

# BTI 2014 | Albania Country Report

	scale	score	rank	trend
<b>Status Index</b>	1-10	<b>6.55</b>	# 38 of 129	
Political Transformation	1-10	6.70	# 43 of 129	↘
Economic Transformation	1-10	6.39	# 41 of 129	→
<b>Management Index</b>	1-10	<b>5.17</b>	# 57 of 129	

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. 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>.

Please cite as follows: Bertelsmann Stiftung, BTI 2014 – Albania Country Report. Gütersloh: Bertelsmann Stiftung, 2014.

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**Key Indicators**

Population	M	3.2	HDI	0.749	GDP p.c.	\$	9443.3
Pop. growth <sup>1</sup>	% p.a.	0.3	HDI rank of 187	70	Gini Index		34.5
Life expectancy	years	77.2	UN Education Index	0.726	Poverty <sup>3</sup>	%	4.3
Urban population	%	54.4	Gender inequality <sup>2</sup>	0.251	Aid per capita	\$	106.1

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

The evolution of Albania's fragile democracy during the review period (which did not include the 2013 elections and post-electoral period) showed signs of a downward spiral. Indicators of this trend include the government's demonstrative failure to organize free and fair local elections in 2011; infringement of the principle of separation of powers through the placing of majority party's representatives in crucial state positions; political interference in major political investigations; and a failure of the judiciary to persecute cases of abuse of public office. The core problem is not the lack of democratic institutions and procedures, but the misuse of laws and institutions by the ruling elite for political or individual gain. This shift, or elites' focus on political or individual goals at the expense of institutional procedures, has additionally worked to stagnate or even reverse some important steps taken in management performance and economic development.

Having lived through one of the more totalitarian regimes during the communist era, Albanians have embraced democracy and a market economy as the main objectives of regime change. All Albanian governments to date have been committed to these goals. Building a democratic system and a market economy have also been the hallmarks of institutional changes enacted in the two decades since the fall of communism. Such changes are underlined by the country's goal of European Union membership, a process which requires the adoption of a set of political and economic standards. Other international organizations are also involved in safeguarding and supporting Albania's nascent democracy. In general, the existing constitutional framework and broader institutional arrangements, which after the state collapse in 1997 have especially benefited from international supervision, provide an adequate basis for the building of democracy and are in general positively assessed in international democratization indices. Such a framework, however, has often created a "legal trap," as crucial institutions have not been able to exercise their supervisory role or assert their independence vis-à-vis the strong interests of the ruling elite and a dominant executive. International supervision networks have also had to accept de facto disputed and politicized decisions coming from what are only formally independent institutions.

The country also shows troubling economic trends. GDP growth, Albania's most significant achievement in recent years, has decelerated on a year-to-year basis. The review period confirms this trend, with GDP falling sharply and reaching its lowest peak in the last decade of 0.6% in 2012. The government decision to increase expenditures, coupled with weakening revenue, has increased the public budget deficit and public debt has risen to risky levels. A further fiscal deficit increase led to a statutory ceiling of public debt at 60% of GDP. In 2012, the government amended this 60% legal ceiling, which demonstrates an expectation for further increases. Another pressing concern is that more than half the debt burden is short-term debt maturing within one year, which means that an increasing share of the budget must go to paying high interest rates, which reduces public sector investment. Internal borrowing, heavily practiced during the review period, has also played a negative role by limiting and increasing the costs of funds available to the private sector. Meanwhile, conflicts over outstanding mutual debts between the government and the country's private energy distributor, the Czech Republic's state-owned CEZ, have negatively impacted Albania's economic outlook. The conflict led to the government's decision to revoke CEZ's local license in January 2013. The dispute reflects a business climate that is less than optimal; a situation that could affect the strategic planning of other foreign investors.

Positive international developments early on, such as Albania's NATO membership in 2009 and visa liberalization with the European Union in December 2010, have increasingly been overshadowed by a more critical stance by international actors. That the European Union has three times refused Albania's application for membership is unique, and shows once again that Albanians have not done the hard work to improve the functioning of the country's democratic institutions and its market economy. A new wave of nationalist rhetoric following the country's celebrations of 100 years of independent statehood has led to renewed concerns and questions over Albania's constructive role in the Balkan region.

## History and Characteristics of Transformation

Albania is often treated as a "most difficult case" of regime change, or an outlier when compared with other post-communist countries in Central and Eastern Europe. The long and difficult, at times chaotic and certainly ambiguous, path to democracy and a market economy has consistently put the country at the tail end of regional post-communist ratings in democratic and economic progress, even when including neighboring countries that have experienced violent ethnic conflict.

The country's historical deficit (little experience as an independent or democratic state, socioeconomic underdevelopment, a deeply divided elite class and the prevalence of authoritarian leadership) is often recalled when trying to explain Albania's difficult path to transition and its contemporary problems. Yet probably the most difficult legacy to shake was that of one of the most draconian communist constructs ever built, that lasted from 1945 to 1991. The ruling communists gave in to popular demands only when they realized they had no other choice in retaining power, and feared a similar violent end as seen in Romania under Nicolai Ceausescu.

Importantly, the communists' complete hold on power until the very end prevented the emergence of leaders or organizations that could have, at the start of the country's democratic transition, the vision and capacity to lead the country toward a successful regime change.

The inevitable clash between two antagonistic camps – conservative communists and the emerging anti-communist movements, which both lacked any sort of compromise position when considering the impending regime change – fostered political chaos and brought the country to the verge of collapse more than once. Given the lack of any organized democratic actors from either side, Albania seemed doomed to a long and painful transition.

The first electoral victory of anti-communist forces in the country's first, real pluralist elections in 1992 occurred amid a popular democratic wave, which for the moment seemed to sweep away the memories of communist repression. The first opposition party, the Democratic Party (PD), which brought together different anti-communist movements, adopted strong anti-communist rhetoric and put forward a comprehensive reform package seen as "shock therapy," in political and economic terms. The early enthusiasm of this period was best captured by the terms used to describe Albania, such as "rising star," that dominated domestic and foreign evaluations from the first half of the 1990s. By the mid-1990s, however, the PD's governance had already highlighted the deep resilience of the past. Government efforts to introduce new institutions were combined with the de facto establishment of a one-man rule. The ruling party moreover showed limited tolerance for debate and sought to oppress political participation. And critically, the mismanagement of the country's economic transition was best exemplified by mushrooming of pyramid schemes, which by the end of 1996 had swallowed the meager savings of two-thirds of Albanian families and almost one-third of the country's GDP.

By 1997 it became clear that the country had failed its first transition. For a few weeks in 1997 Albania was on the brink of collapse, as armed protesters who had lost all their savings amid pyramid schemes joined opposition forces to attack state institutions, while the country relied on international assistance and supervision simply to survive. Since this period the international community has become an all-important player in Albanian politics, seen often as a weak state that needs foreign monitoring to simply function normally. In 1997 the Socialist Party (PS), which had inherited the structures and a few some leaders from the former Communist Party, emerged as the winner of fresh elections. Yet given the country's chaotic state, the party's hold on power was weak. External intervention and assistance however assisted in the advancement of a series of institutional reforms. The first post-communist constitution was adopted in 1998, followed by general efforts internationally to strengthen Albania's weak state institutions and stabilize a system of government check and balances. These efforts however did not translate into good governance, which continued to be hampered by a deeply divided political class, a protagonist-leadership style, widespread corruption and weak institutions.

The return of the PD in 2005, with a new image and a new group of leaders, including young intellectuals, promised to be a new step toward the future. Indeed, the 2005 elections were considered a substantial improvement over previous contests, as they were the only elections with the exception of the 1992 poll that enabled a smooth transition of power and were accepted by all

main political actors. The prospect of European Union integration, solidified since 2000 as part of the Stabilization and Association Process and a concrete promise of membership, is considered a powerful motor of reforms. Since 2005, Albania has had some success in terms of European integration. However, the current outlook seems to reflect the ongoing battle between unfavorable domestic conditions and the external push for reform.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The post-communist constitution ensures that the Albanian state maintains a monopoly on the use of force, when charging it with the duty to protect “the independence of the state and the integrity of its territory.” While in practice the state’s capacity to control its territory was shaken after the 1997 crisis, assistance has been also forthcoming from Albania’s European neighbors, as the threat of mass emigration, illegal trafficking and organized crime at EU borders has encouraged activities to supervise and strengthen the fragile state. Foreign assistance has poured in, especially in security sectors such as policing and border controls. The country’s NATO membership since 2009 has also helped to restructure an otherwise outmoded military force. The state maintains an effective monopoly on the use of force across the territory, with the possible exception of some remote mountain villages in the north where customary law and structures compete with, and sometimes replace, state authority. Additionally, the state maintains only marginal control over Lazarat, a village that is well-known for cultivating marijuana; citizens there essentially reject the state’s authority.

