



# EUROPEAN PARLIAMENT

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**NOTE**

**ON**

**THE POLITICAL AND ECONOMIC SITUATION IN ALBANIA  
AND ITS RELATIONS WITH THE EUROPEAN UNION**

*This note has been prepared for the information of Members of the European Parliament. The opinions expressed are those of the author and do not necessarily reflect the position of the European Parliament.*

Sources:  
*European Commission  
Economist Intelligence Unit  
Factiva  
Agence Europe  
OSCE / ODIHR  
IMF*

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## 1. EXECUTIVE SUMMARY

Since the Socialist Party (SPA) and its allies won the summer 2001 elections, three governments have already been in place. The current *government* with Prime Minister Fatos Nano was formed in July 2002. A major reshuffle was approved by parliament in December 2003. The Albanian *President*, Alfred Moisiu was elected as a compromise candidate of the Socialist Party and the main opposition party, the Democratic Party (led by Sali Berisha) in June 2002. Local elections across Albania in October 2003 were won with a narrow margin by the SPA. The OSCE<sup>1</sup> criticised the conduct of these elections.

The Albanian government follows *macroeconomic policies* in line with IMF requirements and has adopted a Growth and Poverty Reduction Strategy, which aims at balancing increased spending to reduce poverty against the need to ensure macroeconomic stability. GDP growth accelerated to an estimated 6 % in 2003 from 4.7 % in 2002. However, this expansion is from a low base and *poverty* is still widespread in Albania. Inflation decreased in 2003 to 2.4 %, down from 5.5 % in 2002.

Albania has participated in the *Stabilisation and Association Process* for the countries of the Western Balkans since its introduction in 1999. Negotiations on a Stabilisation and Association Agreement started in January 2003 and are ongoing. Albania will receive financial assistance through the CARDS-programme of approx. € 150 million during the period 2002-2004.

## 2. POLITICAL SITUATION

### 2.1 Historical Background

Albanians first declared independence in November 1912 and Albania was internationally recognised as an independent state in 1913. When the present frontiers were fixed in November 1912, one-third of ethnic Albanians was left under foreign rule.

After the Second World War, Albania became a communist country. Under the leadership of Enver Hoxha, a strict stalinistic philosophy was imposed and the country became virtually isolated from most other countries in the world.

Communist rule in Albania came to an end in 1990/91. A first multiparty election was held in March 1991 and won by the Albanian Workers Party, which renamed itself Socialist Party of Albania (SPA). But the economy deteriorated sharply and support for the SPA collapsed. A fresh election, held in March 1992, was won by the Democratic Party of Albania (DPA). Its leader, Sali Berisha, became president and started an economic and democratic reform programme. The DPA also won the elections in May 1996. But the progress achieved in the early years of transition had a serious setback in 1997 with the collapse of the so-called pyramid schemes, which brought financial ruin to many Albanians and led to several months of violent unrest in the country. An interim coalition government was formed to prepare early elections.

Elections held in July 1997 were won by a SPA-led coalition, Fatos Nano becoming Prime Minister. He stayed in office only until 1998, when he was forced to resign after several weeks

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<sup>1</sup> Organisation for Security and Co-operation in Europe  
[FdR 545071]

of demonstrations and rioting, following the assassination of a leading member of the Democratic Party. Pandeli Majko succeeded him as Prime Minister, but was himself dismissed in October 1999 as the result of an internal Socialist Party power struggle and replaced by Ilir Meta.

In 1999, Albania was substantially affected by the Kosovo crisis. It was the only country to open its borders to unlimited numbers of refugees and took in almost 480.000. Most of the refugees returned to Kosovo once the conflict ended.

## **2.2 Institutional system** (see also Annex I)

The current **Constitution** was adopted by referendum on 22 November 1998 and replaced the interim Constitution in force since 1991. The Constitution guarantees democratic freedoms, notably political pluralism, freedom of expression and religion, and respect of national minorities.

Legislative power is vested in the unicameral Kuvendi Popullor (People's **Assembly**), which has 140 Members, elected for four years. The Constitution establishes a 'mixed' election system, with inter-related majoritarian and proportional components. 100 of the deputies are elected by majority in single-member constituencies and the rest by proportional representation from party lists. Parties must receive at least 2.5 % of the valid votes nation-wide and coalitions 4 % in order to participate in the allocation of the 40 mandates.

Parliament elects the **President** (currently Mr Moisiu, sworn in on 24 July 2002) for a five-year term by a three-fifths majority (at least 84 votes in the 140-seat Assembly). The President is the Head of State and plays only a limited executive role.

The **Prime Minister** is appointed by the President from the ranks of the parliamentary majority.

## **2.3 Recent developments and current issues**

### **2.3.1 Parliamentary elections during summer 2001 and the SPA led governments**

Parliamentary elections were held in Albania during summer 2001. The Socialist Party and its allies won 88 seats (more than 62 %), the opposition coalition 'Union for Victory' led by the Democratic Party won 46 seats and the New Democrat Party 6 seats. The elections were observed by an International Election Observation Mission, which identified a number of isolated but serious irregularities. The results of 37 out of the 100 electoral zones were challenged by the right and the left in the Constitutional court. The opposition coalition boycotted Parliament until 31 January 2002, because of the disputed election results.

