

An Overview of Albanian Transition Economy after 1992: Focusing on the main Problems and Future Challenges

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要 旨

本稿は、アルバニアの1990年から2005年までの期間の政治情勢と移行経済期における歴史に関する研究である。本稿は、アルバニアの社会主義と資本主義の様相を明らかにするものであるが、同時に、アルバニアの市場の経済への移行、欧州連合（EU）への加盟に向けた動きと今後の課題を示す。さらに、最近の経済情勢や経済安定への施策、アルバニアの問題点と将来への挑戦を明らかにする。

Keywords: Albania, market economy, integration.

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Introduction

This paper tells the story of the Albanian transition economy. It will present in general the collapse of communism system, political situation after 1990 as well as steps of Albania toward the market economy. It will show in detail regional cooperation of Albania and its steps toward the European integration. Also it will give a general overview of macroeconomic and economic developments. At last, the main problems and future challenges for Albania will be treated.

I. An Overview of Political Situation during 1990-2005

After Hoxha¹'s death in April 11th 1985, Alia² took his place. When Alia took over the position of the first secretary of the APL³, the country was in grave difficulty. Political apathy and cynicism were pervasive, with large segments of the population having rejected the government's values. The economy, which suffered from low productivity and permanent shortages of the most basic foodstuffs, showed no sign of improvement. Social controls and self-discipline had eroded. The intelligentsia⁴ was beginning to resist strict party controls and to criticize the government's failure to observe international standards of human rights. Recognizing the depth and extent of the societal malaise apparently, Alia cautiously and slowly began to make changes in various systems. His first target was the economic system. In an effort to improve economic efficiency, Alia introduced some economic decentralization and price reform in specific sectors. Although these changes marked a departure from the Hoxha government, they did not signify a fundamental reform of the economic system. Alia did not relax censorship, but he did allow public discussions of Albania's societal problems and encouraged debates among writers and artists on cultural issues. In response to international criticism of Albania's record on human rights, the new leadership loosened some political controls and ceased to apply repression on a mass scale. In 1986 and 1989, general amnesties brought about the release of many long-term prisoners. Alia also took steps to establish better ties with the outside world, strengthening relations with Greece, Italy, Turkey, and Yugoslavia. A loosening of restrictions on travel and tourism resulted in a more promising outlook for Albania's tourist trade. Not everyone, however, was happy with Alia's cautious program of reform⁵. The entrenched party bureaucrats were worried that they would lose their powers and privileges and hence resisted many of the changes. Thus Alia's government was not able, or willing, to attempt changes that would put an end to the repressive elements of the systems. Despite Alia's efforts to proceed with change

on a limited, cautious basis, reform from above threatened to turn into reform from below, largely because of the increasing load demands of Albania's youth. On December 9, 1990, student demonstrators marched from the Enver Hoxha University (now University of Tirana) at Tirana through the streets of the capital shouting slogans and demanding an end to dictatorship⁶. By December 11, the number of participants had reached almost 3,000. In an effort to quell the student unrest, which had led to clashes with riot police, Alia talked with the students and agreed to take further steps toward democratization⁷. The students informed Alia that they wanted to create an independent political organization of students and youth. Alia's response was that such an organization had to be registered with the Ministry of Justice.

At the end of 1990, as many as 5,000 Albanians crossed over the mountainous border into Greece. Young people were motivated by economic dissatisfaction made up the bulk of the refugees.

The totalitarian regime was pressured by the US and Europe and the hate of its own people. After Nicolae Ceausescu (the communist leader of Romania) was executed in a revolution, Alia learned that he would be next if changes were not made. He signed the Helsinki Agreement (which was signed by other countries in 1975) that respected some human rights⁸. He allowed pluralism under the enormous pressure from students and workers. Under Alia's regime, the first pluralist elections organized since communist assume power in Albania. Alia's party won the election of 1991 through massive fraud and violence⁹. Nevertheless, it was clear that the change would not be stopped.

Between 1990 and 1992 Albania put an end to 46 years of xenophobic Communist rule and established a multiparty democracy. The transition proved to be difficult, as successive governments tried to deal with high level of unemployment, widespread corruption, a dilapidated infrastructure and powerful organized crime networks with links to government officials, and disruptive political opponents. Albania has made incremental progress in its democratic development since the first multiparty elections in 1991, but deficiencies remained particularly in regard to the rule of law¹⁰.

In 1992 Communists were trumped by the Democratic Party in national elections. The change from dictatorship to democracy had many challenges. The Democratic party had to implement the reforms it had promised, but they were either too slow or didn't solve the problems. So the people were disappointed from their hopes for fast prosperity. In the general elections of June 1996 the Democratic Party tried to win an absolute majority and manipulated the results¹¹. This government collapsed in 1997 in the wake of the additional collapse of pyramid schemes, which caused anarchy and rebellion throughout the country.

Despite some lingering problems, international observers judged the elections to be largely free and fair since the restoration of political stability following the collapse of pyramid schemes in 1997.

The general election of June 1997 brought the Socialists and their allies to power. President Berisha¹² resigned from his post, and Socialists elected Rexhep Meidani¹³ as the President of the Republic. Albanian Socialist Party Chairman Fatos Nano¹⁴ was elected Prime Minister, a post which he held until October 1998 when he resigned as a result of the tense situation created in the country after the assassination of a prominent leader of the Democratic Party, Azem Hajdari¹⁵. Pandeli Majko¹⁶ was then elected Prime Minister, and he served in this post until November 1999 when he was replaced by Ilir Meta¹⁷. Albania approved its constitution through a popular referendum which was held in November 1998, but which was boycotted by the opposition. However, the constitution was approved. The general local elections of October 2000 marked the loss of control of the Democrats over the local governments and a victory of the Socialists.

Although Albania made strides toward democratic reform and maintained the rule of law, serious deficiencies in the electoral code remained to be addressed, as demonstrated in the June 2001 parliamentary elections. International observers judged the 2001 elections to be acceptable, but the Union for Victory Coalition, the second-largest vote recipient, disputed the results and boycotted parliament until January 31, 2002. The Socialists re-elected Ilir Meta as Prime Minister in August 2001, a post which he held till February 2002 when he resigned due to party infighting. Pandeli Majko was re-elected Prime Minister in February 2002.

In the 2005 general election the Democratic Party and its allies won a decisive victory on pledges of reducing crime and corruption, promoting economic growth, and decreasing the size of government.

Although Albania's economy is still continuing to grow, the country is yet one of the poorest in Europe, hampered by a large informal economy and an inadequate energy and transportation infrastructure. Albania has played a largely helpful role in managing inter-ethnic tensions in southeastern Europe, and is continuing to work toward joining NATO and the EU.

II. Steps toward the Market Economy

1. A short Story of Transition Economy

Albania was the last of the central and eastern European countries to embark upon democratic and free

market reforms. Further, Albania started from a comparatively disadvantaged position, due to Hoxha's catastrophic economic policies. Transition from a centrally planned economy to a market orientated system has been so difficult for Albania as the Communist period.

The democratically elected government that took office in April 1992 launched an ambitious economic reform program meant to halt economic deterioration and put the country on the path toward a market economy. Key elements included price and exchange system liberalization, fiscal consolidation, monetary restraint, and a firm income policy. These were complemented by a comprehensive package of structural reforms, including privatization, enterprise and financial sector reform, and creation of the legal framework for a market economy and private sector activity.