Albanian society and political actors share a broad consensus on who is entitled to citizenship rights and what this entails, while the constitution ensures equal rights for all citizens. The consensus over the legitimacy of the nation-state is facilitated by the effective homogeneity of the population, with over 90% of Albanian background. The Red and Black movement, created in 2012, capitalizes on pan-Albanian ethnic and nationalist sentiment. Increasing political rhetoric over the unity of Albanians living in different countries and claims to extend the right of citizenship to ethnic Albanians from neighboring countries has been embraced also by different political parties, including the ruling government party. For the first time in the post-communist period, the center of Albanian nationalism has shifted from the peripheries or the Albanian diaspora to politics in Tirana, the capital. This push has not yet translated into concrete policy initiatives, however, and remains an electoral

Question  
Score

Monopoly on the  
use of force

9

State identity

8

strategy to attract votes ahead of upcoming elections. Yet pan-Albanian nationalism or talk of a “great Albania” could turn problematic in the future.

Minorities in Albania enjoy broad cultural rights, which are monitored by the European Union, the OSCE and neighboring countries. Existing discrimination and de facto marginalization of vulnerable groups such as gays, lesbian and Roma do not primarily constitute a problem of legal rights. They also reflect insufficient resources and social services to support such groups.

Religious dogma does not interfere with the operation of the state, and radical interpretations of religions have found no fertile ground in post-communist Albanian society. Article 10 of the constitution establishes that the state has no official religion, but guarantees the equality and autonomy of all of Albania’s traditional communities, including Muslims, Catholics, Orthodox Christians and Bektashi. Additionally, the state and religious groups are required to work together for the good of each and the public at large. Within this framework, the Albanian state respects, but also works to control and curtail, manifestations of religion in public life. For example, the law prohibits religious education and even the use of religious symbols in public schools. Meanwhile, traditional religious communities and religious denominations revived after the fall of communism tend to keep a low political profile. Society has shown little interest in following or mobilizing under the banner of religion, whether radical Islamic or Christian. Some religious communities, such as Orthodox Christians and Bektashi, have refused to accept recent census data that claims the number of followers of each group has dropped significantly.

No interference of  
religious dogmas  
10

The state’s administrative structures provide basic public services throughout the country, but their operation is to some extent deficient, especially in some sectors. For example, it is seen as almost normal to have interrupted access to water in many parts of the country. Health care services are offered widely yet remain insufficient to deal adequately with the needs of the population. The quality of basic administrative services has suffered not only from meager financing but also high levels of corruption, nepotistic or political appointments, a lacking meritocratic culture and the absence of a civil service ethos.

Basic  
administration  
7

## 2 | Political Participation

Albania organizes regular competitive elections between different parties expounding different platforms, but has yet to conduct free and fair elections that meet international standards. All elections after the 1997 crisis were organized under the observation of an OSCE permanent mission and other international organizations. The electoral system, electoral code and related electoral rules have been permanently revised to address recommendations from the OSCE and the ODIHR and are generally considered in line with international standards. Neither international

Free and fair  
elections  
6

observers nor continuously improved rules however have sufficed to ensure the proper conduct of elections. All electoral results since the country's transition, with the possible exception of the country's first elections in 1992 and the smooth rotation of power in 2005, have been contested by opposition parties and criticized by external reports. Contested elections have fostered a state of permanent crisis and absorbed much of the energy needed for political and economic reform. This was also the case with local elections in May 2011, which followed another disputed national contest in 2009.

The legal deficiencies of the 2011 elections can be traced back to the constitutional amendments package of 2008, which replaced the mixed proportional electoral system with a proportional regional system and introduced the use of closed party lists, thus strengthening party leaders' control. With these amendments, the Central Electoral Commission (CEC) has also lost its independence and has become a bipartisan body whose members are appointed by the PD and the PS parties. This practice opened the door to the commission's politicization and general submission to political will. It was only in 2012, however, when an independent international report noted that the constitutional changes agreed consensually between the PS and the PD parties were in fact a compromise to "alternate control over the state and continue their autocratic policy."

By then, the results of local elections in Tirana – a crucial municipality composing one-third of the country's population – were changed "on the table" and in favor of the ruling majority's candidate. ODIHR, for its part, noted that the elections were competitive and transparent but found problems of accuracy, ranging from procedural problems to some more serious violations, occurring in some 10% of voting centers. CEC decisions were also found to be political, lacking in reason and consistency. The battle for Tirana, where PS leader and incumbent Mayor Edi Rama ran against the former interior minister and PD party member Lulzim Basha, showed that the ODIHR evaluation may have been too mild. Other independent reports showed that during the elections the government exerted significant pressure over administrative staff. The human resources departments of government ministries were required to coordinate the participation of civil servants in rallies, as well as in campaigning and phone surveys run in favor of ruling party's candidate. Yet the most significant concerns arose during the counting of the ballots, where the election result announced one week after the contest gave Rama just 10 more votes over his adversary. Ballot counting for the Tirana borough elections was meanwhile curiously delayed for another week, until representatives from the OSCE, the United States and the European Union decided to assist in the final count, in an attempt to remind the electoral institutions of their responsibilities. At the final count, the earlier result was confirmed in favor of Edi Rama. Afterwards, the head of the ruling majority, Prime Minister Sali Berisha appeared on national TV to announce the need to re-open miscast ballots, to check for possible mistakes as, as he claimed, 'in a democratic

system every vote counts'. In a disputed decision with no legal basis, PD appointees within the CEC then ordered the re-counting of miscast votes; even though election law lacks a provision over the opening of miscast ballots, and in prior elections, such ballots were not counted. After a complex and disputed process of appeals, the CEC reversed the initial results and proclaimed ruling majority's candidate Lulzim Basha the winner with a 93-vote margin, all handpicked from miscast ballots. Meanwhile, the institutions handling the appeals and the CEC ignored the fact that the results which they certified showed a discrepancy of 870 cast ballots over the actual number of registered voters. There was no inquiry into this discrepancy. Most analysts and international observers agreed that electoral management institutions did not deliver in this case.

The state's vulnerability to the interests of the private sector is a serious problem. Individual powerful groups can set their own agenda and enforce policies that protect their special interests. State capture manifests itself in various forms, such as the influence of private business in decision-making; politicians' control of powerful businesses; and connections between government and illegal businesses. A series of corruption scandals revealed by the media from 2011 to 2012 exposed the close relations between government and business interests, at the expense of effective government.

Effective power to govern

7

The Albanian constitution ensures broad freedoms of assembly and association, and every citizen has the right to organize collectively for any purpose (Article 46). Similarly, NGOs can register freely, manage their affairs without state interference and address without restriction matters of public debate. Indeed, civil protests have played a crucial role in Albania's democratic transition and have been a decisive force in some key transition events. Government opposition has resorted to various forms of protest, apparently unrestricted by the government.

Association / assembly rights

8

The protests of 21 January 2011, where four civilians were killed, 60 wounded and another 100 arrested can be seen as a turning point. The alleged shooting of unarmed protesters, mobilized by opposition groups, by the Republican guard has become the subject of a difficult political investigation, a process which has witnessed government intervention and obstruction, clearly noted in international reporting of the issue.

The country's constitutional framework guarantees the freedom of expression, the organization of mass media and the right of information (Articles 22, 23). The current media landscape includes a large number of different media outlets, while each large political party has its own media mouthpiece. The plurality of outlets has increased the watchdog role of the media, especially regarding government policies and wrongdoings, which receive a substantial share of coverage. Most cases of political corruption, misuse of office and high-level abuse of office start with media

Freedom of expression

7

investigations. Libel and defamation laws were reformed in 2012, marking progress in media legislation.

Yet, the media is also under political pressure. For example, media outlets came under state scrutiny for their detailed and independent coverage of the January 2011 protests, and journalists were repeatedly accused by government officials for participating in a coup d'état. A camera operator, wounded during the protest shootings, faced pressure from his employers to cover up his injury, and was later dismissed. After a series of anonymous threats, he was eventually forced to flee the country. The government has used several measures, from political to economic threats, to harass critical media outlets and change their editorial focus. *Gazeta Shqiptare*, a daily newspaper noted for its opposition to the governing majority and investigative reporting, was forced to change its director and shift its editorial focus after the paper was purchased by a businessman who is closely aligned with the government. Media outlets close to the government, such as TV Klan and ABC News (Albania), on the other hand, receive the lion's share of expensive (and often unnecessary) advertising from state-owned services, paid by from the state.

