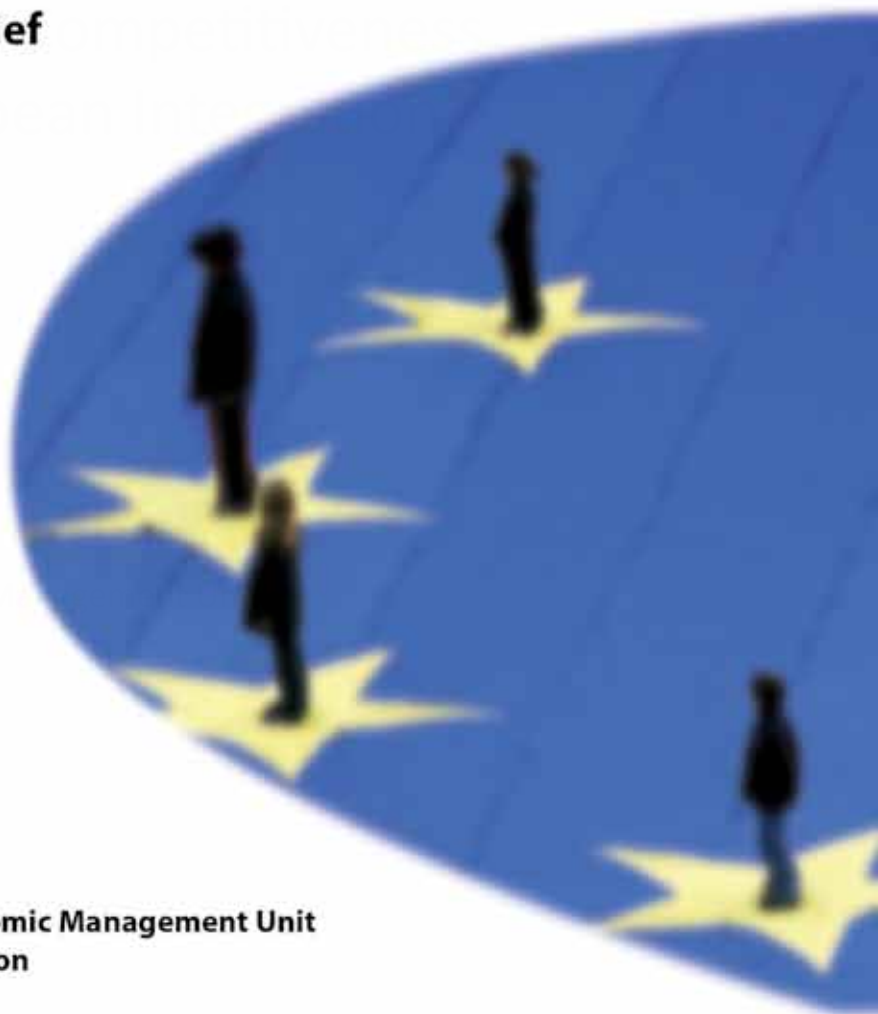


Report No. 62518-AL

Governance in Albania: A Way Forward for Competitiveness, Growth, and European Integration

A World Bank Issue Brief



June 2011

Poverty Reduction and Economic Management Unit
Europe and Central Asia Region



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ACRONYMS

AL	Albania
BEEPS	Business Environment and Enterprise Performance Survey
CoE	Council of Europe
CPI	Corruption Perceptions Index
CSD	Child Survival and Development
DP	Democratic Party
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe and Central Asia
EEC	European Economic Community
EU	European Union
FDI	Foreign Direct Investment
FYR	Former Yugoslav Republic
GDP	Gross Domestic Product
GNI	Gross National Income
GRECO	Group of States against Corruption
HDI	Human Development Index
IBRD	International Bank for Reconstruction and Development
IDRA	Institute of Development and Research Alternatives
IFC	International Finance Corporation
INSTAT	Albanian Statistical Institute
INTERPOL	International Criminal Police Organization
IOM	International Options Market
ISSR	Implementation Support & Supervision Report
LSMS	Living Standards Measurement Study
MDGs	Millennium Development Goals
NATO	North Atlantic Treaty Organization
NGOs	Non-governmental Organization
NSDI	National Strategy for Development and Integration
OECD	Organization for Economic Co-operation and Development
PAMECA	Police Assistance Mission in Albania
PPP	Purchasing Power Parity
SAA	Stabilization and Association Agreement
SEE	Southeastern European
SIDA	Swedish International Development Authority
SIGMA	Support for Improvement and Governance and Management
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Program
UNDP	United Nations Development Programme
UNODC	United Nations Office of Drugs and Crime
US	United States
USAID	United States Agency for International Development
WBI	World Bank Institute
WGI	Worldwide Governance Indicators

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PREFACE

Over the past decade, the World Bank has intensified its focus on governance as a key factor accounting for variations in development effectiveness. Through its long-standing engagement in Albania, the World Bank has supported institutional development and governance reforms to help strengthen the capacity of state institutions to deliver public goods and achieve development outcomes more effectively and efficiently. Governance is a key pillar of the Government's National Strategy for Development and Integration for 2007–2013.

The World Bank's seminal report on governance and development (1997) defined governance as "the manner in which power is exercised in the management of a country's economic and social resources for development."¹ The Bank's Strategy on Governance and Anticorruption broadens this definition to "the manner in which public officials and institutions acquire and exercise the authority to shape public policy and provide public goods and services."² The authors of the World Bank Institute's Worldwide Governance Indicators offer a more comprehensive approach:

Governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them.³

This Issue Brief draws primarily upon this latter definition, which takes into account the popular legitimacy of state institutions and respect for the law among citizens and government institutions—the "softer" aspects of governance that are essential to understanding how policies are made and implemented in practice and how public resources are used.

The Issue Brief is one of a series of policy notes on governance issues in Albania that were prepared as background papers to the World Bank's Country Partnership Strategy for Albania for 2011–2014. Two other Issue Briefs discuss real property rights and governance in the water sector. This Issue Brief makes no pretension to comprehensiveness and should be considered complementary to other Bank analytical studies, notably the Country Economic Memorandum (2010) and the Investment Climate Assessment (2009). It analyzes trends in several governance indicators and presents a case study on Albania's recent efforts to combat crime and improve public order and safety.⁴

This Issue Brief was prepared by Clelia Rontoyanni and Evis Sulko (World Bank Public Sector Specialists). Research on the case study on combating crime was conducted by Jana Arsovska (World Bank consultant and Associate Professor at City University of New York). Analytical inputs and insights from Erjon Luci (World Bank Economist), Greta Minxhozi (Senior Operations Officer), Roland Clarke (Lead Public Sector Specialist), Gregory Kisunko (Senior Public Sector Specialist), Jana Kunicova (Governance Specialist), Kimberly Johns (Consultant), and Judith Hoffmann (Consultant) are gratefully acknowledged. This work benefited from the guidance and advice of Jane Armitage (Country Director for the Western Balkans), Kseniya Lvovsky (Country Manager for Albania), Camille Nuamah (former Country Manager for Albania), and William Dorotinsky (Sector Manager). Funding provided for this paper by the World Bank's Governance Partnership Facility, which is financed by DFID, the Netherlands, and Norway, is also gratefully acknowledged.

1 World Bank. 1992. *Governance and Development*. Washington DC: World Bank; World Bank. 1997. *World Development Report 1997: The State in a Changing World*.

2 World Bank. 2007. *Strengthening World Bank Group Engagement on Governance and Anticorruption*.

3 Daniel Kaufman, Aart Kraay, and Pablo Zoido-Lobaton. 1999. *Governance Matters*. World Bank Policy Research Working Paper No. 2196.

4 The case study was prepared based on research commissioned by the World Bank and conducted by Jana Arsovska, Assistant Professor at the John Jay College of Criminal Justice, City University of New York.

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EXECUTIVE SUMMARY

- i. Since its emergence from a turbulent post-communist transition, Albania has achieved remarkable progress in economic and social development.** Annual growth has averaged 5–6 percent in recent years, poverty has declined, and human development rankings have improved steadily. At the same time, Albania has experienced rapid social change, including internal migration from rural areas to urban centers and mass emigration of economically active citizens, who send back substantial resources in the form of remittances. Once known as “the poorest country in Europe,” Albania is now an upper-middle-income country.
- ii. Governance improvements, especially in the effectiveness of public administration, have been instrumental to the country’s impressive economic performance and improved human development outcomes.** Albania has largely overcome the acute governance failures that twice threatened the survival of the state in the 1990s, and has achieved a quality of governance that seems broadly in line with its current level of economic development. Albania has established a pluralistic society and a competitive political system, as evidenced by the transfer of power through elections, a vibrant media scene, and an emerging civil society.
- iii. The Government has taken steps to improve public order and personal safety, particularly through efforts to crack down on violent and organized crime.** Landmark advances in Albania’s relations with the European Union (EU) and North Atlantic Treaty Organization (NATO), institutions to which the Albanian leadership links the country’s future, reflect progress in establishing stable institutions.
- iv. Despite these positive developments, Albania continues to face significant governance challenges that will need to be overcome if the country is to achieve critical development objectives.** Enduring politicization of the public administration and incomplete separation of powers, exemplified by instances of political interference in judicial processes, remain serious obstacles. Further efforts to strengthen the rule of law, ensure security of property rights, eliminate corruption, and improve government effectiveness are necessary to accelerate Albania’s integration with the EU, increase the country’s international competitiveness as an investment destination, and improve the quality and efficiency of public service delivery—all of which are key priorities in the Government of Albania’s National Strategy for Development and Integration (NSDI) for 2007–2013.
- v. The Government recognizes the need to accelerate progress on several dimensions of governance reform, particularly in light of its aspirations to EU accession.** The NSDI places appropriate emphasis on improving governance by reducing corruption, strengthening the rule of law, and increasing the efficiency of public expenditure. The achievement of Albania’s ambitious development objectives will require decisive action on the part of the country’s political leadership and public administration to bring Albania’s governance to a qualitatively new level. This Issue Brief seeks to analyze the nature and recent evolution of Albania’s governance environment, to identify the principal governance constraints to the achievement of development priorities—overall and in key sectors, and to outline recommendations for the way forward.

Albania's Governance Profile

vi. Over the last decade, Albania has shown broadly positive trends across all major aspects of governance. The country has done relatively well in strengthening voice and accountability. The quality of economic regulation has improved, particularly in business registration, investor protection, and tax administration. These efforts are demonstrated by Albania's place as the second "top reformer" in the 2009 Doing Business report. Albania has also improved its ranking on the Global Competitiveness Index, particularly on regulatory institutions and macroeconomic stability. Assessments of institutional capacity and performance point to overall improvements, including in policy coordination, public expenditure management, internal control and internal audit, external audit, and public procurement. Though reportedly high levels of corruption have tarnished international perceptions of Albania over the years, there is evidence that the incidence of administrative (petty) corruption is declining. Improvements are particularly marked in tax administration, customs, and the courts, though bribe frequency in these services remains higher in Albania than the regional averages. As a result of these positive trends, the quality of governance in Albania, as measured by the World Bank Institute's World Governance Indicators (WGI), is now at a level comparable to that of countries with similar income levels—with the exception of the rule of law.

vii. Despite improving trends, the unfinished agenda is formidable, and further determined efforts are needed to address governance shortcomings. In particular, it will be necessary to work toward closing the gap between laws and policies as they stand on paper and their actual implementation. Another area of focus relates to the weak enforcement of regulatory policies and inconsistent application of laws, notably in the protection of real property rights, which pose serious constraints to improving Albania's business climate. Building the credibility of the judicial system is a major task that involves addressing perceptions of corruption, instances of undue interference by the executive branch, limited transparency, inefficiency, and uneven enforcement of court decisions. Further progress in improving overall government effectiveness will require addressing cases and perceptions of clientelist and nepotistic practices in the public sector. While progress has been made in reducing corruption in some services that interact with the business sector, more work needs to be done to strengthen accountability in the delivery of public services broadly, as well as specific services affecting business (such as the issuance of construction permits).

Case Study: Strengthening Public Order and Safety – A Success Story in the Making?

viii. The state's ability to ensure public safety by protecting its population from violence is a key indicator of government effectiveness. Albania has generally lagged behind other countries in the region with regard to the rule of law, and the activities of violent organized crime groups once threatened the security of the country's population and deterred foreign visitors and investors. Albanian criminals at home and abroad attracted significant attention from law enforcement agencies, international organizations, and the media as a result of their unconventional, violent methods. In the late 1990s and early 2000s, this phenomenon led to widespread criticism of the Government's failure to maintain order, and Albania acquired a largely negative international reputation as a country with no respect for the rule of law.

ix. Since 2002, the authorities have made significant strides in improving public order and safety. The Government declared a policy of zero tolerance against crime in 2005, winning

praise from international actors for its efforts to control organized crime. The contrast between Albania's near descent into state failure and anarchy twice in the 1990s and today's situation—when “crime, theft, and disorder” were considered by firms active in the country to be only the tenth-biggest obstacle to doing business—points to significant progress in this area. In addition to the Government's concerted efforts to step up law enforcement and bring the legal framework in line with international conventions, this trend has been facilitated by the changing nature of Albanian organized crime, which has moved toward more sophisticated, “entrepreneurial” activities. To build on the progress made so far, further reforms will be needed to improve the quality of investigations, ensure due process, and prevent impunity for well-connected offenders, especially in cases of economic crimes such as grand corruption.

x. Strong support from influential external actors such as the EU, the Council of Europe, and the United States strengthened Albania's resolve to combat organized crime and improve public safety. International actors had a strong interest in supporting Albania's efforts in this area in order to reduce risks to their own security. International political pressure was accompanied by substantial financial assistance and the powerful motivation offered by the prospect of NATO membership, EU integration, and visa liberalization with EU countries. These incentives prompted reforms to strengthen Albanian legislation, build police and judiciary capacity, curb illegal trafficking through stronger border controls, strengthen the ability of law enforcement agencies to prevent money laundering, and improve the security of identification documents to meet EU standards. The combination of stronger political will among the Albanian leadership and international support has brought concrete results, and international actors have rewarded Albania's efforts. Visa facilitation talks with the EU were opened in 2006; a Stabilization and Association Agreement with the EU was ratified in 2009; Albania gained admission to NATO in the same year; and Albanians obtained visa-free access to EU Schengen space countries in 2010.

xi. Importantly, homegrown demand from civil society and the media has also motivated improvements in the rule of law. In particular, young, upwardly mobile Albanians put strong pressure on the authorities to take action against crime. These demands were articulated by civil society and reported on regularly by the Albanian media. Albania's efforts to strengthen the rule of law, especially through improved public order and safety and control of violent and organized crime, thus help shed light on the broader factors that have contributed to improved governance outcomes in Albania over the past decade.

Governance in Albania: A Way Forward

xii. Albania has made substantial progress in addressing some difficult governance challenges in specific sectors, which offer useful lessons for tackling other governance constraints. As shown in the relevant case study in this Issue Brief, the country's results in controlling violent and organized crime while facing greater capacity constraints than those that obtain today provide a good example of sustained progress toward building the capacity needed to achieve a specific governance goal. In particular, this experience points to the importance of the following factors for successful governance reform:

- a. Clearly articulating policy objectives at a high political level and conveying a sense of determination and urgency about policy actions;

- b. Building broad-based political and societal support for policy objectives, including through civil society engagement and assistance from the international community;
- c. Dedicating adequate resources and ensuring coordination among different government agencies and state institutions involved in achieving results; and
- d. Regularly tracking implementation results with reference to specific indicators (such as the share of detected crimes) to monitor progress, going beyond legislative and institutional measures.

xiii. It will be important to rebuild cooperation among Albania’s main political parties around a core program of institutional and policy reforms required for EU integration—a goal that all parties and most Albanians support. At a minimum, cooperation between the Government and the opposition is needed to achieve the enhanced parliamentary majority required for any legislative changes concerning the judiciary or the civil service. Beyond this, constructive cross-party dialogue on such major reforms is essential to ensure sustainable institutional development and reduce the risk of reform reversal in the event of political change. More broadly, a functioning Parliament, where policies are constructively debated, is also essential to citizens’ trust in public institutions and to Albania’s international credibility as a mature and stable democracy—a perception that is critical to the country’s EU accession prospects.

xiv. The complex governance challenges facing Albania today call for a strong medium- to long-term strategy, supported by robust coordination and monitoring mechanisms. Further reducing the incidence of corruption in the public sector and strengthening the rule of law will require sustained effort, strong policy coordination, extensive capacity building across state institutions, and meaningful engagement with civil society. The Government could achieve tangible progress toward these goals by defining relevant priorities, required actions, and institutional responsibilities, and by allocating the necessary resources, including from external assistance funds. EU accession criteria can provide a useful roadmap, though the Government might also consider addressing other acute governance challenges that affect public service delivery and the business environment (including targeting of social benefits, improving the transparency of health financing, and reducing informal payments in the issuance of construction licenses).

xv. The Government will need to define a results framework with *measurable* indicators and ensure regular monitoring of implementation progress, ideally as part of the NSDI monitoring and evaluation process. Policy coordination and monitoring capacity at the center of government will need to be strengthened further to ensure sustained implementation of reforms that require concerted action by multiple government agencies. Assigning clear responsibility to individual Cabinet members for key results would help improve coordination among multiple agencies engaged in different aspects of a reform. Improved monitoring of the implementation status of new laws and policies, in consultation with civil society stakeholders, will help ensure that policy measures achieve demonstrable results while minimizing any adverse unintended consequences. Instituting a systematic monitoring of the public administration’s compliance with court decisions would also be important in strengthening the rule of law. Regular public reporting on clearly formulated results indicators may also be expected to enhance external accountability and public trust in government institutions.

xvi. The inconsistent implementation of laws and regulations can be addressed through improved legal drafting capacity in government and more systematic consultation with stakeholders. The Government could reduce implementation gaps by waiting to submit new draft laws for parliamentary approval until after the necessary budgetary provision has been made and

secondary legislation providing clear implementation guidelines prepared. Many implementation problems could be avoided by making more extensive use of advance consultations with key stakeholders (such as business associations) when preparing new laws or regulations affecting their activities. Regular consultation with civil society could also assist in monitoring the implementation of laws and regulations and making timely adjustments to reduce the risk that new legal instruments would lead to unintended consequences.

xvii. Some governance problems, such as the protection of real property rights, present particular challenges in the form of complex political economy implications, policy inconsistency, unclear legal frameworks, and weak or fragmented institutions. Meeting these challenges will require strong leadership from the Government and extensive engagement with civil society to find workable, affordable, and broadly acceptable solutions to resolve policy inconsistencies that block progress on key initiatives such as the legalization of informal properties, restitution, and compensation. Tackling implementation bottlenecks through strong interagency coordination and clear accountability for results will be essential. Broad public debate and efforts to build cross-party consensus will be most critical to the successful and sustainable resolution of such fundamental and complex governance challenges.