Following the elections, Ilir Meta, Prime Minister since October 1999, was re-elected Prime Minister in August 2001 and formed a new coalition government. But his government lasted only some months. Conflicts within the ruling Socialist Party, including accusations of corruption of the government by Party Chairman Fatos Nano, led to the resignation of 4 Ministers in December 2001 and of Prime Minister Ilir Meta in January 2002. A new government with Pandeli Majko (Prime Minister in 1998-99 and minister of defence in Meta's government) as Prime Minister was formed in February 2002.

### *2.3.2 Presidential elections in June 2002*

The conflictive style of politics in Albania since the parliamentary elections of summer 2001 worried many international actors. The upcoming presidential elections and the risk of further battles prompted the European Union to exert pressure on Albanian politicians to agree on a consensual president.

The ruling Socialist Party and the main opposition party, Berisha's Democratic Party, subsequently agreed on a compromise candidate. On 24 June 2002, the Parliament, with 97 votes out of 140, elected retired general Alfred Moisiu as new President. The outcome of this election was widely seen as a positive signal after the preceding period of political conflict.

The consensual election was a central element of a pact concluded between Fatos Nano and Sali Berisha in June 2002. The DPA pledged support for the government's programme in exchange for promises to introduce a number of measures, in particular the investigation of corrupt SPA officials.

### *2.3.3 The government led by Fatos Nanto and the SPA*

The election of Alfred Moisiu had, however, quashed Fatos Nano's aspirations, who had intended to become President himself. He subsequently aimed for the post of Prime Minister, and successfully changed the Socialist Party statutes in July 2002 to allow the party chairman to simultaneously hold the post of Prime Minister. Prime Minister Pandeli Majko resigned that same month paving the way for a third Prime Minister in less than a year.

Fatos Nano was elected Prime Minister in July 2002 and formed a government in which his predecessors Pandeli Majko as Defence Minister and Ilir Meta as Deputy Prime Minister and Foreign Affairs Minister held key posts. He formulated an agenda in line with the policy of the Majko administration, including stepping up the fight against trafficking, organised crime and corruption and an economic policy aiming at high growth rates.

A short period of relative political stability followed, but ended in January 2003, when the pact between Mr Nano and Mr Berisha collapsed. Conflicts within the government and the SPA also re-emerged in 2003. At the beginning of June 2003, Mr Nano sacked four deputy ministers and nominated five new ones without consulting Mr Meta or any other SPA body. The long-standing conflict between Meta and Nano culminated on 18 July 2003, when Meta, the deputy Prime Minister and Foreign Affairs Minister, surprisingly resigned. Sokol Nako, the Minister of State for Integration and a close ally of Mr Meta, resigned the following day. While Mr Nako was easily replaced by Mrs Meksia, who was confirmed as new deputy Prime Minister and Minister of Integration in parliament on 28 July 2003, it was much more difficult for Fatos Nano to replace Mr Meta. A first attempt to nominate Mr Bello as foreign minister failed, when parliament rejected him on 28 July 2003. Another nominee, Namik Dokle, also failed to be approved by parliament on 23 October 2003. At this occasion, parliament also failed to approve Mr Xhafa who was supposed to replace the minister of Public order, Luan Rama, whom Nano had sacked on 17 October.

Following this second failed attempt to get his ministers approved, Nano postponed any further attempt to replace these ministers until after the SPA's party congress in December. At the congress, Nano managed to consolidate his position, winning a fresh four-year term as party leader with the support of more than 80 % of the delegates at the congress.

Immediately after the congress, Nano started to fill the vacant ministerial posts and to form a new cabinet. The reshuffled government, called the "*coalition for integration*", apart from the SPA includes the Social Democratic Party (SDP), the Agrarian and Environmentalist Party (AEP), the Union for Human Rights (UHR), the Social Democracy Party and the Democratic Alliance Party (DAP). Mr Nano also included two men in his cabinet, whom he had accused of corruption and called on to resign in early 2002 (Mr Angjeli and Mr Fino). This government was approved by parliament with a comfortable majority on 29 December 2003.

In 2004, divisions in the SPA continued to deepen. Ilir Meta launched a new grouping within the SPA in June 2004, the Socialist Integration Movement, and in August he announced, that he would form a rival party together with loyalists to contest next year's election.

#### *2.3.4 Local elections in October 2003*

**Local elections** were held across Albania on 12 October 2003 and were the first test of public support for the government of Fatos Nano. The Organisation for Security and Co-operation in Europe (OSCE) which observed the elections, was critical on the conduct of these elections, saying in its final election report: "The local government elections were a missed opportunity for significant progress towards compliance with OSCE commitments and other international standards for democratic elections. While important improvements were noted in the campaign, media coverage, handling of complaints and appeals, and election administration, the process was again protracted and litigious, especially in Tirana. Problems with counting were particularly widespread."<sup>1</sup> The final results of the elections were announced only on 20 February 2004, due to disputes over alleged electoral irregularities and the subsequent repetition of elections in some local government units (including a partial re-run in Tirana). While the SPA won the largest share of the vote in the local elections and was victorious in the country's two largest cities (Tirana and Dures), its margin of victory was narrow and the opposition DPA achieved its best election result since 1997.

#### *2.3.5 Domestic policy developments in 2004*

In early 2004, the DPA started a campaign that aimed at removing Nano from his office. Two major street protests took place in February, but produced no concrete result.