Results of Albania's efforts were initially encouraging. Led by the agricultural sector, real GDP grew, and Albania's currency, the Lek, was stabilized. The speed and vigor of private entrepreneurial response to Albania's opening and liberalization was better than expected. Beginning in 1995, however, progress stalled. The collapse of the infamous pyramid schemes of the 1990s and the instability that followed were a tremendous setback, from which Albania's economy had to recover¹⁸.

Despite disruption in production caused by energy shortages, real GDP growth in 2001 was estimated to have reached the target of 7.3%. The level was broadly in line with the growth registered in the previous three years (average of 7-8% GDP growth). However GDP per capita is one of the lowest in Europe (around 1,850 USD)¹⁹ and the overall impact of economic growth have been limited on the poorest layers of population. As in 2000, construction and services mainly contributed to the increase, which expected growth rates of respectively 17% and 12%. Industrial production was estimated to have grown at a satisfactory rate, around 6%. Agriculture, which still accounts for slightly more than 50% of Albania's GDP, has grown by around 3.5%. More generally, it is admitted that growth estimates were not fully reliable, since official statistics did not exist yet, and the official figures provide inadequate coverage of private sector activity²⁰.

Within recent years, the Albanian economy has improved, although infrastructure development and major reforms in areas such as tax collection, property laws, and banking are proceeding slowly. Between 1998-2002, Albania experienced an average 6.2% annual growth in GNP. Fiscal and monetary discipline kept inflation relatively low, averaging roughly 4.2% per year between 2001-2003. Albania's public debt reached 67% of GDP in 2002, and the growing trade deficit was estimated at 22% of GDP in 2002. Economic reform was also hampered by Albania's very large informal economy, which the IMF estimated to be almost 50% of GDP²¹.

2. Structural Reforms

Structural reforms in Albania advanced significantly since 1990s²². In the three years following the launching of structural reforms (1993-96), the Albanian economy grew at around 9% annually. This was largely due to the broad dismantling of price and the trade controls, the privatization improvement and distribution of small agricultural retail and enterprises. Immediately after the 1997 collapse, a new banking law was passed and a privatization strategy was developed²³. Since then, trade has been liberalized, the privatization of small and medium enterprises has been completed, and there are only a few enterprises in the service sector that need to be privatized.

a) Banking Reforms.

The authorities of Albania pursued a financial sector policy designed to give strength to and increase confidence in the banking sector. This included limiting the growth of intermediation by preventing lending by the Saving Bank, which accounted more than 50% of the banking sector. More recently, lending to the private sector increased, with a low level of non-performing loans (credit to the economy for the first six months of 2004 was 7.4%, compared to 6.8% in 2003)²⁴. Other major banks were also expected to pursue more aggressive lending activities and new product development. In addition to the banks, lending through microfinance institutions and 130 Savings and Credit Associations began to be effective in serving those segments of the population that did not have easy access to bank financing. Albania now boasts a healthy, 100% privately owned, competitive banking sector poised to provide improved services to businesses and households²⁵.

In parallel with these developments, the Bank of Albania pursued significant structural reforms aiming at consolidating the financial sector. It substantially strengthened its supervisory capacity through the implementation of a more risk-based supervision process. A deposit Insurance Agency was established and is functioning properly²⁶. Substantial progress has been made in improving the payments system. The new inter-bank settlement system for large payments has been fully operational since January 2004 and the fully automated bulk clearing system that was completed by mid-2005²⁷. Other efforts are underway to strengthen the legal framework on insolvency and bankruptcy procedures. A collateral registry for movable property has been functioning well for over three years.

b) Privatization Process

The economic crisis was not a characteristic only of Albania in early 1990, but also of all the Eastern and Central European countries, which had already taken the political decision of changing the system. Statistics like 44% decrease in the industrial production, 30% unemployment rate, and 237% inflation rate in 1992 were recorded only in Albania, which would experience the most difficult transition period. Such a situation brought the necessity of an accelerated reform, the most important part of which should be the property transformation through the privatization process. These enterprises called “industrial gigantic enterprises” like the metallurgical enterprise, petroleum and mining enterprises, chemicals enterprise and almost all the economic sectors were going through difficult moments, for improper production structures, over employment and having overproduction, while the market was in a miserable state lacking even the basic goods for living necessities. The economic change in Albania started with the “simple to implement” reforms like liberalization of prices, liberalization of foreign trade and exchange rate, privatization of small service and production of units etc. The legal foundation of grounds that supported the process of privatization was “The Sanctioning and Protection of Private Property, Free Initiative, Private Independent Activities and Privatization Act”²⁸. The approval of this Act, which had the consensus of the first Albanian plural political parties parliament, opened the path to a very fast privatization of the small units, shops, fishing facilities, vehicles and machinery, mostly of which were privatized through sale to employees who were working there before²⁹.

Privatization of the majority of small units opened the way to the implementation of privatization program of small, medium and big size enterprises. This program was massively implemented during 1993-1995 through the auction method in accordance with the decision of privatization boards set up in all the districts of the country. In the cases of the first right of purchase for the ex-owners of the land on which the object was build or in the cases of selling the machinery to the employees using it. During 1993-1995, 8,967 objects were privatized through these methods. They were small enterprises, production lines or parts of big enterprises. Eighteen point five percent (18.5%) of these objects were privatized through the auction method, while thirty seven point five (37.5%) were privatized by employees, twenty one (21%) by ex-owners of the land and the rest by Albanian citizens and a very few by foreigners. The conclusion was that most of the small and medium objects were privatized, but the auction method could not be successfully used for the privatization

of big and gigantic enterprises in the conditions of:

- a) *very low savings level of the population in the country, because of pyramid schemes blooming and;*
- b) *the absence of participation of foreign investors in the privatization process.*

Under the influence of the quickness criteria as the main criteria of the privatization process, at the beginning of 1995 efforts started to compile a new privatization program, i.e. the mass privatization program. The basic principle of this method was the privatization in favor of those who had contributed to the foundation of state property, but not claiming allocation of property to the best owner³⁰.

About one million and hundred thousand (1,100,000) citizens over eighteen years old would have profited seventy four million (74,000,000) Lek of the privatization bono (a certificate of compensation for the privatization). They invested these bono to privatize different enterprises transformed into joint-stock companies. The ex-political prisoners who could not use their privatization money had a chance to use this money to buy shares of the enterprises to be purchased. There were ninety-seven enterprises, mainly big one that became object of privatization through this program, seventeen of which were partly privatized. The creation of the stock market brought about the necessity to set up the stock exchange in Tirana, which was inaugurated in May of 1996³¹.

Without sufficient preparation of enterprises for privatization, sufficient sensitization of the population for this type of privatization, concordance between the demand and offer for shares in the market, weak economic-financial indicators of enterprises involved in this program were some of the weak points of the mass privatization program, which did not have necessary economic impact. Moreover, lack of investment funds participation in this privatization process like intermediary financial institutions, which would improve the structure of property by concentrating it in a few specialized hands, had a negative impact on the results of this program.