### 3 | Rule of Law

The constitution ensures that the government's structure is based on a division and balance of powers, among the legislative, executive and judiciary (Article 7) branches. Although constitutional institutions are in place, the country has hardly moved past the practice of identifying state institutions with the current ruling majority. Independent experts criticized constitutional amendments issued in 2008 as a step backwards, paving the way for the "in-depth consolidation of state capture by the ruling elite." Constitutional provisions on elections and presidential powers were especially problematic, essentially shifting power toward the majority party, curtailing the independence of the president and opening space for the further politicization of judicial appointments.

In the case of the president, both international and domestic actors pressed for a consensual cross-party candidate, but the ruling coalition refused negotiations with the opposition and opted for its own candidate. In May 2012, interior minister and member of parliament from the ruling majority, Bujar Nishani, was elected president on majority votes alone, while the opposition boycotted the vote; international observers considered the contest another "lost opportunity."

As of 2012, the ruling party had placed members of its inner circle in key state positions. In May 2011 the municipality of Tirana was handed to former interior minister and parliamentary member with PD, Lulzim Basha. In June 2012, the independent-minded President Bamir Topi was replaced with another cabinet member, Bujar Nishani. In August 2012, the new president replaced the head of the

Separation of  
powers

4

state information service, Bahri Shaqiri, with yet another cabinet member, Visho Ajazi. The new president then replaced general prosecutor Ina Rama, who had dared to open investigations against government officials. While the work of these new individuals can't yet be judged, the appointments themselves share some of the worrying trends in the country's institutional development: namely the replacement of majority party politicians in key state positions, often amid a contested process where only majority party members are voting. This situation can be troublesome for the future functioning of the government's separation of powers.

The judiciary is the weakest link in Albania's fragile system of separation of powers. The principle of an independent judiciary is provided for in the constitution and in relevant legislation. The Albanian judicial system consists of three levels: courts of first instance, courts of appeal and the high courts, the high court dealing with civil and criminal cases on a national level. A new law on administrative courts provides for the creation of special courts to deal with administrative cases. The constitutional court decides on the conformity of laws and other regulations with the constitution, while the prosecutor's office brings cases on behalf of the state.

Independent  
judiciary  
4

The effective independence of the judiciary is hampered by political nominations and other forms of political inference. Judges for the courts of first instance and courts of appeal are appointed by the president, upon the proposals of the High Council of Justice, a largely professional entity. With the election of president from the majority party, such appointments are even more open to political influence. High court and constitutional court members, as well as the general prosecutor, are under more political pressure as all presidential appointments need the consent of the parliamentary majority.

More problematically, the governing majority has resorted to various forms of intimidation to make courts co-opt with the government's positions. One flagrant example is investigations into opposition protests, which resulted in the shooting death of four protesters in 21 January 2011. The prosecutor's office issued detention orders for four officials of the Republican Guard who were allegedly implicated in the shooting. The state police refused to execute the orders, or provide an explanation why they would not comply. Prime Minister Berisha then directly challenged the state prosecutor, stating that no guardsmen would be handed over and further rewarded member of the guard with four additional salaries for "bravery." All evidence captured by security cameras outside the prime minister's office was apparently destroyed in secret after the event. Only after international pressure did Berisha allow an investigation, leading to the eventual detention of one of the four original Republican Guards. While the executive still stymied investigation efforts, the assistance of the U.S. Federal Bureau of Investigation pushed the investigation forward, as ballistic and forensic experts determined that the Republican Guard was the first to open fire on the protesters, and declared the guard commander guilty of murder "beyond all doubt." The courts, however, disregarded the FBI's findings and

asked instead for the views of national experts, whose contradictory analysis prolonged the investigation. One domestic expert was even accused of manipulating evidence by the prosecutor's office.

Two years after the shooting, in January 2013, the Court of Tirana found the accused guard member not guilty, despite the FBI evidence. The U.S. Embassy in Albania responded with a direct declaration that stated, "Unfortunately today's verdict has undermined trust in the ability and readiness of the judiciary system to give justice in an impartial and transparent manner." The prosecution appealed the verdict, although the change of the general prosecutor does not augur well for the continuity of such an important and difficult political case.

Officeholders who break the law are not adequately prosecuted. The PD came to power with the promise of "clean hand" policies. Indeed the government improved the country's institutional framework and adopted a range of strategies to fight abuse of office, efforts which are positively viewed by international indices. There has been some achievement regarding the prosecution of low and mid-level officials. But anti-corruption policies have remained mostly rhetoric, especially when it comes to the prosecution of high-level officials. In the last two years most allegations of high-level government corruption disclosed by the media have never been brought to court. The few cases which have been officially opened have been quickly closed on "procedural" grounds.

One of the notable investigations is the Meta case. In January 2011, one of the national TV channels broadcasted a potentially incriminating video between the then foreign affairs minister, Ilir Meta, and the then economic minister, Dritan Prifti. Both are founders of the Socialist Movement for Integration (LSI), a party which is part of the governing coalition with the PD. Meta asked Prifti in the video to intervene in a hydropower plant concession tender in favor of a particular company, naming as recompense a 7% stake and a €700,000 bribe. Meta further asked Prifti in the video to appoint LSI party activists to key positions in the ministry. Meta is also overheard saying that he could influence a Supreme Court trial over the hydropower plant concession, as he is on good terms with Chief Justice Shpresa Becaj, after having hired her daughter as a diplomat. Following the video release, the general prosecutor started an investigation, and as is done in such political sensitive cases, asked the United States for additional expertise to help confirm the video as authentic, which was the case. The high court, however, refused the U.S. analysis on procedural grounds and appointed Albanian experts to verify the video's authenticity. The named experts, who admitted that they had neither the license nor the proper equipment to review the video, concluded that "the video had been potentially manipulated." Meta was declared innocent just six months after the event and returned to contribute to politics and the agenda of European integration.

Prosecution of  
office abuse  
4

Respect for civil rights is enshrined in the constitution, and Albania has ratified the convention for human rights. The office of the ombudsman is the main domestic human rights institution and has played an active role in monitoring the human rights situation in the country and increasing state accountability on the issue. The ombudsman intervenes in cases of property issues, police abuse, undue length of judiciary proceedings, the non-enforcement of judgments in civil cases, inadequate prison conditions and difficult living conditions for the Roma minority. The new ombudsman, elected in 2011, has taken a proactive role but struggles with insufficient funding. In addition, his recommendations have not always been implemented by state institutions.

Civil rights  
8

Ensuring the property rights of individuals who had land or property expropriated during the communist era remains a huge challenge. Most property issues go through the court system several times, a process which can be expensive; what's more, judgments ordering the restitution of property are commonly not implemented. Many cases addressing a breach of due process regarding property disputes are ongoing at the European Court of Human Rights, while a positive outcome has been reached for some.

#### 4 | Stability of Democratic Institutions

Although a number of democratic institutions exist and perform their duties in principle, their functioning is inefficient, giving place to what some academics have referred to as a “stabilocracy,” or a government system that externally provides stability but domestically vacillates between democratic and autocratic tendencies.

Performance of  
democratic  
institutions  
5

The functioning of parliament, paralyzed after the contested 2009 elections, improved after a political agreement was reached in November 2011 between the ruling majority and the opposition to carry out a set of reforms, especially related to the priorities of EU integration. The agreement has facilitated political dialogue and enabled the adoption of laws still pending that required a majority vote, including amendments to the criminal and civil code, the law on administrative courts, the electoral code and a revision of parliamentary rules of procedure. Yet, the agreement quickly degraded into renewed bickering after the presidential elections (where the majority party's candidate was elected) and especially ahead of the parliamentary elections in 2013. The president's quick re-appointments, especially for prosecutor general, have certainly not increased political confidence in his office.

The work of the government has evolved away from the review of oversight institutions, resulting in weaker legislation and more politicized initiatives. The government's decentralization process, begun in 1998, has also suffered from politicization, whereas the central government sought to intervene by diminishing local competences and budgets, especially in localities run by the opposition. Public

administration, for its part, is particularly hampered by shortcomings related to politicization and lack of meritocracy. This in turn leads to serious shortcomings of the implementation of legislation.