On 8 June 2004, the Albanian parliament finally approved a **property restitution law** (regarding the restitution of farmland expropriated by the communist regime) with 71 votes in favour, after almost a year of heated parliamentary debate. The initial draft restitution law had been prepared by the OSCE at the end of 2003. However, during the parliamentary debate, the consensus between the two major parties broke down and the June parliamentary session ended in total disarray, with all the opposition parties walking out. The OSCE also expressed concern about

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<sup>1</sup>Final report on Local Government Elections in Albania, 12 October 2003 - 25 January 2004, OSCE/ODIHR, 25 February 2004

parts of the approved law. President Moisiu did not sign the bill into law and announced instead that he would send it back to parliament.

Another major development is the agreement signed on 1 July 2004 between the SPA and the DPA to set up a bipartisan parliamentary commission to amend the electoral code and address the shortcomings, which the OSCE had highlighted in previous elections. The Commission comprises 8 members from both the government and the opposition and is co-chaired by the SPA and the DPA.

### *2.3.6 Respect for the rule of law, organised crime and corruption*

According to the Commission, "little progress has been made in Albania as regards general respect for the rule of law. The rule of law remains adversely affected by the weaknesses of the judicial system and public administration, as well as by organised crime and corruption."<sup>1</sup>

Albania continues to be a major route for drug trafficking. As regards smuggling and trafficking in human beings, an Anti-Trafficking Strategy was adopted in early 2003 and a significant reduction in trafficking across the Ionian Sea has been reported. However, the problem continues to require attention, as has been highlighted in January 2004, when 21 Albanians died as a speedboat taking them to Italy became stranded in the Ionian Sea. Following the incident, Albanian authorities announced a zero tolerance policy towards trafficking of human beings and drugs. Progress in the fight against organised crime in general is considered poor by the Commission and organised crime activity in Albania even increased in 2003 (according to the General Prosecution).

The Commission considers the performance of the judicial system and its perception amongst the general public poor, due to the limited professional capacities of judges, prosecutors, judicial police and administrative staff and inadequate equipment of infrastructure.

Albania has taken a number of initiatives to fight corruption, such as the adoption of an Action Plan against corruption for the period 2003-2004 in August 2003 and the setting up of a Triangular Commission, involving the Government, Civil Society and the General Prosecution in September 2003. Despite these initiatives, "concrete results in the fight against corruption remain very limited" and corruption remains a serious problem.<sup>2</sup> This is confirmed by Albania's ranking in the Corruption Perception Index (CPI) 2003, published by the anti-corruption NGO Transparency International. Albania ranks 92 out of 133 surveyed countries with 2.5 points out of 10 (which is exactly the same score as the previous year), suggesting very high levels of perceived corruption<sup>3</sup>.

### *2.3.7 International relations*

Integration with the West continues to be the central element of Albania's foreign policy. Accession to **NATO** remains one of the main political aspirations. However, Albania failed to secure a target date for NATO accession at the alliance's summit in Istanbul in June 2004. Albania has supported the war in Iraq and contributed troops to US-led peacekeeping efforts

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<sup>1</sup> European Commission Stabilisation and Association Report for Albania, COM (2004) 203 final

<sup>2</sup> European Commission Stabilisation and Association Report for Albania, COM (2004) 203 final

<sup>3</sup> For full details see the Transparency International website: <http://www.transparency.org/cpi/index.html>.

since the war was declared over. In June 2003, Albania ratified an agreement granting US citizens in Albania immunity from prosecution by the International Criminal Court (**ICC**), which runs contrary to EU guidelines. Albania has been a member of the World Trade Organisation (**WTO**) since September 2000.

Albania participates in all relevant regional initiatives, such as the Stability Pact, the South-East European Co-operation Process, etc.

The neighbouring **Former Yugoslav Republic of Macedonia** has a sizeable Albanian Minority, which has in the past been the cause of conflicts and tense relations. Relations improved following the parliamentary election in Macedonia in September 2002, which led to the formation of a coalition government with a strong ethnic Albanian presence. Relations with **Serbia and Montenegro** have improved substantially, with the re-establishment of full diplomatic relations in September 2002 and increased dialogue at political level. However, the adoption of a resolution of the Serbian Parliament in August 2003, declaring the Kosovo province an integral part of Serbia, caused tensions between the two countries. The Albanian parliament reacted by approving a resolution that condemned Serbia for taking "a dangerous step back towards the failed policy of nationalism", which in turn was followed by an official note of complaint by Serbia and Montenegro's Federal Ministry of Foreign Affairs. Albania condemned the March 2004 violence in Kosovo.

In June 2001, Albania, Bulgaria, Bosnia and Herzegovina, Croatia, FYROM, Romania and Yugoslavia signed a Memorandum of Understanding for liberalising trade in the region, which provides for the establishment of a network of Trade Agreements aimed at liberalising at least 90% of trade among the parties within a transitional period of six years. The Republic of Moldova associated itself with the Memorandum of Understanding. Albania has concluded all the required Free Trade Agreements (FTAs). Albania has also concluded a FTA with Kosovo, which led to protest from Serbia and Montenegro.

### 3. ECONOMIC SITUATION

#### *3.1 Current trends and future outlook*

Since the 1997 crisis of the pyramid schemes, the Albanian economy has made significant progress. Between 1998 and 2000 the economy grew at annual rates of 7 to 8 %. **GDP Growth** slightly slowed down in 2001 to 6.5 % and to 4.7 % in 2002. Growth accelerated again to an estimated 6 % in 2003 and is forecast to remain steady with 6 % in 2004 and rise to 7 % in 2004.<sup>1</sup> However, this expansion is from a low base and **poverty** is still widespread in Albania. 25 % of the Albanian population live below the national poverty line (less than US \$ 2 per day) and 5 % of the population live in extreme poverty (less than US \$ 1 per day).

