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Economic policies shaping Market Economy in Albania

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Abstract

The study aims analyzing the transition of the Albanian economy from a closed and centralized one to a market economy. What makes Albania a special case, is the fact that for almost fifty years it applied communist dogmatism in theory and extremism in practice that paved the way to a closed economy, an obsolete state of technology and extreme poverty.

The research conducted is based on the principles of market economy and takes a closer look at the issue of whether the application of a “gradual transition” or “shock therapy” is more effective to establish free market economy. The analysis performed identifies the problems and consequences that accompanied the installation of the market economy in Albania, applying “shock therapy” approach.

This study focuses on the effectiveness of economic policies applied in Albania and analyses the progress of the macroeconomic stability and the sustainability of economic growth throughout the process of installation and consolidation of the market economy institutions.

Zusammenfassung

Die Diplomarbeit analysiert den Übergang der albanischen Wirtschaft von einem geschlossenen und zentral gesteuerten Markt hin zu einer marktorientierten Wirtschaft. Der besondere Fall Albaniens liegt darin, dass es faktisch seit ungefähr 50 Jahre lang ein streng kommunistisches Dogma, in Theorie als auch in Praxis, Gelebt hat. Dieser Sachverhalt ebnete den Weg zu einem in sich geschlossenen Wirtschaftsraum, eines technisch überholten und unterentwickelten Staates bis hin zu extremer Armut.

Die Untersuchung basiert auf den Prinzipien der Marktwirtschaft. Sie gibt einen detaillierten Einblick darüber, ob eine "stufenweise Öffnung" oder eine "Schock-Therapie" die effektivere Methode zur Etablierung einer freien Marktwirtschaft ist. Die Analyse zeigt die Probleme und die Konsequenzen auf, welche Albanien bei der Einführung einer Marktwirtschaft mittels "Schock-Therapie" begleitet haben.

Die Arbeit fokussiert auf die Effizienz der wirtschaftspolitischen Maßnahmen die in Albanien zur Anwendungen kamen und analysiert den Fortschritt der Makro ökonomischen Stabilität und Nachhaltigkeit des wirtschaftlichen Wachstums durch den Prozess der Einführung bis hin zur Konsolidierung der marktwirtschaftlichen Institutionen.

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1 Introduction

1.1 Introduction to the Topic

The fall of communism gave way to a new process which had in its foundation the political transition from dictatorship to a pluralist democracy and from a centralized economy to a market economy and free initiative. Such a process took a specific shape and content in each former communist country, which was influenced by various complex historical, political, economic and cultural factors.

This study focuses precisely on the Albanian experience and specifics, giving due consideration to the political conditions; socio-economic level of development; the level of knowledge on theoretical concepts of market economy amongst new protagonists who would later conceive and implement reforms that would enable a qualitative change. This study is also based on advanced market economy principles and theories as well as the requirements of scientific research approaches.

Political change, transition from dictatorship to a pluralist democracy would become for Albania as well an essential requirement for economic and social reforms, which would enable the installation of private property, market economy and free initiative. This process began towards the end of the 80s with the student movement for change, which later turned into a comprehensive movement demanding qualitative political and economic changes by leaving communism behind. The victory of anti communist political parties in the general elections of 1992 paved the way for a number of political, institutional, structural, economic and social reforms, which marked a new path for development in Albania.

This process proceeded under the conditions of an utter economic collapse, extreme poverty, peaking inflation and deep technological and infrastructure backwardness. Albania entered this new process as the poorest and most isolated country in Europe, with the fiercest dictatorship and the most centralized economy.

Lack of preliminary platforms or alternatives for economic development, and a considerable lack of knowledge about theories on market economy and necessary approaches in reform implementation accompanied the beginning of this process.

This new process found almost all new leaders of former communist countries somewhat unprepared. As it regards Albania, this unpreparedness was even more acute, considering the strict prohibitions against any type of dissidence or exposure to market economy ideas or theories and any kind of opportunity for the utilization of the market economy categories. No significant discussion has taken place on the approach or the path that Albania had to take. The new political leaders of the Albanian right wing decided to apply the “shock therapy” which was accompanied by the destruction of all factories, plants, their machineries and equipment, etc. Indeed David Stark describes the Albanian transformation process as the post socialist experiment.¹

Dilemmas and debates over the role of the state or the extent of its intervention in the economy accompanied the process of market economy installation in Albania. The study draws ideas to address this dilemma from the Keynesian and Chicago School (Friedman) perspective and does not stop at analyzing economic policies, but it goes even further by examining in particular the legal and institutional basis for the reforms, privatization, installation and consolidation of the market economy.

Considering the importance of privatization, as the heart of the market economy, this study takes a close look especially at the options, the approaches followed and the stages the privatization process went through, until its completion. It argues whether a strategy of survival or a strategy of innovation was applied– as David Starks argues in his work on Post socialist Pathways. The way in which privatization took place, the lack of alternatives and especially the disregard for the opposition, has left an open debate about the transparency of this process as well as the corruption and the expansion of the informal economy that accompanied it.

¹ Stark, David; 1999

Bearing in mind that privatization is not a purpose in itself, this study analyses the process of establishment and safeguarding of equilibrium and stability of macroeconomic indicators and economic growth, further reduction of poverty and improvement of living standard indicators.

The Albanian experience proved once more the special importance of political stability in achieving effective economic and social reforms. This study does not follow the path of an empirical and quantitative description of the development of Albanian experience. It focuses in observing the contradictions and problems, how it was responded when faced with them and what was their impact on the quality of the process.

1.2 Purpose of the Study

The study aims at analysing the concrete relation between politics and economy in the transformation of Albania from a dictatorship to a pluralist democracy and a free market economy. The main purpose of this study is to perform a rigorous scientific analysis of the Albanian experience in the installation of the market economy. This study focuses in the analysis of economic policies that comprise this experience, as well as structural, fiscal and social policies applied. This study pays attention at identifying how these policies were conceived and their theoretical basis as well as whether these policies consider the particularities of the Albanian reality.

A content and quality analysis of these policies and reforms occupies a central place in this study; it also observes the effectiveness, problems, and consequences accompanying them as well as approaches followed. Such analysis conducted based on data and observations, allows to elaborate convincing conclusions and actual recommendations.

A focus in special parts and elements of the process, such as structural changes, macroeconomic and financial equilibriums, economic freedom, and business climate, etc., and the relation between them, gives ground for a correct analysis of the process. An integral part of the main purpose of this research is to analyze results expected to be

achieved through reforms and what was their impact in improving indicators of the living standard, and in overcoming contradictions and negative phenomena.

This study also aims at identifying shortcomings of these reforms, the degree of subjectivity, the influence of party unilateralism in the design and implementation of reforms and actual deviations from the requirements of the real processes.

1.3 Research Questions

The installation of the market economy in Albania would become part of a new experience, to start with the fall of communism. Transitioning to a market economy would display specific features in any country.

This research aims at answering a number of questions arising from the review of the process of installation of the market economy in Albania. Having a look at the transition period in Albania, the first questions that arise related to the installation of market economy would be: What makes Albania a special and interesting case study? How was chosen the new model and which was the one actually applied in the Albanian reality? What was the approach applied in the installation of the market economy? In what way and why was the “shock therapy” chosen, instead of the “gradual” approach?

At a next step it would take a closer look to the role of the State in the economy. How and to what extent has this role been materialized in Albanian reality, both in the installation phase of market economy institutions and in their operation? What role would new political parties and their alternatives play in drafting and implementing of the political, juridical, economic and social reforms? The research will focus also at what role would politics play and to what degree it would influence the establishment and undertaking of liberalizing and privatizing structural reforms? What role would politics play in the harmonization of economic and financial reforms and associated social problems?

The key issue out of the several structural, political and economic reforms chosen is the privatization process. The main research questions related to it and the previous

explanations on transition period, such as the role of state in drawing efficient economic policies or the method chosen to implement free market economy, serve only as preparatory and explanatory considerations.

The research deals more specifically with the followed issues: How was the privatization of economy performed and where should have started? What type of policies and legal amendments were necessary for a quick privatization, and most importantly, for ensuring the restitution to its former owners of the property violently expropriated and without any compensation from the communist regime? Why did the Albanian transition proved to be so problematic, charged with great difficulties, meandering and relapses, as identified during the severe events of 1997 after the fall of the pyramidal schemes? What role would the State play in removing any chances for resurgence of the pyramidal schemes and for the reduction of informal economy? Has Albania overcome the transition period?

1.4 Method of Study

The complex range of problems accompanying the Albanian transition has served as the starting point in undertaking this research initiative. This range of problems was presented to me by the press and partial publications on the economic problems of transition. In order to clarify this situation and better familiarize myself with these problems, I consulted with several professors of Economics, two of which, Arben Malaj and Anastas Angjeli, have acted as Ministers of Economy and Finances between the years of 1997-2005. I have had extensive consultations with Selim Belortaja, former Advisor to the Prime Minister on Economy and Finances Affairs between 1998-2002, and currently Deputy Minister of Foreign Affairs, who enabled me to determine the subject of this research I conducted.

The object and purpose of this study and its conduct was made possible also by taking the principles and theory of market economy as a basis and employing adequate scientific research methods. First, previous studies conducted by researchers regarding the content and specificities of transitioning from dictatorship to a pluralist democracy

and a market economy in Albania were identified. This provided the bases for defining the object of this study, which is the effectiveness of economic policies in the installation and consolidation of the market economy during the transition period in Albania.

The research is based on data collection and observation of socio-economic development and transformation of the country during the transition period. It is not, however, neither a historical timeline nor a simple empirical description of historical facts. Such observations made allowed for a scientific analysis and logical consideration of composing elements in this process and relations between them, examined in space, time and motion.

How the process unfolds is the object of this study, therefore gathering quantitative and statistical data took special importance. Data obtained originate from official statistical sources and independent institutions allowing the development of charts identifying specific problems.

An analysis of statistical data in time and space created the real bases for an accurate consideration of the phenomena and their actual development. This path provided findings on the effectiveness of economic and social policies and reforms conducted. It allowed the examination of the installation of market economy in Albania in the process of doing so and identification of problems through data analysis.

An analysis of phenomena, facts that were gathered and their validation against economic principle and theories on private property, market economy and its main categories, led to conclusions and specific recommendations on how to overcome contradictions and negative phenomena identified.

The transformation of the society from dictatorship to democracy paved the way in undertaking deep political, economic and social reforms. Developing these reforms and especially that of the installation of market economy and private property, it was not a spontaneous process. In this case the role of the state took a special importance. Addressing this problem in this study demanded knowledge and reference to the views

of the well-known economist J. Keynes and representatives of the Chicago School (Friedman). This analysis would not be complete without considering the concepts which defined the economic, financial and fiscal measures which gave shape and content to actual reforms.

This required an analysis of the programs and decisions pursued by the Governments that led Albania during this period, as well as partial researches conducted by Ministry of Economy, Ministry of Finances and Institute of Statistics. Privatisation, structural reforms, liberalisation of economy, fiscal measures, etc, could not take place in the absence of a new legislation. Examination of legislation allowed familiarization with the content of reforms and mechanisms and institutions established and operating in the process.

This study aims to cover the entire period of transition and treats it as a complex process. Consequently, this study could not leave out of its focus a problem of a theoretical nature that is whether the Albanian transition is over or not. The conclusion drawn in this study regarding this issue remains an argument open for discussions.

2 Political and Economic developments in Albania during the 1990s

2.1 On the edge of the political system change from dictatorship to democracy

After the liberation of the country in 1944, Albania entered a period of economic and social recovery. According to official statistical data, right before its liberation, Albania was a terribly poor country. In 1945, over 98% of its population was illiterate, its economy was underdeveloped, and the country was completely devastated by the war. There was no such thing as developed industry or developed agriculture. The country had very little arable land and mostly swamps. Life expectancy did not go beyond 38 years. The country was experiencing extreme poverty and many diseases such as TBC, malaria, syphilis, ect., were the main cause of death².

The first task lying ahead was to overcome the destructive effects of the war and identify the path to development. It is hard to say with certainty that Albanians chose their own path to development, although communists played a big role. We cannot be sure whether it was the Albanian communists who decided that the country was to follow the socialist path. Although they had just won the national-liberation war, they were in no position to dictate the path of development for the country, even though they might have wished to. The fact is they had no preliminary program prepared and all the time all they had spoken about was freedom, independence, and democracy for Albanians.

Without excluding the goal to apply a communist alternative, due to their communist status, it was the Yalta Conference of 1945, which defined the new post-WWII map, which helped them greatly in their decisions. It was there that the new spheres of influence amongst the big winners of this war were determined. Pursuant to these decisions, the idea was to place Albania under the Soviet Union influence, or initially, make it part of Yugoslavia. Thus, from 1946, initially with the support of the Yugoslavians and later of the Soviet Union, the Albanian communists began to map out

² The Statistical Yearbook of the RoA; 1991

their path towards the socialist system.

For fifty years, the Albanian communists pursued a fierce dictatorship, an austere isolation, and unprecedented violence against free speech or any individual opposing the communist way. Any form or shape of private ownership, free initiative, although very modestly developed, was liquidated. Everything was socialized, especially from the beginning of the 1960s. It is true that at the stage of its expansion, and with the assistance of the Soviets, the economy of the country grew and there was social development, which improved the living standard of the people. There was noticeable development in the area of economy, elimination of marshlands and swamps, infectious diseases and epidemics. There was a rise in the life expectancy and education level among the population. In 1950, the population of Albania numbered 1.215 million inhabitants, whereas in 1990 it reached 3.2 million. Between the years of 1945-1990, there was a 184% increase of the population with an average increase of 2.8%, the highest in Europe. The average life expectancy from about 40 years old in 1950, it reached to about 73 years old in the 1990s.

Table 1: General Social Production and National Income per Inhabitant in Lek.

Year	General Social Production	National Income per Inhabitant
1950	2 184	1 300
1960	4 999	2 351
1970	8 309	3 626
1980	11 307	4 568
1990	10 528	4 463

Source: Statistics Year- Book of Albania

General social production was considered as one of the main development indicators in the communist regime, whereas the Gross Domestic Product was not calculated as one. The General Production and National Income per Inhabitant in the population is calculated based on the General Social Production indicators and on the National Income Indicator. Referring to the data of the 1991 Statistics Year-Book of Albania, one can identify a doubling of such indicators between the decade of 1950-1960, whereas on the third decade a slight and gradual increase and later economic downturn.

According to official data, from the 1970s until the end of the 1980s, the country plunged into stagnation and later into a rapid economic decline. The Constitution approved in 1967 legally sanctioned this reality, forcefully imposing the power of the Party-State and the isolation of the country. During these years, Albania managed to achieve equality through poverty and lost its perspective for development. Differences in development and poverty were stronger and noticeable in the villages, where more than 60% of the population resided. Deep-seated social problems were felt with particular acuteness in the villages. The level of financial remuneration in the mountainous and hilly cooperatives, where 50% of the population lived and worked, was only 5 (five) Lek per work-day. Village residents were strictly forbidden to engage in personal farming of poultry and cattle.