After living under one of the more totalitarian regimes in the communist era, Albanians have consensually embraced democracy as the most desirable government system and main goal of the country's political transition. No political parties, social groups or other relevant actors have contested the legitimacy or constitutional organization of democratic institutions. Yet democratic institutions have often fallen short of expectations, by siding openly with the preferences of ruling majorities and powerful politicians.

The opposition has often resorted to extra-institutional channels or has boycotted parliament in the pursuit of its own political agenda. Opposition parties often abstain from voting or abandon altogether crucial legal initiatives. Citizens often echo a similar defeatist tendency, preferring that external actors at random help to resolve major political disputes. All polls show that Albanian citizens share an over-confidence in foreign institutions such as NATO and the European Union, but have low trust in their own institutions. This explains why foreign ambassadors and representatives of international organizations enjoy high credibility in society and are widely perceived as a safeguard, and if necessary can provide a way out, for citizens struggling with the country's problematic institutions.

Commitment to  
democratic  
institutions  
8

## 5 | Political and Social Integration

Since the fall of communism, Albanian politics has evolved into a two-party system that reflects the main cleavages in society: former communists are represented by the Socialist party (PS) versus anti-communists as represented by the Democratic Party (PD). The PS has inherited the organizational structure, networks and some of the elites of the former communist party, but has also gained a new generation of leaders from the anti-communist movement. The party's current head, Edi Rama, hails from the anti-communist movement. Rama has still to prove his attributes as prime minister, but the reshuffling of the party leadership and the addition of a young leader into its highest ranks is indeed the first event of its kind in Albanian politics. The PD was born as an anti-communist umbrella organization, bringing together diverse anti-communist groups, including a group well-related to the former communist regime. The party's strong historical leader, Sali Berisha, was rather active first secretary in the former communist party. The PD also includes a range of other high-level politicians that were closely connected to the former regime and has effectively cleaned the party of critical voices, although it still holds strong support among the anti-communist strongholds in the north of the country.

Party system  
6

Other small parties can be seen as an offspring of the two main, larger parties. The Socialist Movement for Integration (LSI) was created following the defection of Ilir Meta from the PS, and is in coalition with its ideological adversary, the PD. During the review period, two fraction parties have been created from the ranks of the PD: the New Democratic Spirit (FRD) led by outgoing president and former PD vice-chairman, Bamir Topi, and the Red and Black Alliance, led by former deputy head of the high council of Justice, Kreshnik Spahiu. Both groups have adopted a critical approach toward what they believe is the authoritarian turn of the Democratic Party.

Although both socialists and democrats have alternated in power and have changed considerably since early in the country's transition, the groups are still perceived as two fiercely antagonistic blocks which rarely come together to discuss or negotiate over the country's most urgent issues. Moreover, each party upon taking power has adopted a "winner takes it all" approach, which in the Albanian context, means capturing of the state by the ruling elite, whereas the opposition is by and large excluded from major political choices. Indeed, the confrontational approach and harsh polarization between the two groups have long dominated political life, including during the review period. The creation of new political movements might be a good augur in Albanian politics. Yet the electoral effects of new movements have yet to be evaluated. In general, smaller parties have had difficulties consolidating their position in the political system and have been able to enter political life only when allied with one of the two big parties. The regional proportional system has strengthened incentives to cut deals with one of the two biggest parties and enter their respective lists, thus reinforcing the traits of a bipolar system.

The spectrum and activity of civil society in Albania has evolved amid the vacuum left by the totalitarian policies of the former communist regime and incoming foreign assistance, essential in creating the sector essentially from scratch. Indeed, before the subject of civil society became an issue of public debate, the idea was introduced to Albania through Western donor aid policies, the goal of which was to stimulate civic participation and introduce the populace to democratic values and behavior. Foreign assistance has largely contributed in fostering local NGOs and enriching the public sphere. The number of registered NGOs amounts to 1,600, although only 150 to 200 groups are estimated to be active. NGOs cover different sectors, including human rights, the environment, women's issues, education, youth issues, culture, religion, health, disabilities and minority rights. Some groups have proved successful in engaging in advocacy work, covering important monitoring roles and providing expertise that educational institutions are not able to provide. Yet foreign donors' agendas have also created some confusion between donor-dependent entities and a vague debate on what society really wants and needs. Often Albanian civil society is viewed as a cluster of donor-driven NGOs, rather than a collection of genuinely local interest groups and grassroots movements in touch with local priorities.

Interest groups  
6

Trade union movements remain weak and apt to politicization, especially due to the lack of large companies operating in the country.

After living under one of the more totalitarian regimes in the communist era, Albanians show very high support for democracy. No surveys so far have shown decreasing enthusiasm for democratic systems, even in the face of endemic political crisis and other persistent problems that have plagued Albania's transition. Albanians, however, are more concerned over how democracy is functioning in their country and the work of specific democratic institutions. Citizens' trust in institutions continues to be low. There are no reliable independent surveys for 2011 – 2012, but a previous Gallup survey shows that the country's trust score for all institutions evaluated is an average of 43.8 points, on a 0-100 scale, where zero means "Do not trust at all," and 100 means, "Trust a lot." Among the institutions rated, only the military earns a score above 50 (66). The country's property restitution and compensation agency (28), trade unions (32), political parties (32) and parliament (42) were the least trusted institutions rated in 2010. This echoes similarly low scores in 2009 for the same institutions.

Approval of  
democracy  
8

Albanians have a strong sense of traditional forms of solidarity, such as family, regional or clan loyalties. Such traditional forms of social capital have been crucial in sustaining networks of cooperation and supporting blood or clan links, but they do undermine the creation of more civic culture of participation and solidarity beyond narrow traditional networks. In addition, post-communist Albanian society has developed strong individualistic trends, first as a reaction to the extreme collectivism experienced during the former communist regime, and second, because of the "Wild West" nature of Albanian capitalism. Civic voluntary involvement and participatory culture is therefore almost non-existent.

Social capital  
6

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

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. Tackling poverty and social exclusion have been far from the top priority for governments. Despite a slight increase, Albania in 2011 fell from its place amid countries with a high level of human development, ranking 70th of 167 countries. The country's poverty ratio remains high, and is further combined with significant regional and urban/rural disparities. GDP purchasing power parity is estimated to be only at 28% of the EU-27 average. A United Nations study shows that Tirana, the

Question  
Score

Socioeconomic  
barriers  
5

capital, has a 0.75 GDP index and an 83% education enrollment rate, compared to a 0.655 GDP index and 65% education enrollment rate in mountainous areas. In addition, the country's Gini coefficient shows that economic inequity has increased; Albania's Gini score has jumped from 20 to 34.5 in the last decade. Agriculture, the sole source of income for rural areas, excluding remittances, accounts for less than one-fifth of GDP, although the sector claims nearly half of the country's workforce. Poor equipment, unresolved property rights and small land plots contribute to the inefficiency of the agricultural sector.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	12118.6	11858.2	12959.6	<b>13119.0</b>
GDP growth	%	3.3	3.5	3.0	<b>0.8</b>
Inflation (CPI)	%	2.3	3.6	3.5	<b>2.0</b>
Unemployment	%	13.8	-	-	-
Foreign direct investment	% of GDP	11.1	9.2	10.6	<b>9.6</b>
Export growth	%	5.8	4.9	6.6	-
Import growth	%	-12.7	-3.1	12.0	-
Current account balance	\$ M	-1851.3	-1352.8	-1649.8	<b>-1314.1</b>
Public debt	% of GDP	59.3	57.8	58.6	<b>60.6</b>
External debt	\$ M	4661.3	4877.3	5937.7	-
Total debt service	\$ M	215.4	306.1	382.6	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	8.8	8.0	8.2	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.8	2.5	2.8	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.1	1.6	1.5	<b>1.5</b>

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

Albania has pursued an extremely open model of economic development that has resulted in limited barriers in factor movements. The country has profited from a privileged trade agreement with the European Union, which has allowed it to export freely to European Union countries following the country's formal application to the European Union in 2009. However, Albania's agricultural products and some industrial products are protected under the agreement until the country's markets are able to sufficiently compete against those in the European Union.

Market-based  
competition

6

According to the World Bank's Doing Business 2013 report, Albania scored last in the 50 economies narrowing "the distance to frontier" the most since 2005. The report also notes that despite some small developments, such as improving procedures in starting a business and paying taxes, Albania scores last out of 185 countries with the most difficult procedures in dealing with construction permits, cited as "a 'no practice' economy, with barriers preventing private builders from legally obtaining a building permit."