The main objective of the Bank of Albania is to maintain price stability and it has set an average annual **inflation** target of about 3 % in the medium term. In 2003, inflation was beneath the target at 2.4 %, down from 5.5 % in 2002. Average annual inflation is expected to rise slightly as economic growth accelerates, to 3.0 % and 3.2 % in 2004 and 2005 respectively<sup>2</sup>.

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<sup>1</sup> Economist Intelligence Unit, Country Report Albania, August 2004

<sup>2</sup> Economist Intelligence Unit, Country Report Albania, August 2004

Recorded *unemployment* stood at approximately 16 % at the end of 2003. However, the European Commission notes that unemployment figures have to be taken cautiously, because an important number of the people unemployed do not register with social security services and are active in the informal economy.<sup>1</sup>

The general government *budget deficit* was lower than expected in 2003, at 4.4 % of GDP. This is mainly due to cutbacks in investment, which outweighed a shortfall in revenue. After the adoption of a supplementary budget in June 2004, a budget deficit of 5.9 % is expected for this year.

The EU is by far Albania's main commercial partner, accounting for more than 90 % of Albania's exports and more than 75 % of its imports. Within the EU, Italy and Greece are Albania's main trade partners. Albania imports several times more than it exports and has a high trade deficit (estimated at some 21.5 % of GDP in 2003). However, a sharp increase in the trade deficit in 2003 was offset by higher net transfers, driven by higher private remittances from Albanians living abroad. Therefore the *current-account deficit* improved from 8.6 % of GDP in 2002 to an estimated 6.7 % of GDP in 2003. It is forecast to continue to fall slightly as a portion of GDP, to 6.4 % in 2004 and 6.3 % in 2005.<sup>2</sup>

### **3.2 Economic policy**

The government follows macroeconomic policies in accordance with IMF requirements and has adopted a *Growth and Poverty Reduction Strategy*, which aims at balancing increased spending to reduce poverty against the need to ensure macroeconomic stability. Herein it has committed itself to a policy that supports GDP growth, while maintaining low inflation and ensuring financial viability.

The *Privatisation* of small and medium-sized enterprises can be considered completed, while the privatisation of large-scale enterprises has been advancing at a slower pace. Albania's overall policy is, first, to restructure and, only thereafter, to privatise state owned companies. A major step forward was made in December 2003 with the sale of Savings Bank, the country's largest bank, to an Austrian Bank. A former attempt to sell the bank had failed in 2002. The privatisation of the telecommunications company Altelekom has already been postponed twice due to lack of interest of foreign investors, but the government has now made a new attempt, asking potential buyers of a majority stake in the company to show interest by October 2004.

Albania has been suffering from an *energy* crisis for years. Electricity production in the country is basically of hydroelectric origin and therefore dependent on rainfall. Poor infrastructure leading to important technical losses, widespread electricity theft, weak management of the electricity company leading to low bill collection and uncontrolled consumption, were further causes of the crisis. Due to different factors the situation improved in 2003. The amount of electricity produced increased by 56 % compared to the previous year and payment collection also improved. In June 2003, the government adopted a long term National Energy Strategy that sets out the proposed development of the sector until 2015. Based on this strategy, a 2003-2005 Action plan was adopted.

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<sup>1</sup> European Commission, Albania Stabilisation and Association Report 2004, COM (2004) 203 final

<sup>2</sup> Economist Intelligence Unit, Country Report Albania, August 2004

### **3.3 International Financial Institutions**

Albania joined the International Monetary Fund (**IMF**) in October 1991. It has since benefited from several IMF programmes supporting the government's economic reforms. In June 2002, the IMF board approved a 3-year arrangement for a US \$ 42 million loan under the Poverty Reduction and Growth Facility (PRGF). The PRGF is the IMF's most concessional facility for low-income countries. The disbursement of a further tranche under the arrangement was approved in July 2004, after the IMF completed its fourth review of Albania's economic performance.

Since Albania joined the **World Bank** in 1991, the Bank has supported the country's development in a broad range of sectors. The World Bank's loan commitments to Albania now total some US \$ 754 million. The World Bank adopted a new 3-year Country Assistance Strategy in June 2002. The main priorities envisaged in the strategy are to improve governance and strengthen institutions, promote sustainable private sector growth, and foster human development.

The European Bank for Reconstruction and Development (**EBRD**) approved a new strategy for Albania in April 2004. The strategy focuses on private sector development, strengthening the financial sector and support for the rehabilitation of the country's infrastructure and its integration within the region. At the end of 2003, the EBRD had a cumulative business volume of € 170.4 million in Albania.

## **4. RELATIONS WITH THE EUROPEAN UNION**

### **4.1 The Stabilisation and Association Process (SAP)**

In 1999, the EU initiated the Stabilisation and Association Process (SAP) for the countries of the Western Balkans (Albania, Bosnia-Herzegovina, Croatia, Federal Republic of Yugoslavia, Former Yugoslav Republic of Macedonia) as its main contribution to the Stability Pact. It establishes a strategic framework for their relations with the EU, combining new contractual relationships (Stabilisation and Association Agreements) and an assistance programme (CARDS). It is not simply a bilateral process between each country and the EU, but places considerable emphasis on regional co-operation. The European Councils in Feira and Nice (June and December 2000) explicitly recognised the vocation of the countries included in the SAP as potential candidates for EU-membership and spoke of a clear prospect of accession once the relevant conditions had been met. The European Council in Copenhagen in December 2002 reaffirmed the European perspective of the countries of the Western Balkans and underlined its determination to support their efforts to move closer to the EU. The SAP is already a strategy for accession, adjusted to the level of development of the countries concerned.