GOVERNANCE IN ALBANIA: A WAY FORWARD FOR COMPETITIVENESS, GROWTH, AND EUROPEAN INTEGRATION

ALBANIA'S GOVERNANCE PROFILE

1. **Looking at current economic, social, and governance indicators, it is perhaps easy to underestimate the magnitude of the changes that have occurred during Albania's transition.**

Like its Western Balkan neighbors, Albania lacked pre-communist experience with democratic institutions, which is considered to have eased Central and East European countries' post-communist transition to democracy and a market economy.⁵ Until the fall of communism in 1991, Albania had been ruled by arguably the most repressive communist regime in Europe, which in pursuit of economic autarky had almost completely cut off the country from the outside world for nearly two decades. This legacy of repression and forced isolation held back the country's economic development, putting it at a relative disadvantage at the start of the transition, and left a lasting imprint on Albanians' political culture and attitudes. It is no accident that, of all countries included in the Life in Transition Survey (LITS) conducted by the World Bank and European Bank for Reconstruction and Development (EBRD) in 2006, Albanian respondents were among the most positive in comparing their socioeconomic situation with the communist era and among the most optimistic about the future, suggesting that they felt little nostalgia for the communist past. Albanians also expressed the highest level of support for the current political and economic system. On the other hand, Albanians showed among the lowest levels of trust in public institutions, especially the government, the parliament, and the courts.⁶

2. **In the wake of the 1997 crisis, Albania faced enormous challenges in overcoming the fragility of its institutions and restoring the state's capacity to exercise basic functions.** The period 1998–2003 was crucial to Albania's efforts to return to normality, rebuild the capacity of state institutions, and re-launch economic growth on a more sustainable foundation. The basis for Albania's current institutional setup was laid during this period, with the adoption of the 1998 Constitution and other major legislation. For example, laws on the civil service, public prosecutor, and courts were adopted in 2000. Public order and government control over the country's territory had been restored by early 2000. Yet Albania remained by far the poorest country in Europe. To add to these challenges, Albania was dealing with the impact of the conflict in Kosovo (1998–1999), which brought an influx of refugees into the country along with international attention and support in recognition of Albania's constructive role. The signing of the Stabilization and Association Agreement (SAA) with the European Union (EU) in 2003, which marked the first step in Albania's European integration process, also took on meaning as a sign of international acceptance that the country had returned to normality.

3. **Albania experienced impressive economic growth, poverty reduction, and improved human development outcomes in the decade following the 1997 crisis.** The economy has grown by 5–6 percent per year on average (Figure 1), and improved economic regulation and prudent macro-fiscal management have reduced the risk of another endogenous crisis. Over the

⁵ Albania became an independent state in 1912, with only a brief interlude as a parliamentary republic (1925–1928) between two periods under monarchic rule (1914–1925 and 1928–1939).

⁶ See EBRD. 2007. *Life in Transition: A Survey of People's Experiences and Attitudes*, pp. 28-29; S. Zaidi et al. 2009. *Satisfaction with Life and Service Delivery in Eastern Europe and the Former Soviet Union: Some Insights from the 2006 Life in Transition Survey*, World Bank Working Paper no. 162, p. 20.

same period, Albania's per-capita gross national income (GNI) more than quadrupled in nominal terms and more than doubled in terms of purchasing power parity (Figure 2, Table 1). The poverty headcount dropped by more than half, from over one-quarter of the population in 2002 to 12.4 percent in 2008. Thanks to impressive improvements in life expectancy, per-capita GNI, and education, Albania has achieved "high human development" as measured by the UNDP Human Development Index (HDI), moving up in the global ranking from 100th out of 150 countries in 1999 to 64th out of 169 countries in 2010.⁷ Albania's HDI score is now above the average for countries with similar levels of per-capita income (Figure 3). At the same time, income inequality has increased, with the Gini coefficient rising from 0.28 in 2002 to 0.33 in 2008.⁸

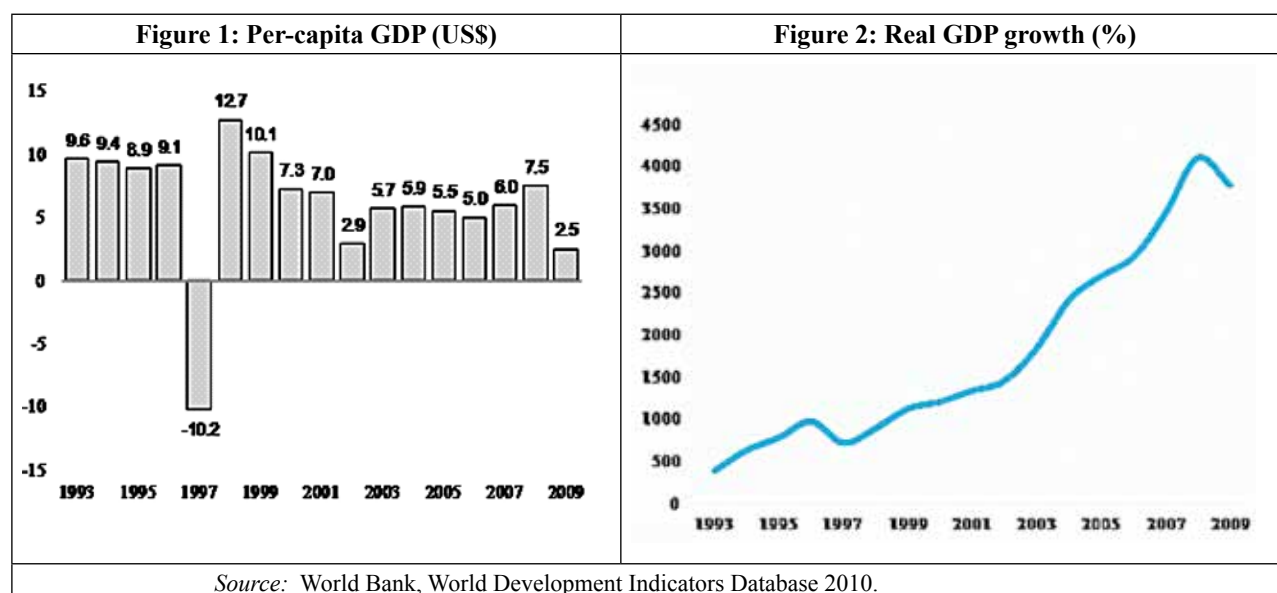


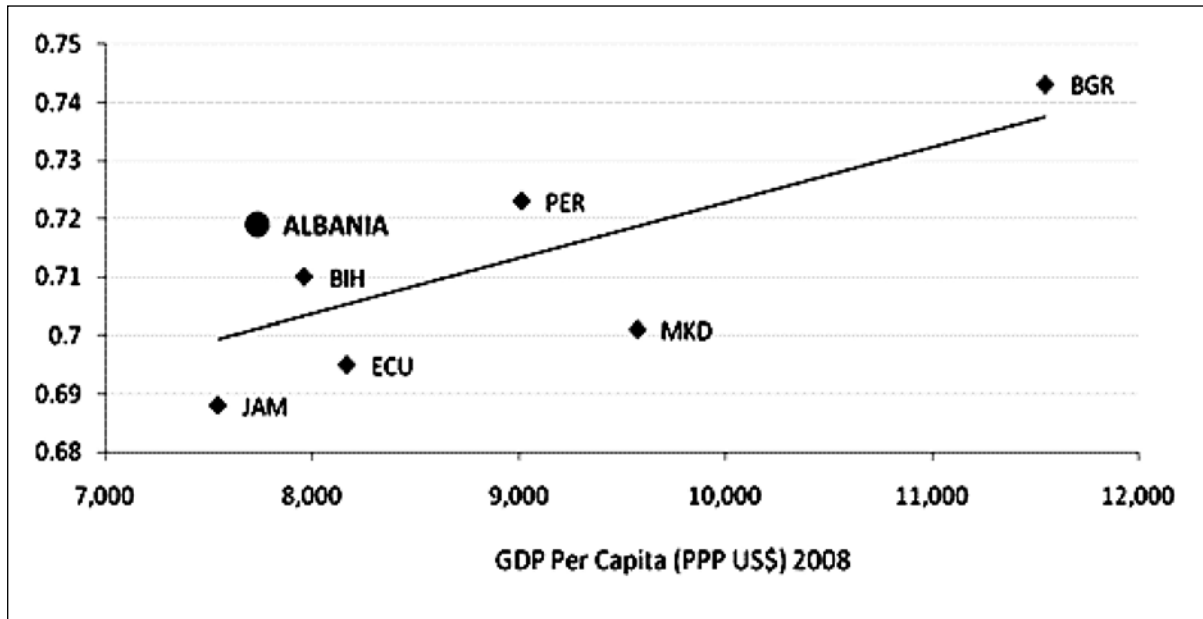
Table 1: Albania Basic Data, 2009

Population, total (millions)	3.15
Life expectancy at birth	77
GDP (current US\$ billions)	12
GDP growth (annual % average 1999-2009)	6
GNI, Atlas method (current US\$ billions)	12.6
GNI per capita (US\$)	4,000
GNI per capita PPP (US\$)	8,300

Source: World Bank, World Development Indicators Database 2010.

⁷ High human development is defined as an HDI score from 0.800 to 0.899.

⁸ The Gini coefficient is a measure of inequality, ranging from 0 (perfect equality) to 1 (perfect inequality). UNDP. 2004, 2010. Human Development Reports. Data published in the 2010 report are from 2008.

Figure 3: Albania's HDI Score as Compared with Countries with Similar Per-capita GDP

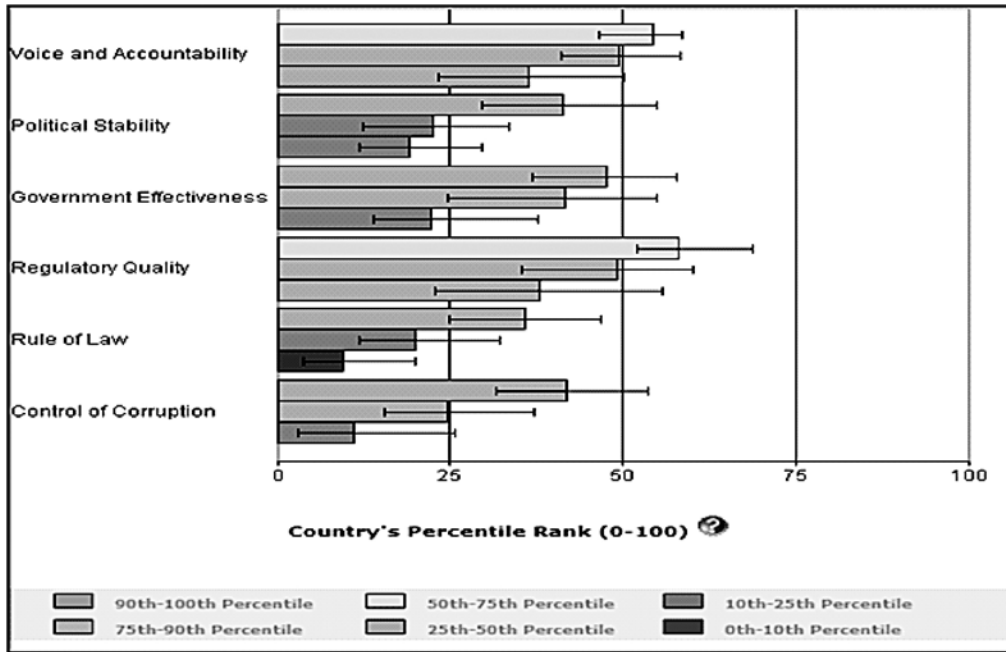
Note: Comparator countries include Bosnia-Herzegovina, Bulgaria, FYR Macedonia, Jamaica, Ecuador, and Peru.
 Source: UNDP. Human Development Database 2010.

Governance Trends in Albania

4. Albania's recent growth may be more sustainable than in the past, given broadly positive progress across all major aspects of governance over the last decade. This trend is evident from a range of indicators, from composite indices that are based primarily on perceptions, such as the Worldwide Governance Indicators (WGI) and Global Perceptions Index, to more specific measurements of government performance, including the Business Environment and Enterprise Performance Survey (BEEPS) and the joint World Bank-International Finance Corporation (IFC) Doing Business rankings. Though composite indices do not provide much detail about specific aspects of governance, they can be useful in outlining a country's relative governance weaknesses and in capturing broad trends over time.

5. Albania performs relatively well on voice and accountability and regulatory quality, while the rule of law and control of corruption remain areas of relative weakness. According to the World Bank Institute's WGI, Albania's strengths reflect the country's competitive political system and pluralist media environment and progress in establishing an open market economy (Figure 4). Yet the picture is mixed, as indicated by specific (albeit subjective) indicators that track developments in these areas.

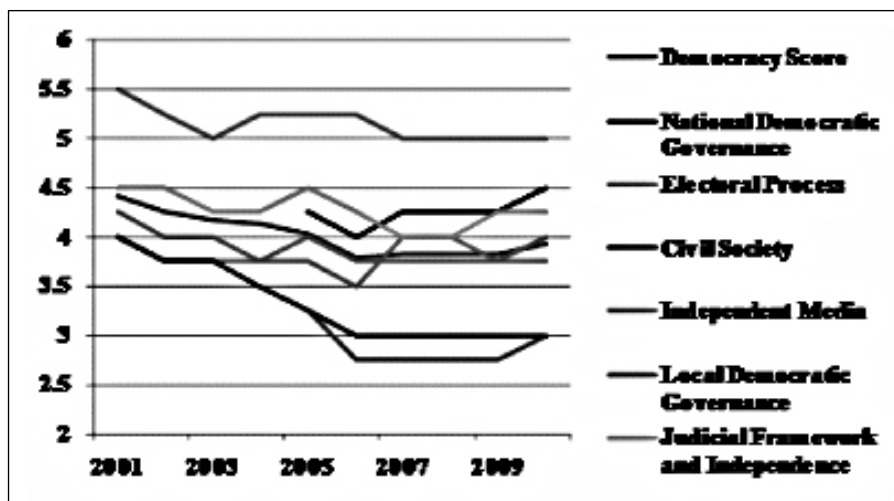
Figure 4: Albania's Worldwide Governance Indicators



Source: D. Kaufman, A. Kraay, M. Mastruzzi. 2010. The Worldwide Governance Indicators: Methodology and Analytical Issues.

6. **With a few exceptions, voice and accountability indicators are comparatively strong in Albania.** In 2009, the international media freedom watchdog Reporters without Borders ranked Albania 88th out of 175 countries on media freedom, owing to occasional incidents of violence against or pressure on journalists, especially those investigating high-level corruption. The Freedom House survey classifies Albania as “partially free,” giving the country higher ratings for democracy, media, and civil society freedom, but lower scores for the electoral process, judicial independence, and control of corruption (Figure 5).

Figure 5: Albania's Freedom in the World Ratings, by Indicator



Note: The Freedom in the World index measures global freedom on a scale from 1 to 7, where 1 indicates the highest degree of freedom.

Source: Freedom House. 2010. Nations in Transit.

7. **Albania's improved performance on regulatory quality is corroborated by a range of indicators.** Reforms aimed at improving the business environment—notably in business registration, investor protection, and tax administration—have enabled Albania to improve its *Doing Business* rankings, bringing Albania among the top 10 reformers in the 2009 *Doing Business* report (Table 2). In 2010, *Doing Business* notes further improvements in business registration, tax and customs administration, including e-filing, and the bankruptcy process. Among Southeastern European (SEE) countries, *Doing Business* rates Albania's investor protection framework as the most closely aligned with international best practices. On the other hand, Albania fares very poorly with regard to the issuance of construction permits.⁹ Albania has improved its Global Competitive Index ranking and score, particularly on regulatory institutions and macroeconomic stability (Figure 6).¹⁰ Albania's scores and ranking on the Heritage Foundation's Index of Economic Freedom, which is composed of ten indicators related to economic policy and the business environment, have improved significantly in the past ten years. In 2010, Albania ranked 53rd out of 179 countries (25th out of 43 European countries), with high scores for trade, investment, and financial freedom. The index notes, however, that business regulation remains cumbersome in some areas, such as obtaining permits, and scores for the protection of property rights and freedom from corruption remain low.¹¹ These improvements are also reflected in Albania's improved regulatory quality score in the WGI (Figure 7).

Table 2: Top Reformers on Doing Business, 2007/08

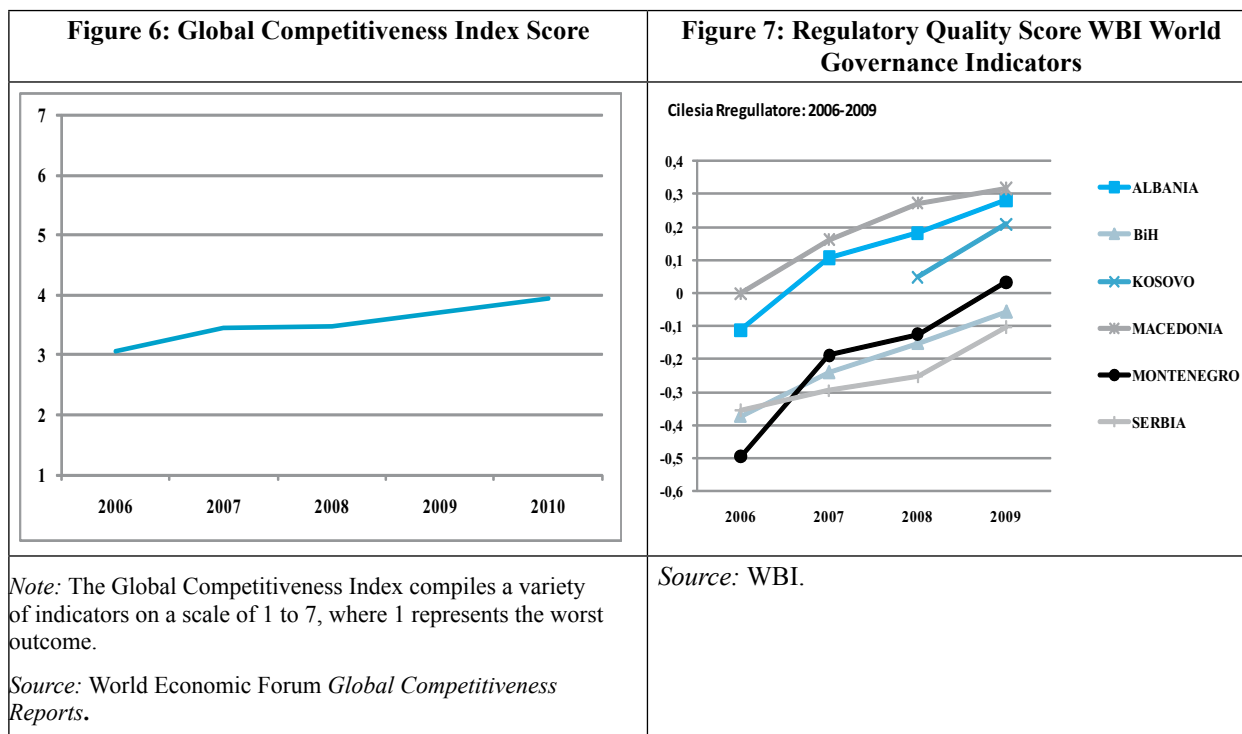
Economy	Starting a business	Dealing with construction permits	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
Azerbaijan	✓		✓	✓	✓	✓	✓		✓	
Albania	✓				✓	✓	✓			
Kyrgyz Republic	✓	✓				✓				
Belarus	✓	✓		✓	✓		✓	✓		
Senegal	✓			✓				✓		
Burkina Faso		✓	✓	✓			✓			
Botswana	✓					✓		✓		
Colombia	✓	✓					✓	✓		✓
Dominican Republic	✓			✓			✓	✓		
Egypt	✓	✓		✓	✓	✓		✓		

Note: Economies are ranked on the number and impact of reforms. First, *Doing Business* selects the economies that implemented reforms making it easier to do business in 3 or more of the *Doing Business* topics. Second, it ranks these economies on the increase in rank on the ease of doing business from the previous year. The larger the improvement, the higher the ranking as a reformer.
Source: *Doing Business* database.