A fierce social warfare waged between the classes brought forth the phenomena of the perpetual guilt and collective blame. An extremely centralized system and a leadership pyramid, with the Communist Party as its sole decision-maker and commander, were sanctioned. Any absurd extremity was propagated as “a developmental creative peculiarity” or as a “new communist experience”. This absurd path of development was paving the road to an unavoidable dead end.

In the mid 1980s, the level of population and economic growth was seen to align closer. In this period, the population grew by 2%, and production rates fell to this level as well, with a downward trend. The decline had in fact already started since the 1970s. Two to three years after the beginning of the democratic processes, the country plunged into deep economic crises, into a total collapse, with economic growth falling to 1% and lower. This process of economic decline increased friction between the population and the communist government. Previously accumulated economic and social problems were now providing the impetus for a grassroots reaction, which was disturbing to the communist party.

No organized movement emerged except for in 1945 when force was used to suppress an armed movement at the northern village of Postribe. In this village the installation of communism in Albania was opposed, but several attempts made by armed runaways,

entering the country illegally with the objective of organizing an armed rebellion against the communist regime, were thwarted. Small isolated groups of dissidents were established abroad, in several European capitals and in the USA, but were never able to have any influence within the country.³

This particularity in the development of the country impacted greatly the quality of reforms and the entire democratic process of the 1990s. The beginning of the democratic processes found Albania lacking a mature and organized political dissidence, a political force, and a right wing social stratum to present another democratic alternative for development.

A fierce class war was fought in Albania, in the economical, political and ideological domain, marked by the execution of those exercising their right to free speech or religion and banishment of hundreds of families to remote areas. An Article of the Criminal Code provided for prison sentences of up to 10 years for propaganda and agitation against the communist regime.⁴

In addressing the features of the communist totalitarianism in Albania, Professor Omari identified the following characteristics:

- One single official ideology,
- One single party controlled by one oligarchic group, headed by one single leader usually with dictatorial powers,
- Full control of the state and of its mechanisms by the communist party, creating thus the party-state symbiosis,
- Placement of the information media and those affecting public opinion under the full control of the state party,
- Limitation or elimination of fundamental human rights and freedoms and the establishment of a police regime.⁵

³ Buda, A; Puto, A; Pollo, S; Frasher, K; 1980, Volume 1

⁴ See the Criminal Code of the SPRA, Tirana 1967, Page 27. Article 55

⁵ Omari L; Tirana 2000; pgs. 234-235

Harsh punishments against free speech impeded even secret arrangements for an alternative to the state party. In fact, during 1975-1982 in Albania, the regime ordered to death even top members of the Albanian Communist leadership who were denounced as “hostile group”. According to Valentina Duka, this asserts that the fiercest version of the communist system was implemented in our country.⁶

In her analysis she explains that “The communist regime did not allow the development of a civil society, as a necessary condition for the construction of democracy. Violation of human rights, the violent suppression of any form of opposition, the absence of a legal state, and the extinction of liberal elites, pushed Albanians further away from the path of democratic traditions.” Further on, she quite rightly observes that “the fact that the communist regime in Albania was the harshest across Europe, and that no dissidence existed in the country for 50 years, explain why the political elite during the transition period was largely formed by the intelligentsia of the communist period”⁷.

But, the contradiction between the majority of the population and the communist rule began to quickly develop and deteriorate. Despite efforts of the communist regime to withhold public information on democratic developments taking place in the former eastern countries, the news was now coming in through various mediums. Knowing about these developments served to strengthen determination and overcame fear cultivated in the years of totalitarian regime.

The communist leadership, understanding the situation and sensing the unavoidable collapse of its regime, and the weight of the democratization pressure rising in the former communist countries, began playing certain tricks or introduced the “deliverance” movements. Thus, around the mid 1980s the so-called “new economic mechanism” began to be propagated, which consisted in some type of deliverance from extreme planning, increasing free planning initiative to a certain extent, or making everyone aware of certain economic concepts such as cost, profit, self-administration, etc.

⁶ Duka, Valentina; 2007,pg.379

⁷ Idem, pg. 379

Such movements were by no means a sign of serious reflection or an indicator of serious change the Albanian communists would undertake. They were too late and completely unable in reflecting on significant qualitative changes., thus they could not become now a factor of change. These were only tactical movements employed to ebb the wave of anger and to minimize the influence exerted by the democratic process in the former eastern communist countries. It is quite significant the fact that no qualitative amendments were made to the constitution that sanctioned the iron-fisted communist system. Even in the absence of constitutional amendment however, Albanian communists proclaimed certain measures that aimed the reduction of the role of the Party-State.

Nevertheless in the case of Albania the past and preconditions influenced and determined the transition period. The party state can be defined as "weak and ineffective"⁸ in order to achieve any preconditions for economic and social change. We can say that Albania didn't learn from its neighbour countries.

By that time, the student movement had already created its profile. Their demands, initially economic in nature, very soon turned into political ones, and brought about the establishment of the Democratic Party (DP) in December 1990 as an anticommunist right wing party.

The establishment of the DP marked in fact the beginning of the irreversible process of the collapse of communism in Albania. On 31st of March 1991, the first pluralist elections were held under the pressure of the same communist party. Once again, it came out victorious after undergoing few democratic cosmetic touch-ups. The establishment of the first pluralist parliament was a significant victory for the democratic process, which certainly led to the abrogation of the communist constitution of 1974 and its replacement with a "Constitutional Legal Package". This package sanctioned the changes made in the Albanian reality. It sanctioned political pluralism, giving thus an end to the 50-year rule of the Communist Party-State. It sanctioned a marked economy and free initiative.

⁸ Stark, David; 1999, pg 6

This package recognized the right to private property and protected it by law.⁹

For sure, these were important but incomplete developments. This parliament approved the well known Law no. 7501, which paved the way for the privatization of property and played a major role in the disassembly of the socialized communist property and created a complexity of problems, the consequences of which will not be able to overcome without difficulties and for which a high financial and social costs will be paid.¹⁰ True democratic, political and economic reforms would begin to be undertaken only after the victory of the Democratic Party in the new parliamentary elections held on 22nd of March 1992. Another new political development had taken place. The Socialist Party had been established with a democratic political program that incorporated the communist past, the party it originated from. Other parties of the right wing and left wing political spectrum were established. The establishment of political parties gained momentum.

The victory of the Democratic Party marked in fact the historical crossover from dictatorship to pluralist democracy, which would later lead to the establishment of its political institutions. It was natural for this new stage of qualitative changes to necessitate the drafting of a new constitution. Under the leadership of the DP the text of the new constitution was drafted and submitted for approval in a referendum in 1994. Due to the influence of many factors from the communist past, but also to some power sharing imbalances contained in the new constitution, as well as the emergence of the government corruption phenomenon, this constitution was rejected in the referendum.

Serious violations however were observed in the parliamentary elections of 26th of May 1996, when an obvious violent attitude towards the opposition and especially the flourishing pyramidal schemes, plunged the country into a new economic and political collapse in March 1997. International actors assisted in overcoming this critical situation by giving a new chance to the pluralist democratic process in Albania. Overcoming the economic collapse, economic stabilization and beginning of recovery and economic growth, stabilization of democratic institutions and the democratic process itself came

⁹ Constitutional Legal Package; 1991

¹⁰ Official Gazette; Issued by the center of official publications; 1991

once again to the forefront of the agenda.

Overcoming of this situation paved the way for sustainable political and economic developments, and the approval of the new democratic constitution in 1998 in a referendum marked a most important event. Article 1 of the Constitution proclaims Albania a Parliamentary Republic in which “governance is based in a free, fair, general and periodical system of elections”; while Article 7 sanctions that, “The system of government in the Republic of Albania is based on the separation and balance of powers between the legislative, executive and judiciary”. Article 11 determines private and public property and the market economy as the basis for the economic system.” The economic system of the Republic of Albania is based on private and public property, as well as on a market economy and on freedom of economic activity. Private and public property is equally protected by law. Limitations on the freedom of economic activity may be determined only by law and for important public reasons”.¹¹

This quick overview of the transition process from dictatorship to pluralist democracy and market economy, allows me to reach several conclusions:

Efforts made in the middle of 1950s by several countries of the communist bloc, such as in Poland, Hungary, Czechoslovakia, and in the USSR as well, to place certain categories of the free market such as profit, costs, etc, at the foundation of their economies were unsuccessful.¹² This identified the need for qualitative changes in the political governance. The case of Albania shows that the market economy cannot be installed and operate within the political framework of a communist dictatorship.

- The transition process from a communist dictatorship to pluralist democracy in Albania was carried out on the condition of lacking of any concept or experience of pluralist democracy and market economy. This process was being pursued inside a reality that had fought fiercely any political concept of pluralism and market economy, had even created barriers, and placed

¹¹ The Constitution of the Republic of Albania; 1998, pg.1,3

¹² Mara, H; pg. 18

penalties to deter knowledge about such pluralist ideas. Quite different from the majority of other eastern communist countries, Albania went through this process in full absence of a political, public, or illegal dissidence. As Stark describes “Weak states faced weak societies” in Eastern Europe in the 90’s, with exception Poland, weak societies without organisation strongly rooted in their citizenry with leaders experienced in national politics, without elaborations of democratic habits and practices...¹³

- The establishment of a great number of political parties, approximately 90, accompanied the switch to a pluralist democracy.¹⁴ Through the general democratic election developed till now, only 7 of them were represented in the parliament. Poor political and democratic culture, little room for dialogue, poor cooperation and an absolute absence of competing legal arguments and alternatives, were some of the distinctive features characterizing relations between political parties represented in the parliament and those out of it. During these transition years, relations between the two major political parties, the incumbent party and the opposition, were dominated by disputes with a heavy dose of hostility and acute tension, far from constructive. A political battle, fought with immensely emotional and very little truthful performances, blurred or downright eliminated the difference between the truth and deceit, morality and wickedness, constitutionalism and anti-constitutionalism.
- In drafting and implementing of the reforms of the market economy, one can identify a considerable influence of communist concepts and practices.

¹³ Stark, David; 1999; pg.16

¹⁴ Krasniqi, Afrim; 2009; pg. 257

2.2 Drawing parallels between Keynes theory and the “Chicago School” to the establishment of the market economy in Albania

Market economy is an important phenomenon and its evolution has been studied throughout. This scientific wealth is continuously refined. Throughout the process, specific concepts and judgments have been appraised and reappraised. There have been relapses into past patterns and advancement of new ideas in accordance with historical developments. The fall of communism in the 20th century and the current world financial and economic crises have rekindled the theoretical debates about the role and the extent of state intervention in the economy. Such debates and the challenge of this crisis, will surely serve to enrich further our economic thoughts.

The process of installing of the centralized socialist economy, aimed at destroying private property and placing it under the rule of the socialist socialized property. It was preceded by violent revolutions, and indeed in such a manner it was installed. The collapse of communist societies posed a new problem that of transitioning from a centralized communist system, based on socialized property, to a market economy and private property. This was a problem, because there was no previous experience to draw from. In fact, the chance to experience something new was presenting itself. There existed concepts and visions of the market economy, but there was a lack of vision as to how communist centralized economy was to be liquidated and the market economy to be installed. Naturally, the economy had to be privatized, but which was the best model, considering the existing conditions and actual particularities of each country.

Time proved that political changes, that opened the way for peaceful and democratic economic reforms, are a precondition for the installation and consolidation of a market economy. A new era was thus beginning, and a new world order was being built upon historical and scientifically proven truths. This new political class of the eastern countries had no programs or alternatives prepared in advance, and even the west found itself somewhat ill-equipped, perhaps because change happened faster than it was expected. "Events during the past year in Russia and eastern Europe made it clear that the West is

not yet prepared to lead the way into a substantially new international system”¹⁵

Transformations underway in the communist east required, theoretical and conceptual as well as financial assistance in order for it to be completed without running into any serious obstacle, with the least possible human costs, with quality and consistency. "The type and manner of assistance that the West foresees to provide to the East might have an influence on the future of Europe.”¹⁶ Back then, theoreticians suggested that the west should not stop at monetary and technical assistance, which were certainly very essential. Greater assistance was needed in developing visions, programs and reforms which would ensure the installation of private property and of a market economy, ultimately taking these countries into the path of sustainable and irreversible developments.

The classical school represented by A.Smith and D.Ricardo certainly continues to serve as a central system of reference for theoretical discourses and scientific research on market economy. These scholars walk on solid scientific foundations, granting a special status to economics in the system of sciences. This school created its perspective, at a time when new ideas on human freedom made the leitmotif of the war against medieval obscurantism and the resolve to establish a fairer society was strong. Under such historical circumstances, the representatives of the classical school spoke against state intervention in the economy and called for economic freedom, synthesized in the "*laissez-faire*" maxim.

Such a concept of market freedom did not sit well with Mercantilist ideas, according to which trade is the source of the wealth of nations. The classical school argued that the source of the wealth of nations was the labour for production of material goods and services. According to its representatives, labour, capital, and land are the true generators of wealth. While the creation of an environment, where the individual can freely show initiative at work, is an essential condition for its growth. Such a thought employed scientific arguments to essentially move the center of gravity from the domain

¹⁵ Mroz, Y.E; 1992, pg. 44

¹⁶ Brabant, Y.M.Van; 1990, pg. 7

of circulation to that of production, passing from nature to man, the free labour of whom would generate and increase wealth and open the way for social progress.

In his well-known work 'Wealth of Nations', A. Smith designed the scheme of factors in production, equilibrium and the progress of economic life. At the center of his theory, he places man and his labour, his private interest as an incentive for man to work, profit and save; the capital as a result of labour in the society; the market and the free game of prices, i.e. a free combination between goods and money as a principle of equilibrium and capital accumulation, as a principle and source of progress. This means that Smith placed human labour, its societal division and self interest at the foundation of how economic life was organized. In this way, according to Smith, capital is a product of labour and other factors of production, while accumulation of the basic capital is of progress. This relation between them is effective in the case when accumulation is greater than natural growth of the population.¹⁷

Based on this concept, the classical school explained on scientific bases the law of the value, because in its perspective labour creates the value of goods; because it explained correctly the relation between goods and money and judged pricing based on the relation between market demand and offer. Thus, this school had created a clear concept of the economic structure and mechanism of the market economy that ensured freedom of the individual. According to Smith, this agreed perfectly well with the nature of free man.

Economic thought has evolved and has been further enriched with valid concepts and theories but the contribution of this school are irreplaceable. It is not only valuable in the domain of knowledge and education of economists, but in the development of specific economic policies as well. It is quite normal, however, that there exist opposing and critical views. This is the natural path of development of scientific thought. Thus, the well-known scholar Eric Hobsbawm states that: "Such a lucent *laissez faire* society has never existed ...Even the most noteworthy attempts to apply this principle in the West

¹⁷ Smith, Adam; 2002

made by the regime of Mr. Thatcher in the UK, were widely accepted as a failure after she left power.”¹⁸

Critics of the classical school's concept argue that under the actual circumstances when there is a great growth in production and there are regional and global integrating processes of world economics, it is hard to avoid state intervention in the economy. This concept is supported also by the need to overcome difficult world economic situations and by a historical process, during which state intervention in the economy began to rise, and in some cases it reached very high levels. This marked a misbalance intervention of the state in the economy.