The Thessaloniki Summit on 20/21 June 2003 gave a new impetus to the Stabilisation and Association Process, endorsing the **Thessaloniki Agenda for the Western Balkans**. This agenda develops the Stabilisation and Association Process further by introducing the following elements, inspired by the pre-accession process:

- Enhanced political dialogue and co-operation in the area of Common Foreign and Security Policy (including the EU-Western Balkans Forum, which will bring together periodically the heads of state or government of the SAP countries and their EU counterparts);
- The possible establishment of joint 'Stabilisation and Association Parliamentary Committees' with all SAP countries, even before the entry into force of the respective SAA;
- European Partnerships, inspired by the Accession Partnerships for candidate countries, to be drawn up for all SAP countries;
- Enhanced support for Institution Building, in particular extension of the twinning instrument to all SAP countries;
- Opening of community programmes to SAP countries along the lines established for the participation of candidate countries;
- Enhanced Community financial support.

*Albania* has participated in the SAP since its introduction in 1999. The Zagreb summit<sup>1</sup> of 24 November 2000 set up a high level EU/Albania steering group, which had the task to assess Albania's ability to comply with the obligations it would enter into in a Stabilisation and Association Agreement (SAA). In its report of June 2001 on the work of this high level group, the Commission recommended to proceed with an SAA, although it highlighted that Albania was not yet in a position to meet the obligations of an SAA. Subsequently, the Commission submitted draft negotiating directives to the Council in December 2001. The Council adopted these negotiating directives in October 2002, on condition that negotiations would be carried out on the basis of the negotiating approach proposed by the Commission. This approach implies that Albania has to develop the necessary implementation capacity and that reforms have to progress sufficiently to guarantee implementation of the agreement prior to the conclusion of the negotiations. Negotiations were officially opened on 31 January 2003.

The Commission produces *annual reports* on the Stabilisation and Association Process for South East Europe, accompanied by reports on each individual country. The *third annual report* was issued on 30 March 2004. Herein the Commission finds that progress has been made by the countries of the Western Balkans in the SAA, but also notes that many challenges remain for them to complete their transition to fully functioning democracies and market economies and to be able to sustain a closer relationship with the EU. Alongside the annual report the Commission proposed a European Integration Partnership for each country. It identifies priorities for action, adapted to each country's specific needs and provides guidance for financial assistance. Every country will be expected to adopt a plan including a timetable and details in terms of how it intends to address the European Partnership priorities.

The *country report on Albania* points out that despite progress during the SAA negotiations in discussing the text of the future agreement, the reforms undertaken by Albania are insufficient to guarantee proper implementation of an SAA. The Commission stresses that meaningful progress in the SAP requires major and urgent reforms in particular in the following areas:

- 1) fighting organised crime, trafficking and corruption;
- 2) strengthening the judicial system and public administration;
- 3) ensuring the proper functioning of democracy (including elections) and preserving the political stability necessary for speedy reform implementation;
- 4) improvement in terms of human and minority rights;

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<sup>1</sup> Heads of State or Government of EU member-states and countries covered by the Stabilisation and Association Process

- 5) further formalisation and reform of the economy, as well as increased fiscal sustainability through more efficient customs and tax administrations and a strengthened legal framework.

In September 2004, the Dutch Presidency of the European Council also urged Albania to make greater progress in the reform process, particularly concerning electoral reform and combating organised crime and corruption. It stated, that the conclusion of an SAA risked to be further delayed, if the lack of a general and shared political will continued to hamper a real reform process.

#### **4.2 EU Financial Assistance**

Between 1991 and 2002, Albania has received approximately € 1 billion in EC assistance. This financial support has covered a large number of sectors, including humanitarian aid, macro-financial assistance, infrastructure, agriculture, health, education, public administration reform, judiciary and law enforcement, democracy and human rights, and cross-border co-operation.

Since 2001, the main financial instrument for EU assistance to Albania is the **CARDS-Programme**, which is designed to support the Stabilisation and Association process in the countries of South-East Europe.<sup>1</sup>

In accordance with the CARDS regulation, a **Country Strategy Paper** defining the priorities for financial support until 2006 has been adopted by the Commission in December 2001, together with a more detailed Multi-annual Indicative Programme covering the period 2002-2004. The country strategy identifies five areas for support:

1. *Justice and Home affairs*, including the strengthening of the judiciary, enhancing public order, improving border management, and fighting organised crime, fraud and corruption;
2. *Administrative Capacity Building*, including the improvement of the overall implementing and enforcement capacity of the Albanian public administration, particularly as regards specific areas of the future Stabilisation and Association Agreement;
3. *Economic and Social Development*, including certain key areas such as trade, education and local infrastructures;
4. *Environment and Natural Resources*, including institutional strengthening (with particular emphasis on implementation and enforcement issues), improved monitoring of pollution indicators and better urban and regional planning;
5. *Democratic Stabilisation*, addressing particularly the strengthening of civil society in Albania.