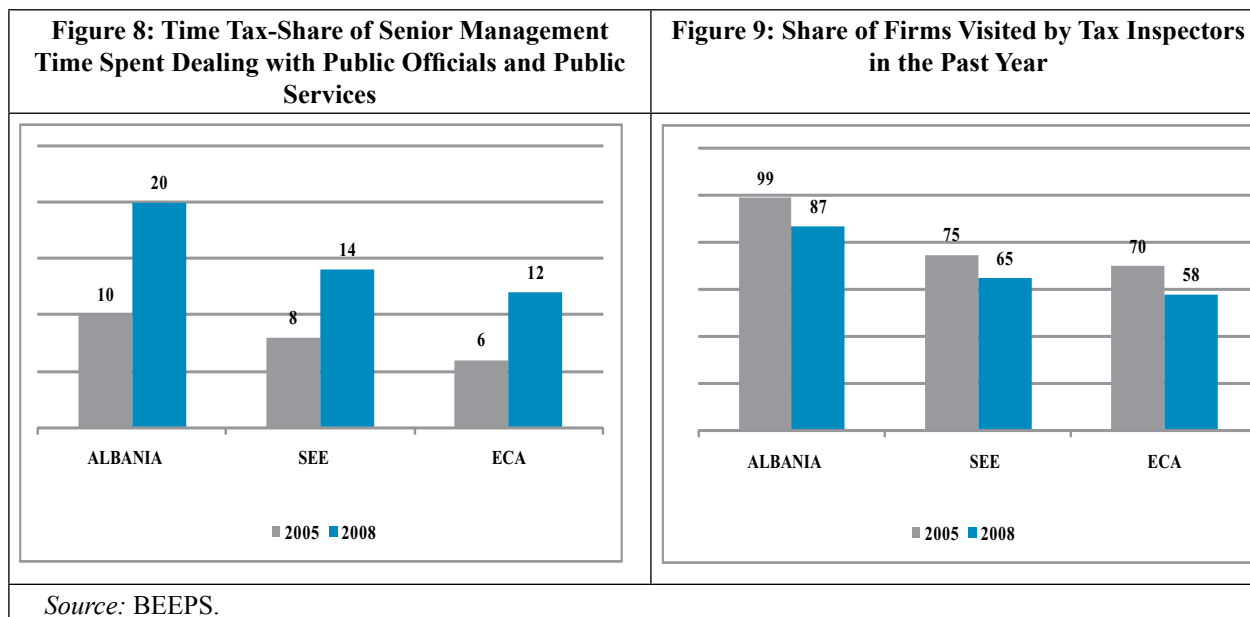
9 World Bank and IFC. 2010. *Doing Business 2011: Albania*, pp. 28, 52-53.

10 World Economic Forum. 2009. *The Global Competitiveness Report 2009-2010*. Geneva.

11 The overall objectivity of Heritage foundation's index could be questioned on the grounds that it promotes a right-of-center economic model, awarding high scores for low taxation levels and low government spending, but does not consider any human capital or human development indicators.



8. There is room for improvement on many aspects of economic regulation, including credibility in the implementation of laws and regulations. In several areas covered by *Doing Business*, including property registration, issuance of construction permits, and bankruptcy procedures, Albania has shown no improvement between 2003 and 2009.¹² The BEEPS and IFC Enterprise Surveys indicate that managers of firms operating in Albania tend to spend more time dealing with officials and public services than is the case elsewhere in the region. Firms in Albania are also more likely to be visited by tax inspectors (Figures 8 and 9).

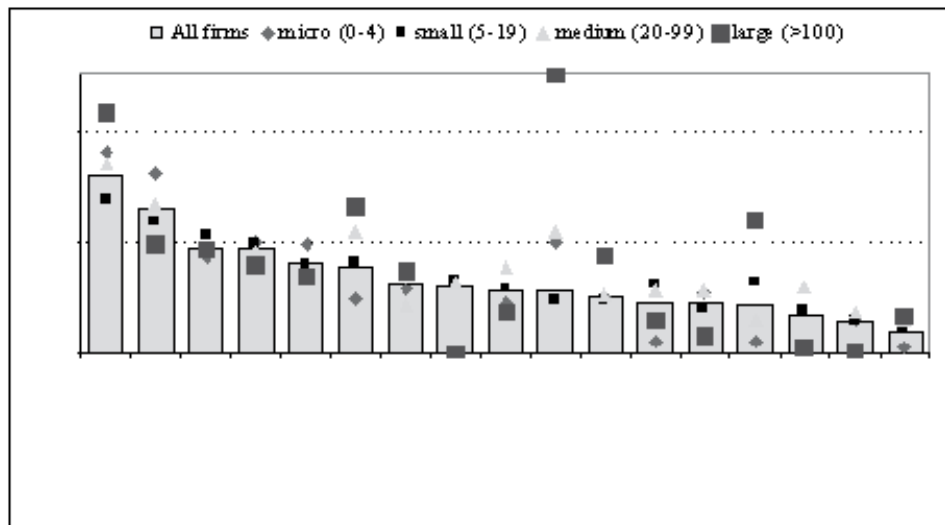


9. Recent investment surveys confirm Albania's progress in regulatory policy, but note that implementation failures have limited its competitiveness. The World Bank's 2009 Investment Climate Assessment points to the significant gap between formal regulations and

¹² *Doing Business* reports 2004-2010.

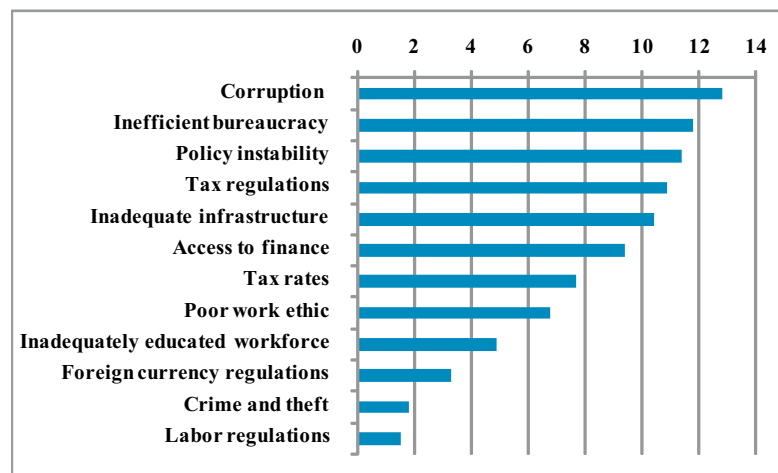
actual implementation practices as a key constraint to attracting foreign direct investment (FDI).¹³ Though other constraints—especially the unreliable electricity supply—appear to have a greater impact on business activity, the weak enforcement of regulatory policies and unreliable application of laws (notably in the protection of land and property rights) seriously dampen Albania's business climate (Figure 10). The World Economic Forum investors' survey identifies governance-related shortcomings such as corruption, inefficient public administration, and policy instability as major constraints (Figure 11).¹⁴

Figure 10: Major/Very Severe Obstacles, by Firm Size (No. of Employees, % Firms, Weighted)



Source: World Bank. 2009. Albania Investment Climate Assessment survey.

Figure 11: The Most Problematic Factors in Doing Business (% of responses)



Note: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country/economy and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

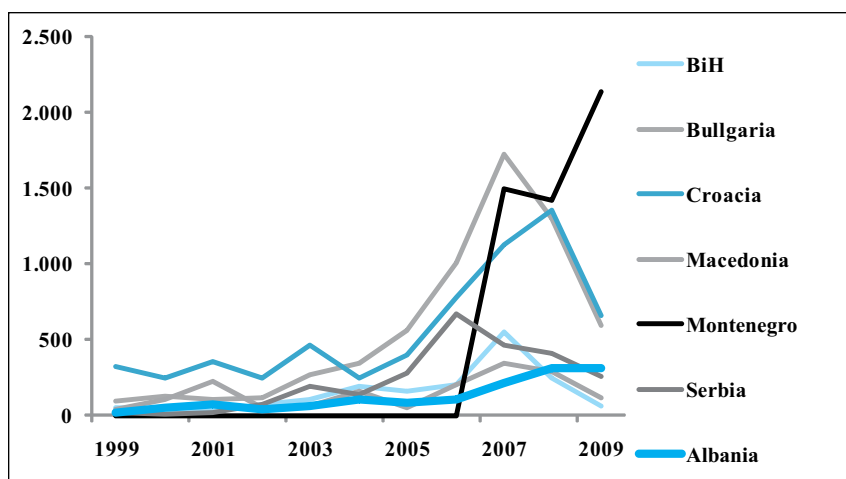
Source: World Economic Forum Survey 2010.

¹³ World Bank. 2009. *Albania Investment Climate Assessment*, pp. 65-66.

¹⁴ The World Economic Forum survey asks respondents to select the five most problematic factors from a list of 15. Problems such as judiciary and contract enforcement, protection of property rights, and access to land are not included in the list of possible responses. Figure 1.8 lists all factors that were named by more than 1 percent of respondents in Albania. World Economic Forum, *Global Competitiveness Report 2009-2010*, pp. 66-67.

10. Despite overall growth in FDI volumes, per-capita FDI remains low compared to neighboring countries, calling for further efforts to improve the competitiveness of Albania's business climate (Figure 12). The privatization of a few large enterprises appears to have increased FDI inflows in recent years, but on a per-capita basis Albania's FDI lags behind other SEE countries. To address this problem and improve its international competitiveness, Albania will need to take further regulatory measures and—most importantly—take a vigilant approach to ensuring reliable implementation. This is likely to require more complex reforms than those already undertaken, including improvements in the issuance of construction permits and broader efforts to strengthen public administration efficiency and ensure the consistent application of laws and regulations. In some problematic areas, such as the issuance of construction permits, improvements will require more cooperation between central authorities, which are responsible for regulatory policy, and local governments, which are mostly in charge of implementation. Systematic monitoring and public reporting on different agencies' and local governments' performance in specific aspects of business regulation would strengthen accountability and incentives for improvement.

Figure 12: Per-capita FDI in Albania and Neighboring Countries (US\$)



Source: World Bank (central database).

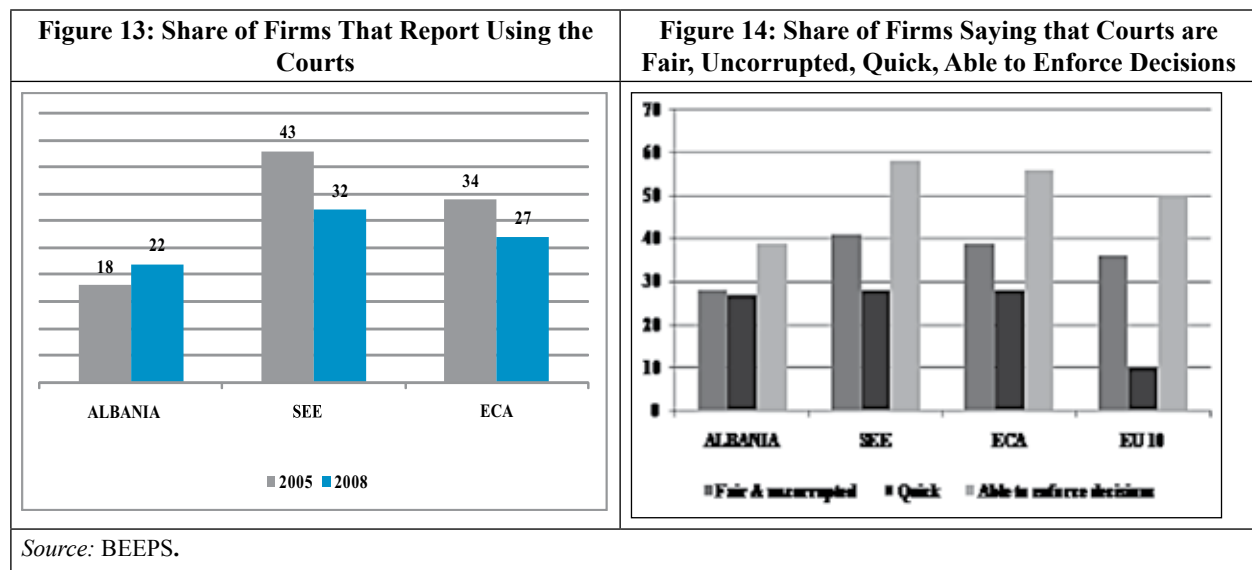
11. With regard to the rule of law, Albania has made major strides in curbing the violent and organized crime that had damaged the country's international reputation. At the political level, Albania's accession to NATO and the activation of the SAA with the EU were achieved in large part thanks to Albania's remarkably successful—though by no means complete—efforts to rein in the activities of violent organized crime groups that once threatened the security of the country's population and deterred foreign visitors and investors (see case study).¹⁵ Increased, albeit modest, inflows of FDI and the growing number of foreign tourists testify to improved perceptions of public order and safety in Albania. However, Albania needs to make further progress with regard to other dimensions of the rule of law, including the adherence of the public administration to laws and regulations.

12. Inconsistent application and uneven enforcement of laws still present major challenges to the quality of the rule of law. Though judges' training and career management have improved, assessments of the judicial system highlight widespread corruption, undue interference by the executive branch, limited transparency, and a growing backlog of cases. The non-enforcement of court decisions related to real property rights and unlawful dismissal of public employees has

¹⁵ Albania's contribution to regional stability through responsible foreign policy, which sought to diffuse tensions and support the resolution of interethnic conflicts involving ethnic Albanian populations in neighboring countries (Kosovo, Macedonia), also very much assisted Albania's accession to NATO and progress in EU integration.

compromised judicial system credibility. As a result, the European Court of Human Rights has admitted for consideration an increasing number of cases from Albanian applicants.¹⁶ Systemic gaps and inconsistencies also exist in the implementation of legislation, a fact that is particularly worrying in view of Albania's EU membership aspirations, which will require the country to adopt extensive new legislation that aligns national laws with EU norms (*acquis communautaire*). This added complexity would necessitate improved public administration capacity to apply legislation and monitor its implementation, and greater focus on the part of the political leadership and parliament on ensuring that legislation is well prepared.

13. Confidence in the courts' ability to effectively uphold the law is low but improving. Surveys suggest that firms and the general public still do not regard the judicial system as a credible mechanism for resolving disputes and upholding legal rights. Firms in Albania tend to use the courts less frequently than in neighboring countries (Figure 13), though the rate is increasing. Enforcement of commercial contracts through the courts takes more than one year on average and tends to be costlier than in some neighboring countries (Table 3). Perceived corruption and lack of impartiality seem to be the main impediments to public trust in the court system, but Albania's courts also fare worse than those of neighboring countries in terms of perceived speed and ability to enforce their decisions (Figures 13-16). Public opinion surveys show some recent improvement in citizen satisfaction with the courts (Figures 28-29), and further improvements could result from efforts to raise public awareness about initiatives undertaken to improve the performance and accountability of the courts, for example through the publication of statistics on timeframes for the processing of cases.

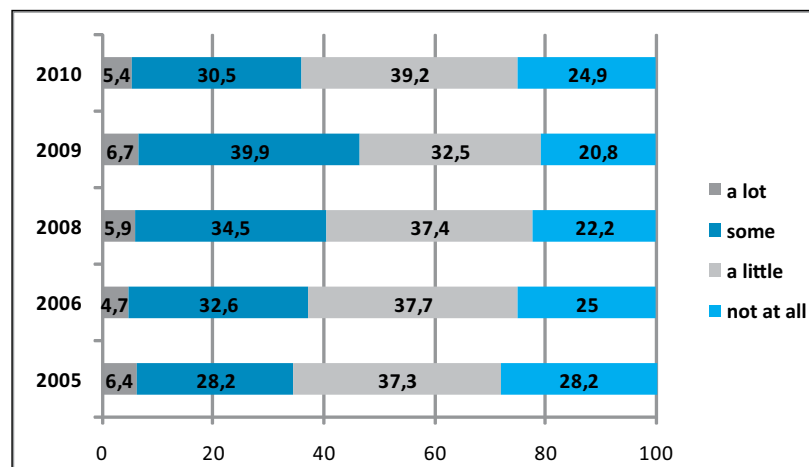


16 American Bar Association Rule of Law Initiative. 2008. *Judicial Reform Index: Albania*; European Commission. 2009. *Albania 2009 Progress Report*. Document No. COM (2009) 533.