The severe crises of the 1930s challenged human thought, especially economic thought, with the task of revising of state intervention scheme, which resulted successful until the end of the 1960s, and was associated with an alarming rise in inflation. In fact, since the 1930s until today, there have been two basic concepts clashing with each other, that of Keynes and that of Chicago School represented by Milton Friedman and others. The main discourse has involved the subject of “a bigger state or bigger market”. If Keynes concentrated his attention on the internal risks of capitalism and supported the idea of governmental intervention, the Chicago school believed and argued for the opposite. For them, economy was a perfect self-regulatory machine. The two concepts have been clearly distinctive from each other, not only between the founders but also amongst their resuscitators. It seems time is proving the establishment of moderate relations between the state and the market.

Overcoming the great depression of the 1930s, did in fact achieve the remodelling of capitalism based on the ideas of J. Keynes. “Overcoming the great depression proves belief in the ideas of Keynes that governments and not unfettered markets hold the key to lifting economies from depression. An economy left to its own fare may not be able to get out of the pitch where it might have been gotten into. Markets do not always manage

¹⁸ Hobsbawn, Eric; 1997, pg. 465-466

to find what it takes”.¹⁹ Keynes ideas on state intervention in the economy proved successful in prevailing over the great depression and ushered the market economy of the west into the path of sustainable development until the end of 1960s. Capitalist economy was now facing difficult inflation problems. It is in this period that neoliberal concepts began to emerge presenting the idea that: “free markets good, governmental interference bad”.

The 70s-80s of the past century marked the beginning of the process of globalization of the world economy. Neoliberal thoughts were that “globalization was a chance for a higher and uninterrupted growth and economic prosperity for all. They thought that it was high time to clean off our hands of the Keynesian doctrine, which recognized the government a regulatory role in the economy. The triumph of Friedman’s ideas was sounded. All state interference in the area of economy was asked to be given up. Businesses and banks were asked to release themselves from bondage and give a chance to maximal profit, under any condition and at any price. Capitalism was now proclaimed a crises free system, while globalization as a model of the massive consumption society.”²⁰ “The way was paved thus to maximum profits under the conditions of a capitalism with no rules, no control and no breaks.”²¹

The history of state intervention in the economy, the expansion or retraction of such intervention, shows that extremities are not very useful, or that the current designs will not be effective for long periods. It also testifies how hard it is to find optimum sustainable relation for a relatively long period. Under these circumstances, the economic reality and actual problems in each of the countries, is the most correct indicator that might shows whether this is an optimum relation or not.

Thus, liberal and neoliberal concepts were shaped under the conditions of a reality that posed problems regarding the major role and intervention in the economy. In accordance with this reality, the proponents of economic liberalization expressed the need for privatization of even public property in the western countries based on the

¹⁹ Interview with the BBC of Marc Gregori in TEMA Newspaper; pg. 11

²⁰ Zakaria, P.G.; 2008, pg. 178

²¹ Chiesa, G.Villar; 2004, pg. 5

concept of a minimal state. According to them “public property it involves practical difficulties in the real transformation of the rights to ownership, compared to the private property”. Again, according to them, “it is hard to think that government managers will organize such available resources better than private owners, to maximise profit”. Therefore, it is their view that “public firms are less constructive, both due to the fact that their managers are after a more comfortable life”, also due to the fact that “they have limited rights to decision making compared to private firms”.²²

According to the liberal economic concept “public enterprises have a certain influence in the deformity of fair market competitiveness. This affects efficiency of production. Likewise, public enterprises are more influenced by policies and interests of special politicians in their activities than private ones. Managers of public enterprises are more interested about growth than wealth”.²³

Under the influence of economic liberalization concepts of the 1980s, it was noticed an increase in the privatization of the public property. Thus, a research conducted between 1980s and 1990s by A.Belke found that about 4000 big enterprises from the western economies were privatized, out of which 3 in the USA, 5 in the Netherlands, 10 in Austria, 10 in Germany, 11 in Spain, 20 in Italy, 34 in France, 44 in the UK, 7 in Japan, etc. This has to do with the privatization of banks, telecommunication companies, steel, oil, airport and seaport, railway and highway companies.²⁴

The privatization of these enterprises was a considerable source of financial means for the state budgets of these countries. “During the 1980s-1990s in the USA, UK, Japan, etc., income ensured from privatizations equalled that of the last 30 years. Overall, the EU had a growth of 4.5 times more. In order to judge the role of income from privatization of the economy in these countries, it is enough to refer to the privatization income indicator for the period of 1990-2000, in relation to the GDP in 2000. Thus, if it was 4.2 times more in France, in Italy it was 8.2, in Greece 8.8, in Portugal 20.2, etc.”²⁵

²² Alchain, A.; 1961

²³ Alessi, L.D.; 1974, pg. 1, 42

²⁴ Belke, A, Schnider, P.G.;2003

²⁵ See same reference

Therefore, the collapse of communism in Eastern Europe, coincides with the prevail of the concepts of economic liberalization, with the processes of privatizing public property, concrete achievements and efficiency shown by the design constructed based on the economic liberalization. How could this historical circumstance and the weight of liberal thoughts on the free market not have a significant impact on new politicians in the former eastern countries, which were leading a new historical process? This would have a significant impact on the selection of the actual models of the market economy in these countries, in the programs and privatizing reforms. Would the reforms in these countries be carried out gradually, or in the fastest and most radical form of what came to be known as the “shock therapy”. This was materialized in the form of two concrete alternatives they could choose from, based on the actual circumstances of each country and financial resources.

2.3 On the search for a new set up of the market economy, “Gradual change” or implementation of “Shock therapy”, the missing debate

The transition of Albania from a dictatorship to democracy, found Albanian politics and its political class much unprepared in terms of ideas and concepts of the market economy. It came to the forefront of an historical process without a preliminary political, economic, and social project. Familiarization with the visions for a market economy and its developmental models was very poor.

Contrary to the rest of the former eastern communist countries, which had began their liberalization processes almost 30 years ago, Albania represented a unique case of extreme communist dogmatism, a special case of extreme concentration of both, political and economic management, with everything being planned and determined by the Party-State. It determined the extraction quota for chromium, oil, cooper and any other underground metal, the production quota of wheat, and any other agricultural and dairy product to be produced during the implementation of 5-year plans, etc.

Albania persistently implemented the traditional communist model of extreme centralization and concentration in the management of the country's economy. It followed the principle of self-reliance, which led to poor economic development, a miserable state of technology, poverty and very few and tepid opportunities to benefit from scientific and technological achievements in the world.

Albania lived under an austere censorship, strictly prohibiting any exposure to literature addressing concepts and experiences of the market economy, of capital, initiative, the market, etc. This type of censor went as far as to criminalize and punish anyone engaging in discussions about market economy issues or meeting for such purposes. Exposure to such type of literature was considered a true heresy. Such a circumstance could not have created a greater vacuum in economy culture and vision among Albanian economists, who were compelled to repeat only concepts of Marx and Lenin and those of the leaders of the State-Party.

The speed with which political developments began to unfold in the beginning of the 1990s was greater than the progress of the familiarization process with the overall vision of the market economy. This circumstance led to serious difficulties in deciding what set-up to choose or where to begin from. The political class was very unclear about the solution to this issue and undecided whether to apply the principle of gradual change or that of the shock therapy. Which set-up of the market economy was the more desirable, most feasible, and in agreement with the traditions and specificities of the Albanian reality? Arguments in support of both set-up began to be voiced. A careful consideration of facts shows that no debate on the set –up or the path to take in the installation of the market economy ever took place.

It was found that the right-wing incumbent government, which emerged victorious in the general elections of 1992, chose to implement with no second thought the “shock therapy”. All the reforms undertaken aimed at a fast destruction of the communist reality. The opposition party, a derivate of the former communist party but now embracing the path of democratic developments and market economy, expressed its opposition to this choice and presented the principle of gradual change. However, there was little public

confidence in the opposition party, also because it did not present any elaborated platform or alternative.

Looking for arguments brought forth in support of the decision to adopt this way of development, we find that there exist no documents synthesizing all of these arguments into a platform for development. The daily press conveyed a blend of political, moral, and economic statements, but no theoretical and scientific interpretation of what those meant. It seems that the set-up was chosen with the thought that Albania was an extreme dictatorship, with a very centralized and closed economy, therefore immediate, quick and utter destruction was necessary, reaching thus ground zero.

All of these were spontaneous disjointed thoughts which never took the shape of a fully developed strategy to guide structural reforms and the economic future of the country. Mostly improvised economic policies serving chiefly political interests were implemented. This characteristic, of political party interests carrying greater weight and more influence than the requirements of the laws of economy, affected and distorted economic measures, the content of reforms and their efficiency. The impact of such factors, may explain why throughout this transition, there was never a comprehensive economic and social development strategy drafted, agreed between the incumbents and opposition, passed by the parliament to serve as the bases for all economic and social reforms.

Many international bodies such as IMF, World Bank etc, have supported and advised the Albanian governments, but the quality of concepts, economic and financial policies, their sustainability and especially their implementation, has been greatly affected by this condition of the Albanian government at the visionary level. Lack of knowledge about the market economy opened the way to statist and communist concepts. This can also explain why the pyramid schemes were allowed to thrive, the collapse of which in 1997, plunged the country in total collapse, destroying everything achieved until then. Such level and quality of political vision in the Albanian governance, explains to a great extent the prolongation of the Albanian transition. It can also explain Albania's failure to meet even today the necessary standards for accession into the EU.

This particularity, noted since the beginning of the installation process of a market economy in Albania, explains the number of quantity-oriented solutions, of the improvised, half-way and incomplete reforms or even failed ones. Such an eclecticism and superficial visionary abilities, can explain the general climate of distrust and absent dialogue between the government and businesses, as well as the disturbing proportions of the informal economy, etc.

The insufficient preparation at the visionary level for market economy cannot be viewed as a strictly Albanian one. This is confirmed by the fact that even in other former communist countries, where market-liberalizing reforms were undertaken earlier, such as the case of Hungary, Bulgaria, Romania, etc., the political and economic transition posed many unknowns, conceptual and strategic problems related to development. It is also a fact that countries which had embarked on liberalizing reforms long time ago overcame difficulties faster and completed their transition earlier and at a higher degree of quality, beginning a normal path of economic and political development.

Only 2-3 years before the process of transition to pluralist democracy and market economy began in Albania, the so called “new economic mechanism” with certain elements of self-administration began to be applied very hastily and in the absence of the necessary knowledge. It did not result to any significant change. It was also impossible for them to create a new experience of thought and action. The fall of the communism in the beginning of the 1990s became an unavoidable and unstoppable process, and it occurred faster than it was expected. The only alternative offered in political domain was the pluralist democracy, while in the economic domain, the free market economy. There were no other alternatives to chose from. The only positive element this aspect had, was that the process of installation of the market economy could be monitored better. Monitoring, however, could not possibly avoid acute problems and difficulties deriving from a new political class that lacked vision, prognosis and strategies, or a mechanism to construct and make the market economy functional.

There were many problems pending solution, particularly regarding the role of the state in the installation of the market economy and the extent of its intervention which were

not easy to overcome, considering the very negative experience entrenched for such a long time throughout socialism. How could the old mentalities and mechanisms be set aside, and the market economy mechanisms and institutions established?

Only two general alternatives were presented: “the shock therapy” – ground zero and “the gradual change approach”. Thus, either a quick transition through radical reforms from a centralized to a market economy, or a gradual overhaul, suggesting gradual reforms in this respect.²⁶ Choosing between these two alternatives was not easy for any of the countries, due to different political and economic circumstances and historical developments. Albania applied without any doubt the principle of “the shock therapy” and ground zero, so that she could clean her hands off the centralized communist economy as soon as possible and open the way for a fast growing economy. There existed no preliminary research and none was carried out to find the economic and social repercussions and the associated financial costs.

Time showed that the new political class in the former eastern countries was very unprepared for these new qualitative changes. Perhaps this does come with great changes in history, but time is showing that this political class is not prepared to handle or reflect even on the latest worldwide financial crises. It is obvious that there is perplexity, especially with respect to the theories that need to be applied. In the face of such a serious financial and economic crises, there is renewed attention to the concepts of the distinguished British economist John Maynard Keynes, but also to the economic contribution of Marx. A new economic doctrine, but not only, does not exist. The primary and faster solution is state intervention in this crisis. In the current situation, neo-liberals are somewhat confused, while neo-Keynesians feel more optimistic. Perhaps the solution rests somewhere between a neoliberal globalization and a globalization with rules and control.

²⁶ Mara, H; 2002, pg. 18, 19

It seems that Keynes ideas on economic policies were applied effectively even to the transition of former communist countries like Albania to a market economy. At the same time, maybe the circumstances are favouring, or asking for a new economic theory, perhaps an even more complex theory that can result in further refinement of both relations between the state and the market, and the entire body of social relations.

Albanian transition period to market economy was characterized by tensions, difficulties, confusion, reluctance, unawareness and expectations, impulsiveness and often failed experiments. The perception that the market economy was developing solely because of government programs began to take shape. It would be a new practice in fact, one founded on free initiative, economic policies, and short-term, mid-term, and long-term development prognosis.

Western societies had already amassed rich experience in economic and social developments. The 20th century was the period of unprecedented scientific and technical development, of information technology and cybernetics, of internationalization of economy and not only, of regional integration and steps towards the globalization of the world economy. These changes demanded further improvements in the market economy as part of which we can mention the scientific predictions of development, specific businesses, the economy and overall society. This new element emerged as a result of the need to better administer the great amount of production and to avoid destructive depressions. Elaborating the economic prognosis has nothing in common with the nature and mechanisms of socialist economic planning. The economic prognosis mentioned earlier, supports free initiative and private property while increasing efficiency. Socialist planning was an absurd centralization and a top down management of the economy, which stiffened and hindered free development of the economy pushing it towards ultimate collapse and bankruptcy.

The experience of western societies on development shows that the prognosis of the socio-economic development of a country are based on the prognoses of development of specific sectors and regional development, as well as their harmonization based on identified priorities, according to the requirements of the stage of development.

The new political class in Albania was aware of such theoretical and practical truths. The issue was the lack of a comprehensive and clear vision of the road Albania should follow to install the market economy and free initiative. An analysis of the Albanian transition enables understanding of the real process along with its associated negative and positive phenomena. This analysis allows understanding of the efficiency of implemented economic policies, but also of the impact that the quality of governance had on the political developments of the country.

At the beginning of the transition in Albania, the need for immediate macroeconomic stabilization as well as liberalization and privatization of the economy, radical restructuring of the economy, encouragement of free initiative, liberalization of the domestic market and foreign trade, etc., became evident. None of this could be achieved without first developing and implementing new economic policies applicable in a market economy, or without first designing and implementing radical reforms in all areas, or a new legislation, starting with the drafting of a new constitution.