The 2003 CARDS National Programme for Albania was signed only in December 2003. € 46.5 million were allocated, covering actions in the areas of Justice and Home affairs, Administrative Capacity Building, Economic and Social Development and Democratic Stabilisation. In addition, Albania benefits from the CARDS Regional Programme. The CARDS envelope for

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<sup>1</sup> Council Regulation (EC) No. 2666/2000, adopted on 5 December 2000; OJ L 306 of 7.12.2000, p.1

2004 for Albania will be € 58.5 million, including the additional financial resources for the Western Balkans allocated by the Thessaloniki Summit.

On 29 April 2004, the Council approved macro-financial assistance to Albania of up to € 25 million (€ 9 million loan and € 16 million grant), to be made available for two years.

The EIB is also an important contributor. Since 1995, it has signed loans worth € 149 million, mainly for transport infrastructure and the energy sector. € 56 million of these loans have been disbursed, whilst € 17 million have been cancelled.

**Implementation** of Community programmes has not been without problems. According to the Commission, Albania lacked the administrative capacity to properly manage the implementation of financial assistance programmes. Albania's weaknesses have been aggravated by heavy EC procedures, painful restructuring of EC assistance-related services and insufficient resources to properly assist the country.<sup>1</sup> Due to a lack of proper and timely implementation the Commission cancelled a total of 20 programmes amounting to € 13.7 million in 2002, notably in the areas of water, transport and agriculture. However, in the Stabilisation and Association Report 2004 the Commission notes that implementation of EC assistance programmes has improved to some extent and that the Ministry of European integration has shown an increased degree of ownership concerning project identification for the CARDS 2004 Programme. The Commission nevertheless points out that the structures involved in implementation of Community and other financial assistance clearly need to be strengthened.

#### **4.3 The European Parliament**

The European Parliament has supported EU aid to Albania via a number of resolutions and its budgetary responsibilities. On 5 December 2000, the EP approved a new legal framework for assistance to the countries of the Former Yugoslavia and Albania (CARDS Programme)<sup>2</sup>. On 26 October 2000, it voted a resolution on the draft action plan for Albania and the neighbouring region, drafted by the High Level Group on asylum and migration in the Council.

On 16 May 2002, Parliament adopted a resolution on the Commission report to the Council on the work of the EU/Albania High Level Steering Group, in preparation for the negotiation of a Stabilisation and Association Agreement with Albania. Herein it noted the efforts made by the Albanian authorities to meet the conditions enabling negotiations to be opened. But it also urged them to speed up their efforts aimed at vital reforms and listed several conditions for the opening of negotiations.

In November 2002 and November 2003, the European Parliament adopted resolutions about the **Stabilisation and Association Process** for South East Europe<sup>3</sup>, wherein it gave a series of important recommendations for the whole region and each particular country. It recommended to the Council and the Commission to refrain from moving to a further stage of the SAP and/or consider the possibility of partly or totally suspending financial assistance to any of the five countries if they do not comply with certain conditions. Full and effective co-operation with the

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<sup>1</sup> Albania, Stabilisation and Association Report 2003, European Commission, COM(2003) 139, March 2003

<sup>2</sup> the full text of EP resolutions is available by date on the website:

<http://www3.europarl.ep.ec/omk/omnsapir.so/calendar?APP=PV2&LANGUE=EN>

<sup>3</sup> Resolutions of 7 November 2002 and of 20 November 2003 on the Stabilisation and Association Process for South-East Europe

International Criminal Tribunal for the former Yugoslavia (ICTY) and no conclusion of bilateral agreements with the USA jeopardising the full effectiveness of the International Criminal Court (ICC), an effective implementation of a policy in favour of the return of refugees and the effective implementation of an active policy against organised crime, corruption and trafficking in human beings, drugs and arms are the three conditions, Parliament wants to see fulfilled.

As regards Albania, in November 2002 the EP welcomed the election of the President of the Republic of Albania and encouraged the Albanian authorities to continue their efforts to implement key reforms. It also welcomed the Council decision authorising the Commission to open negotiations on a Stabilisation and Association Agreement. The November 2003 resolution encouraged the authorities to reinforce their commitment to proceed with the reforms initiated and recommended enhanced actions to provide the means to fight corruption, organised crime and trafficking in human beings. Parliament also insisted on an accurate evaluation of the size of the national minorities population and deplored the unsatisfactory manner in which the last local election was conducted.

In a resolution on the meeting of the Troika with the countries participating in the Stability Pact for South-Eastern Europe, adopted on 5 June 2003, the EP asked for a clarification and reinforcement of the Stabilisation and Association Process. It also suggested further parliamentary co-operation between the EP, the national parliaments of the countries of South-Eastern Europe, the parliaments of the Member States and the candidate countries as well as the parliamentary assemblies of the Council of Europe and the OSCE.

On 31 March 2004, the EP approved the Commission's proposal for macro-financial assistance to Albania with amendments.

## ALBANIA

### Institutional Overview

#### **Constitution**

A new constitution was adopted by referendum on 22 November 1998 and came into effect on 28 November. It replaced the interim constitution that had been in place following the abandonment of the Marxist-inspired constitution in April 1991.

#### **National legislature**

Unicameral Assembly of 140 members: 100 elected directly and 40 by proportional representation from party lists.

#### **National elections**

Parliamentary: June - August 2001.  
Presidential: 24 June 2002.

Next elections: 2005 (parliamentary), 2007 (presidential).

#### **Head of state**

President, Alfred Moisiu, elected by parliament in June 2002; sworn in on 24 July 2002.