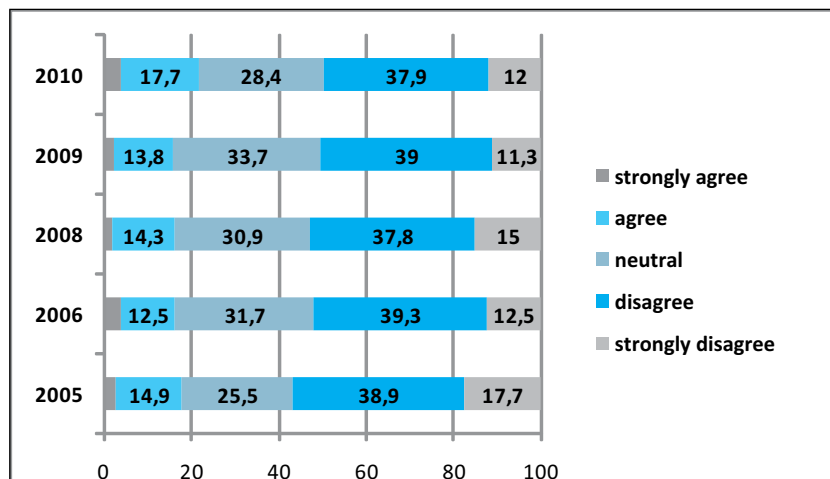
Table 3: Enforcing Contracts in Albania and Comparator Countries

	Number of Procedures	Days	Cost (% of Claim)
Albania	39	390	38.7
Bosnia & Herzegovina	37	595	40.4
Croatia	38	561	13.8
Macedonia, FYR	37	370	33.1
Montenegro	49	545	25.7

Source: Doing Business 2011.

Figure 15: Public Trust in the Judicial System

Source: IDRA 2010.¹⁷



Source: IDRA 2010.

14. Improved economic and social development outcomes suggest that government effectiveness has improved significantly over the past decade, but progress is difficult to measure precisely. Like the rule of law, government effectiveness is an aspect of governance that tends to defy precise measurement, especially in the absence of a robust system for monitoring and

¹⁷ IDRA. 2010. *Corruption in Albania: Perception and Experience*. Survey 2010: Summary of Findings. Survey financed by USAID.

evaluating government performance. While Albania has made tremendous progress in developing a coherent strategic and budgetary planning system, it is still in need of a well-developed mechanism for translating government objectives into precise commitments and measurable targets. There is also a need for greater institutional capacity in the executive, the legislature, and the supreme audit institution to systematically monitor the implementation of government policies and consistently track progress toward government objectives.¹⁸ In the absence of such a system, government effectiveness can be assessed with reference to broadly defined objectives and outcomes in various sectors of government activity. Evaluations of public administration quality and surveys on citizen satisfaction with public services may also be treated as proxy indicators of government effectiveness.

15. Assessments of institutional capacity and performance point to overall improvements.

Reports prepared by the Support for Improvement and Governance and Management (SIGMA) initiative¹⁹ note broadly positive trends in civil service management, policy coordination, public expenditure management, internal control and internal audit, external audit, and public procurement. Other evaluations support this conclusion, including the World Bank's Country Policy and Institutional Assessment. Further improvements in government effectiveness are likely to be undermined by enduring weaknesses in the integrity of public procurement and divergence from merit-based human resource management due to the persistence of clientelist and nepotistic practices in the public sector.

Trends in Informal Payments

16. Corruption is often treated as a proxy for a country's quality of governance, due in part to the development of indicators for measuring perceptions and experience of informal payments. High levels of corruption, especially petty (administrative) corruption, tend to indicate low government effectiveness and weak rule of law, though other factors such as culture and local traditions of reciprocity also play a part. Surveys that aim to measure corruption prevalence in specific public services can help illustrate the impact of reforms designed to improve service delivery effectiveness and strengthen the performance of relevant state bodies. When a country's public institutions provide services and apply laws and regulations in a reliable, consistent, and reasonably timely manner, firms and individual citizens tend to see little need for informal payments or gifts to public officials. When long delays in service delivery are the norm, the quality of services is unpredictable, laws and regulations are commonly applied arbitrarily, and official redress mechanisms are seen as ineffective. In this environment, informal payments may appear to be a rational choice for firms and individuals seeking to "get things done." Opportunities for public sector corruption also flourish when low transparency, weak administrative control, and ineffective law enforcement lower the likelihood of detection.

17. Though Albania has long been perceived as having high levels of corruption, indicators suggest that corruption prevalence is declining. Transparency International's widely cited Corruption Perceptions Index (CPI), which employs a survey-of-surveys methodology, points to broad improvements in recent years.²⁰ While the CPI does not provide information on the level of informal payments or public services affected by corruption, it captures broad trends in public

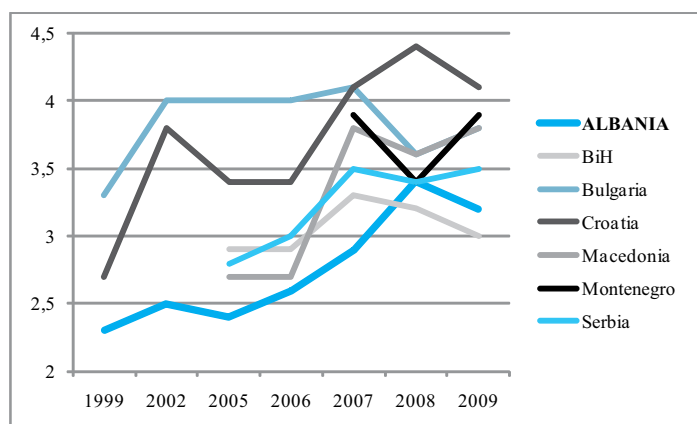
¹⁸ SIGMA. 2009. *Albania: Policy-making and Co-ordination Assessment* (May), pp. 6-7.

¹⁹ SIGMA is a joint EC-OECD body that specializes in capacity building for public administration in EU candidate and pre-accession countries.

²⁰ This apparent trend should be treated cautiously, as the CPI is not designed to measure countries' progress over time, but is intended to provide a snapshot of corruption perceptions at a specific point in time. The comparability of scores over time has been affected by the addition of new sources in recent years.

perceptions—albeit with a time lag, as it takes into account surveys from the past two years. In 2010, Albania ranked 87th out of 178 countries on the CPI, but continues to lag behind its SEE neighbors, with the exception of Bosnia and Herzegovina (Figure 17).²¹

Figure 17: Albania's CPI Score as Compared to Other SEE Countries



Source: Transparency International.

18. Albania has taken important steps to address corruption, with noticeable results in key areas, especially where it affects business. Reforms aimed at improving the business climate appear to have helped reduce corruption. IFC Enterprise Surveys suggest that bribe frequency has declined sharply (Figure 18). According to the BEEPS data, reported bribe frequency declined from 48 percent in 2005 to 13 percent in 2009 (Figure 19)—the sharpest decline during this period in the Europe and Central Asia (ECA) region. The share of firms that reported paying bribes dropped from 70 percent to 43 percent over the same time period (Figure 20). The reported value of unofficial payments as a share of firms' total sales has increased, however, and is significantly higher than regional averages (Figure 21).

Figure 18: Share of Firms That Expected to Make Informal Payments

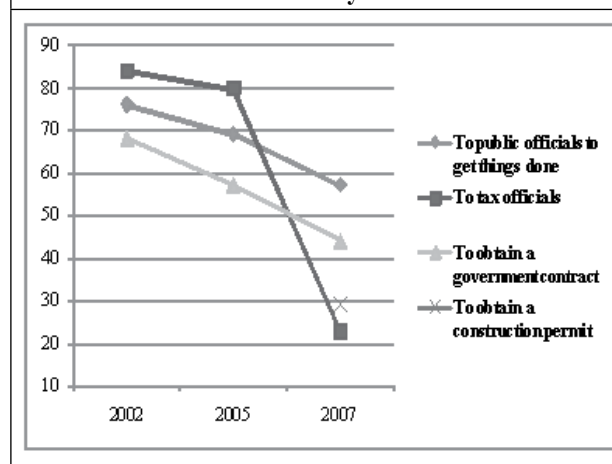
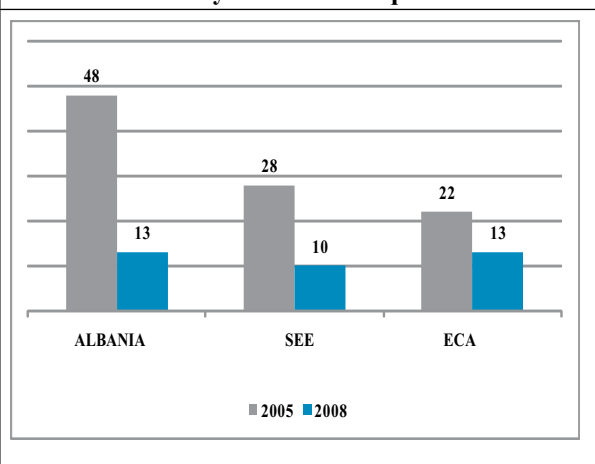
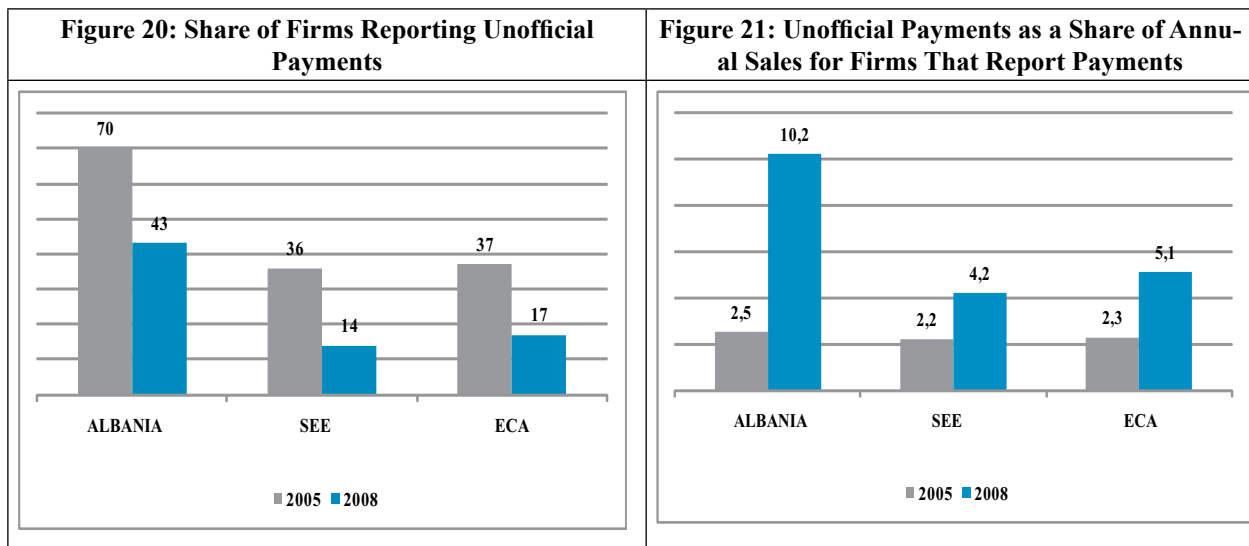


Figure 19: Share of Firms Reporting That Unofficial Payments are Frequent

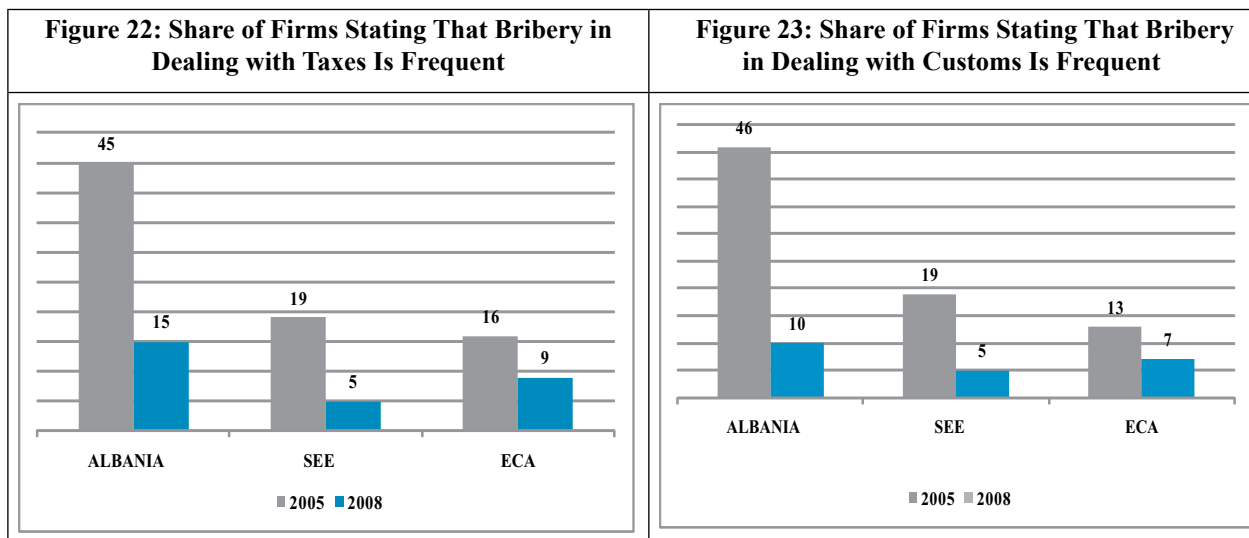


²¹ CPI scores range from 1 to 10, where 10 represents the lowest level of perceived corruption. Comparisons over time need to be treated with caution, as the CPI methodology has seen some changes since it was first developed.



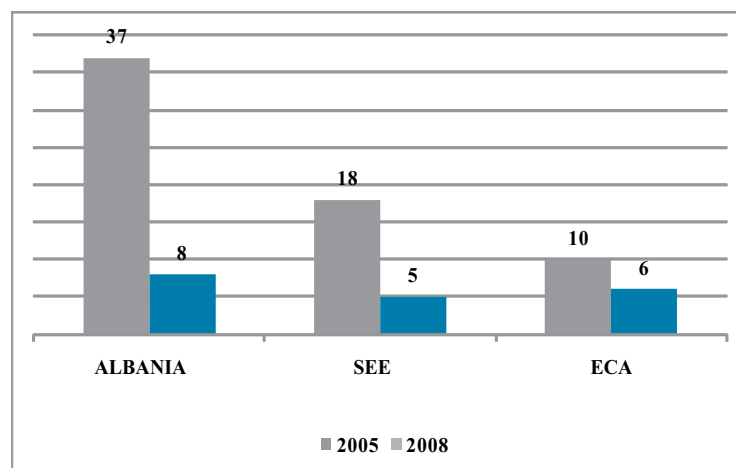
Source: BEEPS.

19. Anticorruption improvements are particularly marked in tax administration, the customs service, and the courts (Figures 22-24). This suggests that reform efforts such as simplifying procedures for paying taxes (including online submission of tax returns) are reducing opportunities for corruption and improving firms' perception of corruption. Still, Albania has some way to go to close the gap with some of its neighbors and converge with EU member states. Going forward, a lot could be achieved by setting transparent standards for regulatory processes (such as maximum timeframes and set fees for reviewing licensing applications) and regularly monitoring their implementation (for example, through annual surveys of firms, including at the municipal level). Publicizing results (including poor ones) and promoting good practices (such as electronic submission and tracking of applications) may be expected to further limit corruption opportunities. In this regard, special attention would need to be paid to clarifying procedures and performance standards for problematic areas such as construction permits.



Source: BEEPS.

Figure 24: Share of Firms Stating That Bribery in Dealing with the Courts Is Frequentshpeshtë



Source: BEEPS.

20. By contrast, unofficial payments to obtain public procurement contracts seem high, which suggests the importance of a greater focus on addressing corruption at high levels. This type of corruption affects the fewer, larger firms that bid for government contracts. Only 14 percent of Albanian firms included in the BEEPS had bid for government contracts. The overall bribe tax in public procurement (“kickbacks” as a share of contract value, when all firms’ responses are included) declined but remained high relative to regional averages (Figure 25). Among the 22 percent of firms that admitted to having made unofficial payments to obtain a contract in 2008, the average bribe tax was 14 percent of the contract value (Figure 26), among the highest in the ECA region. High levels of public spending on infrastructure as compared to public services may have contributed to greater corruption opportunities in public procurement. On the other hand, the survey predates the launch of the electronic procurement system in 2009, which marks a major improvement in the transparency of the procurement process. Other actions, such as publishing benchmark unit costs and reference prices for common procurement categories could also help increase transparency and accountability.

Figure 25: Share of Contract Value Typically Paid to Secure a Government Contract (all firms)

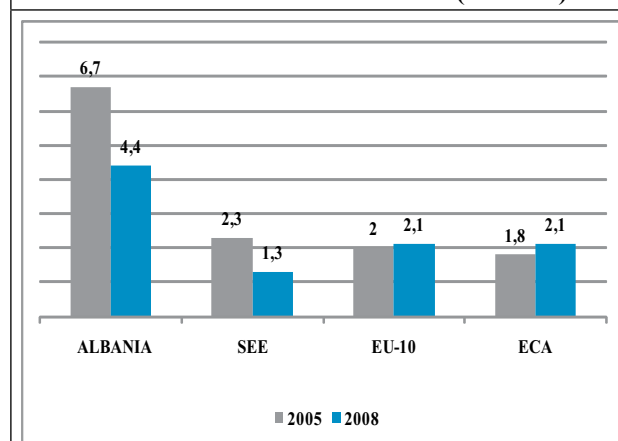
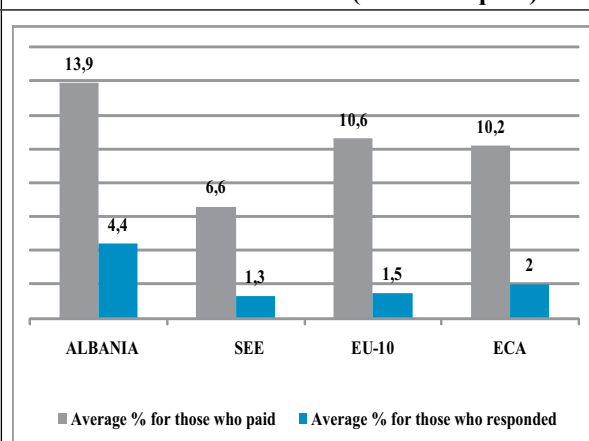


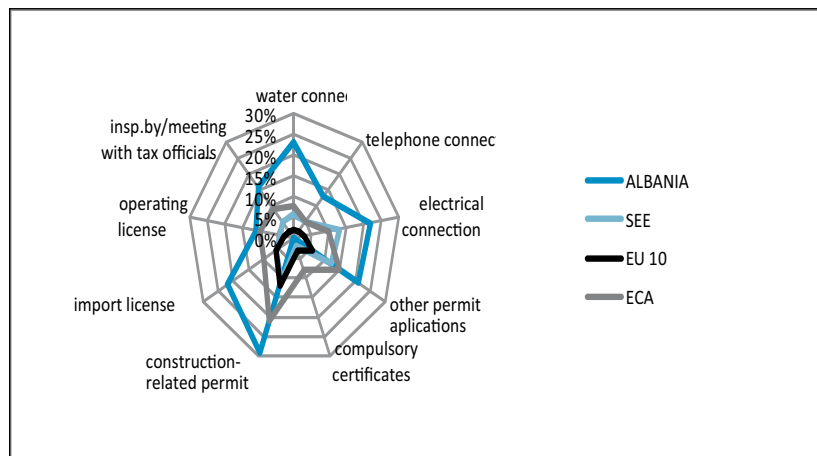
Figure 26: Share of Contract Value Paid to Secure a Government Contract (firms that paid)



Source: BEEPS.