The process of privatization was developed under the “Sanction and Protection of Private Property, Free Initiative and Privatization Act” enacted in August 10th, 1991³². This Act was considered liberal, because it allowed enough room for the regulation of privatization process through the Government’s decision. But it is very broad, because it included many aspects of market economy, and the privatization was only one part of this Act. It defined the National Agency of Privatization (NAP) as the central institution responsible to transfer state property into private property. NAP sets the rules and procedures for the privatization up to the

total transfer of ownership. A critical point in this Act was the existence of many difficulties for the foreigners to participate in Albanian privatization process. This was corrected only partially by the “For some changes in Act No.7512 Act”³³, dated 23.12.1992. Only five years later, the Decree No.1632³⁴, dated 1.11.1996 “For some amendments of Act No.7512” and the No.8159, “For approving with changes of decree No.1632 Act”³⁵, allowed definitely foreigners to rent real estates and state properties through different privatization methods, including Mass Privatization. Act No.8159, dated 7.11.1996, defined the Ministry of Privatization as the leading institution for the privatization process and the NAP was independent of the Ministry of Privatization³⁶.

Whereas privatization of small and medium-sized enterprises has been completed, large-scale privatization has suffered delays. Political uncertainty and a low level of interest for strategic investors have contributed to these delays. In this context, the privatization of the Savings Bank in 2004 constitutes a major step forward. What remains on the agenda of enterprise privatization and restructuring essentially concerns large utilities. Albania’s overall policy is first, to restructure and, only thereafter, to privatize state-owned companies³⁷.

3. Pyramid Schemes

The pyramid scheme phenomenon in Albania was important because its scale with regard to the size of economy as whole was unprecedented, and because the political and social consequences of the collapse of the pyramid schemes were profound. At their peak, the nominal value of the pyramid schemes’ liabilities amounted to almost half of the country’s GDP. When the schemes collapsed, there was uncontained rioting, the government fell, and the country descended into anarchy and a quasi civil war occurred in which some 2.000 people were killed.

As mentioned above, Albania started the transition process from central planning as the most isolated, most undeveloped and poorest country in Europe. The result was that when transition eventually began, in 1991, the country reduced to desperate poverty and the vast bulk of the population was completely unfamiliar to market institutions or practices. Albania’s progress during the early transition years was impressive. The impressive macroeconomic performance reflected in large part wholesale dismantling of controls; early privatization of agriculture, retail trade, and small and medium enterprises; and improvement of financial discipline at the budgetary and state enterprise levels.

However, by early 1996 it was clear that many problems had not been solved, and the others were reemerging. Structural reform had stalled, especially in the critical area of banking³⁸.

One of the most important reasons for the growth of the pyramid scheme phenomenon was the inadequacy of the formal financial system. The three state banks that dominated the deposit-taking market (holding over 90% of deposits) were not reliable intermediaries of savings, and private banks were late to emerge and not particularly interested in attracting domestic currency deposits, paying their attention mostly to trade financing. The problem in the state banks was not low interest rates: to ensure that depositors were offered interest rates that are positive in real terms, the bank of Albania set minimum interest rates on time deposits, and from mid-1993 onward these were consistently above the prevailing rate of inflation. However, the payment system was seriously inadequate. In September 1996, the average completion time for payment transaction between accounts at different branches of the same state-owned bank required 5-6 days, and the completion time when the transaction involved accounts at different state-owned banks eventually exceeded 15 days³⁹. As a result of these problems, and of a general distrust of the banks, the public tended to hold an unusually high proportion of their financial assets in cash and was on the lookout for alternative investment opportunities.

On the lending side, the banks' problem was even worse, leading to the emergence of an informal credit market⁴⁰. Banking supervision and regulation was rudimentary, and this, combined with a culture under which loans from state banks were often regarded by borrowers as gifts, led to a growing bad loan problem. By the end of 1994, 27% of loans made since June 1992 when the state banks began operations, were nonperforming. By the end of 1995, in two of three state-owned banks, overdue loans accounted for almost half of total outstanding loans⁴¹. In response to the banks' poor credit evaluation and loan collection, the Bank of Albania imposed bank-by-bank credit ceilings. These were set at levels that were well below what the banks wanted and insufficient to meet the demands for credit to the private sector at prevailing interest rates. The defective banking system made Bank of Albania's measures sensible and, necessary indeed. As a result, however, was that businesses increasingly turned for credit to the informal credit market, which had been flourishing in Albania since the transition began and it was generally tolerated by the authorities⁴².

Two events set out the stage of the pyramid scheme-mania of late 1996:

1) the suspension of UN (United Nations) sanctions against the former Socialist Federal Republic of

Yugoslavia (SFRY)⁴³ in December 1995 and;

2) the campaign and outcome of the Albanian parliamentary elections of May 1996.

It was an open secret that throughout the period of UN sanctions, oil and many other goods were being smuggled through Albania to SFRY⁴⁴. Taxes on oil transit trade alone were estimated by IMF staff to amount to 1% of GDP. The involvement of pyramid scheme companies in the smuggling could not be proved, but some of the largest companies started up as “trading companies” during the period of sanctions, and they were generally believed to be involved⁴⁵. The suspension of sanctions ended the smuggling trade. One month later, whether by coincidence or because a key source of income had disappeared and they then needed to attract more funds, the borrowing companies raised their interest rate to 6% a month. The May elections had a more direct impact. In reaction to uncertainty about the prospect of the ruling Democratic Party in the elections, and also to the new entry of other pyramid schemes into the market, the pyramid schemes raised their interest rates again, to 8% a month⁴⁶. The outcome of elections was also crucial. The elections were widely seen as rigged, so that local government elections scheduled for October took on a greatly increased significance. In these circumstances, the government did not want to give people any unpleasant surprises. Thus the government had the tendency to ignore the growth of pyramid schemes and its hope that, problems would never materialize were increased. In early 1996, new pyramid schemes appeared. They deprived depositors by raising interest rates, and further confused authorities. By November, the face value of liabilities had reached US\$ 1,2 billion⁴⁷. Yet even these numbers fail to capture the lunacy that gripped Albania during this period. Queues were formed to deposit funds with both the pure pyramid schemes and the longer established companies, and a massive number of depositors poured their money, especially in the high interest schemes. The crowd was composed not only of the poor and the gullible but also of those who believed that the schemes had either government support or sources of funds derived from illegal activities which would sustain their returns, and of those who appeared to believe that “when the rest of the world are mad, we must imitate them in some measure”⁴⁸. People sold their houses and apartments to invest in the schemes and farmers sold their livestock.

It took four months for the pyramid schemes to collapse, bringing down with them the Democratic Party government, and plunging Albania into anarchy.