The country ranked relatively high in terms of protecting investors in reports in recent years, but lasting conflicts over outstanding mutual debts between the government and CEZ, an energy conglomerate based in the Czech Republic, which privatized energy distribution in Albania in 2009. The government finally revoked CEZ's license, an action that placed doubt on fair market procedures and state protection of investors' claims. Furthermore, the EU Country Progress Report for 2012 clearly notes that no particular developments have been registered toward the implementation of the amended law on the protection of foreign investors, regarding property ownership. In addition, the significant presence of an informal economy, estimated as 35% to 40% of the entire economy, emphasizes the country's limited progress toward a full market economy.

Structural progress has been made in the area of antitrust policies. In 2009, the government created a new unit to enforce mergers or enact fines on those that hamper market competition. During the same year, the government, as part of the EU Stabilization and Association Agreement obligations, introduced new rules on state aid for high-risk capital and for environmental protections, and amended as well previous legislation over state aid. The Albanian Competition Authority (ACA) in 2012 started an investigation into the market for bread as well as for security services; some penalties have been imposed for illegal price-fixing. Progress in this area has been accompanied with the initiation of preliminary investigations into potential abuses of dominant market positions in a range of sectors. Despite the progress, weak law enforcement is still a problem. The EU 2012 report states that "further efforts are

Anti-monopoly  
policy

8

required to safeguard the administrative capacity and the operational independence of the competition authorities.”

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. The European Union remains Albania’s main trade partner. Yet, the liberalization of trade is still low when taking into account neighboring countries. Despite several trade agreements, trade relations with other countries remains almost nonexistent.

Liberalization of  
foreign trade  
10

Following the collapse of widespread pyramid schemes in 1997 and the subsequent economic and political crisis, structural reforms in the banking sector, including the privatization of state-owned banks and the liberalization of the financial services sector, have been of paramount importance. At the time of writing, the banking sector is almost completely privatized, and the asset share of foreign-owned banks accounts for more than 90%.

Banking system  
7

According to the EU 2012 assessment, the Albanian banking sector remains well-capitalized and liquid. After a fall in the first half of 2011, the capital adequacy ratio has increased to the minimum required, at 15.6%.

The high level of non-performing loans, at 21.21% in 2012, however, is a serious cause for concern and reflects adversely on bank profitability. The limited integration of the country’s banks in world financial markets and the absence of an Albanian stock market has protected the banking industry from further negative effects of the global financial crisis. Nevertheless, the strong presence of Greek banks, which control three out of the 10 most important banks in the country, pose a challenge for the future of the financial sector.

The government has taken important steps to protect the banking sector from outside forces. One of the main measures is a decision to convert foreign bank branches into subsidiaries, subjecting them to local supervision. Also, the creation of a “bridge bank,” to support domestic banks that might be affected by the crisis, is a positive development. However, the tendency of the government to borrow from domestic banks as a last resort to finance the budget deficit does impose a high burden on the market, by limiting funds available for the private sector.

## 8 | Currency and Price Stability

The Bank of Albania (BoA) has been successful in keeping inflation within the target range of 2% to 4%, while in January 2012 inflation fell below targets. To protect the market from lower economic growth, the Central Bank has intervened continuously, cutting the interest rate to its lowest level of 4% in July 2012. Despite the country's policy of a floating foreign exchange rate, the lek has been relatively stable in recent years, remaining within a range of 2% against the euro.

Anti-inflation /  
forex policy

9

More problematic in the review period are concerns about government interference within the Central Bank's purview, although the bank's independence is sanctioned by law. The government's alleged controlling of bank activities could hamper the effectiveness of economic policies.

Albania avoided the direct effects of the 2008 global economic crisis, because of the close supervision of the banking sector and fiscal stimulus policies; Indeed it is the only country in southeastern Europe with growth rates over 3% in three subsequent years. However, growth has slowed, and the country's macroeconomic balance needs to be revised. In 2012, GDP growth reached 0.6%, the lowest rate in a decade.

Macrostability

7

The government has pursued an expanding fiscal policy, despite repeated advice from the IMF to limit expenses amid decreasing revenues. After the completion of the highly contested Durres-Kukes highway, largely criticized for being too expensive amid a strained budget and a general economic downturn, the government initiated plans in 2012 for a new Tirana-Elbasan highway, another project expected to weigh heavily on Albania's already contracted budget. Since the "divorce" with the IMF in early 2009, the Albanian government has largely financed its debts with expensive loans from domestic banks and Eurobonds, first released in 2010. Most public investments such as the highway projects have been financed with high-interest domestic and foreign debt, despite advice for keeping debts under control.

The target set by the government to achieve a 53% debt-to-GDP ratio in 2017, which will require a fiscal consolidation of 3.1% per year, stands in stark contrast to the average of a 4.6% budget deficit over the last four years. The IMF reported that in 2012, Albania "could breach the 60% statutory debt limit," a warning mark against high debt levels. The high ratio of public debt, when combined with the government's ambitious spending plans, raises concerns about the Albanian market's vulnerability to adverse shocks. Moreover, the government's habit of borrowing from the domestic market poses a burden on the private sector, by limiting funds and increasing lending costs.

## 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 the tourism sector as a whole. Political interests, widespread corruption, limited resources and weak institutions negatively influence the effective protection of property rights. Also, no progress has been noted in the field of industrial property rights. With a property registration process not completed, issues of the expropriation of land confiscated during the communist era yet to be solved, and weak law enforcement, Albania still struggles with property issues.

Property rights

7

The Albanian government has implemented a number of fiscal and legislative reforms to improve the business climate for foreign investors. This is in line with government's 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. In the Albanian context of weak governance and problematic institutions, however, general privatization has not resulted in the sufficient restructuring and improvement of economic performance.

Private enterprise

7

In 2010, the Albanian government announced a decision to privatize "everything," which substantially meant completing the privatization of the little that was left from communist-era companies, such as Albpetrol, the state oil producer and Insig, the state insurance company. The government was also committed to selling off the remaining portions of the state-owned power company, KESH. Nevertheless, the sale of public assets has not always been successful, considering recent problems between energy distributor CEZ and the government, which resulted in widespread energy cuts and CEZ's loss of its license. In addition, the auction of Albpetrol in 2012 was in the end unsuccessful, as the highest bidder, consortium Vetro Silk Road, failed to provide a letter of guaranty in conformance with required criteria. Additionally, government critics have opposed the policy of large-scale privatization in times of crisis, when prices tend to be low. The government's persistence in pursuing its privatization plans seems to be motivated by the need to finance the country's current account and budget deficit, already suffering from the contraction of remittances and low revenues.

## 10 | Welfare Regime

A public welfare system, including regulations over social policy and public institutions, is in place, although the government reportedly lacks the financial sources to support the system. Especially vulnerable minorities, such as the Roma community, lacks access to and is often excluded from social protection services, leading to the marginalization of this group.

Social safety nets  
6

The IMF has called upon the government to restore the sustainability of public finances and review the country's welfare system. Despite reminders, the government has continued with populist moves to increase public wages and pensions. Nevertheless, to implement successfully reforms on social assistance, funding needs to be sustainable. Indeed, the promised increases might not be supported by the budget in the near future, as GDP and state revenues are shrinking, not expanding.

A 2002 World Bank study found that most public employees in Albania purchased their state positions. Specifically, 60% of custom inspectors, 52% of tax inspectors, 43% of licensers of natural resources and 39% of judges paid money or exchanged favors to obtain their positions. This situation underlines the country's pervasive culture of corruption, which undermines any meaningful attempt at creating equal opportunities.

Equal opportunity  
6

Albania has been a signatory to most international agreements and has advanced national legislation ensuring equal opportunity. It still has not however ratified the U.N. Convention on the Rights of Persons with Disabilities and lacks a law protecting the disabled. A law on gender equality is in place. However, little progress can be reported in the area of equal opportunities between women and men. Weak law enforcement cannot solve the difficulties that women face in relation to employment, pay, and access to entrepreneurship opportunities and credits, resulting in low participation of women in the social and economic arena.

## 11 | Economic Performance

Albania has continued to record positive growth during the review period. After an average 3.3% GDP growth in 2009 – 2011, signs of a rapid deceleration have been observed, especially in the first half of 2012, with an output growth of 0.2%. However, the economy has recovered to some extent, recording GDP growth of 0.6% in 2012, according to the European Bank for Reconstruction and Development (EBRD).

Output strength  
6

Primary determinants of the economic slowdown are: a contraction in demand from Albania's main external partners, Greece and Italy; weak domestic demand and business confidence, mainly driven by weakening credit growth and the declining

remittances; and the difficulties that companies face in collecting government bills and VAT refunds.