21. Informal payments are reportedly frequent in dealing with utilities, licenses, and permits. In the 2008 BEEPS, firms reported the highest incidence of unofficial payments and/or gifts when applying for construction permits, water connections, electricity connections, import licenses, and other permits. Albania performs worse with regard to these transactions than neighboring countries, damaging its efforts to improve its competitiveness as an investment destination. Clarifying regulatory frameworks, setting clear performance standards, and strengthening accountability mechanisms through regular monitoring, public reporting, and feedback from firms should help reduce corruption frequency in these areas (Figure 27).

Figure 27: Firms Reporting That Informal Gifts Were Expected/Requested for Public Services



Source: BEEPS. 2010. Corruption Report.

22. Despite overall positive trends, the reported incidence of unofficial payments in Albania remains among the highest in Europe, damaging the country's competitiveness and international reputation. Though the country has made remarkable progress in recent years, the percentage of firms that reported making unofficial payments in the 2008 BEEPS (48 percent, Figure 20) remained much higher than SEE and ECA averages (14 and 17 percent respectively). Addressing this area of weak governance will require further efforts to streamline and clarify legal and regulatory frameworks, and ensure accountability for the consistent application of rules and regulations. Improved enforcement measures will also be necessary. According to the Group of States against Corruption (GRECO), the anticorruption body of the Council of Europe, Albania has largely aligned its legal framework on anticorruption with international norms, including by ratifying relevant United Nations (UN) conventions. Yet institutional capacity for effective enforcement lags behind.²² According to European Commission Progress Reports, delays and setbacks in the investigation and prosecution of criminal cases against high-level officials have sent mixed signals about the Albanian leadership's commitment to strengthening public officials' accountability and combating corruption.²³

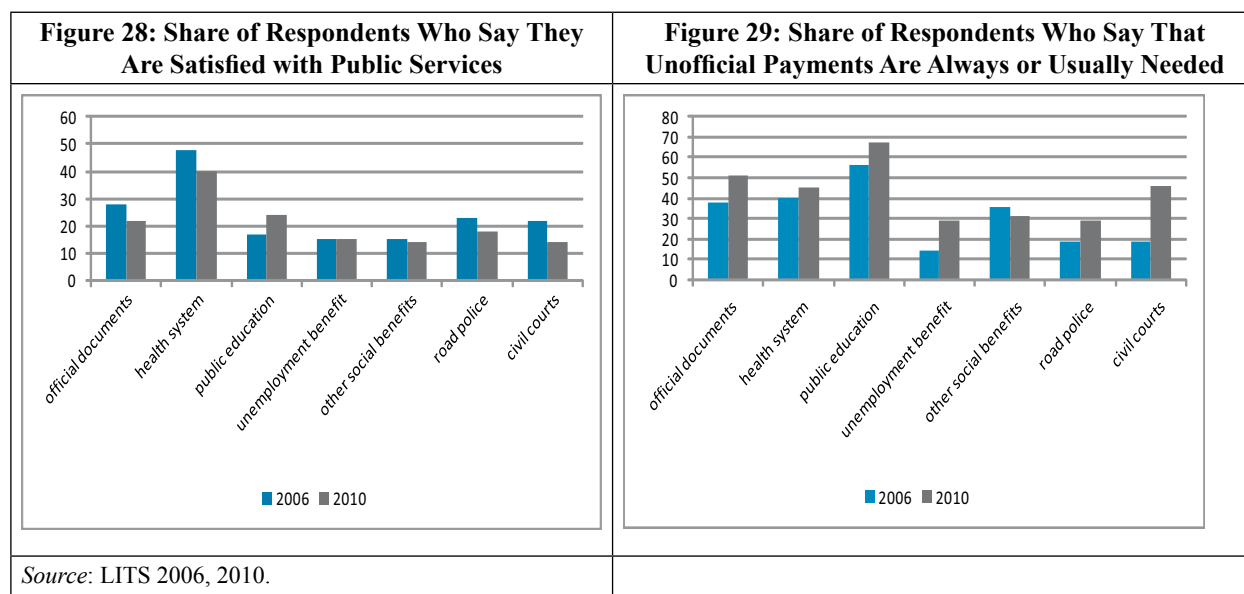
23. Informal payments appear to be declining but still remain widespread in the delivery of public services to citizens. The 2010 Life in Transition Survey indicates positive trends in citizen satisfaction with public services and reduced frequency of informal payments compared to the previous survey in 2006 (Figures 28-29).²⁴ A regular survey conducted by the Tirana-based

²² GRECO. 2009. *Evaluation Report on Albania on Incriminations (Theme I)*. Adopted by GRECO at its 42nd Plenary Meeting, Strasbourg, May 11-15.

²³ As an example, the EC's 2009 Progress Report specifically refers to the dropping of charges against the former Defense Minister and his reappointment to another ministerial post following the elections of June 2009.

²⁴ EBRD. 2007. *Life in Transition: A Survey of People's Experiences and Attitudes*; S. Zaidi et al. 2009. *Satisfaction with Life and Service Delivery in Eastern Europe and Former Soviet Union: Some Insights from the 2006 Life in*

Institute of Development and Research Alternatives (IDRA) also shows a modest decline in reported bribe frequency in citizens' dealings with most public institutions during the period 2005–2010 (Figure 30).²⁵ Transparency International's Global Corruption Barometer, which surveys citizens' experience of corruption, showed that Albanians were much more likely to pay bribes than citizens in neighboring countries (Figure 31).²⁶ In an annual survey conducted by Gallup Balkan Monitor in 2010, 49 percent of Albanian respondents reported having had to make informal payments in the past year, down from 52 percent in 2009, but up from 32 percent in 2008. These reported levels of corruption were the highest in the Western Balkans, though the Albanian public expressed less tolerance of corruption than neighboring countries.²⁷

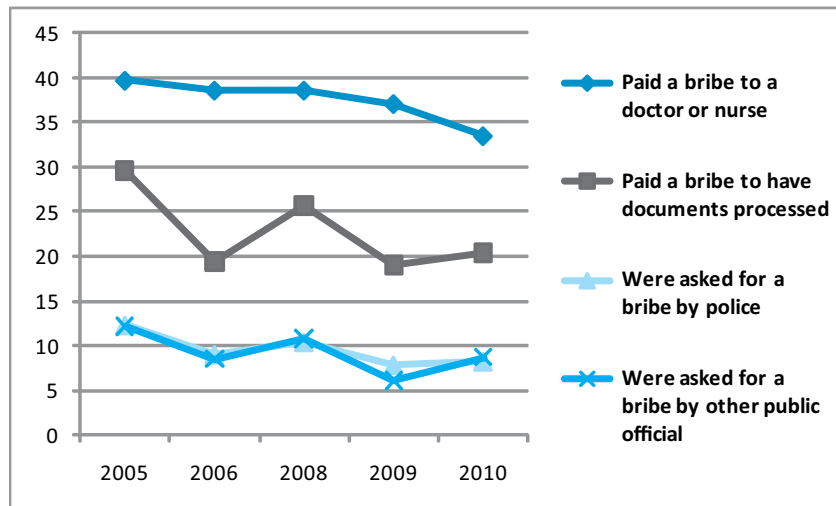


Transition Survey, World Bank Working Paper no. 162; the report on the results of the 2010 LITS is forthcoming in 2011. It should be noted that, with regard to **education**, the increase in reported frequency of informal payments (24 percent of respondents in 2010 said that such payments were needed usually or always, compared to 17 in 2006) is counterbalanced by an **increase in the share of respondents who said that such payments were needed seldom or never** (61 percent in 2010, up from 45 percent in 2006).

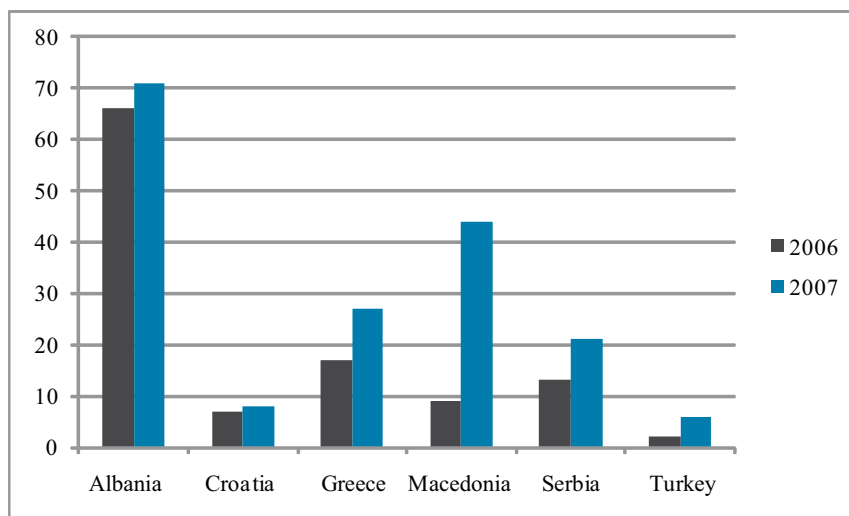
25 IDRA and DPK Consulting, *Corruption in Albania: Perception and Experience*, Survey 2008: Summary of findings (financed by USAID), p. 12. The survey was conducted in February–March 2008 with a sample of 1,176; rural respondents represented 44 percent of the sample.

26 Albania was included in the 2006 and 2007 surveys for the Global Corruption Barometer.

27 Gallup Balkan Monitor. 2008. *Insights and Perceptions: Voices of the Balkans, 2008 Analytical Report*, p. 31; GBM. 2009. *Insights and Perceptions: Voices of the Balkans, 2009 Summary of Findings*, p. 8. GBM. 2010. *Insights and Perceptions: Voices of the Balkans, 2010 Summary of Findings*, p. 36. The surveys in Albania included a sample of 1,000 and were conducted in September–October 2008, September 2009, and June–July 2010.

Figure 30: Trends in Informal Payments

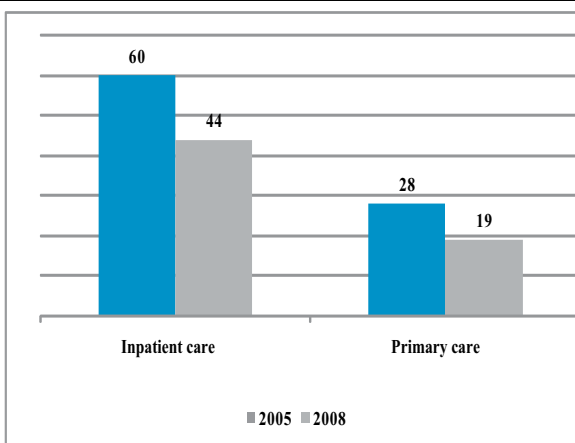
Source: IDRA 2010.

Figure 31: Respondents Who Paid Bribes to Obtain Services

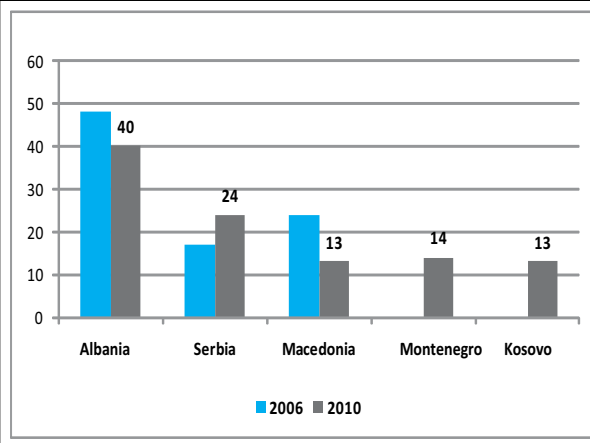
Source: Transparency International.

24. Surveys indicate a high but declining incidence of informal payments in the health sector. The most recent Living Standards Measurement Survey (LSMS 2008) points to a reduction in informal payments in the health sector, particularly in outpatient care, as does the 2010 LITS (Figure 29). In the period between the last two LSMS surveys (2002–2008), the reported incidence of informal payments dropped both in primary health and inpatient care (Figure 32). This improvement may be related to an increase in the salaries of medical staff, which was proportionately higher in primary care.²⁸ Still, according to the LITS, informal payments in Albania's health sector are reportedly more prevalent than in other countries in the Western Balkans (Figure 33).

²⁸ World Bank. 2011. *Out-of-Pocket Payments in Albania's Health System*, pp. 3-11.

Figure 32: Share of Respondents Reporting Informal Payments in the Public Health System

Source: Albania LSMS 2002, 2008.

Figure 33: Share of Respondents Who Say That Informal Payments Are Always or Usually Needed to Receive Treatment in the Public Health System

Source: LITS 2006, 2010.

25. There appear to be several reasons for the prevalence of informal payments in Albania's health sector. Culturally entrenched attitudes of reciprocity (gifts offered as an expression of gratitude to service providers) are noted in many studies. A study commissioned by the Swedish International Development Cooperation Agency (SIDA) indicates that primary health care patients tend to offer informal payments to staff in recognition for services received, yet that the public perceives informal payments as a precondition for receiving care in hospitals.²⁹ Significant underfunding from the state budget and from health insurance is another important factor, as it leaves patients to make up the shortfall through out-of-pocket payments, including informal payments to medical staff.³⁰ Recent health financing reforms and higher public spending on health care may be expected to improve the sustainability of health care financing and help reduce out-of-pocket payments for the poor. At the same time, surveys show that, while the Albanian public supports raising medical staff salaries, they overwhelmingly feel that health care staff who request informal payments should be held to account. These findings, together with the higher prevalence of informal payments among the poor, suggest that—in addition to more sustainable financing—there is a need to strengthen accountability mechanisms in the health sector.³¹

26. Further efforts to improve service delivery and raise public awareness of citizens' rights as clients of public services could be expected to further reduce informal payments and improve public trust in state institutions. Higher public spending on service delivery may not in itself bring proportionate improvements in service delivery (in terms of public access or quality), unless accompanied by clearly defined and well-publicized rules and standards. Citizens who are well informed about their rights as public service users may be expected to demand a higher quality of service and be less willing to make informal payments, especially if they consider that public employees are adequately remunerated. Simplified procedures and the increased use of online functionalities have the potential to reduce time and hassle for citizens as well as to reduce

29 SIDA. 2008. *Albania Anti-Corruption Study*, pp. 14-16.

30 Public spending on health and education represented only 2.7 percent and 3.8 percent of GDP, respectively, in 2008, which falls considerably below ECA and SEE averages. Private expenditure (of which 94.7 percent comprised out-of-pocket payments) made up 64.5 percent of total health expenditure in 2006, up from 40.1 percent in 1995. World Health Organization Statistical Information System.

31 In the 2008 LSMS, 92 percent of respondents agreed that "private fees must be eliminated and doctors/healthcare staff should be penalized for requesting such fees," while 81 percent agreed that the salaries of medical staff should be increased. World Bank. 2011. *Out-of-Pocket Payments in Albania's Health System*, pp. 5-6, 14.

corruption opportunities for officials, particularly in administrative services such as the issuance of official documents. Going forward, developing a system of performance indicators for key public services and monitoring them on a regular basis and—to the extent possible—at the level of service delivery units, will strengthen public officials' accountability for performance in the delivery of public services.

Improving the Quality of Governance in Albania

27. In a broad sense, it is clear that governance quality in Albania has proved good enough to enable (or, in some areas, bring about) improved development outcomes. It could be argued that, given its highly disadvantageous starting conditions following the 1997 crisis, Albania has exceeded expectations in economic performance and governance. Extensive research points to a correlation between a country's quality of governance and its level of economic development.³² It would thus be unrealistic to expect Albania, a middle-income country with young state institutions and a recent history of tremendous political, economic, and social transformation, to match the quality of governance of higher-income countries with well-established institutions. Comparative data suggest that the quality of governance in Albania today is broadly in line with (or somewhat better than) countries with similar levels of economic development, including with regard to the rule of law and control of corruption; this comparison holds particularly true with regard to other countries in the ECA region (Figures 34-39).