Albania has a complex reality of social and economic developments and problems, the analysis of which will demonstrate the quality and efficiency of economic and social policies, and of reforms undertaken in the country.

3 The installation of the market economy

3.1 The post communist period

The specific conditions of the Albanian reality would highly influence the installation of market economy. This reality would determine also the content of the so called Albanian transition.

The beginning of transition period found Albania with a well-arranged agricultural land, with 60% of it under irrigating system. Likewise, the country was rich in important underground minerals such as chromium, oil, nickel-lead, etc. Until the end of 1980s, Albania ranked amongst the first 4-5 chromium exporting countries. The country has great water resources that are crucial to the economic and social development and to its hydropower generation.²⁷ Certainly, the human factor represented a great opportunity for development. Based on the official statistical data, Albania had a very young population, with the average age being 26 years old. Its population was educated and illiteracy levels were very low. There were 80 000 employees with graduate and postgraduate education and 370 000 employees with high school graduation for a population of about 3.1 million inhabitants.²⁸

Despite its natural and human resources, the application of a socialist system in its most dogmatic and extreme form, led to acute and complex problems. It was true that there existed an industry, but it was not effective, it had even caused considerable environmental pollution. There were great investments made in agriculture, which lead to high-performance grain production, but the living standard remained very low. Albania was the poorest country, not only in Europe, but also in the so-called socialist camp.

After the year of 1961 and all the way until the end of the 1970s, the Albanian economy, centralized and planned as it was, based on the negated right to private ownership, of the free market and free initiative, displayed signs of an economic downfall that

²⁷ Albanian Institute of Statistics, Annual Bulletin; 2002

²⁸ The Statistical Yearbook of the Republic of Albania; 1991

exacerbated during and after the 1980s. This period shows a decline in the balance of payments, exports and the creation of a gap in the essential goods for consumption.²⁹ Economic activity suffered heavily from distortions in the price policy, deviation from the value, the heavy burden of state subventions for enterprises consequently a rigid system of fixed prices and great incongruities between demand and supply.

This exacerbation was coated or kept under control with foreign financial recourses received from the Soviet Union and the CMEA (*Council for Mutual Economic Assistance*) countries, between the 1950s and 1960s, and from the Chinese Peoples' Republic between the 1960s and 1970s. The country plunged into isolation and a full autarchy after the disruption of Chinese assistance after 1978. This situation certainly brought about further decline in production, greater macroeconomic imbalance, reduction of foreign currency reserves, technological collapse, rise of unemployment and poverty. According to official data "the growth of economy fell rapidly from 5% in the 1970s, to 2.2% in the 1980, and later under 2%."³⁰ In the 1990s, the Gross Domestic Product per capita in Albania was 2.3 to 4.5 times less compared to the rest of the countries in the socialist camp³¹.

This situation was expressed also in the consumption of essential food items per capita, according to which Albanians consumed 5-8 times less meat, 1.7 to 2.7 times less sugar, 1.6 to 3.6 times less milk than citizens of the countries in the socialist camp were³². This huge disparity in the living standard within the socialist camp materialized also because of the fact that the majority of Albanians did not have saving bank accounts. This means that the majority of the population spent everything it was earned from working.

Statistical data show that salaries in Albania were much lower than the rest of the countries in the socialist camp, and that these salaries were beyond comparison with the

²⁹ The Statistical Yearbook of the Republic of Albania; 1991

³⁰ The Statistical Yearbook of the Republic of Albania; 1970 & 1990

³¹ IMF; International Financial Statistics; Vol. XLV, No. 5; May 1992

³² The Statistical Yearbook of the Republic of Albania; 1991, pg.357

countries in the Western Europe. According to a research conducted by the German Institute on Market Research in 1991, monthly salary in several European countries expressed in German currency (the Deutsch Mark) was: 4048 DM in Germany, 3702 DM in Sweden, 3038 DM in Italy, 3212 DM in Netherlands, 2276 DM in the UK, 2250 DM in Spain, 1114 DM in Greece, while in Albania it amounted to 0.37 DM. According to official data of the communist government, the monthly salary of the Albanian worker in the industrial sector was 3.5 times lower than that of the Czech worker and 109.4 than the salary of a German worker. Also, the average daily salary in Albania in the 1990s was US \$1.5.³³

The Albanian communist leaders created an almost unique experience of extreme property socialization and self-isolation, synthesized in the dictum “ultimate self-reliance”. Foreign trade was a state owned monopoly. Article 28 of the Constitution of 1976 was written “The granting of concessions to, and the creation of foreign economic and financial companies and other institutions or ones formed jointly with bourgeois and revisionist capitalist monopolies and states, as well as obtaining credits from them, are prohibited in the People's Socialist Republic of Albania.”³⁴ It must be pointed out however that despite this provision in the Constitution of 1976, during the period of 1950-1975, Albania received credits and loans that amounted to 48% of the total volume of investments in the country. These were investments in machinery and equipment.³⁵

Tightened economic isolation led to greater difficulties faced immediately after the approval of this Constitution, such as rationing in food products, and towards the end of the 1980s, the temporary shutdown of enterprises. As a result, workers in these enterprises were paid 80% of their last salary.³⁶ This bared witness to the deep crises and inevitable collapse of the economy. According to official data, minimum wage in the urban areas was 5 400 Lek a year, while manual labour in the rural areas, at a national level, was financially remunerated with 3 322 Lek, or 61% of the minimum remuneration for the urban areas. Referring to the relation between the two main branches of the

³³ The Statistical Yearbook of the Republic of Albania; 1991, pg. 131

³⁴ The Constitution of Republic of Albania, 1997, Article 16 & 28

³⁵ The Statistical Yearbook of the Republic of Albania;1991

³⁶ Official Gazette, Issued by the center of Official publications; 1980

economy, we find that in the 1950s, industrial production occupied 23.1% of the general social production, while agriculture occupied 60.1%. In the 1990s, industry was generating 59.4% of this production, while agriculture 25.1%.³⁷

The considerable decline in the weight of agriculture, at a time when 2/3 of the population lived in the rural areas and 50% of the overall work force at the national level was employed in the agriculture sector, brought about great difficulties in the provision of essential food products and deepened the poverty gap between cities and villages. The principle of producing our own bread domestically certainly had its impact in further misbalancing the equilibrium between agriculture and farming. In the 1950s, farming products occupied 45% of the overall agriculture production, in the 1970s fell to 28%, while in the 1990s it settled to 36.2%.³⁸

Albania, a poor country following isolationist policies, had build up disturbing infrastructure problems and possessed a very low level of production technology. At the end of the 1980s, there were no highways in Albania and there was downgraded water, electrical power and fixed telephony system. The economic and financial situation in the 1980s declined further. In the 1990s, the balance of payments reached 254 million USD. This figure was higher than the hard currency income from annual exports³⁹. The table below gives an overview of the consequences of socialist and isolationist line of extreme socialization.

Table 2: Macroeconomical Data from 1980 till 1990

Indicators	1980-1985	1986-1990	Index in %
GDP (in Million Lek)	16.369	17.432	106.4
National Income (Million Lek)	13.392	13.938	104.1
Average Population No.	2.811	3.137	111.6
GDP Per Capita	5.823	5.554	95.4
National Income Per Capita	4.764	4.443	93.3

Source: The Statistical Yearbook of the Republic of Albania, 1991

³⁷ The Statistical Yearbook of the Republic of Albania; 1991, pg. 348

³⁸ See same reference as above, pg. 216

³⁹ See same reference as above, pg. 216

Thus, as it is shown, there is a lower trend in production growth and national income than that in population growth. According to the official data, in year 1991 it was found that the rate of population growth stood at 2%, while the production growth at 1,6% with a sharp declining trend. In year 1991, the General Domestic Production fell to 28% and in year 1992 fell with another 7%, bringing down the GDP per capita from 555 USD in 1990 to 208 USD in 1991 and 212 USD per capita in 1992. Inflation turned into a hyperinflation, rising at 104% in 1991 and at 236% in 1992. A real salary in the public sector in 1991 fell by 5.9% and in 1992 fell by 24.8%. Hyperinflation brought about the quick depreciation of domestic currency, the Lek, by 3 times in 1991 and 4 times in 1992. Prices in 1992 rose by 6 times compared to 1990 and the currency in circulation doubled, reaching the record figure of 69% of the GDP. The level of unemployment, as a result of shutdown of production enterprises in 1992 rose up to 26.5% of the workforce of the country.

Hyperinflation along with the high level of unemployment brought about stagflation. Budget deficit against General Domestic Production in 1991 was at 20.7% and in 1992 spiked up to 15.8%. Foreign debt amounted to 638 million USD and foreign trade deficit in 1992 reached 101 million USD".⁴⁰ In 1992, industry was completely paralyzed and unemployment reached the figure of 630 thousand or 45% of the working- age population. The fall in production in Albania, ranged from 1,7 to 4 times higher than other countries in the Eastern Europe such as Bulgaria, Romania, Czech, Slovakia and Hungary.⁴¹

As shown by this data overview, on the brink of transition and on the threshold of commencing market economy reforms, Albania possessed an obsolete economic system, high level of poverty, an extremely tensed and aggravated macroeconomic and a situation of almost utter collapse. Even though under very dear economic and social circumstances, Albania was facing the greatest challenge, that of building a safe future.

Political, legal, administrative, and economic changes in Albania began in 1991,

⁴⁰ Albanian Institute of Statistics; 1996 & The Statistical Yearbook of Albania; 1991, pg. 35,356,357

⁴¹ Economics and Business Magazine; 1992, pg. 33

although the year of 1992 can be assigned as the real beginning of the post-communist market economy installation period in an organized and comprehensive way. Between 1991-1992, when the right-wing political party was in opposition and the country was run by a "Stability Government", a process of mainly political, juridical and administrative disassembly of communism took place. The government was headed by a communist Prime Minister, a representative of the LPA (Labour Party of Albania) that came out victorious in the first pluralist general elections of 31st of March 1991. The quality of the process and laws approved in this period for the installation of the market economy was determined to a significant extent by this political feature. The period of 1991-1992, can be viewed as an introduction or preparatory period, but it was in 1992 that the true post-communist process, as a complex and irreversible one, began.

The DPA (Democratic Party of Albania) a right-wing party, considering the complex economic and political situation, led the country based on the concept that transition had to begin from ground zero. This was considered the most probable course of action to successfully face the severe economic situation, to ensure macroeconomic stability and sustainable economic growth. In this context, it was decided that a liberal economic reform had to be undertaken. This reform would harmonize several elements such as economic liberalization, restructuring, privatization, etc. The main objectives of such reforms would be to speed up the financial recovery and stabilize the ruined economy by keeping inflation under 20% within 1996.⁴² and achieving this by heavily reducing the budget deficit.

As shown, macroeconomic stability was identified as one of the main links in ensuring sustainable implementation of economic and social reforms, and overall economic development for the country. The elements of stability were seen as the means to achieve this important objective: Rapid institutional change and continuous reduction of macroeconomic imbalances - are the two basic objectives in the strategy of this Government⁴³.

⁴² Program of the Meksi Government in Rilindja Demokratike, Newspaper; January 1993

⁴³ Government Program, Rilindja Demokratike, Newspaper; 26 November 1993

Looking closer at the economic stability indicator throughout the transition in Albania, we find that macroeconomic stability walked a difficult path of ups and downs due to weak and inefficient institutions.

Several stages can be identified in such a progress: the one beginning from 1992, characterized by an extremely severe and aggravated macroeconomic situation which ended in 1996, by providing stability; the second stage, beginning in 1997 and stretching out until 1998, marking a total macro-economic deregulation, political destabilization and a drastic fall in all of the economic and financial parameters met until then; and the third stage, between the years of 1998-2001, marking the achievement of sustainable macroeconomic parameters and a sustainable economic and political development associated with economic growth and controlled inflation. At the end of this stage, a period of sustainable economic, political, and social developments begins, that continues its irreversible advance even today. The table below presents the progress of macroeconomic indicators throughout the stages aforementioned⁴⁴.

Table 3: Macroeconomic Indicators (1992-2001)

Years	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Domestic Deficit	20.3	14.4	12.2	10.4	11.7	12.6	10.4	11.4	9.1	
Inflation	236.0	30.9	15.8	6.0	17.4	42	8.7	4.2	3.5	
Real GDP Growth	-7.2	9.6	9.4	8.9	9.1	-7.0	8.0	7.3	7.8	6.5

Source: Albanian Institute of Statistics, 2002

3.2 Recovery of the economy and headway to stabilization

The content of this stage starts up with a complex economic and social situation characterized by the following:

- Fall in industrial production up to 60%;
- Massive unemployment of about 26.5% of the work force in the country;
- Budget deficit of about 60% of the GDP (Gross Domestic Product);
- Foreign debt of about 638 USD;
- Hyperinflation, which brought about a rapid depreciation of the national currency, LEK;
- Huge foreign trade deficit of about 101 million USD.⁴⁵

⁴⁴ Albanian Institute of Statistics, Annual Bulletin; 2002

⁴⁵ Albanian Institute of Statistics, Annual Bulletin ; 2002

A fast-paced transition into the market economy and the establishment of institution and structures that made it more functional was considered the right track towards economic changes and economic recovery. This process materialized fast liberalization, necessary privatizations, and functional structural reforms that aimed at achieving macroeconomic stability. This stability is an essential condition for recovery and ensuring economic growth in the country.

The greatest challenge posed by the beginning of transition in the post-communist period was switching from a state of complete economic paralysis and dependence on economic assistance and emergency food supplies, to programmed complex reforms and developing policies, the implementation of which, would radically transform social relations, institutions, the legislation, the economic and governance model and reduce poverty. "Fast and immediate liberalization of prices, commerce, exchange rate, and complete economic openness to international market competition, a restrictive monetary policy, associated by high interest rates, were determined as the main components"⁴⁶.

In this framework, privatization of small shops, trade services and, houses, distribution of agricultural land and transfer of land under the ownership of rural population, removal of state subsidies and monopoly on foreign commerce and convertibility of the national currency, which lead to a high inflation, took place. Restrictive monetary policies were accompanied by control over the supply of money, reforms in the taxing and duty system, customs, etc. Control over salary levels in enterprises recently established through the privatization process, was lifted. The law on foreign investments was approved based on which beginning from 1996 foreign entrepreneurs were free to purchase land.⁴⁷ Measures on finances, budget, accounting, customs, tariffs, taxes, investments, competition, concession, trade associations, credit and treatment of credit were taken based on a number of approved laws, prepared in haste, but with the support and under the monitoring of the IFM, World Bank.

⁴⁶ Government Program, Rilindja Demokratike, Newspaper; 1993

⁴⁷ Official Gazette, Issued by the center of official publications; 1992

The application of liberalization and structural reforms was accompanied with a deep and long-term industrial depression that continued until the year of 1995. This phenomenon was associated with a 50% cut of job positions in the state sector. The real average salary registered in 1994, marked a drop of 17% compared to year 1990. The rapid increase of prices in essential goods for consumption and the rapid drop in the real salary, extended poverty and social inequality. Such circumstances led to the phenomenon of extroversion, meaning that the annual domestic consumption exceeded the annual domestic production. The difference between these indicators was covered by the emergency assistance, provided by international organizations. During the years of 1991-1993, Albania received 1 billion USD in the form of foreign assistance from the European Community alone.