The Albanian pyramid schemes were highly unusual, in that they were of a magnitude sufficient to have effects to whole economy. Nevertheless, considering that the face value of their liabilities was so large (about half of 1996 GDP), the direct effects of their rise and fall appear to have been limited. They are also difficult to identify, partly because of the limited data of their impacts on the real economy in Albania and partly because the authorities could not estimate the damage since their collapse had profound political and social effects, and civil disorder, had un-measurable ill effects in economy. The social effects of the Albanian pyramid schemes have been considerable and are still not known fully. In the events triggered by their collapse, more than 2,000 lives were lost. Other thousands of people were impoverished either by their unwise investments in the schemes or by the destruction of their property in the ensuing violence. A government, albeit one of dubious legitimacy, was overthrown. The arms looted during the crisis and were used in armed robberies in Albania and provided a ready source of weapons to Albanian separatists in neighboring Kosovo. Less tangible, but also significant, are the effects against confidence in Albania. Before the crisis, Albania was a strikingly confident place: poor and beset already by serious problems of governance and growing economic problems, but nevertheless conscious and proud of having made enormous strides since the overthrow of communism. For some years after the crisis Albania was a much more subdued place. Confidence in the institutions of the government was shattered, crime and corruption threaten on most people's lives, and there was an air of grimness and insecurity even in the capital. The resilience of the Albanian people is considerable, and it has been more severely tested in the past. But the pyramid scheme phenomenon was a sobering setback for Albania, a powerful reminder of the social costs of unchecked criminality⁴⁹.

III. Albanian Economy in General

1. Economic Development

In 2004, GDP growth remained about 6% as the transition related reallocation of resources continued to boost productivity. Real economic growth was projected to have reached 5.9% in 2004. Average inflation remained subdued at 2.9% in 2004 and further decreased around 2.2% in the first quarter of 2005 within the target range of the Bank of Albania⁵⁰. The Lek appreciated by about 6% against the Euro in 2004 despite easing domestic interest rates and occasional Bank of Albania interventions, reflecting improved external accounts

| Years | percent | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|------------------------------|-------------------|-------|-------|-------|-------|-------|-------|-------|----------------------------|
| Real GDP growth | % | 12.7 | 10.1 | 7.3 | 7.2 | 3.4 | 6.0 | 6.0 | n.a. Jan-Sep |
| Inflation rate | % (average) | 20.9 | 0.4 | 0.0 | 3.1 | 5.2 | 2.4 | 2.9 | 2.2 |
| | % (end-of-period) | | | 4.2 | 3.5 | 1.7 | 3.3 | 2.2 | 3.1 |
| Unemployment rate | % of labor force | 17.8 | 18.2 | 16.8 | 16.4 | 15.8 | 15.0 | 14.1 | n.a |
| General Government Balance 1 | % of GDP | -12.0 | -12.2 | -9.2 | -8.5 | -7.3 | -4.8 | -5.3 | n.a |
| General Government Balance 2 | % of GDP | -10.3 | -9.4 | -8.2 | -7.9 | -6.6 | -4.4 | -5.0 | n.a |
| Trade balance | % of GDP | -22.8 | -24.6 | -22.1 | -23.2 | -25.8 | -24.6 | -21.5 | n.a |
| Current account Balance 3 | % of GDP | -7.1 | -7.9 | -7.4 | -6.4 | -9.7 | -8.1 | -6.0 | n.a |
| Current account Balance 4 | % of GDP | -3.9 | -3.9 | -4.4 | -3.4 | -6.9 | -5.6 | -4.4 | |
| External debt | % of GDP | 34.5 | 31.6 | 31.8 | 27.8 | 25.1 | 21.7 | 19.9 | n.a |
| | billion Euro | 0.9 | 1.0 | 1.27 | 1.27 | 1.20 | 1.09 | 1.22 | |
| Debt-export ratio | % | 491 | 403 | 166 | 143 | 129 | 122 | 104 | n.a |
| Foreign Direct Investment 5 | % of GDP | 1.5 | 1.4 | 3.9 | 5.0 | 3.0 | 3.1 | 4.5 | 1 st quarter |
| | million Euro | 40 | 48 | 155 | 227 | 143 | 155 | 276 | 42 |

(1) before grants, (2) after grants, (3) before official transfers, (4) after official transfers, (5) net

Sources: National authorities, IMF, EC estimates

and growing confidence in the currency. The trade deficit narrowed to 21.5% of GDP in 2004 as re-export processing activity increased and imports remained subdued due to increased domestic supply of strategic products (electricity, foodstuffs)⁵¹. The current account deficit has narrowed to 6% of GDP in 2004 compared to 8.1% in 2003⁵².

Progress in public administration reform has continued and the administrative capacity of the tax administration has improved. Recently, several crucial reforms have been put in place too (management of human resources, training, reform of the appeal system etc). However, the tax collection and control capacity remains weak. There are some progresses that have been made in the field of public financial control and internal audit in 2004. Whereas privatization of small and medium-size enterprises has been completed, large-scale privatization has been delayed. However, the sale of Saving Bank to a strategic foreign investor completed in 2004 is a progress. On the other hand the ratification of the sale agreement for the privatization of Albtelecom (Albanian Telecommunication) was rejected by the Albanian Parliament in October 2005 calling for a review of the sale contract and the whole tender procedure⁵³.

2. Progress towards Economic Stability

Albania's macroeconomic performance has significantly improved in recent years. Medium-terms prospects remain relatively favorable. But, short-term growth and external prospects were worsened in late 2005. Disruption of the electric supply had a ill effect for decrease in GDP growth from about 6% in 2004 to 5.5% in 2005 and to a worsening of the current account deficit⁵⁴. However, Albania has made significant progresses in the following areas:

Establishment of market principles

The development of market principles requires that prices, as well as trade, be liberalized and that an enforceable legal system, including property rights, be in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of economy⁵⁵.

A number of initiatives have been taken in drafting various policy papers and in preparing legislation. In

particular, the multi-annual plan to alleviate poverty and to improve governance under the National Strategy for Social and Economic Development (NSSD), the Action Plan for the Implementation of European Partnership Priorities, the National Plan on Approximation of Legislation and the Integrated Planning System (intending to integrate all policy framework and the annual budget) were recently set up⁵⁶.

Improvement of external deficits and the economy's saving-investment balance.

The export performance of Albania was strengthened in 2004 on growth in re-export processing activities and import growth declined and the domestic supply of electricity has been improved. The trade deficit narrowed from 24.6% in 2003 to 21.5% of GDP of 2004⁵⁷. Migrant remittances and other private and official transfers from abroad largely contributed to this improvement. The current deficit (excluding official transfers) narrowed to 6% of GDP in 2004 compared to 8.1% of 2003⁵⁸. Domestic investment accounts about 24% of GDP⁵⁹.

Improvement of labor market

The economic growth of the last years had a positive impact on the labor market. At the end of 2004, the employment rate is estimated to have decreased to 14.1% from to 15% of 2003⁶⁰. However, registered unemployment provides a very unreliable measure due to a significant informal sector and hidden unemployment in agriculture.

Decline of inflation

Annual consumer price inflation reached to 2.2% in December 2004, compared to 3.3% of 2003⁶¹. The average annual inflation rate in 2004 was 2.9% and further decreased to 2.2% in the first three quarters of 2005⁶². The relatively low and stable level of inflation reflected the Lek appreciation against the Euro and US dollar. Appreciation of Lek helped to shield the Albanian economy to some extent from trade deficit by importation of crude oil.

Liberalization of prices

Prices of most goods and services are liberalized. Nevertheless, governmental subsidies still affect prices of water, education, railway transport and electricity.

Land reform

Land reform has contributed to the development of private sector and accounted about 75% of GDP in 2004⁶³. Land reforms is a necessary precursor to the development of land markets. As a result of this reform, the rural landscape has been transformed with all collective farms disbanded. Approximately 98% of agriculture land (546,000 ha) distributed to smallholders⁶⁴. This reform has transformed farming from a collectivized, command structure to a fully private sector with smallholder families farming small and fragmented plots for their own consumption and the market. Most of pastureland and forests have not been part of the privatization process. Only recently state ownership has been transferred to communities and private persons.