Figure 34: Governance and Per-capita Incomes in ECA, 2009

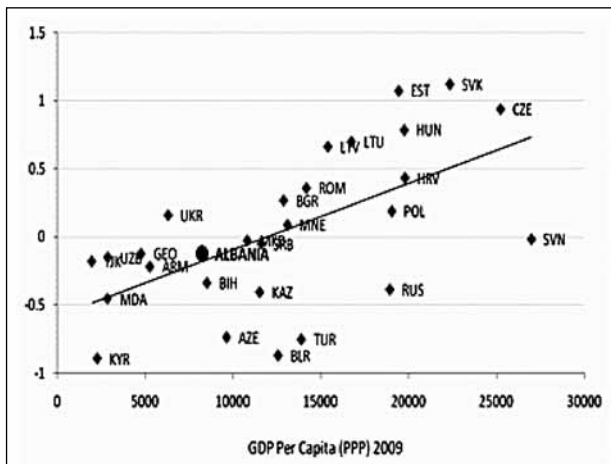
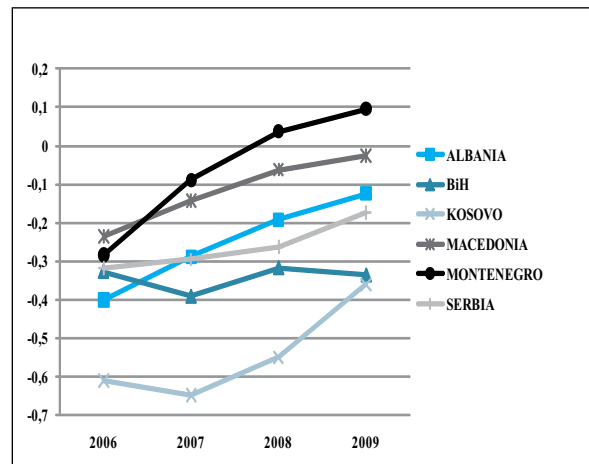


Figure 35: Average WGI Governance Scores



32 See Daniel Kaufmann and Art Kraay. 2002. *Growth without Governance*. Washington DC: World Bank Institute.

Figure 36: Correlation of Government Effectiveness and Per-capita GDP, 2009

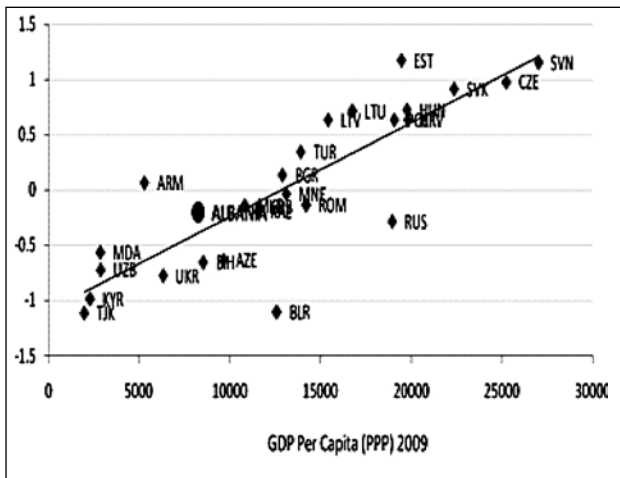


Figure 37: WGI Government Effectiveness Scores

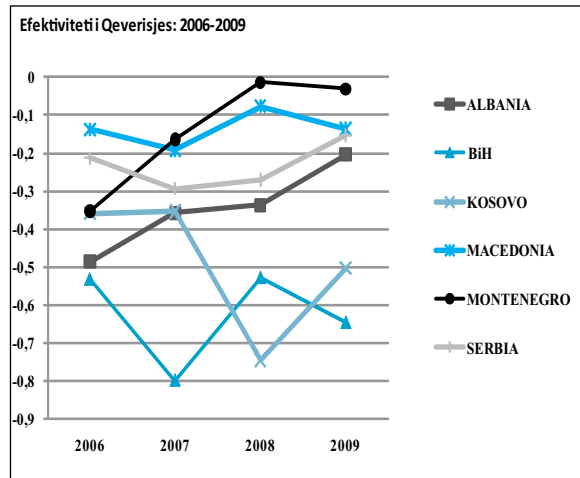


Figure 38: Correlation of Control of Corruption and Per-capita GDP, 2009

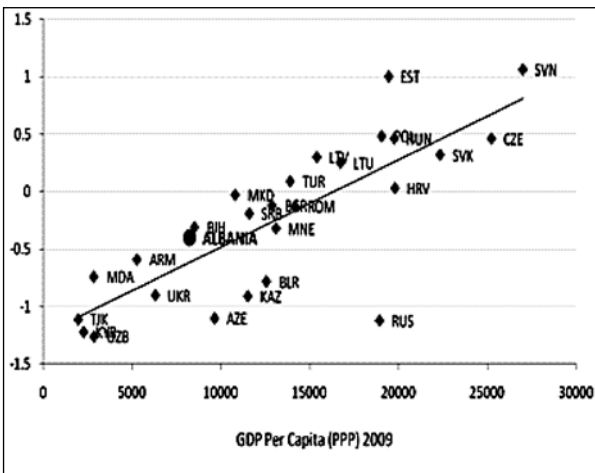
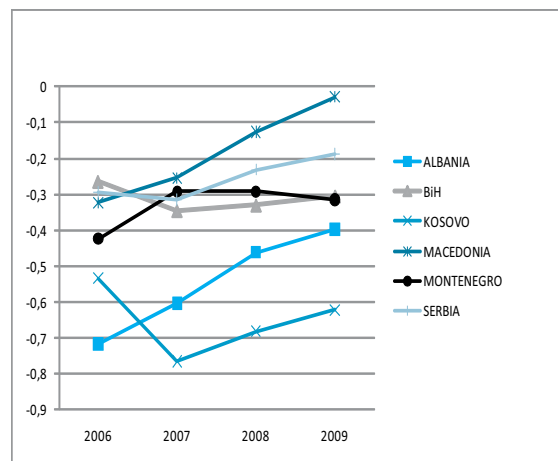


Figure 39: WGI Control of Corruption Scores



Source: WBI on governance; World Bank on income.

28. Still the rule of law remains an area of relative weakness (Figures 40-41). While Albania has made impressive progress in strengthening the rule of law, particularly by restoring public order and safety, this progress was achieved starting from a low base in the late 1990s. As a result, this aspect of governance remains relatively weak compared to other countries with similar levels of economic development in the region. Further improvement will require a qualitative shift toward ensuring more predictable and consistent application of laws and regulations by both the public administration and the judiciary. Such improvements may be expected to enhance Albania’s prospects for achieving key development objectives, notably EU integration and a more attractive business environment. Further efforts in this area are likely to require major policy decisions, improved policy stability, and a long-term commitment on the part of the country’s leadership.

Figure 40: Correlation of Rule of Law and Per-capita GDP, 2009

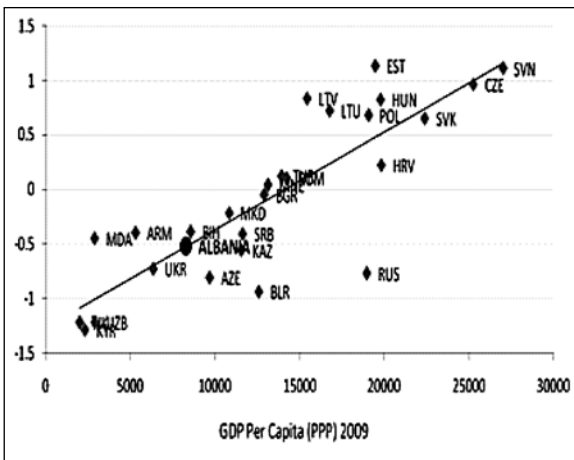
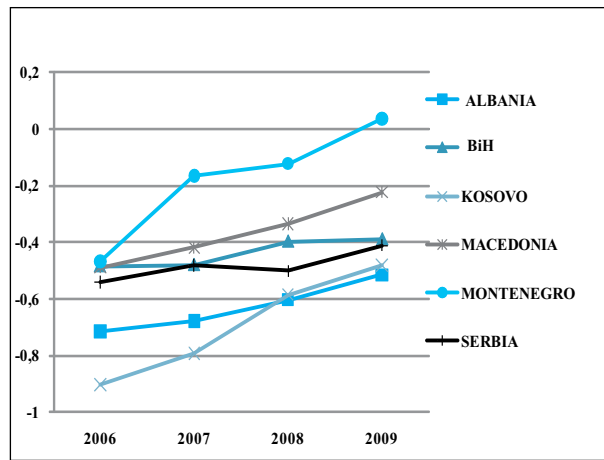


Figure 41: WGI Rule of Law Scores



Source: WBI on governance; World Bank on income.

CASE STUDY: ALBANIA'S EFFORTS TO CONTROL CRIME AND ESTABLISH THE RULE OF LAW – ON THE WAY TO A GOVERNANCE SUCCESS STORY?

29. The rule of law has been a key focus of Albania's international cooperation and efforts to advance toward EU integration. The UN defines the rule of law as “a principle of governance in which all persons, institutions and entities, public and private, including the state itself, are accountable to laws that are publicly promulgated, equally enforced and independently adjudicated, and which are consistent with international human rights norms and standards.”³³ The state's ability to ensure public safety by protecting its population from violence exercised by private individuals and groups is a key indicator of government effectiveness and a major aspect of the rule of law. The rule of law is also fundamental to the EU, informing its internal functioning, membership requirements, and cooperation with other countries, including Albania. As a country progresses toward EU accession, it is increasingly expected to meet the EU's standards, not only in terms of public order and safety but also in the consistent application and enforcement of laws by the public administration and the judiciary. This case study will show that Albania has made remarkable strides in improving public order and safety and controlling crime, indicating that it has sufficient institutional capacity to achieve further breakthroughs in strengthening the rule of law, notably by remedying residual weaknesses in the consistent application and enforcement of laws.

30. Crime rose sharply in Albania after the fall of communism, but authorities have since cracked down with strong positive results for the rule of law (Figure 42). The period between 1997 and 2002 marked the peak in levels of violent and organized crime in the country.³⁴ Albanian organized crime groups became known for their brutality and attracted a great deal of attention from law enforcement agencies, international organizations, and the media. The country became known for government failure to uphold the rule of law and widespread lawlessness, including revenge killings and various forms of organized crime, such as extortion, kidnapping, and trafficking in women and children.³⁵ During 2002–2005, the Albanian Government took important steps to strengthen performance on the rule of law, as evidenced by improved public order and safety and a drop in violent crime. Since then, Albania has won praise from international actors for continued work to control crime. The contrast between Albania's near descent into state failure and anarchy twice in the 1990s—in 1992 and again in the wake of the collapse of the pyramid schemes in 1997–98—and today's situation—when “crime, theft, and disorder” were considered by firms to be only the tenth biggest obstacle to doing business³⁶

33 United Nations. 2004. *The rule of law and transitional justice in conflict and post-conflict societies*. Report of the United Nations Secretary General.

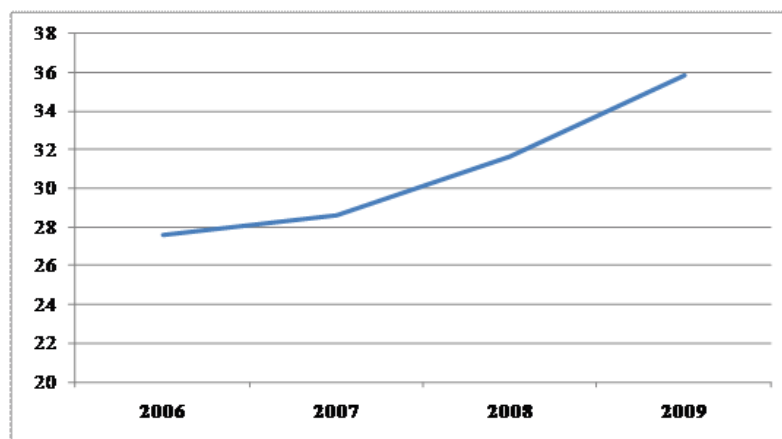
34 P. Waldmann. 2001. “Revenge without Rules: on the Renaissance of an Archaic Motif of Violence.” *Studies in Conflict and Terrorism*, 24: 435-450; S. Schwander-Sievers. 1998. “Wer besitzt die Lizenz zum Töten in Albanien? Oder Fragen zur Gruppensolidarität und Gewaltlegitimation in einer anderen Modernisierung,” in J. Kohler and S. Heyer, eds., *Anthropologie der Gewalt*, 71-88. Verlag für Wissenschaft und Forschung; International Crisis Group. 2000. *Albania State of the Nation*. Center for the Study of Democracy. 2004. *Partners in Crime: Analysis*, CSD Report 13. Sofia: CSD.

35 Human Rights Watch. 2003. *Albania: Human Rights Developments*; United Kingdom Home Office. 2004. *Albania Country Report 2004*. April.UK: Country Information and Policy Unit.

36 According to the 2008 BEEPS, 35 percent of firms active in Albania cited “crime, theft, and disorder” as a problem for doing business, making this issue the 10th most cited problem behind, for example, electricity supply, corruption, and tax rates.

—points to a major achievement in addressing the rule of law.³⁷

Figure 42: Albania's Ranking on Rule of Law (percentile rank)



Source: World Bank Institute. 2010. *Worldwide Governance Indicators*.

Rising Crime Rates: Transition and Societal Upheaval (1991-2002)

31. The fall of the communist regime brought many challenges to public order and safety in Albania. Violent crime and disorder peaked after March 1997, following the collapse of the financial pyramid schemes.³⁸ The widespread disturbances included the looting of weapons from army stockpiles,³⁹ and many of these weapons have become available on black markets in Albania and in the region.⁴⁰ The rioting lasted for several months and brought much of Albania's territory beyond the effective control of state authorities. The Government resigned in response, and early elections in July 1997 resulted in a handover of power from the Democratic Party to the Socialist Party. Violent clashes erupted again in September 1998, this time between the followers of the DP and those of the Government. The rioters ransacked the Prime Minister's office, using guns looted from state weapons depots in 1997, and the Prime Minister was forced to step down.

32. This period was marked by exceptionally high levels of violent crime, a lack of income-generating opportunities, and widespread corruption. Hundreds of state-run factories were shuttered, putting many Albanians out of work and launching a disorganized and corruption-ridden privatization process. Violent groups created small private armies, and in the late 1990s, Albania's murder rate (12.2 per 100,000 people) was the highest in the Balkan region and among the highest in the world. Extortion, kidnappings, and corruption were part of day-to-day reality for ordinary Albanians during this time. The deteriorating domestic situation and weak law enforcement contributed to the development of smuggling channels and massive emigration to Greece, Italy, and other countries in Europe. At the same time, some Albanian migrants with international criminal connections appear to have returned to Albania, where they saw expanded opportunities

³⁷ To some extent, this trend has been facilitated by the changing nature of Albanian organized crime, which has increasingly moved from violent and crude forms of crime to more sophisticated, "entrepreneurial" activities.

³⁸ Besim Nuri. 2002. *Health Care Systems in Transition*. The European Observatory on Health Care Systems; Julie Vullnetari. 2007. *Albanian Migration and Development: State of the Art Review*. IMISCOE Working Paper no. 18; V. Zaborskiy. 2007. "Small-arms, big problem—light weapons trafficking in Albania." *Jane's Intelligence Review*. September 14.

³⁹ A. Khakee and N. Florquin. 2003. *Kosovo and the Gun: A Baseline Assessment of Small Arms and Light Weapons in Kosovo*. Geneva: UNDP and Small Arms Survey; Zaborskiy 2007.

⁴⁰ J. Arsovska and P. Kostakos. 2008. "Illicit arms trafficking and the limits of rational choice theory: the case of the Balkans." *Trends in Organized Crime*, 11(4): 352-387.

for criminal activity. Yet high levels of corruption compromised the state's effectiveness in tackling criminal activities.

33. This increase in criminality flowed from a confluence of factors during the country's difficult transition. In the face of growing lawlessness, many Albanians turned back to the customary *kanun* laws that had been forbidden during communist times.⁴¹ Of the murders reported by the Albanian police between 1998 and 2004, 8.5 percent were linked to blood feuds.⁴² In 2005, according to the Albanian press, 600 families with their 2,000 children were living in isolation for fear of being killed as a result of blood feuds.⁴³ Several other macro-level opportunity factors also appear to have played a role during first decade of transition (Box 1).^{44,45} The economy's failure to provide adequate legal income-generation opportunities and a weak emphasis on non-monetary success goals in popular culture and the education system during this period appear to have contributed to the engagement of many Albanians, especially younger people, in criminal activities.⁴⁶ The spread of "Western" materialistic values, for which young people were not adequately prepared, e.g. through the education system, together with weak social and state institutions, turned many ethnic Albanians toward criminal innovation.⁴⁷ The World Values Survey suggested that adherence to materialistic values among Albanian respondents was particularly high in 1998, with a decline noted in the repeat survey of 2002 (Figures 43-44).⁴⁸ Thus, while references to an ostensible "culture of violence" and interpretations of customary *kanun* laws are often used by Albanian offenders to justify criminal behavior, sociological research suggests that the growth in certain forms of crime may be better explained by the conflicting norms and economic challenges present

41 In the struggle to find their identity, some Albanians have allegedly returned to religion as well. With the restoration of religious freedom, many mosques and churches closed in 1967 reopened in the 1990s. It has been frequently pointed out, however, that many Albanians—particularly from Albania—do not follow a "true" religion, and that the majority of them are either atheists or agnostics. Arsovska and Verduyn 2008.

42 International Crisis Group. 2000, *op cit*. According to some interpretations of the customary law of the *kanun*, which is adhered to mostly in the mountainous areas of Northern Albania, revenge killings are an acceptable enforcement mechanism for violations of *kanun* norms, including the murder of a family member or other offenses against a person's or a family's honor. Such offenses are perceived to impose an obligation on male members of the victim's family to extract revenge by murdering the offender or a male member of his family, thereby leading to the emergence of "blood feuds" among families/clans. However, revenge killings unrelated to the *kanun* or blood feuds also emerged in Albania during this period.

43 C. Chatelot. 2005. "En Albanie, des Grandes Familles Tentent de 'Moderniser' la Vendetta." *Le Monde*, April 24.; J. Arsovska and P. Verduyn. 2008. "Globalisation, conduct norms and 'culture conflict:' perceptions of violence and crime in an ethnic Albanian context." *British Journal of Criminology*. 48(2): 226-246; B. Jolis. 1997. "Honour Killing Makes a Comeback." *Albanian Life*. 57(1): 25-35.

44 Arsovska and Verduyn 2008.

45 Matthew Arnold's opposition between culture and anarchy, attributed to Thomas Hobbes' philosophy (1644), states that without clear regulative norms people become pathologically violent and criminal. Also, Emile Durkheim (1858-1917) argued that, "...where interest is the only ruling force each individual finds himself in a state of war with every other since nothing comes to mollify the egos...there is nothing less constant than interest. Today it unites me to you; tomorrow, it will make me your enemy." Emile Durkheim. 1965. *The Elementary Forms of Religious Life*, translated from the French original by J. S. Swain, New York: The Free Press 204.

46 According Arsovska and Verduyn (2008), actual poverty does not directly lead to organized crime, despite the fact that crimes of material desperation do occur in Albania, and that the demoralizing effects of poverty may contribute to vulnerability to crime. The poverty-crime relationship has been studied by many researchers throughout the decades, and the direct link between the two often appears weak. Poverty plays a role in combination with other relevant social factors (see Robert K. Merton. 1938. "Social Structure and Anomie". *American Sociological Review* 3: 672-82.673.; Durkheim 1965).

47 According to Merton (1938), American society in the 1930s emphasized success goals over the means to attaining such goals. The only factors limiting goal achievement were technical and situational, not moral or legal. Merton argued that conformity to values related to material success goals alone could contribute to higher crime rates.