This situation was greatly buffered by the great immigration of population, mainly of working age group, towards the neighbouring countries such as Greece, Italy, but also Germany, France, etc. Massive and illegal immigration cushioned the level of unemployment and assisted in the economic recovery through the transfer of cash remittances, which kept rising. Beginning from 1996, an annual average of 400-500 million USD entered the country.⁴⁸

The implementation of these reforms began to give its first positive effects. Thus in the years of 1993-1996, Albania managed to build the structure for a macro-economic stability and achieve sustainable advancement of the macroeconomic indicators. It experienced a significant economic growth of about 9% a year. The level of unemployment began to drop. In 1996, reported unemployment stood at the level of 12.3%. Even though industrial production continued to contract, until the year of 1995, inflation recorded a significant drop, which in 1996 reached 17.4%. A considerable improvement in the budget and trade deficit was achieved during this period. In 1996, the overall deficit in million Lek was -35.3, or 10% of the GDP and the foreign debt in million USD was 323.4 or 9.6% of the GDP.⁴⁹

⁴⁸ Albanian Institute of Statistics; 2002 and The Bank of Albania Bulletin; 2002

⁴⁹ Ministry of Finance and Albanian Institute of Statistics, <http://www.minfin.gov.al/>; 2002

3.3 Structural reforms, implementation of macroeconomic policies and their efficiency

Apart from liberalizing reforms, other privatizations and structural reforms were undertaken during this stage. Due to its special importance the privatization process will be analyzed separately. It is worth mentioning however that it was during this stage that the Law no. 7512 dated 10.08.1991 "On Sanctioning and Protecting Private Property, Free Initiative and Private Independent Activities and Privatization" was approved.⁵⁰ It aimed at quickly eliminating state property and installing private property at the foundation of the economy. These initial reforms and privatizations lead to important changes in the structure of production and services, in the relations among various sectors, branches and sub-branches of the economy. In fact, the entire structure inherited from the centralized economy was almost completely overturned.

In the period under analysis, a drop in the industry sector and an increase in the services sector were noticed. During this period, in the process of this drastic fall in the overall production, the greatest drop occurred in industry. At the end of the 1980s, the first branch, industry, dropped in this stage of analysis to the third place as regards generation of the Gross Domestic Product. Significant changes occurred also within the industry structure. The mineral extraction and processing industry that from the year of 1989 was giving 18% of the General Industrial Production, was characterized by a drastic drop and shut down of several sub-branches.⁵¹ Their revival would be later achieved through foreign capital investment. This turned the Albanian industry structure into a more rational one, increasing the premises for integrating into the global world economy.

It is interesting the fact that the overall drop in production affected the light and food industry. This probably occurred because in its existing level and while taking these new steps, the industry found itself incapable of competing with qualitative foreign products, in terms of cost, price and diversity. This industry, within a centralized economy, was

⁵⁰ Official Gazette, Issued by the center of official publications; December 1991

⁵¹ The Statistical Yearbook of the Republic of Albania; 1991

obsolete and outdated due to the high physical and moral consumption, backward technique, and technology. In this respect, the way the shock therapy and ground level policy were implemented, might have had their effect. Perhaps this path should have been trailed more carefully, especially with respect to the replacement of production technologies. From the beginning of the transition, the civil construction sector gained and is still maintaining an increasing dynamism in the structure of the industry. In this context, the production industry of construction materials began to revive, such as cement, bricks, prefabricates and hydro-sanitary products. Naturally the interests and the proportions of this sub-branch have been standing the pressure of competition from high quality foreign products.

Increasing dynamism in the sector of construction is directly linked to the significant jump in demand for houses. This demand originated from high birth rates and erroneous housing policies followed during the communist system. There was a greater need for different size housing structures. Likewise, the rise in demand had a significant impact on domestic migration, uncontrolled movement of the population towards bigger and coastal cities. This movement significantly increased demand for housing in the new residence areas. This uncontrolled, rapid and irregular movement, created many negative phenomena in urban development, associated with illegal usurpation of state property and illegal landowners.

Albanian statistics of the 1980s, exclude almost completely the sector of services as a generator of national income. 18% of the overall number of the national workforce was employed in this sector. At the end of the 1980s, the tertiary sector of services represented 16% of the GDP, while in 2001 it represented 1.5 times more. Retail trade, bars and pastries, restaurants, experienced considerable growth within this sector⁵²

Despite the rapid growth of the tertiary sector, agriculture occupies an important place in the Albanian economy. In the centralized economy, it occupied and was considered as the basis of the economy and an important factor in the generation of the GDP. The

⁵² Albanian Institute of Statistics, Annual Bulletin; 2002

agricultural reform involved a complex range of problems, with the land issue being the most important, which even after 18 years in transition has yet to be completely resolved. The first measure taken at this stage was granting ownership of the land to rural residents. Upon the conclusion of the privatization process of the agricultural land, there were 440 thousand small private farms created. These represented small economies dependant on small land parcels which has since then hindered the development of a modern agriculture.⁵³

At this period of time that we are analysing, an important change was made in the foreign trade. Changes influenced its organization, the structure of export-import goods, and new geographic flow directions of commerce. Today, over 93% of the overall foreign trade volume is carried out by the private sector. The greatest challenge faced by this sector is the significant imbalance in the export-import relation, with imports tilting the balance. This phenomenon affected the trade deficit volume, which accompanied this branch of the economy in this process. At the end of the third stage of the macroeconomic stabilization, in 2001, the trade deficit stood at 820 million USD.⁵⁴

One of the first measures undertaken at this stage by the Albanian Government was complete openness of the economy associated with a significant increase of direct foreign investments. Provided at first in the form of emergency relief assistance, FDI turned into investments to the advantage of economic and social developments. In 2001, these direct investments amounted to 143 million US dollars.⁵⁵ These investments had a great influence on the process, economic growth and development, pace of development, the introduction of fresh capital, advanced technology, adaptation of modern forms of cooperation, marketing and enterprise management. These structural changes did result from the implementation of some kind of pre-developed strategy. They resulted from the demand requiring the installation of the market economy and based on the support and suggestions provided by international bodies.

⁵³ Mara, H; 2002, pg. 25

⁵⁴ Mara, H; 2002, pg. 28

⁵⁵ Mara, H; 2002, pg. 28

Despite achievements in the macroeconomic stabilization policies, considered by the IMF and the WB as a historical success, very negative phenomena emerged and flourished serving a tough blow to the crucial achievements of these years.⁵⁶ This tough blow was a mixture of such phenomena as informal economy, corruption, illegal and transit smuggling of fuel, weapons, narcotics and trafficking of human beings. Weak institutions, substantial lack of vision on market economy and pluralist democratic governance, were some of the factors in emerging and flourishing of pyramid schemes through pyramidal “foundations” such as *Vefa*, *Demokracia*, *Populli*, *Gjallica*, *Sudja*, *Kamberi*, etc. The boom of such pyramid schemes and especially their collapse, had a direct impact on macroeconomic policies leading to a complete crises. This marked the end of the first stage of macroeconomic stabilization, as part of the installation process of the market economy during the Albanian transition.

3.4 The fall of “Pyramid schemes” 1997

From the second half of 1996, macroeconomic policies began to deteriorate due to several factors. The most important of all was the thriving pyramid schemes that brought about serious distortions in the monetary policies. Thus, interest rates offered by these pyramid firms, were several times higher than what the banking system offered. As a result, savings of Albanians being deposited in these firms, rather than invested in the sectors of economy, became another important inhibitory factor influencing the drop in production and the rise of inflation. Referring to the Albanian legislation, from March the 1st, 1996, it is required by law that the Albanian government has to prohibit, suspend and stop activities involving the collection of public deposits by natural or legal persona other than those licensed by the bank.⁵⁷

The rapidly booming pyramid firms were unlicensed; the government however did not intervene to suspend them as required by the law. The shark-loaning system, turned into an illegal business, was not in fact a money lending system. At the end, however the

⁵⁶ Mara,H; 2002, pg. 21

⁵⁷ Official Gazette, Issued by the center of official publications; 1996

Government did not exert any form of financial auditing over these illegal activities. Thriving pyramid schemes and especially the lack of action from the government towards them was not a matter of coincidence. Several factors had an influence on it. The unpreparedness of the new political class for the new changes was a fact that played its influence.

The Albanian Government showed hastiness regarding new developments while thinking it was amassing huge profits in a very brief period. It has to be added that problems built up during those years were also related to unacceptable operation of institutions responsible for the market economy and faulty governance supposedly operating according to international democratic standards. Under these circumstances, several phenomena, such as government corruption, informality, trafficking, and smuggling began to surface.

Achievements of the first three years of the transition period considered by the international bodies as a “historical success” served as euphoric pressure for the government, which viewed the pyramid firms as an achievement of its program. Simultaneously, it aimed and used them in the form of very generous sponsoring of various activities as part of the electoral campaign. Under the significant influence of these factors, the Albanian Government underestimated and ignored suggestions made by international bodies about the risks these firms presented and their shutdown. At the start of the rapid fall of these firms, however, the Albanian Government made a hopeless attempt to react against them. Thus, on 26th of January 1997, a month before the general bankruptcy and the start of the armed rebellion, the former Prime Minister of the Democratic Government of that time, Mr. Aleksandër Meksi, in his address before the Parliament, stated that: “The Government has been following this money siphoning week after week, and intervened when it had reached its culmination, before the collapse of the money deposits.” This was, according to him, how depositors received back 300 million dollars from these firms⁵⁸.

⁵⁸ Meksi, Ai; 27 January 1997

The rapid collapse of the pyramid firms was associated with an extreme exasperation of the situation in the country, armed rebellion and a complete collapse of the state. The country was on the brink of a civil war. Economic growth achieved up till then and the progress of anticipated reforms took a serious hit. Economic growth was substituted by an utter collapse, confusion and economic downfall. Inflation and bank deficit reached alarming proportions. The national currency was depreciated. Opening up of new job positions was halted. Rebellion destroyed many properties and production capacities of the state and pyramid schemes. The level of poverty took great proportions.

Therefore, plunging into full crises halted the transition process and economic recovery. The fall of these pyramid schemes incurred a bill of about 1.3 billion USD losses in the savings of Albanians. This crisis damaged seriously the image of the market economy. As a result, after the 1992, it was the 1997 that synthesized the lowest overall macroeconomic level. Thus, compared to 1996, the GDP fall of 7% in real terms and 15.5% per capita; inflation rose to 42.1% from 17.4%, in 1996; the budget deficit against the GDP reached 12.9%; the national currency depreciated to 42%; the real wage fell by 22% and export by 42%; budgetary income reached the lowest level of 17%.⁵⁹

Turmoil reduced the supply especially in the industry and construction sector, while demand fell from losses suffered in the pyramid schemes. Under the effect of several factors a considerable reduction in the remittances of emigrants was noticed, the virtual nonexistence of foreign assistance, the slowdown of trade exchanges with the partner countries, depreciation of the domestic currency Lek, which in the first half of the year 1997 exceeded 40%. These factors and the “shock therapy” applied, increased rapidly the fiscal deficit and reduced considerably income, increased the public debt to high levels burdening the budget of the following years with high expenses to serve the debt dictated by the high annual rates of the treasury bonds, which reached to 35%.⁶⁰

Thanks to the intervention of the international actors the country managed to face this all-encompassing crisis. General elections were held, won by the political opposition that

⁵⁹ Mara, H; 2002, pg.28

⁶⁰ Mara, H; 2002, pg.28

later created the so-called “Alliance for the State”. The new government faced again the task of re-establishing macroeconomic stability, the reconstruction of institutions and strengthening of their administrative capacities, the renewal of the structural reforms. All of these and pushing through with privatization process, aimed at halting the economic downfall and achieving macroeconomic and financial stability and opening up the way for economic growth, by then sustainable. Aside from complex difficulties created by the total crises of destabilization, new problems related to the functioning of the institutions and rule of law, arose after the *coup d’etat* attempt in September 1998 by the right wing opposition and the murder of one of its representatives. This attempt was again thwarted thanks to the intervention of the international factor and the EU countries, but it let behind weak democratic institutions.

3.5 Making the new market economy functional

The content of this stage is enormously influenced by the total exacerbation of the political, economic and social indicators for Albania, which is linked to the events of 1997. As a result, two mini stages can be distinguished within this stage: that of March 1997-April 1998, which is characterized by the reestablishment of order, restoration of the state and recovery of macroeconomic stability, which opened the way to sustainable economic and social development. The second mini-stage involves the years 1998-2001, during which the economic situation of the country remained consistent. The period between the years 2001-2009 marks the macroeconomic and financial consolidation, further achievement in relation to financial and structural reforms, of the process of privatization, the completion, and consolidation of the legal and institutional framework, the sustainable economic growth, and development of the country, the completion of the process of the necessary standards for the regional and European integration. The challenge of the armed rebellion and the general elections held in the second half of 1997, were an essential condition for a new period of stabilization and sustainable socio-economic development.

The popular revolt of 1997 brought down the state, therefore, priority was given to the reestablishment of state institutions, strengthening of traumatized state administration

completely left out of the game, to the restoration of burned down schools and numerous destroyed economic assets. The government that came out victorious in the post-crises elections of March 1997, identified a number of stabilizing and reforming contingency measures. This means that the reestablishment of the macroeconomic stability and market reforms were more than needed, a necessary condition, but not sufficient.⁶¹

An important requirement was the improvement of governance, proper functioning of democratic institutions, enforcement of the law, implementation of reforms in the public administration with the merit-based system at its foundations. This would enable the implementation of economic, financial and fiscal reforms, of structural and privatizing reforms by preparing and implementing development programs, projects strategies by following more attentively and giving higher priority to social issues with the aim of reducing poverty. Political forces that came to power, aside efforts to stabilize the overall situation, announced as their priority further and deeper institutional reforms in the field of economy. These developments aimed at creating the conditions for a rapid and sustainable economic growth, the alleviation of the fiscal deficit financed by the state, the application of structural reforms and keeping inflation at controlled levels.⁶² Fiscal policies in this period aimed at achieving a balance between the need to keep deficit under control and the need to finance public spending, in order to attain macroeconomic stability in the county.⁶³

Tolerable deficit and inflation levels were assigned based on observations made by the IMF and of the World Bank. In this context, stabilizing and monetary policies had a restrictive nature. As a result, they brought about a social cost. On the other hand, fiscal and monetary policies had a positive influence evident in the level of remittances and support provided by the donors.