Expansion of insurance sector

The first stage of INSIG⁶⁵ privatization was carried out in October 2003. 39% of Albania's insurance company was transferred to the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD). The IFC and EBRD will have INSIG under their supervision for a transitional period of 2 years with the objective to attract a strategic investor who would be interested in a 51% stake⁶⁶. In 2004 five new insurance companies received licenses for life and other insurances. Presently ten insurance companies are operating in Albania.

3. Regional co-operation

Albania has continued to pursue regional cooperation activities actively aiming at deepening political and commercial relations with its neighbors. Albania is implementing Free Trade Agreement (FTA) with the following countries: the Former Yugoslav Republic of Macedonia, Croatia, Bulgaria, Romania, Kosovo, Moldova, Serbia and Montenegro and Bosnia and Herzegovina. FTA negotiations with Turkey are underway⁶⁷.

Albania has successfully participated in activities under a number of multilateral regional initiatives, including the South-East Europe Cooperation Process (SEECP) the Stability Pact, the South Eastern European Initiative (SEEI), the Adriatic-Ionian Initiative, the Black Sea Economic Cooperation (BSEC), the South-East Cooperation Initiative (SECI) and the Border Security Initiative. Moreover, Albania has continued a policy of non-interference and conciliation as regards domestic issues concerning Albanian minorities in neighboring countries⁶⁸.

Relations with the State Union of Serbia and Montenegro (SCG) are reasonable and stable. The signature of an FTA between Albania and SCG was an important step for Albania, although its full potential has yet to be realized.

Albania has maintained an open and constructive policy towards Kosovo. Albania supports a settlement of Kosovo's final status within framework of its integration into EU. The main elements of Albania's stated policy toward Kosovo are as follows:

- 1) full respect of human rights including all minorities;*
- 2) the exclusion of partition or division or any change in size of the territory of Kosovo, and;*
- 3) a status that reflects the will of the people of Kosovo.*

Initial statements by the new government have confirmed Albania's constructive position along these lines whilst indicating a more active approach⁶⁹.

Relations between Albania and the Former Yugoslav republic of Macedonia have been good. The FTAs with the countries led to increased bilateral trade, and in addition, state visits at presidential level; ministerial meetings took place in a wide variety of topics.

Italy is Albania's main business partner as well as its largest donor with a business presence of Small and Medium Enterprises (SMEs) primarily joint ventures. Italy has conducted major bilateral cooperation activities with Albania. As regards cooperation in the fields of justice, liberty and security, Italy issued 20,000 short-term Schengen⁷⁰ visas in 2003-2004 to Albanian citizens.

Greece remains Albania's second largest trade partner (international trade as well as FDI in Albania will be treated in another paper) and positive relations have continued between two countries. More than 600,000

Albanians currently live and work in Greece. The number of short-term Schengen visas issued by Greece increased by 20% between 2002-2004. In 2004, 17,000 work-permit visas were issued to allow Albanians to work in Greece. Major efforts to improve communications have been undertaken by the Greek and Albanian governments⁷¹.

IV. Main Problems and Future Challenges

Albanian real GDP growth in 2003 was 6%, up from 4.7% of 2002. At the end of 2003, inflation rate reached 3.3%. Privatization of the Saving Bank the largest bank of the country was a notable issue and it was successfully privatized. However, the medium-term sustainability of economic growth as well as the county's ability to alleviate poverty are being jeopardized by political uncertainty and limited reform focus⁷².

The Albanian economy remains informal to a considerable extent. The business environment is inadequate and offers little to encourage investment. Corruption, organized crime, deficient law implementation and administrative inefficiency continue to place barriers to business and to hinder legal security. Despite its achievement in establishing Free Trade Agreements (FTAs) with countries of the region, Albania has been unable to fully implement all its WTO accession obligations. During 2004 it became apparent that for fiscal and economic reasons, Albania was unable to sustain the tariff decreases to which it had committed itself in the WTO. Albania applied for a waiver in January 2005 to extend the period for implementation of tariffs decreases. In March 2005, the WTO approved the request and Albania is now permitted to maintain its unchanged overall transitional period, which ends in 2009⁷³.

The main future challenges for Albania would consist of the following factors:

a) Strengthening rule of law

Strengthening rule of law is a key factor for achieving stability and economic growth. While some steps has been taken to improve the functioning of the judicial system, considerable efforts are still necessary to improve law enforcement particularly as regards serious crime. Rule of law in Albania remains weak with corruption and organized crime that are serious threats to the Albania's progress. Further efforts need to ensure full respect of human rights by law enforcement bodies⁷⁴.

b) Privatization of large-scale enterprises

Whereas privatization of small and medium-sized enterprises has been completed, large-scale privatization is suffering delays⁷⁵. Political uncertainty and a low level of interest for strategic investors are aggravating to these delays.

c) Improvement of company registration procedures

Most seriously the business-licensing regime continues to be characterized by a disorganized system involving a variety of authorities applying complicated and overlapping regulations⁷⁶. Absence of an administrative registration and licensing process, undertaken without court involvement and the following transparent and simple procedures inhibits enterprise creation.

d) Property rights

Property rights remain weak⁷⁷. The weak property rights damage the potential for investment and economic activity. Clarifying ownership is a fundamental requirement to encourage economic development and long-term land management. Moreover, property registration has not been completed in main urban and coastal areas. Land ownership issues have been a major impediment for bank lending to small companies before collateral requirements. Lack of stable land rights hinders the economic development and increase corrupt practices⁷⁸.

e) Improvement of Small and Medium Enterprises (SMEs) policy

Small and Medium Enterprises are very important part of Albania's economy. SMEs in industry and construction are main generators of employment growth in comparison to other non-agricultural sector. Small enterprises including micro ones account for 71% of total turnover in non-agricultural sectors and contribute about 75% of employment in these sectors⁷⁹. No progress is made in improvement of SMEs' access to credit facilities, as the loan guarantee fund is not operational. In order to make progress in this field, Albania has to find its own financial resource for SME credit. SME development needs to be further encouraged by

improving the business climate, better enforcing legal framework improving infrastructure and bringing informal sector to formal economy, ensuring better conditions for fair competition⁸⁰.

f) Improvement of public administration

Albania has made progress in improving the oversight, recruitment and training of the civil service and taken steps to enhance its legal framework⁸¹. Considerable efforts are necessary to restrict political appointments to the minimum levels, improve salaries and career structures and to introduce performance management to raise the effectiveness of public administration.