48 The World Values Surveys are conducted by social scientists in 97 countries using the same methodology and questionnaire. Five rounds of surveys have been conducted from 1981-2007. <http://www.worldvaluessurvey.org/>.

in a setting of rapid social change.⁴⁹ In addition, historically rooted distrust in state organs and severe economic constraints led to widespread societal acceptance of certain criminal behaviors.⁵⁰

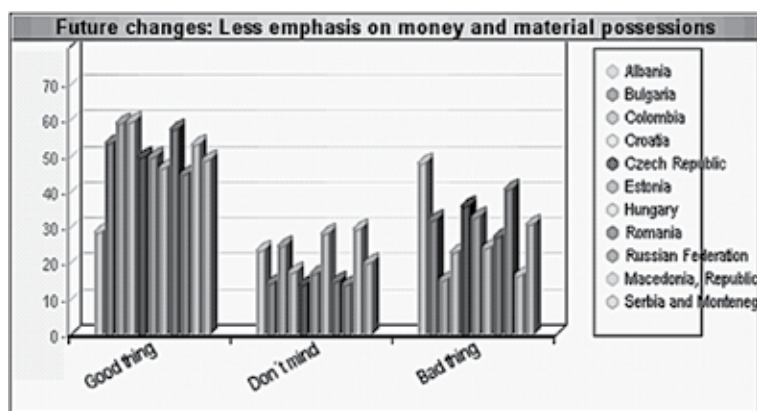
Public opinion surveys conducted in the Balkan region show that, though organized crime was perceived as a threat, many people considered it a lesser problem than the lack of economic opportunities.⁵¹

Box 1: Macro-level Opportunity Factors Behind the Rise of Albanian Criminality

The following factors help explain the rise of criminality, particularly organized crime, following the fall of communism in Albania.

- The conflicts in Bosnia (1992–1995) and Kosovo (1998–1999) provided both opportunities for criminal activities and a way for perpetrators to find a “moral” justification for their actions (for example, committing crime for a greater cause).
- The near-lack of government authority, weak law enforcement effectiveness, and high levels of corruption in state bodies allowed criminal groups to pursue their activities essentially unhindered by the state.
- New markets emerged for goods and services provided by criminal groups due to social change, including local demand for emigration from Albania, demand for weapons (to which Albania had access) from regional conflicts, and demand for prostitution and drugs from abroad.
- The country’s geo-strategic location and international connections, including strong ethnic Albanian diaspora communities (out of an estimated 8 million ethnic Albanians in the world, only some 40 percent live in Albania), facilitated the international activities of Albanian criminal groups.
- Frequent hostility toward Albanian communities overseas reinforced their internal cohesion and gave rise to isolated subcultures, which facilitated the formation of criminal groups based on ethnic kinship.

Figure 43: Public Attitudes on Materialist Values, 1998

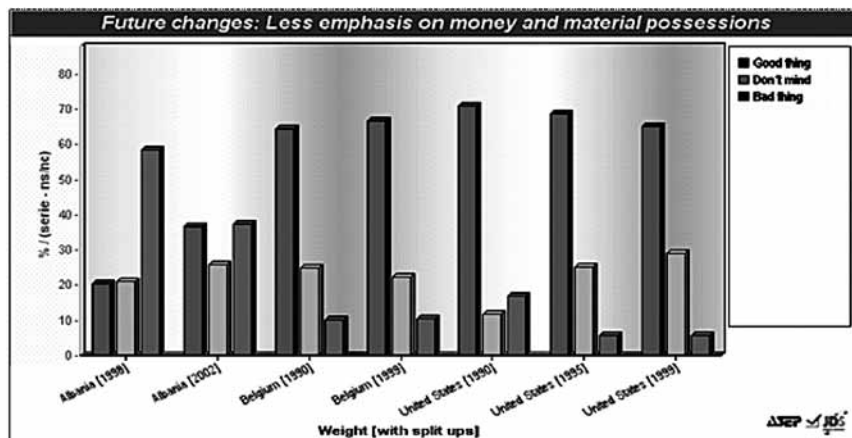


Source: World Values Survey 1998.

49 See, for example, Arsovska and Verduyn 2008.

50 J. Arsovska and P. Kostakos. 2010. “The social perception of organized crime in the Balkans: A World of Diverging Views?” in Felia Allum, Francesca Longo, Daniela Irrera and Panos Kostakos. Forthcoming. *Defining and Defying Organized Crime: Discourse, Perceptions and Reality*. London: Routledge: 99-113.

51 W.A. Cleland, S. Kondi, D. Stinson, and P.M. Von Tangen, eds. 2006. *Internal Security Sector Review (ISSR) Kosovo*. Pristina: UNDP. For example, in ISSR questionnaires collected from the public in Kosovo—allegedly a region with major organized crime-related problems—Serb and Albanian respondents ranked organized crime lower than other threats (including economic instability, unemployment, corruption, and political instability). 11 percent of Serbs felt organized crime was a top threat, whereas 7 percent of Albanians ranked it among the top threats. See Arsovska and Kostakos 2009.

Figure 44: Public Attitudes on Materialist Values, 2002

Source: World Values Survey 2002.

34. **Albanian criminal activities attracted a great deal of negative international attention, but it was not until after the 1997 crisis that the existence of organized crime began to be acknowledged in Albania's political sphere.** When Albanian criminal groups initially became active abroad, they did not have the choice, nor the knowledge or sophistication, to get involved in low-risk, high-profit crimes. As a result, they often ended up doing the “dirty work” for well-established groups, becoming involved in extortion and racketeering, shootings, kidnapping, sexual exploitation of women, and drug dealing. These activities elicited significant media publicity and social outrage, giving rise to the perception that Albanian criminality posed a serious threat to security in the host countries. It is possible that the detection rates for crimes committed by ethnic Albanians were higher than those for other lower-profile groups because of the attention that Albanians brought on themselves during the 1990s. Some Albanians exacerbated the negative international attention by blaming culture and tradition for their crimes. Within Albania, on the other hand, neither state bodies nor the public immediately recognized the increase in crimes such as smuggling in people and goods as a manifestation of organized crime, and for a long time it was not acknowledged by public officials.⁵² With increasing international recognition of problems such as regional drug trafficking, organized crime emerged as a subject of political controversy in Albanian election campaigns, as politicians accused each other of direct involvement in or complicity with organized criminal networks.⁵³ Organized crime was not yet treated as a serious societal problem, however, nor was there clear political will to tackle it.

A Decline in Violent and Organized Crime: Albania Fights Back (2002-2009)

35. **During the early 2000s, governments and law enforcement agencies worldwide came to regard organized crime as an issue of grave concern.** In 2000, the UN Palermo Convention provided an international definition of organized crime and introduced the concept of transnational organized crime. In 2001, the CoE declared that organized crime represented—based on its economic power, transnational connections, and sophisticated techniques—a major threat to society, the rule of law, and democracy.⁵⁴ Documents produced by the EU Council⁵⁵

⁵² Ibid, 541.

⁵³ Ibid: 542-543.

⁵⁴ Council of Europe. 2001. Recommendation REC(2001)11 of the Committee of Ministers to member states concerning guiding principles on the fight against organized crime. September 19. 765th Meeting of the Ministers' Deputies.

⁵⁵ Council of the EU. 2003. EU Action against Organized Crime in the Western Balkans, No. 14810/03 CRIMORG 88. Brussels. December 2.

and Europol⁵⁶ repeatedly noted that ethnic Albanian organized crime groups constituted a major threat to EU member states, owing to their extreme violence and to their transition from acting as simple criminal “service providers” to engaging in high-level international organized crime. These alarming assessments of the security threats posed by Albanian criminal groups⁵⁷ were echoed in Interpol and United States (US) intelligence reports, as well as by other foreign governments and international nongovernmental organizations (NGOs).

36. Since 2002, external actors have put enormous pressure on Albania to control money laundering by monitoring remittances. It has been common since the 1990s for Albanian immigrants to send remittances home using couriers, money transfer services, and other informal methods. In the absence of systematic state control over these financial flows, it would not have been difficult to launder proceeds from illegal activities in Albania. The heavy international attention to this issue was related to the risk that this weakness could be exploited for the financing of terrorism.

37. Under heavy international pressure, Albanian authorities began to step up law enforcement measures after 1999, in cooperation with other European law enforcement agencies. The country ratified the UN Convention against Transnational Organized Crime in July 2002, and only then was a definition of “organized criminal group” incorporated in Albanian legislation. The first positive signs of an effective fight against organized crime were observed in 2002, particularly in response to the Government’s strong emphasis on curbing human trafficking, particularly of women for sexual exploitation. In 2005, the Albanian Government declared a policy of zero tolerance of crime, particularly organized crime. With support from the political leadership, the police arrested many key figures in well-known criminal groups and seized their highly valuable real estate holdings.

38. Since 2004, Albania has adopted new legislation to fight organized crime and corruption (Box 2). The improved legal framework has facilitated the identification, investigation, enforcement, and prosecution of criminal activity. Some legislative measures have brought quick results. For example, in April 2006, Albania adopted a law prohibiting the sailing of any kind of boat off the Albanian coast. Albeit draconian, this measure has dealt a serious blow to illegal trafficking in drugs and human beings. The longer-term effectiveness of such approaches can be questioned, however. By targeting certain regions, the police may have inspired criminal groups to start using alternate routes. For instance, while it appears that illegal trafficking has declined significantly in the Adriatic Sea since 2002–2003, there are signs that criminal groups are now using the northern routes more frequently. More broadly, while “tough-on-crime” policies may yield positive results in the short term, they may be ineffective in the long term unless the causes of criminality are addressed through a coherent, holistic strategy.

56 Europol. 2002–2006. EU Organised Crime Reports. The Hague. <http://www.europol.eu.int/publications>.

57 Due to the ethnic homogeneity of Albanian criminal groups, the word “ethnic” is often used in relation to Albanian organized crime (as in Europol reports). Ethnic Albanian crime refers to those criminal groups (mainly) consisting of persons who identify themselves as Albanians due to their culture, history, language, traditions, or descent, irrespective of whether they live in Albania or abroad. The Belgian Federal Police in their analysis often uses the term “Albanian-speaking criminal groups.”

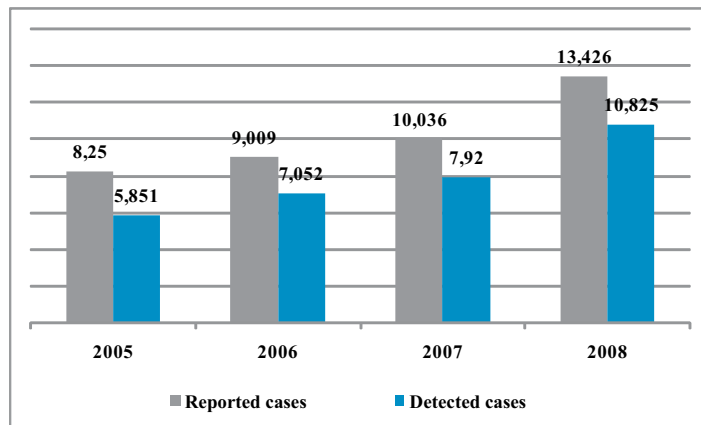
Box 2: Legal Framework for the Fight against Organized Crime

Key Albanian legislation in the fight against organized crime and illicit trafficking includes:

- Law no. 8920 of 2002 “On ratifying the United Nation Convention against Transnational Organized Crime and the Protocol of Palermo of 2000” to prevent, suppress and punish trafficking in persons, especially women and children, supplementing the UN convention against Transnational Organized Crime.
- Law no. 9749 of 2007 “On the State Police”.
- Law no. 8677 of 2002 “On organization and operation of judicial police”.
- Law no. 7895 of 1995: Amendments to the Criminal Code, mainly related to offenses classified as organized crime.
- Law no. 7905 of 1995: Code of Criminal Procedure, which has undergone a series of amendments to improve investigation methods.
- Law no. 9284 of 2004 “On preventing and combating Organized Crime”.
- Law no. 8610 of 2000 “On prevention of money laundering,” which was amended in Law no. 9804 of 2003 in accordance with EU standards based on Directive 91/308/EEC of 1991 “On prevention of the use of the financial system for the purpose of money laundering”.
- Law no. 9258 of 2004 on “Measures against the financing of terrorism”.
- Law no. 8722 of 2000, Act no. 8723 of 2000, Act no. 8965 of 2002 “On the Republic of Albania joining the United Nations Convention against illicit traffic in narcotic drugs and psychotropic substances”.
- Law no. 8750 of 2001 “On preventing and combating trafficking narcotic and psychotropic substances”.
- Law no. 7975 of 1995 “On narcotic drugs and psychotropic substances”
- Law no. 8874 of 2002 “On control of substances used in the illicit manufacture of narcotic drugs and psychotropic substances”

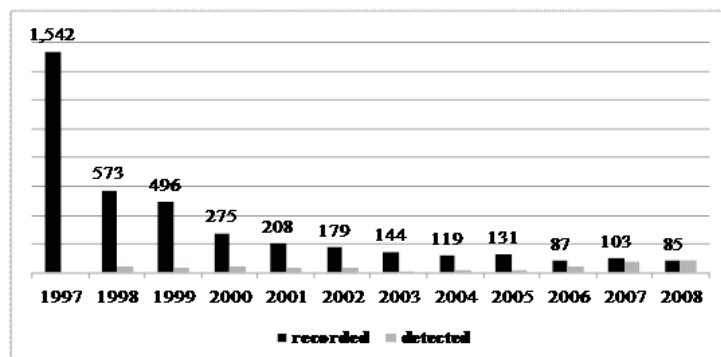
Declining Crime in the New Millennium

39. Measuring a country’s performance on the rule of law, and on control of crime in particular, is fraught with methodological difficulties. The reliability of statistical data is questionable. For example, the detection rate measures the number of cases in which the perpetrators have been identified (detected) as compared to the number of cases reported to the police. The detection rate in Albania increased gradually from 71 percent in 2005 to 81 percent in 2008 (Figure 45). However, the accuracy of this reported improvement may be compromised in part by new methodologies and procedures for standardized crime reporting. Moreover, crime statistics depend on the definition, classification, and recording of crimes by law enforcement authorities in each country. National police data may be subject to manipulations and cannot be treated as a reliable source in the absence of corroboration from other data sources. In an effort to address this concern, this paper attempts to triangulate data using a number of different sources. These include official data produced by the Albanian police; confidential intelligence reports and data provided by international police agencies, including the EU Police Assistance Mission in Albania (PAMECA); information compiled by NGOs working with victims of human trafficking; interviews with Albanian law enforcement officials and members of international missions with expertise on organized crime and law enforcement; media reports; public opinion surveys; and international composite indicators such as the WBI’s WGI dataset.

Figure 45: Reported and Detected Cases in Albania

Source: Albanian State Police.

40. There has been a marked decrease in violent crime in Albania since the early 2000s. Since 1997, a year in which public order nearly collapsed, murders have continuously decreased and the detection rate has increased dramatically from 7.7 percent in 1998 to 95 percent in 2008 (Figure 46). The 85 murders recorded in 2008 were the fewest recorded in Albania in 18 years. Although there are significant discrepancies in the statistics concerning murders related to blood feuds and revenge killings, the incidence of such crimes also seems to have declined drastically from 45 in 1998 to one in 2009.⁵⁸ The number of children isolated due to fear of violence ranges from 36 to 57 nationwide, depending on the data source. The decreasing crime trend is confirmed by foreign data. According to the Italian authorities, the amount of drugs seized after passing through Albania to Italy has dropped considerably, and the number of identified heroin traffickers of Albanian nationality has declined in Germany since 2000.

Figure 46: Murders Recorded and Detected in Albania

Source: Albanian State Police 2009.

41. The fight against organized crime has shown concrete results, especially since 2005. The Albanian police have investigated more organized crime suspects than neighboring countries (Map 1). In 2005–2006, 206 criminal groups were dismantled and 1,000 members were arrested, including notorious crime bosses such as Aldo Baro and Lulëzim Berisha. These achievements resulted from operations conducted by special anti-trafficking and organized crime investigation units of the police and the public prosecution service. Trafficking in women has declined since

⁵⁸ According to Albanian Government statistics.

2002 (Figure 47).⁵⁹ The US State Department has maintained Albania’s “Tier 2” classification on trafficking in persons, as the country has demonstrated commitment to combating trafficking (as evidenced by a growing number of prosecutions), but has not yet achieved “minimum standards” for eliminating trafficking.⁶⁰ Significant attention has been devoted to the fight against drug trafficking since 2005 with noticeable results, including 646 criminal cases leading to the prosecution of 579 persons. The investigation of economic and financial crimes, including corruption, has also improved (Figures 48-49). Cooperation between the Albanian police and Interpol has enabled the arrest and extradition of increasing numbers of wanted criminals—both from other European countries to Albania, and from Albania to other countries that have requested extradition (Figure 50). Albania’s increased effectiveness in combating organized crime has been recognized by its international partners and contributed to Albania’s admission to NATO in April 2009, as well as increased cooperation and integration with the EU.

Map 1: Organized Crime Suspects Investigated in 2003



Source: Council of Europe 2004.