Inflation fell below a target range of 3% (-/+ 1%) in the first months of 2012, pushing the central bank to cut the base interest rate to its lowest level in history, 4%. However, economists fear that a worsening of the euro crisis would further affect the fragile Albanian exchange market. The budget balance has continued to shrink, as tax revenues decline due to weaker credit growth and business confidence.

External financial crises, especially the Greek debt crisis, have the potential to seriously put Albania's economic situation at risk. Greece is home to more than half of Albania's 700,000 migrants, who provide 35% of total remittances and thus a substantial share of the country's GDP. In addition to falling remittances, the Greek crisis may influence unemployment rates, as many immigrants are facing serious difficulties in the Greek labor market and are returning to Albania. According to the EBRD 2012 Country Report "GDP growth in 2012 and 2013 is likely to be below the levels seen in recent years, and vulnerabilities will remain high as long as neighboring euro zone countries stay in difficulty."

The general contraction of demand from Western markets has seriously deteriorated the Albanian foreign trade balance. Problems such as high public debt and a high current account deficit, when combined with ambitious spending plans, lower levels of investment and remittances, poses serious challenges in the near future.

## 12 | Sustainability

Most environmental policies are spearheaded by international donors, while the state has offered little input in terms of policy initiatives and funds allocations. Initiatives, such as the United Nations Children's Fund (UNICEF) project to educate children about environmental issues, are likely to offer positive results in the long run. However, foreign initiatives have not been enough to generate comprehensive and sustainable policies. As a European Union assessment has shown, Albania has made limited progress in terms of adopting, monitoring and enforcing environmentally friendly policies. Administration capacity on environmental issues is very poor. Capacity building of public authorities and raising environmental awareness in the public at large are important steps to be taken.

A recent law allowing the import of garbage has raised concerns over weak law enforcement and the prevention of the potential rise of mafia-like organizations linked to illegal waste transport. Much depends also on inter-regional and inter-institutional coordination and collaboration, which is still at an early stage.

Environmental  
policy  
5

Albania inherited a relatively good educational infrastructure built during the former communist regime. The government's pledge to increase public expenditure on education has not been steady, however, with education's share of the budget decreasing from 3% in 2011 to 2.8% in 2012. The country's literacy rate is above the regional average, despite significant differences among urban and rural areas. Roma children have particularly low school enrollment rates. The EU 2012 report showed that the government has been successful in applying "a 'brain gain' system of bonuses for public administration employees who graduated abroad, which was suspended in 2011."

Education policy /  
R&D

5

Albania has weak research and development (R&D) capacities and policy provisions. Even the limited structures remaining from the former communist regime have since been lost because of a lack of resources and/or during the challenging decades of state transition. Despite a slight increase, budget allocations for R&D are still low, amounting in 2012 to 0.04% of GDP, a level similar to that of 2011. A lack of coordination between universities and industry, combined with a lack of scientific research institutions, make the situation even more problematic. The R&D sector has benefited from the opening of European Union funds and Albania's inclusion in the Seventh Framework Program (FP7), which has increased participation in research projects and increased the potential of exchange and learning. Low research capacity, however, has limited the degree to which these institutions could benefit from EU sources.

# Transformation Management

## I. Level of Difficulty

Structural constraints on political leaders and the system's capacity for change are mostly related to the legacy of the communist past, which has cast a long shadow on the country's democratic and market economy transition. In the early 1990s, Albania had accumulated a particular democratic deficit that did not promise well for the future rotation of power. The country's limited experience as an independent state; its lack of previous democratic experiences; its pattern of socioeconomic underdevelopment; its predominantly rural society; and the prevalence of divided elites and an authoritarian leadership all contributed to this deficit. However, the most difficult legacy to be struggled with was that of one of the more draconian communist constructs built between 1945 and 1991. Enver Hoxha, the architect of Albanian communism, created a uniquely totalitarian regime which destroyed through the application of harsh punishments all sources of political economic and social opposition. In the early 1990s, Albania was unique in Europe in its lack of domestic leaders, groups or organizations that could provide a vision and capacity to lead the country toward change. The regime would probably not have changed if it were not for the example of other communist regimes, and the general collapse of the economic system. Given the communists' determination to maintain the system intact and the destruction of all forms of dissidence, regime change was forced in the agenda through massive popular protests and at the cost of the devastation of what was left of state institutions and authority. In this sense, the country had to start almost from scratch, and it also had to start with no democratic agents. The evolution of post-communist governance has certainly highlighted the deep resilience of the authoritarian past in the difficult installation of a democracy and market economy.

Structural  
constraints

6

The development of civil society and its limited impact in transformation is also closely related to the legacy of the authoritarian past. Albanian communism was particularly harsh in the field of social control. Oppression of all forms of social resistance, a legal ban on independent organizations since at least 1956 and the many organizations created by the regime to transmit the party line created a mummified social space where the communist party and society were indistinguishable. Consequently, the idea and practice of civil society in Albania lacked the normative

Civil society  
traditions

7

attributes it gained in other post-communist countries as an important actor of regime change.

After communism, civil society had to be mobilized from scratch and that against a strong culture of diffidence against voluntary work that previously people were forced to perform by communist party organizations. Foreign assistance and donor support have contributed to the flourishing of NGOs and their increasing impact on citizens' lives, but organizations still have to develop both internal capacities and voluntary links to make them sustainable and better linked to the needs of society. Moreover, associations have still to assert their political autonomy against an increasing trend of politicization in which NGOs, much similar to the past, often serve as an auxiliary to party agendas rather than as autonomous actors.

Albania does not have any strong ethnic and/or religious conflicts that have fostered internal divisions or challenged the unity of the state and society, as it has elsewhere in the Balkans. The homogeneity of the population and the generally constructive cohabitation between various religious groups – an Islamic majority, Christian Orthodox and Roman Catholic communities – have prevented the emergence of irreconcilable identity cleavages. National unity, which became a unifying ideology since the creation of the post-Ottoman independent state in 1912, has helped to neutralize ethnic or religious tensions. Nevertheless, regional splits, clan structures and political polarization across the communist and anti-communist cleavage have established divisive lines.

Conflict intensity

3

## II. Management Performance

### 14 | Steering Capability

Since the end of communism, Albanian governments to the right and to the left politically have set priorities in line with the ultimate goal of European integration. Since the promise of EU membership in 2000, advancement of the country toward the European Union has become a common strategic priority of all relevant political actors and governments. This is among the few issues where Albanian politics overcomes its legacy of divisiveness and returns to the real issue at hand, the progress of reforms closely related to the EU integration project.

The unlikely coalition between the right PD party and leftist LSI party after the 2009 elections was loudly advertised as “the government of integration” and restated the promise of every prior government, to take the country a step further in the process of integration. The EU identification of 12 country priorities that must be addressed to achieve candidate status – the proper functioning of parliament, the adoption of

Question  
Score

Prioritization

6

enforced majority laws, appointments in key state institutions, electoral reform, improvements in the conduct of elections, public administration reform, judicial reform, success in the fight against corruption and in the fight against organized crime, addressing property issues, the reinforcement of human rights, and the proper treatment of detainees – have set forth a concrete agenda of reforms.

The start of campaigning for the parliamentary elections in 2013 has shown that all party programs and promises echo EU integration issues. Yet, the Albanian government has often used EU-related achievements for short-term electoral goals that are contrary to long-term strategic goals. The government's application for EU membership in April 2009 just ahead of June 2009 elections was intended to sell the application as a government achievement, which had instead resulted in an explicit and unique refusal – three times in a row – from the European Union. The resistance in dealing with clearly articulated EU demands, such as improvements in the conduct of elections and public administration or an improvement in the fight against corruption, also points to the subversion of EU integration goals in favor of short-term political and individual interests.

In Albania legal commitments and the implementation of laws may well be two different things. As EU annual monitoring reports mention in almost every issue, staff turnover and weakness in administrative capacity have affected the quality of state policies, while government implementation and enforcement abilities remain the weakest links of stated goals and priorities. The 2012 EU report noted some progress in the government's action plan in dealing with EU priorities, but has still criticized its implementation as insufficient to reward Albania with candidate status. The question remains whether Albania's democracy will move beyond the phase when democratic rules and institutions already embraced in legal codes are consolidated and implemented in good spirit.