From 1998, the Ministry of Finance and other ministries identify deadlines in their annual draft-budgets, moving from an emergency situation to normality. While starting from year

⁶¹ Official Gazette, Issued by the center of official publications; Government Programm, January 1998

⁶² See Official Gazette, Issued by the center of official publications; Speech of the Prime Minister at the Parliament in October 1997; 1998

⁶³ See same reference

2000, a three-year draft budget was developed anticipating on scientific bases the indicators for middle term periods. It is especially noted an effort to coordinate development priorities with financial resources. The transition from an emergency to a normal situation characterizes this stage along with the consolidation of the economic and financial stability, sustainable economic and social development and growth, especially after the year of 2001.

The most explicit expression of this trend was the development of a national strategy for the socio-economic development drafted with the main purpose of reducing poverty and ensuring long-term sustainable growth. This strategy clearly expresses the ambition for deeper macroeconomic stability and fiscal consolidation, encouragement of free initiative, development of SMEs, encouragement of the direct foreign investments and the rise of employment levels.⁶⁴

Looking at the main indicators of the macro-economic stability and social-economic development, we would see that the overall progression of the macro-economic consolidation and certain indicators have fluctuated and zigzagged, although always with positive results. Thus, after the reestablishment of the macroeconomic stability between the years of 1997-1998, economic growth between the years 1999-2001 rose above 7%, amounting to 1328 USD per capita in year 2001. The rise in the GDP and the decline on the number of the population due to immigration, were some of the main factors that influenced economic growth.⁶⁵ The slowdown of the GDP by about 1-2% during 2001-2002 can be explained by the power crises and the failure to achieve the objectives of privatizing Alb-Telekom, but also the failure to collect customs duties and taxes.⁶⁶

During the period of our analysis 1999-2001, there was a decline in the trend of unemployment because of deeper privatization process of middle and big enterprises. Likewise, there was a rise in the real salary, respectively 9.9%; 17.7% and 11.6%. This

⁶⁴ See The National Strategy for Economic and Social Development, (a summary prepared by the Ministry of Finance); 2001

⁶⁵ Annual Report, Bank of Albania; 2002

⁶⁶ Albanian Institute of Statistics; Annual Bulletin 2002

reflects a rise in the average and minimum wages as well as retirement pension.⁶⁷

The financial and budgetary policies as well as the fiscal one during this period are characterized by certain features, efforts and measures to reduce the budget deficit, implementing a fiscal policy aiming at mobilizing income and effective management of expenses, without impairing the volume of necessary capital expenses. It is found that the progression of income and expenses follows a balanced trend of growth, with a direct influence on the stabilization of the overall macroeconomic framework. The alignment of budgetary policies with monetary ones, mainly of an inflationist character, resulted in controlled budget deficit and increased money flow. The approval of the law “on the Bank of Albania” in December 1997, opened the way to the application of a restrictive monetary policy, which had as its main objective the achievement of prices stability.⁶⁸

Among the first measures that can be mention it was the increase of the interest rate for 12 month deposits, which gradually helped in the stabilization of the exchange rate and reduction of the inflation rate, which from 42.1% in 1997, dropped to 8.7% in 1998; 4.2% in 2000 and 3.5% in 2001. In 1999 it is found that inflation turned into deflation of -1%. The USD-Lek exchange rate in 1998 was 150.6 lek, in 1999 fell to 137.7 lek and in 2000 it reached 143.7 lek.

In the beginning of year 2000, the Bank of Albania adopted a policy of gradual relaxation of the monetary policy, in response to low rates of annual inflation that at the end of 2000 stood at 4.2%. Thus, interest rates for the treasury bonds with a three-month maturity period suffered a considerable drop from 32.4% in 1997, to 10.7% in 2000, to fall later at 7.7% in 2001. In year 2009, the interest rate was 5.75%. This development in the reduction of the interest rate is associated with a reduction in government borrowing, and participation of private banks as well as non-banking institutions, even individuals in the Treasury bond auctions. After the conflict in Kosovo in 1999, during which over 500 000 Kosovo refugees came and stayed in Albania, there was a satisfactory influx of

⁶⁷ Annual Report, Bank of Albania; 2002

⁶⁸ Official Gazette, Issued by the center of publications; 1998

remittances in foreign currency. Thus, in 1997, remittances stood at 266.9 million USD, in 1998 were 452.2 million US dollars, in 1999 stood at 368.1 million US dollars, in 2000 at 530.8 million US dollars and in 2001 at 568 million US dollars.⁶⁹ The table below shows an outline of monetary financial indicators for the period of analysis.⁷⁰

Table 4: Monetary-Financial Indicators 1996-2001

Year	1996	1997	1998	1999	2000	2001
Annual Interest Rates	19.1	27.8	16.5	9.1	7.7	7.7
Average Interest Rate for Treasury Bonds in %	18.8	32.8	29.3	19.5	14	10.5
Real Deposit Rate	1.7	-14.3	7.8	10.1	3.5	4.2
Emigrant Remittances in million USD	499.6	266.9	452.2	368.1	530.8	568
Total Deficit in %	12.8	12.9	10.4	11.4	9.1	9.5
Domestic Deficit	11	11	6.4	5.4	4.9	5.5

Source: Ministry of Finance

During the period of this analysis, recorded budgetary income against the GDP stood at 17% in year 1997 and 25% in year 2001. These incomes in 2001 were found to be 12.5% higher than those in 2000, speaking of a trend of consolidated development of the economy. Income generated from customs duties and taxes in year 2000 made 15% of the GDP and in 2001 those stood at 15.2% of the GDP. State budget expenses against the GDP follow the same pattern as those of the income. State budget subsidies for public enterprises in relation to the GDP fell to 1.3 in 2001 from 33% in 1991. In year 2002, a rise of 1.5% is seen mainly due to the increase of electric power imports. Capital expenses grew by 4.1% of the GDP in year 1997, to 7.4% in year 2001.⁷¹

This stage it is characterized by a mutual good faith between the banks and businesses, demonstrated also by the fact that credit interest rates in 1997 fell to 11.9% in year 2001 after culminating at 43%. There is however, an increase in bad foreign credits from state capital banks with such indicators as 14% in year 1993, to 43% in year 1997. This negative phenomenon expedited bankruptcy of the agricultural trade bank and

⁶⁹ Annual Report, Bank of Albania; 2002

⁷⁰ Annual Report, Bank of Albania; 2002, pg. 67

⁷¹ Annual Report, Bank of Albania; 2002

deteriorated the financial situation of the National Bank of Commerce, and Savings Bank as well. Commerce banks operating on foreign capital, in order to guard themselves from risking return on investment followed a conservatory credit policy, keeping high interest rates. This way, they increased the size of credit and created a better relationship with the business.⁷²

At this stage of our analysis, it is found that albeit efforts to keep domestic debt under control, it rose from 20.5% of the GDP in year 1994, to 41.3% in year 2001. Likewise, foreign debt reached 698 million USD in 2001. Only in 2001 the Government paid 16 million US dollars on debt services. Viewed in relation to the GDP, this debt was: 90.3% in year 1992, at 35.6% in year 1997 and 16.3% in year 2001.⁷³ The indicator of economic development at this stage was the increased volume of exports and imports by a total of 2.7 times in year 2001, compared to year 1990. Trade balance, however, forms and has as one of its constant feature tilting the balance in favour of imports. Thus, the rise in imports fell from 32.8% in 2000, to 26.8% in 2001, to 26% in 2007 and 9.1 in 2008.

As it regards the geographical trend of exports and imports of Albania with the EU countries, it makes the majority of this total, respectively at 91% and 75%. This phenomenon shows a tendency of integration with the EU countries. Foreign direct investments in year 2000, amounted to 156.6 million Euro or 4% and in year 2001 to 230.7 million Euro or 5.1%. Several main macroeconomic indicators for the years 1996-2001, are provided in the table below.

⁷² Annual Report, Bank of Albania; 2002

⁷³ Annual Report, Bank of Albania; 2002

Table 5: Macroeconomic Indicators (1996-2001)

Indicators	Unit of Measure	1996	1997	1998	1999	2000	2001
Population	In million	3.076	3.075	3.055	3.054	3.061	3.074
Employed	In million	1.116	1.107	1.085	1.065	1.068	921
Registered unemployed	In thousands	158	194	235	240	215	181
Unemployment	In %	12.3	14.9	17.7	18.4	16.8	16.4
GDP	In million Lek	351.1	353.6	417.1	480.6	523.0	583.4
GDP	In million USD	3.36	2.375	2.768	3.490	3.6	4.1
Real GDP Growth	In %	9.1	-10.9	8.6	13.2	6.7	7.9
Income	In million Lek	129	58.949	102.5	123.16	130.6	145.6
	In % of GDP					25.0	25.0
Expenses	In million Lek	87.6	101	141.6	161.6	170.6	186.0
Total Expenses	In % of GDP					32.6	31.9
Average Inflation	In %	33.2	32.1	20.9	0.4	0.1	3.1

Source: Ministry of Finance, Bank of Albania and Albanian Institute of Statistics

The above data show that at the end of this stage, Albania overcame entirely the stage of the pyramid crises and emergency assistance, entering the path of policy implementation and sustainable economic development. These sustainable economic growth policies aimed at minimizing poverty and lowering the curve of illegal immigration, which at this stage applied to over 20% of the population.

The economic development policies demanded the consolidation of the macroeconomic and financial stability, a sustainable economic growth, keeping inflation under control, the alleviation of the fiscal and financial debt, domestic and foreign debt and the reduction of budget deficit. This trend, characterizing the period until year 2009, ensured the consolidation of the market economy, a quantitative and qualitative rise in the private sector, the expansion of economic freedoms and the integration of the economy and trade in the region and in the EU. Thus, the real growth of the GDP from 4.3% in year 2002 rose to 5% in year 2006, while average annual inflation from 5.2% in year 2002 fell to 2.2% in year 2003, 2.9% in year 2004, 2.4% in year 2005 and 2.4% in year 2006. Inflation at the end of the year from 1.7% in 2002 rose to 2.5% in year 2006.⁷⁴

⁷⁴ Albanian Institute of Statistics; 2007

As it regards the public finances indicators, those are characterized by a sustainable trend. Total income follows a tendency of growth from 6.1% in year 2002 to 10.8% in year 2006, while in relation to the GDP from 24.6% in year 2002 it rose to 25.2% in year 2006. Regarding expenses, those followed a path of increase from 3.5% in year 2002 to 9.7% in year 2006, and in relation to the GDP from 30.6% in year 2002, to 28.3% in year 2006. Overall deficit in relation to the GDP in 2002 it was -6%, it fell to -4.9% in year 2003, to -5.1% in year 2004, to -3.43% in year 2005 and to -3.17% in year 2006. Domestic debt in relation to the GDP in year 2002 was 260.75 million Lek or 41.5% of the GDP and in year 2006 it was 348 million Lek, or 38.8%. As it regards the foreign debt it was 979.6 million Lek in year 2002 or 21.8% in relation to the GDP and 1 billion and 553 million Lek or 16.9% of the GDP in year 2006.⁷⁵

Indicators of foreign trade, import, export, trade balance, foreign direct investments, etc., speak themselves on macroeconomic sustainability and economic growth. These indicators are shown in the table below.⁷⁶

Table 6: Macroeconomic Indicators (2002-2006)

Indicators	Unit of Measure	2002	2003	2004	2005	2006
Trade balance	In million US dollars	1.155	1.336	1.592	1.887	1.953
Trade balance	In % of the GDP	26	24	22	23	21
Exports	In million USD	330	447	603	652	721
	Increase in %	8	35	35	8	11
	% e GDP	7	8	8	8	8
Imports	In million USD	1485	1783	2195	3000	3000
	Growth in %	12	20	23	16	5
	% of the GDP	33	31	30	31	29
Current Account Balance	Million USD	421	407	358	576	770
	% of the GDP	9	7	5	7	8
FDI	In million USD	135	178	341	239	294
	% e GDP	3	5	3	3	3
Reserves	Million USD per month	860	1.026	1.374	1.390	2000

Source: Ministry of Finance and Albanian Institute of Statistics

⁷⁵ See same reference

⁷⁶ See same reference

The period between 2007-2008 bears witness to further consolidation of the macroeconomic stabilization and sustainable economic growth, through the improvement of the economic freedom and more attention given to road infrastructure, education, health and reduction of poverty. Albania managed to meet the necessary standards for the approval of the SAA with the EU, and submit on 28th of April 2009 its application for EU candidate status. Likewise, Albania meets the required standards of political stability, democratic and economic development managing to set military spending at the level of 2% of the budget, which enabled its membership to NATO. During the 2007, the Albanian economy marked sustainable advancement, in terms of the macroeconomic and financial stability as well as economic growth.

Despite hardships in the electrical power sector, overall positive economic performance confirms sustainable growth and the progress of an efficient streamlined economy. Economic growth was found to be at the level of 6%, which resulted from a better business performance, an increase in the foreign direct investments, but also rise in the industrial production. The rise in foreign investments at the level of 82% or at an amount of 170 million euro encouraged greater confidence in the Albanian economy and business development itself.

The real sector of the economy in 2007 marked a growth of about 20% of total sales in the extraction industry, 20% of the processing/metalworking industry, 19% in the transport and telecommunication and 18% in trade. Average inflation for this year stood at 2.9%, while crediting of economy rose to about 37%. The unemployment rate fell from 13.9% in year 2006 to 13.2%. There are several interesting developments in the area of fiscal policy in terms of several elements: fair fiscal policies and promoting business and economic growth, an equal distribution and the least possible distorting tax burden, reduction of informal economy, etc.

What draws the attention in the fiscal package approved in July 2007 are:

- The application of a flat rate tax on personal income, elimination the progressive tax scales, and an exclusive threshold level of 10% for wages up to 30.000 Lek. All categories of personal income would now be taxed at the exclusive level of 10%;
- The cutback in half of the profit tax from 20% to 10%;
- The reduction in customs duties, zeroing such duties on vehicles;
- The removal of the VAT on NGOs supplying items for medical treatment, providing care services for child and the elderly, education services, etc.

What is interesting in the fiscal changes of this year is the fixed limit on cash transactions. Financial and monetary transactions are disciplined and channelled through the banking system. It was a legal requirement for all hiring entities carrying out payments through the banking system. These measures not only formalized the economy, but also created a favourable business climate.⁷⁷

State budget income during this year reached 226.9 billion Lek, which marked an increase of 24.4 billion Lek compared to year 2006. What draws one's attention from the financial and economic development indicators are those related to the foreign sector. Exports during this year rose to 27%, while imports to 26%. Minerals, textiles, and shoes have the highest contribution to the rise in exports. While as it regards the rise in imports, the highest contribution was made by the capital commodities, and those used in the production process, by the respective rates of 6% and 5%. The soaring rise in the import of electrical power influenced considerably the total rise in imports 6%. Direct foreign investments rose to 84%, which speaks about greater interest of foreign businesses to invest in Albania. Deposits in the banking system outside the country marked a rise at the amount of 99 million Euros. Foreign currency reserves of the Monetary Authority reached to 1.5 billion euro, sufficient to finance about 4.2 months of imports in goods and services.⁷⁸

⁷⁷ Official Gazette, Issued by the center of official publications; 2007

⁷⁸ See The Macroeconomic and Fiscal Framework for the Period of 2009-2011 of Ministry of Finance; 2008

Despite these indicators, a careful analysis on the exports, imports and trade deficit, speak of a complex array of problems which have a direct impact on the macroeconomic stability. Data show that even though in year 2007 there was a sufficient influx of trade services of 3.8 billion euro, the trade deficit stood at 27% higher than a year before. This is at its worst level of recent years. In year 2007 trade deficit reached 28,6% of the GDP or expressed in value at about 2.26 million Euros.

