0.1	3.1	5.4
Unemployment as a %	14.9	17.7	18.0	16.9	14.6	15.8
Budget Deficit / % GDP	-12	-10.4	-11.49	-9.27	-8.57	-6.2
Balance of Trade / bn, \$	-534.9	-603.6	-662.8	-821.0	-1027.0	-1155.1

Sources: Human Development Report 2002; Statistical Yearbook 1993-2001, INSTAT, p. 346.

5. Transformation management

5.1 Level of difficulty

In regard to the structural, social and economic conditions that set the stage for the political process in the long term, the level of difficulty of transformation must still be classified as relatively high. The grassroots consensus on democracy and functioning party pluralism remains fractured and frail.

As the year 2002 began, Albania's low economic and social level of development, intermittent disruptions of the transformation caused by crises of state and the polarization of the main political forces grouped around the PSSH and the PDSH all helped create difficult conditions for broadening democracy and a market economy. The minimal experience with civic, democratic and legal institutions, and external disruptive factors like the Kosovo war and the Macedonian crisis, were not enough, by themselves, to explain the deficiencies in transformation management. The subjective factor of power-obsessed politicians, who put their personal interests ahead of those of the country, is equally to blame. Forms of civil interaction that observe the rules of democratic conflict resolution and legal standards are only slowly taking hold. Most importantly, more efforts are needed to give shape and stability to the functioning and efficiency of the rule of law and government administration.

With an increase in private economic initiatives, both in the economic realm and in education, sources of civic management will open up to supplement those reform measures that are the state's responsibility.

5.2 Reliable pursuit of goals

To date, there is apparently no clear strategic plan for advancing transformation along the path to democratization, constitutional order and a socially acceptable market economy. Reaction still takes precedence over action, so that dependencies and the conditions resulting from the pending negotiations for a Stabilization and Association Agreement with the EU must be taken into account. More than in other, comparable transformation countries, the relationship between expectations of external support and preparatory initiative remains a problem that throws into question Albania's reliability in achieving goals. The consensus in organizing a stable society is given lip service, but still awaits practical implementation. This deficiency is not solely the responsibility of the governing left-center coalition but also of the opposition, which, as a constructive corrective, could move the country forward and possibly return to power itself, by means of an electoral victory. The key concept for that scenario is cooperative action that gives priority to the interests of long-term stabilization and prosperity for the country.

5.3 Effective use of resources

There is no indication that Albania is making effective use of available personnel and organizational resources for transformation policy. The brain drain of a considerable share of the country's intellectuals was unstoppable. Reserves of well-trained specialists in the most varied fields are still largely unutilized under conditions of inadequate investment. This also applies to youths, who are underemployed, even though they belong to the "Internet generation", which has no difficulty relating to modern technology and computer systems.

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

Despite their scarcity, public funds are not always used in an efficient and targeted manner. One example is the energy crisis, which is being handled with serious management shortcomings by the power company, KESH, still under state direction. Monitoring of external aid was not always fully ensured in the past, so significant funds disappeared into murky channels.

The fight against corruption remains a focus of the current government. The legal framework is generally in place; what is required is determined implementation.

5.4 Governance capability

The political class is in the midst of a complicated learning process in organizing reforms toward democracy and a market economy. Centralist thinking and imprisonment within authoritarian methods of leadership are still much too common, restricting the scope of citizens' participation.

Administrative reform is in its initial phase. The correct path has been laid out – decentralization and qualification of the civil service, which in many areas is breaking new ground in an administrative apparatus that has traditionally been quite bureaucratic. This goal is also advanced by plans for the country's territorial restructuring, which are now in preparation and will break the administration down into municipalities, districts and prefectures.

The focus of current administrative efforts—fighting corruption, ensuring the rule of law and overcoming the energy crisis—will only be realized if politics functions within a clear separation of powers among the legislative, executive and judiciary branches. In order to achieve these goals, it is also essential that broad social forces are motivated and integrated into the effort. The election of the new president by a parliamentary consensus in the summer of 2002 created new conditions for the further consolidation of democratic and reformist transformation measures. The election thus also opened the way to initiating negotiations on a Stabilization and Association Agreement with the EU.

5.5 Consensus-building

A broad social consensus that can successfully advance reform politics still needs to be established. This will also require that the forces in society come to terms with the country's recent history, including reconciliation across the victim/perpetrator spectrum and, most of all, a willingness to accept responsibility. This willingness has receded as a result of interruptions to transformation.

All essential political and social actors agree on the goal of reform: achieving democracy and a market economy and integrating into European structures. But ideas for how to reach that goal vary greatly, because these ideas are still too much a part of self-promotion by parties and politicians, who want to enhance their own power. Within the spectrum of political parties, a third political force in the form of the Reformed Democratic Party (PDR), founded in 2001, could break through the polarization of the PSSH and the PDSH and give new weight to party pluralism. Actors with anti-democratic veto powers are not present in Albanian politics.