Figure 47: Human Trafficking Cases Recorded

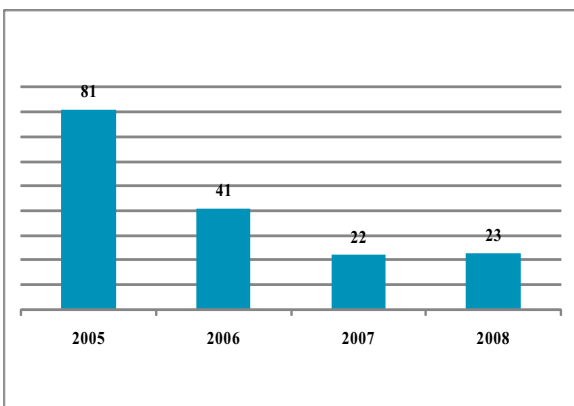
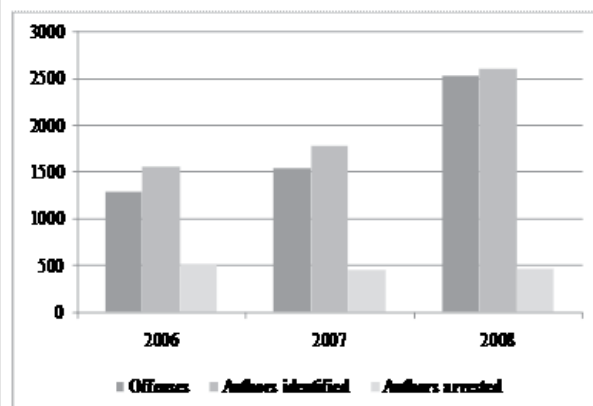
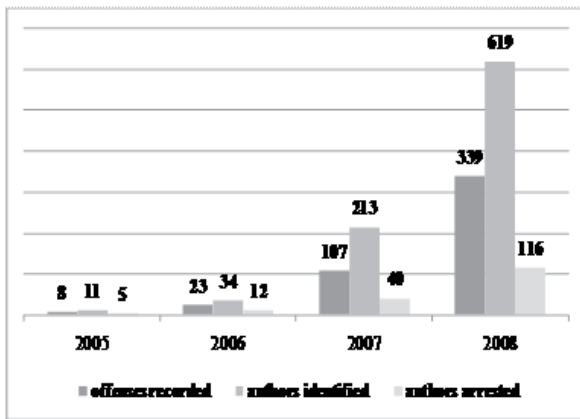


Figure 48: Investigation of Economic Crimes

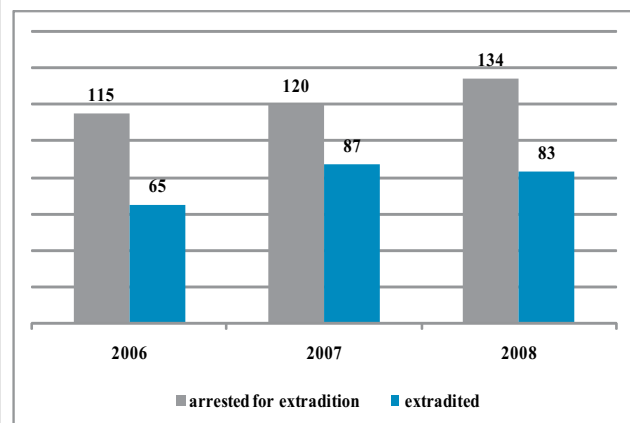


⁵⁹ The 2002 “Puna Operation,” a joint police-prosecution operation mounted in cooperation with Italian authorities, significantly lowered human trafficking and smuggling, particularly on speedboats via the Adriatic Sea to Italy.

⁶⁰ United States Department of State. 2010. *Trafficking in Persons Report 2010*. June.

Figure 49: Investigation of Corruption Cases

Source: Albanian State Police 2009.

Figure 50: Suspects Extradited to Albania and Arrested for Extradition by Albanian Interpol

Factors in Improved Performance

42. The enormous international pressure placed on Albania resulted in increased political will to address organized crime and the rule of law. Much of this pressure came from neighboring Italy and Greece, which were affected directly by the rise of Albanian crime, and from the US, which Albania considers an important international ally. The authorities in these countries took the lead in criticizing the Albanian Government for not dealing properly with organized crime within the country and for not processing or extraditing offenders charged elsewhere. Italy in particular insisted on joint police operations to stem illegal immigration and the spillover of Albanian criminality into its territory.

43. The Albanian Government was also under pressure from its citizens living abroad, who were negatively affected by their country's ineffectiveness in dealing with crime at home. Many younger people who left Albania to study or work abroad encountered negative attitudes and discrimination due to their nationality. The stereotyping of Albanians as criminals emerged as a source of frustration for law-abiding Albanian citizens, not least because it made obtaining visas for legal international travel difficult. The "visa factor" has played a critical role in motivating civil society to pressure the Albanian Government to improve the country's image, including by speeding up EU integration and enabling Albanian citizens to travel freely abroad.

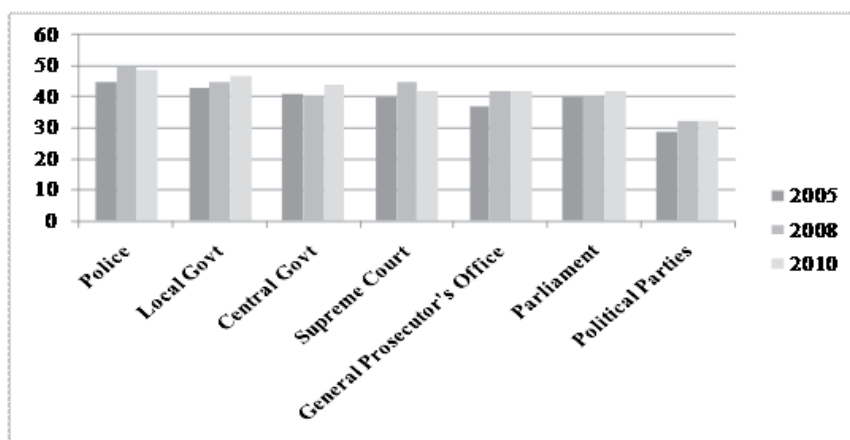
44. The Albanian media picked up on the international community's message that the country had a serious problem with organized crime and corruption. During the early 2000s, the media became a more prominent advocate for improving public order and governance. Indirectly, by fostering Albanian people's desire to travel abroad, the media helped boost public demand for liberalization of the visa regime and EU integration. By 2002–2003, this popular appeal deepened the Government's motivation to tackle organized crime and corruption, as it had become clear that ineffectiveness in addressing these problems was obstructing Albania's entrance into the EU and NATO.

45. Improved institutional capacity has been the most important factor in producing better law enforcement results. Albania's law enforcement bodies—the police, prosecution, and the courts—have been able to step up their response to crime as a result of dedicated capacity building efforts, better infrastructure, and stronger support from the political leadership.

46. Judicial reform efforts aimed to establish the institutional structure necessary to effectively combat organized crime. A new Serious Crimes Court was established in 2003 at the first instance and appellate levels, and prosecution offices all over the country were restructured. The law on preventing and fighting organized crime was adopted in 2004, and in 2007 the Government adopted a strategy to fight organized crime, illegal trafficking, and terrorism.⁶¹ As part of this strategy, several specialized units were established to combat money laundering, including the General Department for Prevention of Money Laundering (Albania's Financial Intelligence Unit); the Albanian Agency for Coordination of Efforts in the Prevention of Money Laundering, headed by the Prime Minister; and the Department of Economic and Financial Crime attached to the Crime Investigation Department in the Ministry of Interior. More recently, six regional anticorruption units have been set up based on the model of the anticorruption taskforce in the Tirana prosecutor's office created in May 2009.

47. **Police reform has been underway in Albania since 2002.** The legacy of the communist past had tarnished public trust in the police, which had been perceived as an instrument of state control over society rather than as a provider of services to the community. At the same time, political protection of influential criminals in the 1990s had made the police reluctant to risk their lives to fight organized criminal groups, as arrested offenders would typically be released. Only after the political leadership had given a clear signal of meaningful reform did police morale and effectiveness improve. The long-term strategic aim of police reform has been to reshape the State Police into an administrative institution in service to the community. Efforts to strengthen community-based policing have included the introduction of a modern European management culture, together with improved training. Organizational reform in the State Police has clarified the division of labor and responsibilities for each department, sector, unit, and individual officers. The improvement of procedures for ensuring work continuity has helped increase the effectiveness of the police, judges, and prosecutors, who are now required to record and share their work and knowledge with incoming staff. Forensic laboratories have been modernized and new information technology systems introduced. As a result of these reforms, the police are now among the most trusted institutions in Albanian society (Figure 51).

Figure 51: The Police Are the Most Trusted Institution in Albania



Source: IDRA. 2010. *Corruption in Albania*.

48. **Recent salary increases for judicial and law enforcement personnel, in conjunction with stronger monitoring mechanisms, appear to have reduced corruption.** Well-publicized

⁶¹ Albanian State Police. 2007. *Crosscutting Strategy of Fight against Organized Crime, Illegal Trafficking and Terrorism*.

arrests of corrupt law enforcement officials seem to have deterred cooperation with criminal groups. Such arrests have thus far targeted police officials more often than the judiciary. The disruption in links between politicians and some criminals has enabled the judiciary to become less lenient toward organized crime suspects. Bribing prosecutors or police officers is reported to have become much more difficult, and arrested criminals are no longer released without prosecution.⁶² Police, prosecutors, and judges no longer dare to cooperate openly with well-known crime bosses, though they might still protect white-collar criminals or so-called “respectable businessmen” who may be involved in organized crime, such as money laundering, or other economic crimes, such as illegal property deals and construction, tax evasion, or corruption. Officials are aware that these offenses tend to attract less attention from the public or the media than higher-profile, “traditional” organized crime activities or violent crimes.

49. Yet the pressure on the police and judiciary to process more criminal cases may compromise due process and the quality of investigations. Recent legal amendments increasing police and prosecutorial powers to seize assets without a prior conviction raise concerns with regard to suspects’ legal rights. Political emphasis on increasing the number—rather than improving the quality—of prosecutions can conceal biases in prosecution and sentencing. For example, a well-connected offender involved in human trafficking might be charged with the lesser crime of mediation in prostitution and released from prison in a few months, while another offender might be charged with the greater crime of trafficking in human beings. Accountability for the judiciary’s work will need to focus increasingly on monitoring the quality of investigations and the follow-up of prosecutions and convictions to ensure due process for all defendants and consistency in criminal charges, sentencing, and execution of sentences.

50. Improved cooperation has helped strengthen the effectiveness of Albanian law enforcement. Stronger ties between the police, local governments, and the community have brought results, especially in sensitive regions affected by narcotics cultivation and human trafficking. Civil society organizations have helped raise awareness that fighting crime can be effective only if the community assists police efforts. Coordination between the police and the judiciary has also improved. More recently, as judges and witnesses have come to fear retaliation less, the courts have begun handing down longer sentences to offenders in organized crime cases and confiscating larger amounts of illegally acquired assets. There have been efforts to improve cooperation between the police, public prosecution service, and social services engaged in assisting trafficking victims, but the effective prosecution of suspects in organized crime cases and other serious crimes is undermined by serious weaknesses in witness protection.

51. Albania has intensified cross-border police cooperation with all its neighbors. This move has strengthened control of land and lake borders. These efforts have benefited from EU and US assistance for upgrading border checkpoints and related infrastructure, including new information technology systems. Training conducted by international law enforcement professionals has helped Albanian law enforcement agencies introduce advanced investigative techniques such as simulated purchases, controlled handover, and interceptions. These tactics have led to a substantial increase in the amount of drugs seized.

52. In addition to external and domestic pressure prompting stronger law enforcement, less visible factors have contributed to declining crime, and organized crime in particular. These factors include reduced culture conflict, growing internalization of democratic values, increased trust in the government—and law enforcement agencies in particular—and an overall

⁶² For details on such cases see Sander Huisman. 2004. *Public administration, police and security services, corruption and organised crime in Albania*. Netherlands Ministry of Justice Research Center: 14-16. <http://www.ciroc.nl/seminars/huismanalbanezen.pdf>.

improvement of economic conditions. Democratic values are no longer as alien to the Albanian population as they were in the 1990s.⁶³ Many Albanians who had emigrated abroad have returned, bringing with them new attitudes and expectations. They have been able to compare the situation in Albania to that of more advanced European countries and have served as important drivers of societal change.

53. There has been a parallel trend toward lower visibility among Albanian criminal groups domestically and abroad. During the 1990s, Albanian criminal groups used extreme violence to establish themselves and build their reputation. The groups that acquired wealth and survived the turbulent 1990s no longer need to use excessive violence or engage in high-risk criminal activities to prove themselves. These groups tend to be more careful now and have grown more entrepreneurial and more sophisticated, focusing more on economic crimes, including grand corruption. Many former crime bosses have laundered their illicit gains and invested in real estate and legal businesses such as hotels and restaurants. While the Albanian authorities' increased focus on combating economic and financial crime has led to some positive results, the changing nature of organized crime points to the need for further efforts in this area in the coming years.

63 EBRD. 2007. *Life in Transition: A Survey of People's Experiences and Attitudes*.

GOVERNANCE IN ALBANIA: A WAY FORWARD

54. Albania will need to bring the quality of governance to a new level if it is to move to the next stage of the European integration process. Though the EU has recognized Albania as a potential member, proceeding to the next step will require that Albania satisfy the Copenhagen criteria, which determine whether a country's political, economic, and legal systems conform to basic EU principles. Successive European Commission reports suggest that Albania may still need to overcome significant governance-related constraints—particularly corruption, relatively weak rule of law, inadequate protection of property rights, and relatively low professionalism in the public administration. These improvements would need to take place before the country's compliance with specific chapters of the *acquis communautaire* is examined. Recent political developments—notably the failure to reach a political compromise to end the opposition's prolonged boycott of Parliament due to dissatisfaction with the administration of the June 2009 elections—have prompted EU concerns about the stability of Albania's democratic institutions and may complicate the accession process.

55. Raising Albania's international competitiveness will also require that the quality of governance in the country converge with that of neighboring and EU countries. To become more attractive as a destination for FDI and investment in higher value-added sectors, Albania will need to reform faster than its competitors and focus on tackling the constraints that deter prospective investors. The Government's ongoing efforts to simplify regulations and upgrade energy and transport infrastructure are appropriate, but addressing wider governance-related shortcomings will be essential to improve Albania's positioning as a competitive investment destination. Continued work on improving efficiency and reducing corruption in the public administration is showing some promising results. Yet the Government still needs to resolve discrepancies in legal and regulatory frameworks, and improve the consistency with which laws and regulations are implemented by the public administration and the courts. These measures would help reassure investors, local and foreign, that the rules of the game will be applied and enforced impartially. The security of real property titles (registration, legalization, and restitution) and the regulatory framework for land utilization (urban planning and issuance of construction permits) deserve particular attention, as uncertainties in these areas are of most concern to prospective foreign investors and limit access to finance for both firms and households.

56. Addressing the many of the current governance constraints will depend on rebuilding cooperation among the main political parties around a core program of institutional and policy reforms, at least those required for EU integration, a goal that all parties and most Albanians support. At a minimum, cooperation between the Government and the opposition is needed to achieve an enhanced parliamentary majority for any legislative changes concerning the judiciary or the civil service. Beyond this, constructive cross-party dialogue on such major reforms is essential to ensure the sustainability of Albania's institutional development and reduce the risk of reform reversal in the event of political change. More broadly, a functioning Parliament, where policies are constructively debated, is also needed to strengthen citizens' trust in public institutions and to Albania's international credibility as a mature and stable democracy—a perception that is critical to the country's EU accession prospects.

57. Complex governance problems such as the protection of real property rights are particularly challenging and require comprehensive solutions that are based on broad political and societal support. Such governance problems are characterized by policy inconsistency,

unclear legal frameworks, weak or fragmented institutions, and political economy implications. Addressing them successfully will require strong leadership from the Government and engagement and support from civil society to find workable, affordable, and broadly acceptable solutions to resolve policy inconsistencies that block progress on key initiatives such as legalization of informal properties, restitution, and compensation. Tackling implementation bottlenecks through strong interagency coordination and clear accountability for results will be essential.⁶⁴

58. As discussed in the case study above, Albania has already had success in addressing highly complex governance challenges. The country's experience in improving public safety and order by reducing violent and organized crime—under greater capacity constraints than those existing today—offers valuable insights into the key factors in successful governance reform:

- a. Clearly articulating policy objectives at a high political level and conveying a sense of determination and urgency about policy actions;
- b. Building broad-based support for policy objectives, including through civil society engagement and assistance from the international community;
- c. Dedicating adequate resources and ensuring coordination among government agencies and state institutions involved in achieving results; and
- d. Regularly tracking implementation results with reference to specific indicators (such as the share of detected crimes) to monitor progress, going beyond legislative and institutional measures.

59. Tackling Albania's governance constraints requires a holistic approach to strengthening the capacity of government and civil society institutions. Most of the country's governance constraints are broad in scope, often cutting across the responsibilities of state institutions and thus requiring a systematic approach to strengthening capacity across government. Complex governance challenges, such as further reducing the incidence of corruption across the public sector and strengthening the rule of law, call for a strong medium- to long-term strategy supported by robust coordination and monitoring mechanisms. Addressing these challenges will require sustained effort, strong policy coordination, extensive capacity building across state institutions, and meaningful engagement with civil society. The Government could achieve tangible results in these areas by defining key priorities, required actions, and institutional responsibilities, and by allocating the necessary resources, including from external assistance funds. The criteria and requirements for obtaining EU candidate status offer a useful guide for action, though the Government might also consider addressing other acute governance challenges that go beyond the EU *acquis*, particularly those affecting public service delivery and the business environment (including targeting social benefits, increasing the transparency of health financing, and reducing informal payments in the issuance of construction licenses).

60. To move beyond mere legal changes, the Government will need to define expected results and intermediate targets with reference to measurable indicators and ensure regular monitoring of implementation progress. This results framework would ideally be integrated into the NSDI monitoring and evaluation process. The Integrated Planning System has, to a significant extent, linked policy priorities to budget preparation and marks an important achievement in this direction. Still, policy coordination and monitoring capacity at the center of government will need to be further strengthened, especially to ensure sustained and consistent implementation of

⁶⁴ This issue is discussed in more detail in a forthcoming World Bank Issue Brief. 2011. *Governance in the Protection of Real Property Rights in Albania: A Continuing Challenge*.

reforms that require concerted action by multiple government agencies (for example, real estate property rights). Assigning clear responsibility for key results (such as increasing the share of properties with clear title) to individual Cabinet members would help improve coordination among the multiple agencies engaged in different aspects of a given reform. Improved monitoring of the implementation status of new laws and policies will help ensure that policy measures achieve demonstrable results rather than remaining merely “on paper.” Instituting systematic monitoring (by the Ministry of Justice, for example) of the public administration’s compliance with court decisions would help address a key shortcoming in the rule of law.

61. The inconsistent implementation of laws and regulations can be addressed through improved legal drafting capacity in government and more systematic consultation with stakeholders. The Government could reduce implementation gaps by waiting to submit new draft laws for parliamentary approval until after the necessary budgetary provision has been made and secondary legislation providing clear implementation guidelines prepared. Many implementation problems could also be avoided by making more extensive use of advance consultations with key stakeholders (such as business associations) when preparing new laws or regulations affecting their activities. Regular consultation with civil society could also assist in monitoring the implementation of laws and regulations and making timely adjustments to reduce the risk that new legal instruments would lead to unintended consequences.

62. Simplifying procedures, setting clear service standards, and raising public awareness also have the potential to improve public service delivery, reduce informal payments, and strengthen public trust. Survey evidence points to increased satisfaction among firms and the wider public with the services provided by public institutions. Further improvements could be expected through policy reforms to ensure sustainable financing of key services such as education and health, combined with measures to strengthen service providers’ accountability for performance. Developing clear procedures and service standards for key regulatory functions (such as the issuance of construction permits) and public services, in conjunction with dedicated efforts to raise public awareness, should strengthen the demand for better services among firms and citizens and drive performance improvements. Regular benchmarking of key results indicators for government agencies, municipalities, and service providers will require significant effort and resources, but is likely to pay off in increased accountability, performance, and public trust.

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