The strengthening of the tax administration is also at the core of the fiscal strategy. Also, the fight against tax evasion, fraud and corruption and the improvement of VAT (Value Added Tax) are essential⁸².

g) Improvement of anti-corruption policy

Some efforts have been made toward progress in the fight against corruption. Nevertheless, corruption remains a serious problem. A deficiency in the implementation, enforcement and coordination of efforts does exist and international perceptions of the country in this respect continue to be poor. In spite of Albania's efforts and the active support of the international community, tangible results in the fight toward corruption has not been brought about⁸³.

h) Improvement of public procurement area

Very limited progress has been in the area of public procurement. Albanian public procurement legislation, which dates from 1995, has undergone a number of changes (most recently is June 2005). The current legislation is based on definition, basic principles, procedures, thresholds and award criteria, publication requirements and review procedures. These are fundamentally different from those of EU legislation⁸⁴. Moreover, there are significant gaps in areas such as regarding concession and contracting entities operating on the field of utilities. Albania's Public Procurement Agency (PPA) is very weak, with insufficient funding and staff, leading to frequent irregularities⁸⁵.

Appendix 1. Relations between EU and Albania

Albania is participating in the Stabilization and Association Process (SAP). Current contractual relations between the Community and Albania are based on the 1992 Trade, Commercial and Economic Co-operation Agreement, which should be replaced by the Stabilization and Association Agreement (SAA) once conditions for its conclusion are met. Parts of the SAA will be implemented through an Interim Agreement until the ratification of the SAA is completed. The EU is Albania's principal trading partner, and Albania benefits from unilateral trade concessions under the EU autonomous trade measures (ATMs). The EU provides guidance to the Albanian authorities on reform priorities through the European Partnership, which is followed up through regular Consultative Task Force meetings. Albania also benefits from substantial EU financial assistance⁸⁶.

The 1992 Trade, Commercial and Economic Co-operation Agreement aims to develop and diversify trade between Albania and the EU, as well as providing a basis for commercial and economic co-operation. A Joint Committee oversees the proper functioning of the agreement, meeting annually, and most recently in May 2005 in Tirana. Five sectorial Working Parties meet annually to monitor developments and reforms in their respective field and report to the Joint Committee. Between April 2004 and July 2005, Working Party meetings in Brussels and Tirana covered a wide spectrum of issues⁸⁷:

- 1) economic and financial matters; macro- and micro-economic development, budgetary, trade, fiscal and monetary issues;*
- 2) infrastructure; transport, environment, water, energy and telecommunications;*
- 3) agriculture and fisheries; including consumer protection;*
- 4) customs and taxation; legislative developments and administrative capacity;*
- 5) harmonization of legislation;*
- 6) and areas of particular importance for SAA negotiations such as intellectual property rights, competition, public procurement, state aid, company law, enterprise policy, accounting, auditing and free movement of goods, service and capital.*

Appendix 2. Negotiations on Stabilization and Association Agreement (SAA)

Negotiations on a draft Stabilization and Association Agreement began in early 2003. Since the beginning of

March 2004, three official rounds (including Member State representatives) and five technical rounds of negotiations have been held with the Albanian authorities on the draft agreement. Agreement in principle has now been reached on most elements of the text of the draft agreement. However, in his letter of April 2005 to the former Prime Minister, the Commissioner Rehn made clear that Albania would need to ensure the proper conduct of the 2005 parliamentary elections and tangible achievements on European Partnership priorities in the fields of rule of law, land ownership, human rights, media freedom and customs before the Commission could recommend the conclusion of the agreement⁸⁸. An European Parliament-Albania inter-parliamentary meeting took place in Brussels in November 2004. Issues discussed included the political and economic situation in Albania, focusing in particular on electoral law, property law and on fighting organized crime. Contacts with the European Economic and Social Committee regarding Albania have taken place on an ad-hoc basis during the reporting period⁸⁹. The Council decision for the adoption of European Partnership for Albania was published in June 2004⁹⁰. Albania adopted its Action Plan for the Implementation of European Partnership Priorities in September 2004 and provided the Commission with updates on its progress in implementing the Action Plan in December 2004 and March 2005. Since March 2004 five Consultative Task Force meetings have been held in Albania. The meetings have focused on key European Partnership priorities: fighting organized crime, preparing the 2005 parliamentary elections, respect of human rights by law enforcement bodies, land restitution/compensation, freedom of expression and media, minority rights, migration and public finance management. Each meeting has resulted in a set of agreed recommendations for action by the Albanian authorities⁹¹.

In addition, Albania is requested to meet the criteria specific to the SAA such are:

full cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY)⁹²;

respect for human and minority rights;

the creation of real opportunities for refugees and;

a visible commitment to regional cooperation⁹³

Endnotes

- 1 Enver Hoxha was a communist leadership of Albania between 1944 to 1985. For more information refer to: *An Overview of the Albanian History: With Main Emphasis on Economy, The Journal of the Study of Modern Society and Culture, No.34, p. 264 Blendi Barolli.*
- 2 Ramiz Alia (born October 18, 1925) was the leader of Albania from 1985 to 1992. He had been designated as successor by Enver Hoxha and took power after Hoxha died. Alia was born in 1925 and had joined the Albanian communist