Albanian political actors have been flexible in shaping and adopting their strategies to maintain power according to the circumstances that have arisen in different stages of the country's transition. Although much learning and adaptation has happened at the level of individual personalities and political parties, one can hardly say that much has changed at the level of government and state institutions. The permanent instability of administrative staff has deprived institutions of learning and the accumulation of expertise which characterizes a modern state organization. The individual's and the party's adaptation to new circumstances, moreover, is not always a positive process of internalizing democratic institutions, but more a process of adopting to the vocabulary of constitutional principles and democracy while learning the other way around and circumventing them in practice. During local elections in May 2011, for example, Albanians often heard from their political leaders that they have only one guide, which is constitutional principles and judiciary independence, even though the ODIHR noted that "the two largest parties did not discharge their

Implementation  
6

Policy learning  
5

electoral duties in a responsible manner, negatively affecting the administration of elections.”

## 15 | Resource Efficiency

The country lags considerably behind in terms of developing a professional and efficient state bureaucracy. Since the fall of communism, all governing parties have commonly perceived the state as a piece of property that can be distributed to supporters or used as an employment agency. This has inhibited any meaningful progress toward ensuring the efficient use of administrative personnel and budgetary resources or establishing a career management system. The civil service law, adopted in 1999, and the necessary bylaws adopted in 2000 has introduced new devices for managing core civil servants, in line with the principles of meritocracy, political independence, stability and professionalism. This however has not been realized. Every political turnover signifies a substantial reshuffling of all layers of government administration. A 2006 parliamentary report on an investigation into administrative hiring and firing disclosed that within one year following the election of a new majority party, almost 50% of public employees were replaced with those loyal to the new party, most of whom had neither adequate education nor experience for their respective jobs. A later report showed that out of 150 diplomatic appointments from 2005 to 2010, 100 appointments were made contrary to the law on diplomatic service. The high administrative turnover has cost the state not only the resources spent on the preparation of dismissed individuals but also double salaries for many positions where the Civil Service Commission has found a replacement unjustified. In general, frequent personnel replacement has undermined the efficient use of human as well as financial and organizational resources. The 2012 EU monitoring report clearly states that “the civil service continues to suffer from shortcomings related to politicization and a lack of meritocracy in recruitment, promotion and dismissal of civil servants.”

The preparation and implementation of the state budget is not transparent and rarely involves the cooperation of any interest groups. Parliamentary debates over the budget are generally conflict laden, where the government typically “sells” its budget as one of “integration” whereas the opposition criticizes it as a budget of crisis; while nothing happens to improve the actual material of the budget itself.

Intra-governmental friction and competition are limited. The strong political profile of Prime Minister Sali Berisha, who as the leader of the governing majority and also historical leader of PD ensures a kind of controlled but also personalized rule. Most government initiatives tend to come from the office of the prime minister. Ministers in the cabinet are part of the prime minister’s loyal circle, and sometime have little to no party contribution or experience. Replacements in key state institutions reinforce this pattern of control. Although the style of Berisha’s leadership has facilitated a sort of informal policy coordination between different ministries and

Efficient use of  
assets

4

Policy  
coordination

6

policy sectors, it has also worked to sideline institutional mechanisms for coordination and resolution of institutional conflicts.

Corruption has plagued Albania's political transition at least since the collapse of state structures and the subsequent authority vacuum in 1997. One recent case revealed through media reports involved communications between a Pakistani businessman and the law office of the daughter of Prime Minister Berisha, Argita Malltezi; the connection was initially mediated by the Albanian ambassador to Saudi Arabia. Emails and later interviews revealed that Malltezi's firm advised the businessman, Zafar Ansar, over his application for the building of a power plant, in return for 1.4% to 3% of the project's investment amount; the law office also "mediated" the sale of an expensive piece of land for the project. Ansar claimed that the application ran into problems only once he found out how expensive the company's services were. When the emails were publically disclosed, Ansar reported heavy pressure from the Albanian ambassador, Admir Banji, to sue the journalist who published the emails; what's more, Banji had Ansar removed as honorary counsel of Albania in Pakistan and he himself was removed soon after.

Anti-corruption  
policy  
4

The existence of weak state institutions and a fuzzy system of checks and balances have not helped solve issues of corruption, despite rising public attention to the matter, substantial donor funds toward the cause and the government's promise to tackle the issue. The PD government, which came to power on an anti-corruption platform, aims to revise and improve the state's institutional framework – including the restriction of immunity for high-level officials and judges, inter-institutional cooperation and the exchange of information and prosecution of low- and medium-level cases. Yet an EU 2012 assessment still maintained that "corruption is relevant and continues to be a particularly serious problem." What makes corruption even more problematic is its relation with state institutions and high-level political personalities. The so-called state capture arguably involves a vicious circle, which brings together prominent politicians, state officials, a weak judiciary and strong networks of organized crime. At the time of writing there is no record of the prosecution and conviction of any high-level state official, even in the face of evidence that has been provided by the prosecutor's office in the few cases that have been investigated.

## 16 | Consensus-Building

The goals of democracy and a market economy enjoy the support of all relevant social and political groups, as well as of determinant parts of the population. In this sense, the country shares a broad consensus on democracy as a long-term strategic goal and the most desirable system of governance for the country.

Consensus on goals  
8

All political parties, at least rhetorically, claim allegiance to the democratic constitutional framework and the long-term goal of democracy and market economy.

Yet, most political actors are haunted by the communist past. The socialists are often seen as the direct successors of the former communists, to the extent that they have inherited some of the former communist leaders and most of the party organization. The democrats also include a range of high-level politicians with close ties to the former regime, including in the higher echelons of the party. Pictures revealed by the media, which feature the fierce anti-communist leader of the PD, Sali Berisha, sharing family holidays with the family of communist dictator Enver Hoxha, years before Berisha emerged as a democratic leader, remind of the invisible links of the past that pull the strings of the most important political groups and personalities.

Young “reformers,” or political actors with no links to the communist past, have infiltrated most political groups, especially because of their special role in the events that led to the collapse of the former communist regime. Yet these actors are still in a weak position and are often unable to push forward a new democratic vision, in a context where the main parties are captured by “the old guard,” politicians who still control who enters or succeeds in the system. In this sense, Albania has still to develop a political class, clean of the communist past, able to exclude or co-opt those associated with the past instead of simply sitting inactive while the older guard holds on to power.

Anti-democratic  
actors

7

Political leadership in Albania, divided into two rigid camps, democrats and socialists, has been the beneficiary and effective manager of new divisions rather than a moderator of existing conflicts. Conflictual politics centered on the anti-communist/former communist cleavage have deepened divisions not only between political forces but also among regions, cities, communities and institutions. The political parties have fueled this division as an effective strategy to strengthen and distinguish their supporter base. PD leaders, who hail mostly from the north of the country, stress their anti-communist program which appeals to northerners who were especially repressed by the former regime. The socialists, whose main leaders come from the south, tend to appeal to the southern regions which were the main power base of the former communist party. These divisions are also reflected in employment in central and local administrations, with most positions filled with anti-communist individuals from the north when the PD is in power, and with supporters from the south when the PS controls the majority. The parties’ strong clientelistic strategies when it comes to employment in state administration have furthered existing regional divisions and cleavages. Another important division in society is the rural/urban cleavage. Contrary from the situation a decade ago, the PS is stronger in urban areas (the PS controls most of the larger cities) and the PD is stronger in rural areas, which tend to be more conservative (the PD controls more rural areas).

Cleavage /  
conflict  
management

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The reshuffling of the PS leadership has contributed to the party’s future-oriented message of rebirth, or a new politics and economy, while the PD sticks to its polarizing anti-communist-versus-communist rhetoric. All PD leaders tend to emphasize their role as the torchbearers of anti-communism, democracy and

European integration while denigrating their rival party as communists or “children of communists,” responsible for the dictatorship created by their “fathers.” This has indeed been the populist call for the PD over the last two decades, but has however prevented a real assessment of the PD’s actual democratic credentials.

Civil society is in principle free to participate in all steps of policymaking and policy implementation. Since 2010, the government has established a separate agency for support of civil society and allocated a small portion of the budget toward NGO support. Although the allocation of state funds is a welcome development, the agency has been randomly criticized for financing organizations close to the government and risks degenerating into a tool of political control. Moreover, many civil society leaders are closely entrenched in the political system, having held and/or competed for political positions. The weak civic tradition inherited from the past, political influence, and heavy dependence on foreign funds have further molded a particular type of civic action that is concentrated in the capital; closely related to politics, and tailored to serve their financiers’ set of priorities rather than society’s concerns.