The influence of NGOs in shaping economic and social policy remains low. Their sphere of activity is primarily focused on efforts for democratic elections, human and minority rights and women's rights.

5.6 International cooperation

The consolidation of internal conditions in Albania is due in no small part to external actors, such as the EU, IMF, EBRD, OSCE Council of Europe and NATO, as well as bilateral influences, in particular from the United States. The government and opposition have recently shown more willingness to meet the EU's conditions for approximating European structures so that Albania can participate in European integration. The breakthrough has been made in initiating negotiations with the EU toward a Stabilization and Association Agreement.

Throughout the reporting period, Albania has pursued an active foreign policy aimed at non-violent resolution of conflicts in the Balkans. During the crises in Kosovo and Macedonia, the Albanian administration stuck with a constructive line, promoting dialogue despite, or perhaps because of, its own vulnerability to regional events, such as waves of refugees from Kosovo. Relations with neighboring states have been mostly normalized. The recognition that good neighborly relations and multilateral cooperation in the region improves one's own security played a substantial role in encouraging this normalization. A starting point for foreign relations are regional projects, including free trade agreements and the coordinated fight against terrorism, organized crime and cross-border smuggling of drugs and people.

Albania is pressing to join NATO and the EU. The country applied for membership in the NATO Cooperation Council as early as 1992 and was one of the first candidates for the Partnership for Peace program. Bilateral relations with the United States were particularly helped by American political and military involvement in the region. The roles of the United Nations and the OSCE have taken a back seat. Cooperation with Germany is viewed as constructive and unproblematic by both parties.

6. Overall evaluation

This report reaches the following evaluation in regard to the initial conditions, the status and evolution of transformation in Albania, as well as the political organizational conditions of actors involved in managing that transformation:

(1) *Initial conditions:* The initial conditions for transformation were evaluated as thoroughly unfavorable. The Albanian state's weaknesses and susceptibility to problems are the result of backwardness and a long-standing tribal mentality in dealing with the transition from semi-feudal conditions to a communist dictatorship that lasted 40 years. So the upheaval was crippled from the beginning by lack of legal, civil and democratic traditions. The weight of old patterns of thought and behavior is apparent, despite verbal commitment to change.

During the evaluation period, the transformation transpired as a combination of timid reform steps in politics and the economy. These efforts at reform played out essentially as crisis management, undertaken due to a need to maintain state order and avoid conditions verging on civil war. The old state has fallen, but the new one still lacks sufficiently stable contours.

(2) *Status and evolution:* The distance covered along the way to democratic transformation is still short. The country is in the midst of a complicated phase of post-communist transformation and thus remains susceptible to disruptions and slow-downs. However, substantial threats to democracy are not apparent.

The structures forming the framework for a market economy have improved. There are visible political efforts to enhance the social components of a market economy by expanding the insurance system and reducing unemployment. Extensive social regrouping has increased the social gap at the expense of rural areas. As much as 57.7 % of the population still lives in the countryside.

The pluses and minuses of transformation allow for the conclusion that, despite setbacks and obstacles, the process is irreversible, and public opinion in the country increasingly favors solving social problems through civilized and democratic means.

Internationally, Albania is becoming less an object of events and more an active political subject. The path to integration in Euro-Atlantic structures will be shortened to the extent that the country advances stabilization and democratization.

(3) *Management:* Assessment of the relative organizational performance of the actors remains ambivalent. The economic transformation gains stature to the extent that internal stability is achieved. This is predicated on permanent pressure, exerted by social forces, to preserve and expand the established political consensus in favor of reforms. Positive macroeconomic parameters alone offer no assurance of recovery for the socioeconomic situation. Real recovery requires sound support in the form of a financial and banking system that also makes use of the advantages of decentralization.

The country is now considering a territorial and administrative reorganization, which includes the devolution of significant authority and resources to local administrative bodies and takes into account demographic trends, such as stunted population growth and internal migration.

7. Outlook

The tentatively optimistic picture of the future for advancing Albanian transformation is supported by the fact that the political actors involved are more aware of reality. With the focus on internal consolidation by expanding the rule of law, overcoming the internal energy crisis, waging a determined battle against corruption and nepotism and a coordinated fight against international terrorism and organized crime, the country has experienced a catharsis that makes the actions of political actors more transparent and predictable.

There is no doubt that the success of this evolution depends on direct international support and advice. Twelve years after the start of transformation, Albania remains in a condition of social ferment. If all aspects of political, economic, social and cultural development are not harmoniously combined, the transformation will advance only sluggishly. The Albanian reform republic faces a long, rocky road to meeting the criteria for structural and qualitative inclusion in European integration.