- movement before he was twenty years old. He had risen rapidly under Hoxha's patronage and by 1961 was a full member of the ruling Political Bureau (Politburo) of the Albanian Party of Labor (APL). Hoxha chose Alia for several reasons. First, Alia had long been a militant follower of Marxism-Leninism and supported Hoxha's policy of national self-reliance. Alia also was favored by Hoxha's wife Nexhmije, who had once been his instructor at the Institute of Marxism-Leninism. Alia's political experience was similar to that of Hoxha; and inasmuch as he appeared to share Hoxha's views on most foreign and domestic issues, he easily accommodated himself to the totalitarian mode of ruling. That he had managed to survive several waves of extensive purges bespoke his political prowess and capacity for survival, http://en.wikipedia.org/wiki/Ramiz_Alia, 2006/02/25.
- 3 The Albanian Party of Labour, *Partia e Punës e Shqipërisë*, *PPSh in Albanian*, was the sole legal political party in Albania during communist rule (1946-1991). It was founded on November 8, 1941 as the Communist Party of Albania (*Partia Komuniste e Shqipërisë*), but its name was changed in 1948.
 - 4 The intelligentsia (from Latin: *intelligentia*) is a social class of people engaged in complex mental and creative labor directed to the development and dissemination of culture: intellectuals and social groups close to them (e.g. artists, school teachers). The term is a borrowing from Russian language, a transliteration of "интеллигенция". Initially the term was applied mostly in the context of Russia and Soviet Union and had a narrower meaning based on a self-definition of a certain category of intellectuals, <http://en.wikipedia.org/wiki/intelligencia>, 2006/02/25.
 - 5 http://en.wikipedia.org/wiki/Ramiz_Alia, 2006/02/25.
 - 6 Dictatorship, in contemporary usage, refers to absolute rule by a leadership (usually one dictator) unrestricted by law, constitutions, or other social and political factors within the state, <http://en.wikipedia.org/wiki/Dictatorship>, 2006/2/25.
 - 7 Democratization is the transition from authoritarian or semi-authoritarian systems to democratic political systems, where democratic systems are taken to be those approximating to universal suffrage, regular elections, a civil society, the rule of law, and an independent judiciary, <http://en.wikipedia.org/wiki/Democratization>, 2006/3/3.
 - 8 http://en.wikipedia.org/wiki/Ramiz_Alia, 2006/02/25.
 - 9 *Ibid.*
 - 10 <http://en.wikipedia.org/wiki/Albania>, 2006/03/20.
 - 11 *Ibid.*
 - 12 Sali Ram Berisha (born October 15, 1944) is the Prime Minister of the Republic of Albania. He was also the president of Albania from 1992 to 1997. He studied medicine at the University of Tirana, graduating in (1967). After advanced studies in Paris (France) in the 80s, he conducted a research program on Hemodynamics. In 1968 he was elected member of the European Committee for Research on Medical Sciences. A member of Albania's communist Party of Labor, he had run the party organisation at the hospital's Cardiology Clinic. Berisha also taught medicine at the University of Tirana (1980 – 1990), published study books, textbooks and articles on cardiology, inside and internationally. He holds the scientific title Professor Doctor. He has worked as a heart surgeon and as a professor at the Cardiology Clinic in Tirana. Berisha's political career kicked off in 1989 when he demanded the government to slacken political control and allow dissent in articles he wrote in the local press. He somewhat affronted Ramiz Alia, the country's Communist leader, with such a need in a tense meeting Alia had with intellectuals in the middle of that year. Berisha then supported a student strike in December 1990 at the University of Tirana which, within days, turned political and pressured the government to allow the creation of new parties in Albania. The Democratic Party of Albania was founded by students and intellectuals the same month, and in 1991, Berisha was elected its chair, controlling it until now. He has been elected member of Albania's parliament in 1991, 1992, 1997, 2001 from the pro-Democratic Party constituency of Kavaje. After the first free elections of Albania, Berisha was elected President of the Republic on April 9, 1992. His administration, under Prime Minister Aleksander Meksi embraced free market policies including trade liberalization and privatization of state property, but also allowed the budding of Ponzi saving schemes (pyramid schemes). In the political field, he was seen as increasingly oppressive, urging the arrest and sentencing of opposition leader Fatos Nano. Such a record suffered a first crack in November 1994, when Berisha lost a constitutional referendum amidst fears the draft he supported would have given him even more powers. Despite many reforms, the administration was marred by corruption and abuses. Progress was stalled in 1995 and it resulted in declining public confidence on government institutions. Berisha's Democratic Party won a general election in May 26, 1996, which was marred by accusations of intimidation, manipulation and violent squelching of a peaceful opposition protests discrediting them. The country plunged into a political crisis, as Berisha and his Democratic Party bullheadedly refused to annul the elections, they had won four-fifths of the seats in parliament and the opposition Socialists abandoned the institutions. The collapse of the Ponzi schemes towards the end of 1996, where it is alleged that Albanians invested \$1 billion worth of life savings since 1994, recapped the crisis. The schemes, which were naively portrayed as Albania's success story, lavishly supported the Democratic Party elections in May, and November. Albanians, looking to the government for hints on the schemes, perceived a soothing message when Berisha said: "Albanian's money are the most dirt free in the world". The widespread rumor at the time was that the schemes were surviving because of widespread laundering of European criminal money by the schemes. The schemes failed, one by one, from December 1996, and demonstrators took to the streets to accuse the government of having stolen the money. Again, those demonstrations, which were now taken over by the opposition, were squelched. By March, military depots around the country were looted and for a time it looked like civil war would erupt between the government and demonstrators. Initially, Berisha refused opposition demands to step down. However, early elections were held in June 1997 and they led to the victory of a socialist-led coalition of

- parties. He resigned from the president's tenure one month after the loss of the elections of the DP and the victory of the left coalition. Since then he has been chair of the DP, the biggest opposition party. In July of 1997, Berisha was replaced by the socialist Rexhep Meidani. Berisha's peevish record was maintained during the opposition, when he lost two elections, in 1997 and 2001, but refused to accept loss, alleging irregularities; he led continuous demonstrations demand fresh elections, which, at times would turn violent. But a more moderate image in public, widespread discontent with rampant corruption and sumptuous arrogance of the Socialist Party, and a complex election bill ushered Berisha back to power in the general election of 3 July 2005. On September 3, 2005, after marathon sessions of Berlusconi-style challenges by ruling Socialists on election results, and negotiations with smaller parties, Berisha became Prime Minister. http://en.wikipedia.org/wiki/Sali_Berisha2006/04/17.
- 13 Rexhep Qemal Meidani (born on August 17, 1944, in Elbasan, Albania) is an Albanian politician. He graduated from the University of Tirana (1966), Faculty of Natural Sciences, Branch Physics, as well as successfully accomplished the postgraduate studies in the University of Caen (France) (1974). With regard to the professional area, Mr. Meidani worked as professor, chair of the department and later as the dean of the Faculty of Natural Sciences (1966 - 1996). During this time span, Mr. Meidani published a number of studies, books and articles inside and outside of Albania. Mr. Meidani holds the scientific title Professor Doctor. His political career began in the 1990s. He was the chair of the Central Election Commission in the first multiparty elections in 1991 and member of the Presidential Council (1991). During 1992 - 1996 he was engaged in the civil society by being also chair of the Board of the Albanian Center of Human Rights (1994 - 1996). In 1996 he joined the Socialist Party and was elected its Secretary General (1996 - 1997). In the anticipated parliamentary elections of June 1997, Mr. Meidani was elected member of the parliament in the Albanian Assembly. After the elections, won by the left coalition and headed by the Socialist Party, on July 24, 1997, with the proposal of the SP, the Albanian Assembly elected Mr. Meidani, President of the Republic. Meidani was succeeded in the presidency by Alfred Moisiu in 2002. http://en.wikipedia.org/wiki/Rexhep_meidani2006/04/17.
 - 14 Fatos Thanas Nano (born September 16, 1952) is a Member of the Albanian Parliament, representing Sarandë constituency. He was Prime Minister of Albania during several periods and leader of the Socialist Party of Albania. Nano has a degree in political economy as well as a Ph.D. in economics from the University of Tirana. Nano was born in Tirana, and he became a communist and later socialist leader. He was nominated for the post of Prime Minister by the then President Ramiz Alia in 1991, but was forced to resign after popular protests and strikes. He was imprisoned in 1993 for corruption, but was pardoned in 1997 after his party had come to power. In 1997, following the collapse of several pyramid schemes, and the ensuing civil unrest that bordered on civil war, Nano's nemesis, then-President Sali Berisha was forced to resign. That same year, following general elections, Nano was appointed Prime Minister by President Rexhep Meidani, only to resign again in 1998 after the protests that followed the assassination of an opposition leader, Azem Hajdari. Nano became Prime Minister for the third time on July 25, 2002, appointed by President Alfred Moisiu. Two large protests in February 2004 with crowds of up to 20,000 demanded that Nano step down again for failing to properly manage the growth of the Albanian economy. He is often jokingly referred to as the "Yo-Yo Prime Minister of Albania" because of his many times in office. On 3 July 2005, the Socialist Party lost its majority in the parliament. As a result, Nano was unable to form the new government. The Democratic Party of Albania gained the majority enabling Nano's long time opponent Sali Berisha to head the new government. On 1 September 2005, Nano resigned his leadership of the Socialist Party of Albania, and from the post of Prime Minister. http://en.wikipedia.org/wiki/Fatos_Nano2006/04/17.
 - 15 Azem Hajdari (March 11, 1963 - September 12, 1998), married with two children, was an Albanian politician. Hajdari was a close aid of Sali Berisha, ex-president of Albania. After his assassination, for which Berisha blamed the Socialist Party of Albania and its leaders, there were several demonstrations, some of them violent. Others blamed Berisha himself. No one was convicted of Hajdari's murder, although many people were eventually fingered as having participated in his assassination. Many of these suspects were in turn assassinated or killed under different circumstances. http://en.wikipedia.org/wiki/Azem_Hajdari2006/04/17.
 - 16 Pandeli Majko (born in 1967 in Tirana) was Prime Minister of Albania from 1998-1999 and for a short time in 2002. He is the outgoing Minister of Defense of Albania. http://en.wikipedia.org/wiki/Pandeli_Majko2006/04/17.
 - 17 Ilir Meta (born 1969) was the prime minister of Albania from 29 October 1999 to 22 February 2002, replacing Pandeli Majko in this position. Before he was the leader of Euro-socialists (FRESSH) in Albania. In 2003 he served as the Foreign Minister and vice prime minister of Albania. In 2004 he quit the Socialist Party of Albania, and created his own political party, the Socialist Movement for Integration. http://en.wikipedia.org/wiki/Ilir_Meta2006/04/17.
 - 18 <http://www.opic.gov/links>. 2005/08/18.
 - 19 *Albania, Stabilization and Association Report*, Commission of the European Communities, Brussels, April 4, 2002. SEC (2002) 339, p. 15
 - 20 *Ibid.*
 - 21 *CIA World Fact book 2004, U.S. Dept. of State Country Background Notes* (Source Date: 07/04)
 - 22 *Albania; Sustaining Growth Beyond the Transition*. A World Bank Country Memorandum, December 27, 2004. Poverty Reduction and Economic Management Unit, Europe and Central Asia Region, p. 14.
 - 23 *Ibid.*
 - 24 *Ibid.*
 - 25 *Ibid.*