#### **National government**

Coalition government, led by the Socialist Party of Albania, sworn in on 31 July 2002.

#### **Main political parties:**

**Governing coalition:** Socialist Party of Albania (SPA); Agrarian and Environmentalist Party (AEP); Social Democratic Party (SDP); Democratic Alliance Party (DAP); Union for Human Rights (UHR); Social Democracy Party.

**Main opposition coalition:** Union for Victory (UV), comprising Democratic Party of Albania (DPA), Legality Movement Party (LMP), Liberal Union (LU), National Front Party (NFP), and Republican Party (RP).

**Other opposition parties:** New Democratic Party (NDP), Reformatory Democratic Party (RDP).

### **Results of the 2001 parliamentary elections**

<i>Party</i>	<i>Seats</i>
Socialist Party of Albania (SP)	73
Union for Victory (UV)	46
Democrat Party (PD)	6
Social Democratic Party of Albania (SDP)	4
Human Rights Unity Party (HRUP)	3
Democratic Alliance Party (DAP)	3
Agrarian Party (AP)	3
Independent MPs	2

Sources: Economist Intelligence Unit, Country Report Albania, August 2004  
OSCE/ODHIR Election Observation Mission

**PRESIDENT, GOVERNMENT, PARLIAMENT AND CENTRAL BANK****PRESIDENT**

(Sworn in 24 July 2002)

Alfred MOISIU

**CABINET**

(Adopted by parliament 31 July 2002)

Prime Minister

Fatos NANO (SPA)

Deputy Prime Minister

Namik DOKLE (SPA)

**KEY MINISTERS**

Agriculture &amp; food

Agron DUKA (IND)

Culture, youth &amp; sports

Blendi KLOSI (SPA)

Defence

Pandeli MAJKO (SPA)

Economy

Anastas ANGJELI (SPA)

Education &amp; science

Luan MEMUSHI (SPA)

Environment

Ethem RUKA (SPA)

Finance

Arben MALAJ (SPA)

Foreign affairs

Kastriot ISLAMI (SPA)

Health

Leonard SOLIS (UHR)

Industry &amp; energy

Viktor DODA (SPA)

Justice

Fatmir XHAFA (SPA)

Labour &amp; social affairs

Engjell BEJTAJ (SDP)

Local government &amp; decentralisation

Ben BLUSHI (SPA)

Planning &amp; tourism

Bashkim FINO (SPA)

Public order

Igli TOSKA (IND)

Transport &amp; telecommunications

Spartak POCI (SPA)

Minister of state

Marko BELLO (SPA)

Minister of state for European integrations

Ermelinda MEKSI (SPA)

**ASSEMBLY SPEAKER**

Servet PELLUMBI (SPA)