Even though the dynamics of the import-export ratio show an almost equal rhythm of growth between them, marking the greatest growth in the last 8 years, the low comparison base for imports, does not affect their balancing. Thus, it does not have any improving effect on deficit either. In year 2007, imports exceeded exports by 4 times. While in certain sectors, such as for agricultural and food products, the ratio is higher, 1 by 7. This situation classified Albania structurally as a typical importing country. This trend deepened further in year 2008. Thus, according to the data of Albanian Institute of Statistics, only during February 2008 there were spent 400 million USD for the import of goods and services, while Albanian exports stood at 10 million USD.

As a result of low production capacities and structural problems in economy, 53% of imports achieved in 2007 fell under the intermediary group of commodities, such as processed industrial goods and flammable substances for industrial purposes. Capital commodities and consumer goods represented respectively 30% and 14% of the total imports. This structure shows that the category of “processed goods” dominated imports. It was through this category that Albania managed to export the effect of the labour force alone.

In the beginning of 2008, the import of food, beverages and tobacco group rose to 34.1%, while the group of machinery and equipment rose with only 5.8%. Thus, data show a rise in the import of consumption goods and not investments in the sector of production and services. These speak of a structural performance of the Albanian economy that is in discordance between the demand for goods and services and the domestic supply. It shows that demand rises at a fast rate with economy unable to meet it, encouraging thus the rise in imports. This 15-16 year old trend has spiked up in these

last 6 years. This trend also speaks of a domestic production apparatus found to be at all branches of the economy far away from meeting the standards of the EU developed countries and even some regional countries in terms of its structure, capacities, quality and performance. Thus, being structurally an importing country, Albania is quite exposed to the rise of prices in the international market, especially those affecting consumption goods and raw materials.

High trade deficit has had a negative influence and has considerably reduced the effect of remittances sent by the immigrants. Even though in year 2007 remittances reached the high figure of about 950 million euro, about 57% of them managed to compensate imports, especially the agro-food ones.

Looking at the structure of credit for new business during the year of 2007, it is found that 60% of them were oriented towards investments in trade, construction, home appliances and vehicles. Expenses on vehicle import and equipment were even found to be 30% higher than a year earlier. Naturally, the fast-paced rise in credit is a positive phenomenon for the development of economy. However, a careful look into the structure of imports for this year, but even for a longer time period, begs the need for structural perfection, increase of size and quality of domestic supply. This requires an improvement in the ratio of supply and demand. Improvement is a task and the essence of economic policies. The fact that the trade deficit is deepening for the 10th year in a row, is a stubborn witness to the absence of clear, well addressed and effective policies.

This reality of a structurally importing country, begs the need for the application of policies encouraging growth and quality domestic products, for researched support of the effective sectors such as agriculture, tourism, agro-industry, energetic, etc. It needs the support of business that has capacities and aim at exporting. It requires further amendments of the legislation, encouraging fiscal and taxing policies, and an overall improvement of the business climate.

Year 2008 represented a particularity because it marked the year when the world financial and economic crises began, while the Albanian economy displayed a

macroeconomic and financial sustainability and an economic growth at the level of 7.1%. In the first nine months of 2009, the economic growth stood at the high level of 9.9%, but it also marked a downfall at the end of the year, at the level of 7.1%.

Budgetary income during 2009 reached to 26.71% of the GDP, from 25.77% of the GDP, which occupied in year 2007, or expressed in figures, to 290 billion Lek. Profit Tax income for this year fell to 18 billion Lek, from 21 million a year ago, or 145 less under the circumstances of a tax rate cut back by half. This means that fiscal evasion has been more than 50%, while the cutback of profit tax by half was a great help for the business. Personal Income Tax rose to 24.4 billion Lek or 1.1% more than anticipated, with an collection rate of 104.78%. Viewed in relation to the GDP, these incomes stood at 2.24% from 1.5% of the GDP one year earlier. This marked the greatest rise of this category for the period of 2002-2008.⁷⁹

VAT (Value Added Tax) income for year 2008 rose to about 107 billion Lek, from 106.9 anticipated or 100.18%. Compared to a year earlier this income rose to 19.3 billion Lek, or 22%. In relation to the GDP, these income rose with 9.8% of the GDP from 9% in year 2007, 7.9% in year 2005 and 7.4% of the GDP in year 2002. VAT collected on imported goods stood at 74.9 billion Lek or 593 million Lek more than anticipated. VAT on domestic goods and services amounted to 32.16 billion Lek from 32.5 billion anticipated.⁸⁰ Meanwhile, overall budget expenses were implemented at the amount of 350 billion Lek, from 358 anticipated, or 97.7%.

Public investments that year reached 92.4 billion Lek from 95.2 billion anticipated. Public investments from domestic financing were carried out with 42.3 billion Lek, from 41.9 billion anticipated. The majority of these public investments had as their destination road infrastructure. Structural reforms and privatizations applied in year 2008 have been an important factor ensuring a sustainable midterm and long-term development. Thus, the privatization of the ARMO oil enterprise, or concessions for 27 small hydropower plants and that of Ashta, which amounts to an investment of about 120 million euro, etc., have

⁷⁹ Ministry of Finance and Albanian Institute of Statistics; 2007

⁸⁰ Ministry of Finance and Albanian Institute of Statistics; 2007

influenced in the reinforcement of the macroeconomic and financial stability and on the sustainability of economic development.⁸¹ The fight against corruption, reduction of informal economy and the improvement of the fiscal package placed Albania at the 85th position in the Corruption Perception Index of Transparency International and at the second position in the world, as it regards reforms for the improvement of the business climate. The establishment of a National Business Registry Center, reducing the time needed to register a business from 42 to 1 day, for a fee of less than 1 euro, and the establishment of the National Business Licensing Center simplifying licensing, were accompanied by the revocation of 104 licenses requested earlier, which made Albania the country with the least number of permissions and licenses issued. Data show that despite these indicators, the current account deficit has deepened compared even to year 2007. The stock of foreign currency reserves however has continued to grow, reaching 1.6 billion Euros in year 2008, sufficient to finance about 4 months of goods and services imports. Policy pursued in the area of debt during 2008, aimed at financing priority projects as well financing of the budget deficit. At the end of 2008, the stock of debt amounted to 54.78% of the GDP, with 17.92% of the GDP being foreign debt stock and 36.86% of the GDP, domestic stock.⁸² Data show that the inflation rate in year 2008 was the lowest among the regional countries. Thus, even though in the first half of the year, there were certain deviations in the inflation rate, beyond the anticipated level, reaching 3.4% at the end of the year, it stood at 2.2%.

Results achieved on economic development during 2008 and an economic growth of about 7.1% , spoke of sustainable economy. The quality and consolidation of the macro economy was shown by the way the first wave of the world economic crises in the last quarter of 2008 was handled. Developments in the beginning of year 2009, took place under a sustainable macro economy, but also under the effect of the world financial and economic crises. According to the IMF projections, Albania is expected to grow at the rate of 0,4-1% during 2009.⁸³

⁸¹ Ministry of Finance, and Albanian Institute of Statistics; 2008

⁸² Ministry of Finance and Albanian Institute of Statistics; 2008

⁸³ IMF Office in Tirana; Press release; 2009

4 Privatization of the economy

The economic-scientific thought affirms that ownership relations make the essence of any system of economy. These relations are crucial to any socio-economic regulation, at any stage of the social development. In the case of changes in the system, the change of ownership relations makes the essence of reform.

Referring to the Albanian transition, we find that from its beginning it was accepted as a theoretical and practical paradigm that the privatization of the former public property and development of a prevailing private sector in the economy would be the biggest change while transitioning from a centralized economy, based on socialized property, to a market economy. In order to consider in the most truthful possible way the privatization process in Albania, i.e. how it was conceived, how it was the reform designed in overall, how it was implemented, what problems were identified and at what stage is today, it is important and of interest to refer to several scientific considerations on the institution of ownership.

The beginning of the process of transition from dictatorship and centralized economy to a pluralist democracy and market economy marked the ushering of a new era. Radical changes or an upheaval was necessary to allow the emergence of institutions of the market economy, which supposed privatization as an unavoidable pre-condition. In essence, this would be a process of installation and functioning of the market institutions, of the private property and free enterprise/initiative, liberalization of the economy, free competition and mobilization of all resources for a quick and sustainable development.

The installation of institutions of pluralist democracy, paved the way to the privatization process, which resulted to be, in fact, the essence of the transition period. Privatization is a process and not an immediate act. It is an organized and well designed process. It is a process that generates institutions and crystallizes the mechanisms of market economy. Its goal and that of the transition is the development of a private sector through legal regulation. From this point of view, it can be said that the essence of

transition is the process of switching from anonymous hands into private hands, from the centralized economy to that of the free market.

4.1 The concept of property; privatization and the scope of privatization

Property is in essence the surrender of material goods or domination over something. The most critical element of ownership is possession. It involves placing something within the sphere of the interests of the owner. Thus, man possesses parts of the external nature based on certain social rules. Man possesses to meet its interests. Possession is displayed in the form of ownership and use. Ownership is in essence the inclusion of an object under the sphere of the interest of the acquirer while the use is the cost, which can be cheap, limited, or conditioned by the types of property. These two elements represent the essence of property ownership. In the case of private property, we have to deal with the roman concept “Domination as an absolute private right”.

If the private property is the bases for the market economy, the legal order and infrastructure are the mechanisms ensuring economic and political freedom for the citizens. The relation between man and object and its legal aspect dominates the definition of property. “Ownership says Jack.P.Friedman – is one's exclusive right to possession rejoice and use an object; often said to include the concept of ownership and right, which is broader than anything else.”⁸⁴ “Ownership, the broadest and most perfect of real rights, is defined by the law as a relationship which includes in its definition, in the favour of the owner, the right to enjoy fully and exclusively the possession of something within the limits determined by the legal order.”⁸⁵

As shown, the essential features of ownership are exclusivity, which means that the owner, in exercising one's right, can exclude anyone from the use and possession of the object; it is the autonomy, i.e. that property represents independent ownership, a long-range right; limitless and flexibility are also essential features. There are authors who

⁸⁴ Friedman,J.P;1987, pg. 411

⁸⁵ De Agostini; 1988, pg. 115

include eternity as an essential feature of ownership. While Jan Mc Lean is of the opinion that property is: "1. A legal bondage between the person and the object; 2.the object of the legal bondage with the person. This might be a natural person or an artificial legal entity/juristic person. Ownership can be private, joint or public. The object can be something very concrete, such as a book or something abstract, such as the copyright of a book. The object can be living, if property is expressed in an animal or other persons, as it was the case with slavery".⁸⁶ Likewise, J.E.Stiglitz and C.E.Walsh think that "the right of the owner over his/her property includes the right of use of the property as he/she sees fit and the right to sell it whenever and to whomever he/she sees fit".⁸⁷

It is worthwhile underscoring from the above listed definitions that property is a central institution, the main category of the juridical order of any state. By this, I would like to highlight, that it is not juridical relations that create economic realities, but they do sanction them. This means that juridical regulation reflects, protects, and encourages this economic reality. This means that the existence of the private property called for moral norms, but especially legal norms to assert and protect it. Thus, property is an economic category, that is to say a relation between man and the object, in the process of production and possession of material goods. In this sense, property is the fundamental relation of any social order, the nucleus of any socio-economic system.

Juridical order ensures its protection and development. Juridical norms guarantee the right to ownership. The context of legal infrastructure includes juridical norms regulating ownership, contracts, and possession. In this way, the system of the market economy is build upon and operates on the bases of the rule of law. This means that the market economy needs the state. The state is present in a much-defined position. It is demonstrated in the establishment of the rule of law, in the elaboration of contracting and ownership rights, of the monetary and fiscal system. The science of economics addresses the institution of ownership both, as a relation between the owner and something, or as a right to things, and as a relation between humans in the process of

⁸⁶ Mc.Lean, J; 1966, pg. 468

⁸⁷ Stiglitz,J.E and Walsh, C.E; 2002, pg. 8

production and possession of material goods, between rights and obligations of members of the society, deriving from relations of ownership. It has been proven that throughout the historical development of the human society the type or form of the property has conditioned relations arising from the process of production. This due to the fact that property is bounded to man and it is thus of a universal nature. If we are to analyse the special forms of ownership, however, many theoretical and practical problems would arise. The issue of property is at the center of discussions about power and justice. If in the first case we are dealing with the relation between resources and power, the second one brings about problems of justice within and between generations and the international law.

As it is known, in addressing such issues we initially find theories of natural rights, which began to emerge in the XVI century. According to these theories "the rights each individual can enjoy, should be universal in their essence".⁸⁸ If Thomas Hobs (1588-1679) recognizes only one natural right, the right to life, the English philosopher John Locke (1632-1704), an illuminist and central figure of liberalization adds to it the freedom of wealth and private property. Thus, there exist different views in relation to the issue of birth and nature of the private property that cannot become an object of this research. This research will bring only main theoretical considerations about the institution of property. Thus, the right to private property is a result of the labour of each individual. "If I take something from nature and add her something from my labour, then I add her something from myself" or "since myself is my right over myself, then the right to private property also is a natural right".⁸⁹

In fact the theory of property deriving from labour, or in different terms the theory of value from labour, is one of the most important questions in the scientific economic thought. "If in terms of theory - asserts Lulzim Hana- it is difficult to prove that private property was born together with man, in practical terms, in the current stage of development of the human society, it is necessary to emphasize that it is universal and unalienable".⁹⁰

⁸⁸ Mc.Lean, J; 1966, pg. 469

⁸⁹ Hana, L; 2005, pg. 73

⁹⁰ Hana, L; 2005, pg 74

Private property is the foundation of the market economy and, an economic system motivated by the market, creates the necessary environment for private entrepreneurship, for the development of economic activities. This system ensures individual freedom and paves the way for free initiative/enterprise, for everyone to work, creates and increases one's property. This makes freedom and the market safer. Based on this content of the private property, taken as "*plena in re potestas*", it results that owners, based on their right to ownership are granted three types of authorizations: "*jus utendi*", "*jus fruendi*" and "*jus abutendi*".⁹¹ The "*jus utendi*" authorization means that owners have the right to use and possess their object; according to "*jus fruendi*" owners have the right to rip the natural and civil fruits of their objects; while according to "*jus abutendi*" owners, either can dispose of the object definitively or possess it legally, through the alteration of the property, or announcing some real right to the interest of other persons.