- 26 *Ibid.*
 27 *Ibid.*
 28 *Ligj Nr. 7512 Gusht 1991, "Per Sanksionimin dhe Mbrojtjen e Prones Private, Iniciatives se Lire, Aktivitetit te Pavarur Privat dhe Privatizimit".*
 29 <http://www.aeda.gov.al/privatization.htm>
 30 *Ibid.*
 31 *Ibid.*
 32 *Ligj Nr. 7512 Gusht 1991, "Per Sanksionimin dhe Mbrojtjen e Prones Private, Iniciatives se Lire, Aktivitetit te Pavarur Privat dhe Privatizimit".*
 33 *Ligj Nr. 7653 Date 23 Dhjetor 1992, "Per disa Ndryshime ne Ligjin Nr. 7512".*
 34 *Dekret Nr. 1632, date 1 Nendor 1996 "Per disa Ndryshime ne Ligjin Nr. 7512".*
 35 *Ligj Nr. 8159, "Per Miratimin me Ndryshhime te Dekretit Nr. 1632".*
 36 *Albania; Sustaining Growth Beyond the Transition. A World Bank Country Memorandum, December 27, 2004. Poverty Reduction and Economic Management Unit, Europe and Central Asia Region, p. 14.*
 37 *Ibid. p. 29.*
 38 Chris Jarvis, *"The Rise and Fall of the Pyramid Schemes in Albania"*, IMF Staff Papers, Vol.47, No.1, 2000. p.2.
 39 *Ibid.p.3*
 40 *Ibid.*
 41 *Ibid.*
 42 *Ibid.*
 43 *The former Socialist Federal Republic of Yugoslavia (SFRY)* The first was a kingdom formed in December 1, 1918 as the Kingdom of Serbs, Croats and Slovenes, which was re-named the Kingdom of Yugoslavia on January 6, 1929 and existed under that name until it was invaded on April 6, 1941 by the Axis powers. Capitulating only 11 days later, it ceased to exist April 17, 1941. The second was a Socialist state established immediately after World War II in November 29, 1945 as *Democratic Federation of Yugoslavia (DFY)*, which in 1946 became the *Federal People's Republic of Yugoslavia (FPRY)* and in April 7 republics - S.R. Slovenia, S.R. Croatia, S.R. Macedonia and S.R. Bosnia and Herzegovina - had seceded. The third was called Federal Republic of Yugoslavia (FRY) and was formed in 1992 on the territory of the remaining republics of Serbia (including the autonomous provinces of Vojvodina and of Kosovo, officially known as Kosovo and Metohija) and Montenegro. In 2001, the name Yugoslavia was to be officially abolished when the state would transform into a loose commonwealth called Serbia and Montenegro which finally happened on February 4, 2003. <http://en.wikipedia.org/wiki/Yugoslavia,2006-04-11>
 44 Chris Jarvis, *"The Rise and Fall of the Pyramid Schemes in Albania"*, IMF Staff Papers, Vol.47, No.1, 2000. p.8.
 45 *Ibid.p.9*
 46 *Ibid.*
 47 *Ibid.*
 48 *Ibid.*
 49 *Ibid.p.29*
 50 *Albania 2005 Progress Report*, European Commission, Brussels, 9 November 2005, SEC (2005) 1421, p.25.
 51 *Ibid.*
 52 *Ibid.p.26*
 53 *Ibid.*
 54 *Ibid.*
 55 *Ibid.*
 56 *Ibid.p.27.*
 57 *Ibid.*
 58 *Ibid.*
 59 *Ibid.*
 60 *Ibid.*
 61 *Ibid.p.28.*
 62 *Ibid.*
 63 *Ibid.p.29.*
 64 *Ibid.*
 65 *INSIG (Albanian Institution of Insurance), Instituti i Sigurimeve.*
 66 *Albania 2005 Progress Report*, European Commission, Brussels, 9 November 2005, SEC (2005) 1421, p.31.
 67 Chris Jarvis, *"The Rise and Fall of the Pyramid Schemes in Albania"*, IMF Staff Papers, Vol.47, No.1, 2000. p.22.
 68 *Ibid.*
 69 *Ibid.*
 70 The 1985 Schengen Agreement is an agreement between European states which allows for common immigration policies and a border system. A total of 26 countries – including all European Union states except the Republic of Ireland and the United Kingdom, but including non-EU members Iceland, Norway, and Switzerland– have signed the agreement and 15 have implemented it so far. Border posts and checks have been removed between Schengen countries

and a common 'Schengen visa' allows access to the area. However, the agreement does not cover residency or work permits for non-EU nationals.

71 *Albania 2005 Progress Report*, European Commission, Brussels, 9 November 2005, SEC (2005) 1421, p.23.

72 *Ibid.* p.25.

73 *Ibid.*

74 *Ibid.* p.8

75 *Ibid.* p.30.

76 *Ibid.*

77 *Ibid.*

78 *Ibid.*

79 *Ibid.* p.33.

80 *Ibid.*

81 *Ibid.* p.11.

82 *Ibid.*

83 *Ibid.* p.15.

84 *Ibid.* p.43.

85 *Ibid.*

86 *Ibid.* p.4

87 *Ibid.*

88 *Ibid.* p 5

89 *Ibid.*

90 See part C-European Partnership: Overall Assessment

91 *Albania 2005 Progress Report*, European Commission, Brussels 2005, SEC (2005) 1421,p 5.

92 "Disintegration of South Eastern Europe and Its Reintegration in the Stabilization and Association Process", Yoji Koyama, The Journal of Niigata University No. 79, September 2005. p.39.

93 *Ibid.*

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