Civil society  
participation  
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The legal and institutional bases encourages civil society’s participation in political processes, but its weak capacities, current shifting of personnel between politics and civil society positions and active political intervention to co-opt various groups with the agenda of the political parties have undermined the independent role of a good part of civil society. Most leaders and board members of civil society groups have implicit and sometimes explicit affiliations with political parties. The running of distinguished civil society leaders alongside one of the main political parties in the last two parliamentary elections confirmed an increasing trend of politicization across the emerging civil society. The shrinking of foreign funds, which have so far furnished and maintained a significant share of Albanian NGOs, have increased the need of NGOs to seek alliances with one of the political parties as the only strategy of survival. Parties need NGOs to increase public support and legitimacy on the one hand; while NGOs need political parties as a source of links and funds on the other.

Dealing with the crimes of the former communist regime still remain taboo more than 20 years after the fall of that regime. Short-term political interests and the links of political leaders to the past have harmed all major initiatives to legalize some form of transitional justice and reconciliation of past injustices. The first lustration law of 1995 was adopted by the PD majority a few months before the 1996 elections, and was effectively used to damage the electoral chances of the PS, banning from the elections seven out of 12 members of the board and one-fourth of its members of parliament, rather than ensure a transparent and thorough judicial process. Academic publications have shown that imprecise provisions and political discretions allowed the institution in charge of the verification procedures to conduct a politically biased process of screening, and saved from such procedures all members of the PD, even when their past affiliations were public knowledge.

Reconciliation  
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The socialists, for their part, once in power amended the law and eased both categories and screening procedures to establish association with the crimes of the past, to the extent that the law was not of use any more. The most recent initiative to “tackle the past” was in 2008, again unilaterally adopted by a PD majority, and widely perceived as an effort to stymie the public prosecutor, who was investigating a series of high-level corruption cases allegedly involving acting ministers. The opinion of the Venice Commission that the law infringed on a range of constitutional rights and guarantees informed the Constitutional Court’s decision to rule it unconstitutional, but this still did not stop the PD from using unsubstantiated connections to the past regime as informal criteria to judge state officials. The public is left with the strong feeling that the country lacks both the political forces and independent institutions to deal with the intricate crimes and invisible links that keep the country hostage to its past.

## 17 | International Cooperation

From the beginning of transition, Albanians have adopted an outward-oriented policy vision motivated by the need for economic and technical assistance, as well as the desire to be integrated in the larger European community. Consequently, the country has managed to attract substantial levels of foreign assistance, with the European Union being the biggest donor, both alone and as an aggregate of EU countries. International intervention has gained a new intensity after the collapse of the state in 1997, whereas various international structures are engaged even in sensitive political issues, such as the mediation of political conflicts, the monitoring of electoral competitions and the setting of reform priorities. As one prominent Albanian politician, Genc Ruli, admitted, “[after 1997] not a single problem has been solved without the intermediation, supervision and intervention of various structures of the international community.”

After the EU’s framing of a new enlargement policy for all Balkan countries left out of the previous wave of enlargement in 2000, there is a growing tendency to visualize EU integration and the related Stabilization and Association Process as the motor behind much-needed reforms. The process envisages new instruments to assist, control and monitor overall reform, turning into the main framework around which domestic achievements and challenges are decided. The European Union and other bilateral and multilateral actors involved have aided and safeguarded processes of transition, but external intervention has also created a culture of dependency whereas international groups typically enjoy higher credibility than domestic referees, and are expected to have the final word on major issues facing the country. Moreover, as an independent report assesses, the uncoordinated and diplomatic critiques of international groups have created space “for political maneuvering and are easily abused by Albanian politicians.” The Albanian public and opposition parties have been strongly disappointed that international safeguards did not deliver especially on

Effective use of  
support

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critical issues such as the conduct of elections, investigations into government misdoings and the increased political control of independent institutions.

The technocratic approach to the process of European integration, which originates mainly from Brussels, seems to have consolidated non-democratic proceduralism rather than democratic functionalism. Focusing more on passing legislation rather than on its implementation, this approach has contributed negatively, shifting the focus on the legislative process rather than on the Albanian political reality and its problems.

Albanian political actors commonly rely on international assessments, ratings and declarations – even photo ops with members of international community – to gain legitimacy for their policies and programs. Politicians are particularly inclined to agree to all international initiatives, especially when initiatives are coupled with funding and assistance. Yet the country’s political dynamics show there is a huge credibility gap between the government’s rhetorical commitments and follow-through of commitments in practice, making Albania’s government a hardly credible or reliable international partner. An illustrative example is the political obstruction of 2011 local elections; a case reiterated by all international actors as a main priority and rhetorically echoed by the government as a target priority. Even if international groups shared serious doubts about the correctness of electoral institutions’ decisions, they were confronted with the challenge to respect de facto governmental interference, for what proved to be only legally and rhetorically independent institutions.

Credibility

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Albania is considered a champion of regional integration, an essential part of the EU enlargement process. The EU 2012 assessment states that, “Albania continued to act as a constructive partner in the region, further developing bilateral relations with other enlargement countries and neighboring EU states.” Albania has taken an active part in regional initiatives and structures, including bilateral cooperation agreements on areas such as legal assistance in civil and criminal matters, the fight against crime, and trafficking, migration and border management as well as economic and investment development. The country has good relations with all neighboring countries, including EU member states Greece and Italy. It has taken a constructive approach in the conflict over Kosovo independence by supporting Kosovo but also keeping good relations with Serbia. The Albanian constructive approach regarding regional cooperation looks impressive, especially when compared to ethnic divisions and conflicts which have haunted the region after the collapse of communism. Yet the upcoming 100th anniversary of the Albanian state and start of the electoral campaign have sparked new nationalist and pan-Albanian rhetoric among political parties, although they are for the time being confined to populist arguments tailored for internal consumption rather than concrete policy ideas and projects.

Regional  
cooperation

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## Strategic Outlook

The outlook for Albanian democracy can be summarized by a story recently circulated in the Albanian press. In recent years, Norwegian magazines had published stories comparing the quick rebuilding of Albania's system of roads with the slow process experienced in Norway. These stories created a myth that Albanian infrastructure was built faster, and functioned better, than Norwegian infrastructure. Norwegians and Albanians would have believed the myth had not two journalists visited Albania to verify the reports on the ground. Upon their arrival, they discovered that Albanian highways were built really quickly, but they also faced many problems immediately afterwards. The roads also were not well-maintained and were risky for drivers.

The same conclusions can be applied to Albania's story of democratization and pursuit of a market economy, and to the many incomplete external evaluations of reform. Albanians have been quick to create, change and improve democracy's formal institutional bases. Successive Albanian governments have taken credit for reshuffling and advancing the country's institutional framework. This has been applauded by international organizations, though their view was often only focused on the short-term and a one-off evaluations of reform. Few international actors actually examined how reforms were 'maintained' and with what results. Independent institutions' disputed decisions and a lack of legal reasoning over major political issues such as elections, corruption and office abuse have showed the de facto poor functioning of the institutional separation of powers. The disputed placement of cabinet representatives amid key institutions shows an increasing pattern of state capture from the ruling majority.

This trend is problematic when taking into account that Albania has entered an electoral year with a contest in the summer of 2013. In the context of the winner-takes-all political game, elections determine all other political and economic imperatives and will be the most important singular event for the next five years. Given that the country has a problematic record of elections, especially due to political interference that has increased during the review period, one can rightly wonder about the fate of forthcoming elections. International actors' preference to maintain a low profile over issues of political control and the use and subversion of institutions noticed so far, fail to decisively support the conduct of free and fair elections. Vague progress evaluations have given ample space to political actors to interpret them at will and have not promoted a clear analysis and neutral assessment of what is wrong with Albanian democracy, who is responsible, and what dangers lay ahead.

Economically, Albania's dependence on remittances and capital flows in the form of foreign direct investment increases its vulnerability to adverse shocks from outside. Both sources of income declined following the Greek economic and political crisis. The Albanian government should pursue public policies that regulate the public debt and diversify trade terms while strengthening the current weak appeal of Albanian exports in the European market. Special attention should be paid in promoting domestic investments and attracting international investors willing to invest not

only in non-tradable goods, such as banking and communications, but also in enhancing technology, new operational facilities and gross fixed capital formation. Moreover, the government should consider the increased difficulties for Albanian migrants in Western labor markets and prepare to welcome those willing to return home with adequate employment policies. An indispensable aspect of improving and restructuring the economy is to solve the persistent problem of land insecurity, high corruption, a weak judiciary and rule of law. Last but not least, Albanian government should improve further economic statistics, particularly those with direct regard on policy design and evaluation.