**CENTRAL BANK GOVERNOR**

Shkelqim CANI

**Party Affiliations:**

SPA Socialist Party of Albania

SDP Social Democratic Party

UHR Union for Human Rights

IND Independent

*Source: Economist Intelligence Unit, Country Report Albania, August 2004*

## ANNEX III

## Basic statistics for the Western Balkan

	<a href="#">Albania</a>	<a href="#">Bosnia Hercegovina</a>	<a href="#">Croatia</a>	<a href="#">F.Y.R.O. Macedonia</a>	<a href="#">Serbia- Montenegro</a>	<a href="#">European Union (15)</a>
<b>Area (1000 sq. km)</b>	27	51	56	25	102	3191
<b>Population (MIO, 2001)/02</b>	3,40	3,83	4,44	2,04	10,66	377,7
<b>Population/sq.km</b>	126	75	79	82	104	118
<b>Infant mortality (per 1000, in 1999/02):</b>	15,7	9,1	7,7	11,9	12,4	4,5
<b>Expectation of life at birth, 1999/2002: Females</b>	76,4	76,7	77,8	75,3	75,2	81,6
<b>Males</b>	71,7	71,3	70,5	70,5	70,1	75,5
<b>Gross domestic product (2001), in 1000 MIO EUR:</b>	4,2	5,1	20,5	4,0	9,6	8.843
<b>GNI per capita in PPS EU=100 (2001)</b>	15,7	n.a.	34,1	19,7	n.a.	100
<b>Real growth of GDP, 2002</b>	4,7	5,5	5,2	0,9	4,0	1,1
<b>Real growth of GDP, 2003 (provisional)</b>	6,0	3,5	4,4	3,1	3,0	0,8
<b>Real growth of GDP, 2004 (forecast)</b>	6,0	5,1	3,4	4,0	3,0	2,0
<b>Real growth of GDP, 2005 (forecast)</b>	6,0	5,7	3,8	4,5	4,0	2,4
<b>Consumer prices (%): 2003</b>	2,3	0,1	1,5	1,2	11,3	1,8
<b>Consumer prices (%): 2004</b>	3,0	0,9	2,5	2,8	7,5	1,8
<b>Consumer prices (%): 2005</b>	3,0	1,7	3,5	3,0	6,0	1,7
<b>Structure of economy (% of GDP) 2000: Agriculture</b>	51,0	12,2	9,5	11,8	n.a.	2,1
<b>Services</b>	22,7	61,8	57,7	55,1	n.a.	69,6
<b>Net official development assistance (2000, % of GDP)</b>	8,5	n.a.	0,3	7,0	n.a.	-0,4
<b>EU assistance (Mio EUR): 1998</b>	55,3	297,6	24,1	25,5		
<b>EU assistance (Mio EUR): 1999</b>	217,1	253,2	24,5	166,8		
<b>EU assistance (Mio EUR): Budget 2000</b>	35,0	100,0	18,5	20,0	384,4	
<b>External indicators:</b>						
<b>Exports (fob), 2001 (MIO EUR)</b>	353	825	5.072	1.289	1.291	985.308
<b>Exports as % of GDP (2001):</b>	8,3	16,1	24,7	32,1	13,5	11,1
<b>Balance of payment (2002, MIO EUR):</b>						
<b>Balance of goods and services:</b>	-1.227	-3.524	-2.286	-838	n.a.	66.559
<b>Current account:</b>	-431	-2.261	-1.677	-344	n.a.	47.591
<b>Current account (% of GDP)(2001):</b>	-5,7	-27,8	-3,9	-6,8	n.a.	-0,2
<b>Direct investment (in reporting economy):</b>	143	310	1.036	82	n.a.	-64.190(1)
<b>Total external debt (2001, MIO EUR):</b>	1.224	2.484	11.989	1.588	13.103	
<b>Debt service as % of exports of goods and services:</b>	2,2	19,1	27,9	12,9	2,4	
<b>Labour force::</b>						
<b>Recorded unemployment rates: 1998</b>	17,8	n.a.	n.a.	34,5	25,1	10,2
<b>1999</b>	21,4				29,1	
<b>2000</b>					26,5	
<b>2001</b>					27,5	
<b>Agriculture (% of labour force)</b>	70,8	n.a.	n.a.	18,5	n.a.	4,5
<b>Industry (% of labour force)</b>	8,8	n.a.	n.a.	27,4	n.a.	29,3
<b>Services (% of labour force)</b>	20,4	n.a.	n.a.	54,1	n.a.	66,2
<b>Activity rate (Labour force as % of pop. Age 15-64)</b>	64,3	n.a.	n.a.	61,5	n.a.	67,8
<b>Activity rate: Male</b>	80,5	n.a.	n.a.	75,1	n.a.	77,6
<b>Activity rate: Female</b>	49,0	n.a.	n.a.	47,7	n.a.	58,1
<b>Female as % of labour force, 1998</b>	41,1	38,1	43,9	41,3	42,7	42,8
<b>Adult literacy rate (%), 1998 (2)</b>	83,5	n.a.	98,4	94,6	n.a.	98,5
<b>Environmental: Carbon Dioxide; tons/capita, 2000</b>	0,89	3,86	4,06	4,14	4,06	8,38
<b>2003 Transparency: Corruption Perceptions Index</b>	2,5	3,3	3,7	2,3	2,3	4,3-9,7(3)
<b>Internet hosts/10000 inhabitants (2002)</b>	0,43	13,91	61,20	12,69	15,83	404,57
<b>TV/1000 inhabitants, 1999</b>	113	112	279	250	273	574
<b>Human development index (2002)(4):</b>	0,781	0,781	0,830	0,793	n.a.	0,930

Sources: EUROSTAT, IMF, OECD, UN, ITU and World Bank

Production: JDa/DG4/European Parliament (12/08/2004)

(1) net; (2) Croatia 2001; (3) Greece 4,3/Finland 9,7; (4) Based on three indicators: 1) longevity, 2) educational attainment and 3) standard of living measured by GDP per capita in PPP (see Human Dev. Report, UNDP)

Conversion rate: 2001: 1 EUR=0.896 USD; 2002: 1 EUR=0.946 USD; 2003: 1 EUR=1.131 USD

**OVERALL EU ASSISTANCE IN ALBANIA 1991-2004**  
**(ALLOCATIONS IN MILLIONS OF €)**

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Total 1991- 00	CARDS	2001	2002	2003	2004	Total 1991- 2004
<b>Albania</b>																
<b>1991-2000 Overall PHARE assistance / From 2001 Overall CARDS assistance</b>																
10.0	110.0	75.0	49.2	88.0	53.00	68.9	42.5	101.5	33.4	631.5		37.5	44.9	46.5	52.5	812.9
<b>FEOGA (DG Agriculture)</b>																
	120.0									120.0			-	-	-	120.0
<b>Humanitarian Aid (ECHO)</b>																
	2.0	0.5	1.7	1.2	1.7	16.3	12.0	97.0	3.4	135.8		6.6	-	-	-	142.4
<b>Food security (DG Development)</b>																
						10.8		5.7		16.5			-	-	-	16.5
<b>Macro-Financial Assistance (DG Economic and Financial Affairs)</b>																
								20.0		20.0			-	-	-	20.0
<b>Democracy &amp; Human Rights</b>																
				1.0	0.6	0.4	0.8	0.2	0.5	3.5		0.4				3.9
<b>Other actions</b>																
	0.3	0.6	1.1	0.4	n.a	n.a	n.a	2.6	1.9	6.9						6.9
<b>OSCE elections support</b>																
						1.5				1.5		-	-	-	-	1.5
<b>EIB loans</b>																
				34.0	12.0		22.0		34.0	102.0		47				149
<b>Total EC assistance</b>																
<b>10.0</b>	<b>232.3</b>	<b>76.1</b>	<b>52.0</b>	<b>124.6</b>	<b>67.3</b>	<b>97.9</b>	<b>77.3</b>	<b>227.0</b>	<b>73.2</b>	<b>1037.7</b>		<b>91.5</b>	<b>44.9</b>	<b>46.5</b>	<b>52.5</b>	<b>1273.1</b>

*Source:* European Commission