In essence, this means that according to the Roman law, the owner is enabled to posses and uses something at his will and for his own purposes. There is an internal organically link between property and motivation, between property and efficiency. No one else better than the private entrepreneur, risking his means and authority, can be motivated enough to provide a fair evaluation of a business program, secure profit, select partners and donors and face competition. In this way, the private entrepreneur is free to decide and become a source of prosperity and values for him and the society. It is understandable why a private entrepreneur is highly motivated and interested on positive economic results and that is because possible success or failure determine his future.

Likewise, private property represents optimum mobilization and motivation opportunities, which emit inexhaustible positive and creative energy. Private property at the same time enables and optimizes existing risk factors, since consequences of fair or unfair decisions discharge on property, increasing legal, economic and management responsibility. This relation creates the chance for regulating risk and conducting a

⁹¹ Puhan, I; 1980, pg. 222

serious research on economic development alternatives. At the same time, it allows for effective commitment and consumption of resources, economic and financial potentials. Ensuring profit and possessing income motivates and inspires more than any factor involved in the development of property.

Another important relation is that between property and efficiency. The history of mankind has proven the strength and efficiency of free private enterprise. The communist experience and the failure of the centralized economy was one of the latest proofs showing that efficiency requires private property and free enterprise/initiative. Efficiency of the market economy means an equal or higher level of profit with fewer expenses. Free private enterprise allows for advances thanks to better organization, higher motivation, and quicker decision-making, which overcomes bureaucratic obstacles. At the same time, this form of economy allows for better and faster allocation of resources. The market is the unquestionable regulating institution. The close link between the property and the market is bounded by the logic of greater economic effectiveness. The property is the institutional bases of the market, the defining element of the course of action. In this relation, market functions as the regulating mechanism between supply and demand. This selects those that are unable to face the challenges of development.

Thus, under the conditions of a market economy, any economic entity has the chance to participate in the domestic or international market, in order to sale its products or services. This ensures the society the fulfilment of demands for development and enables a healthier economy, developing through a sustainable growth. An effective economy, high standards, and the high pace of business development stimulate an efficient private sector. Lack of economic efficiency in the socialist economy was caused by the absence of a capital market, lack of initiative for new enterprises, lack of stimulus, and an inner spirit for movement and development. Considering that property did not belong to anyone, workers did not feel any motivation to increase production.

In materializing the economic efficiency of the market economy, several factors matter:
A price-based economic configuration; setting prices based on the economic categories

of value, cost and profit; macroeconomic stability, enabling economic entities to set fair prices and gain reasonable profits; the elaboration of stimulating fiscal and financial policies which create a healthy climate of trust and constructive relations in the face of market challenges. Legal competition, increased competitiveness of the business, goods and services, high quality and standards are of special importance also.

Under the conditions of a centralized socialist economy, it was impossible for the free market economy to form, as an essential condition of the economic effectiveness. There were no free entities to participate the market. The sole participator was the state, with its monopolies, subsidies and centralized planning and avoidance from the economic categories of value, price, and profit. The so-called “incentive, or socialist race” was a heartless race void of stimulus, worthless and inefficient.

This juxtaposition allows us to understand the role of the private property in the market economy, which makes the bases for its efficiency. It makes the soul of the market economy. Without private property, there is no market economy. This role of the private property in the existence and development of the market economy enables us to assert that a financial market, in the absence of private property, is nothing more than a utopia.

Scientific literature gives various definitions of the content of privatization. Thus, in its strict meaning privatization is “a legal transfer of the right to ownership from the state to a private entity or activity; while in a broader sense, privatization is understood as a process involving all measures that help denationalization of the economic activity including here the establishment of new private enterprises also. As it can be seen, in this sense, privatization equals liberalization”.⁹²

Let’s mention now another definition similar to the earlier one, according to which “privatization is the general process of installing the private sector into the ownership structure or into the management of social enterprises”.⁹³

⁹² Lavigne, M; 1995, pg. 4

⁹³ Podvorica, Hamdi; 2004, pg. 21

This definition is crucial and all encompassing, because it involves the idea of transitioning from an ineffective economy to a full efficient economy. There are also ideas that divide privatization into *internal* and *external*. “By *internal* privatization it is understood selling of the enterprise to its workers for a positive or null price, and by *external* privatization it is understood a privatizing process which enables all citizens to purchase shares of the enterprise.”⁹⁴ This concept of fragmentation has no special scientific value. It does however have a practical value in achieving the essence of privatization, which is a transition process from social to private property. Therefore, this division is related to the way in which privatization and its methodology is achieved.

In its essence, privatization implies a complex process involving the transformation of state owned enterprises into privately owned enterprises; it involves reforms in the banking system and that of taxes and tariffs and the establishment of capital markets. In its essence, privatization marks a clear transition from state to privately owned property. A distinguishing feature of this transition is that property under transfer or altered, now gains a new title owner, who might be a natural/private or juridical person, within the respective state or even a foreign person. The owner of the property is now clearly and legally recognized. Juridical norms regulating private property are of a “*jus dispositivum*” nature. This means that the subject to the law is the entity administering the property, enjoying and regulating its rights and obligations in conformity with the interests and will as its owner. Thus the clear and definite identification of the owner gives life to a functioning property, market economy, motivation, flexibility, effectiveness, and competition.

The main purpose of privatization is increased efficiency of the economy, sustainability, and economic growth. Changes in the property owner are associated by a new way of managing the enterprise, now driven by the market requirements and categories of demand and supply. The economy now operates based on demand and free competition, competing and liberalized prices. A new relation is now established between the market and the state, providing a completely new definition of the state role

⁹⁴.Podvorica, Hamdi; 2004. pg. 21

in the economy, which has as its foundation the denationalization of the economy. This implies a qualitative reduction of the role of the state in the economic activity and a new definition of this role.

This new definition of the state's role differs from the role it used to play in a centralized socialist economy. If look at this new role of the state in the market economy in itself we would discern the ideas of the classical and neoclassical school, economic liberalization and Keynesianism. If the school of liberalization contains the concept of an invisible state, of a minimal state, of a "Night Watch" state, Keynesianism implies an evident role for the state in the market economy. What is included in the response and measures undertaken today by the governments in the USA, EU and other countries, to face today's world financial and economic crises, shows an re-evaluation of the concepts of Keynesianism. This speaks of a bigger role of the state in the economy, as an important measure in overcoming the economic downfall and the crises.

Denationalization, as an element of privatization, includes several qualitative elements such as: reduction of state budget obligations or subsidies and payment of debt by state owned enterprises; releasing the state from the burden of governance, management, control and supervision of enterprises; improvement of market competition and establishment of prices and capital flow through the instrument of market demand; encouragement of market economy through fiscal and tax policies, which in turn encourages free enterprise/initiative, business development, profit, free competition and a healthy climate of trust. In essence, denationalization aimed at ensuring free application of the iron-fist law of economic logic.

As it regards the methods or manner for carrying out privatization, there exist a number of experiences. Despite the variety and peculiarities in each country, two are the main approaches distinguished: the fast privatization approach, through the shock therapy, known otherwise as the "*bing bang*" or radical approach, and the gradual privatization approach, known otherwise as the "*step by step*" approach. The essence of a quick privatization is based on the argument that it allows rationalization of time and a quick end to this important process. Another argument for it is the quickest elimination of the

centralized economy and a fast installation of the market economy, to ensure a rapid economic growth and development.

The second approach of gradual privatization has several advantages. This approach has as its priority economic efficiency and development of economic capability, as a condition of sustainable development and integration of the actual economy in the world market. This approach has as its premise the concept that the installation of healthy, organized, juridical regulated and functionally effective market economy institutions requires more time and preparation. The second approach of gradual privatization does not preclude the existence of public or major state-owned enterprises such as the power system, telecommunication, infrastructure, etc. While a fast approach to privatization contains the demand for total privatization. Despite differences, these approaches mark the transition from a centralized to a free market economy.

In the case of transition from a centralized economy to a market economy, privatization represents a path, a strategy, a reform that achieves the establishment of the right to ownership. Privatization and restructuring of the economy supposes transformation of social property into private property. The establishment of a market economy is possible only upon the installation of the private property as a dominant form of ownership and with a clearly defined titleholder. Privatization is a constituent part of the economic policy, it mobilizes the market, it puts free enterprise/initiative in motion and leads to economic efficiency. Thus, through such a transformation, the economic system of a social property in the absence of a titleholder ends and as a rule, the country enters the path of sustainable development with an optimal growth of economy.

An analysis of the privatization process in Albania, and in several other countries in the region, shows that there exist several concrete approaches for carrying it out. The choice depends on the concept of privatization, actual economic and social realities, the chosen approach and actual needs of economic development. Such methods are: the sale of enterprises and assets, concessions, the sale of shares to the employees of an enterprise being privatized, the transfer of shares to citizens for free, massive privatization through privatization bonds, etc.

The comparison of these two approaches brings forth both advantages and shortcomings or difficulties in implementing them. What matters is an efficient and uncorrupted application of approaches. This research will look at the actual approaches applied in the process of privatization in Albania. Several criteria, however, are necessary for a concrete assessment of these methods. We can mention here their contribution to a greater efficiency of privatization; to the achievement of the aims and objectives set; to the speed of the qualitative restructuring in the process of privatization; to the reduction of social expenses; to the quality of privatization or how much these approaches influence the irreversibility of this process. It will look also at how much these approaches applied influence the achievement of a rapid and sustainable economic development; justice and legitimacy of their commission, transparency and equality before the law; how much they allow participation and how much do they avoid exclusion from this important process.

4.2 Analysis of legal and institutional framework of the privatization process

The process had to begin with radical legal changes, which would put the process on legal track, and ensure broad support and trust. The Law on Main Constitutional Provisions, approved by the first pluralist parliament in April 1991, is a key moment, because it abrogated the communist Constitution of the year 1976, that sanctioned only socialized property and prohibited private property and enterprise. Article 11 of the approved Constitutional Legal Package provided as: “entities of ownership are the state, natural persons and juridical persons”.⁹⁵ This constitutional article laid the legal foundation of the private property. Law no.750, dated 19.07.1991 “On the land” opened the way for the initiation of the agricultural reform.

Despite all, only the Law no.7512, dated 10.08.1991 “On the sanctioning of the private property, free enterprise/initiative and privatization”⁹⁶ can be considered as the first legal step in the process of privatization. While the approval of the Constitution on the

⁹⁵ See Constitutional Legal Package; 1991

⁹⁶ Official Gazette, Issued by the center of official publications; 1991

21.10.1998 and still in force, creates a full constitutional framework for the private property, as the bases of the new economic system and private enterprise. "The economic system of the Republic of Albania is based on private and public property, as well as on the market economy and the freedom for economic activity. Law equally protects private and public property. Restrictions on the freedom of economic activity can be established only by law and for important public reasons."⁹⁷

The Article 41 of the Constitution consists on legal assurances of the private property and ways for its restriction, creation and development. The Constitution states that "The right to private property is guaranteed. Property is acquired through donation, inheritance, purchase or any other classical manner prescribed in the Civil Code. Expropriations or restriction of right in property may be imposed only in public interests. Expropriations or restrictions of right in property equivalent to expropriation may be imposed only against a fair compensation. Disputes arising due to the level of compensation can be appealed to the court."⁹⁸

Pending the approval of the Constitution, the Albanian Parliament passed about 20 important laws that shaped the privatization process. Along with the two abovementioned laws, passed in 1991, the following laws draw one's attention: The Law no. 7631 dated 29.10. 1992 "On the bankruptcy of state enterprises", which opened the way to their bankruptcy, facilitating privatization; The Law no.7638, dated 19.12 1992 "On trade companies", regulating the organizational forms of registering companies in Albania, relations between business partners, the purpose of establishment and the way of operation. This law opened the way for the decision of the Government no.93, dated 28.02.1994 on the transformation of state enterprises into trade companies; The law no.7652, dated 12.02 1993 "On the Privatization of State Housing", which made Albanians owners of their houses; The Law no.7698, dated 15.04 1993 "On the Restitution and Compensation of Property of Former Owners", which determined the way and criteria for the restitution of nationalized properties half a century ago. This law included also the goal of increasing the pace of privatizations; The Law no. 7764 "On

⁹⁷ Constitution of the RoA, Article 11; 1998

⁹⁸ Constitution of RoA, Article 41; 1998

foreign investments, aiming at improving the conditions and creating a more attractive environment for foreign investments. This law allowed for the overcome of many bureaucratic barriers related to these transactions, free movement of capital outside Albania, etc.⁹⁹

About seven months before the approval of the Constitution, on 14.03.1998, the law no.8606 "On the privatization of economic sectors of special importance"¹⁰⁰, was passed, which marked the beginning of a new stage of privatization, that of the strategic sectors. After the approval of the constitution, many legal amendments and complements were made to it, to make the necessary corrections to expedite the process.

A number of important laws on the process of privatization approved during this period draw our attention, such as: The Law no.9304 "On the legalization and urbanization of informal areas", which aimed solving the issues arising from the regular and uncontrolled mechanical movement of the population. This was associated with the negative phenomenon of construction, mainly housing residences, in state property and former owners; The package of laws no.7758 in year 1993; The Law no.7805 in year 1994; The Law no.7928 in year 1995; The Law no.8313 in year 1998; The Law no.8435 in year 1998 and TheLaw no.8438 in year 1998¹⁰¹, which defined the method of recording and tax accounting, property tax, value added tax, small business tax, taxing system in Albania, income tax, which as it is shown, laid the foundations of a new fiscal system in concordance with the conditions of a market economy.

A careful look at all of these laws shows the progress, the methods and the stages privatization went through, the achievements, mistakes, corrections and difficulties. Based on and pursuant to the Constitution and the laws, a considerable number of Government decisions were made, giving life to the actual measures and actual methods of privatization. In fact, several presidential decrees must also be mentioned

⁹⁹ Official Gazette, Issued by the center of official publications; 1992-1998

¹⁰⁰ See Same reference

¹⁰¹ See Same reference

such as No.1030, dated 23 .02 1995 "On the emission and distribution of privatization vouchers". This decree made real the aim of having Albanians participate in the creation of national wealth, transforming them into owners and it served to the acceleration of the process.

Among the decisions of the Government, the follows DCM-s are of a special important: DCM no.307, dated 28.08.1991 "On the duties and rights of the National Agency of Privatization" which marked the establishment of an important institutional link for the process of privatization; DCM no.347, dated 10.08 1992, which determined the manner of direct sale to personnel staff of the retail units, handcraft workshops and public services such as vehicles, except for urban transport busses; DCM no.190, dated 16.04.1003 "On the establishment of the Privatization Steering Board at the National Privatizing Agency and its organization; the DCM no.47 dated, 7.05.1993 "On the appraisal/assessment of state property", in the absence of which privatization could not be carried out at all; DCM no.248 dated, 03.05.1993, amended by the DCM no. 203, dated 3.05.1995 "On the expedition of privatization of small and middle enterprises". Thus, the authority of privatization boards in the regions grew and the way was opened for a wider use of privatization vouchers.

Likewise, DCM no.332, dated 26.10 1993 "On the establishment of the Enterprise Restructuring Agency", regulating the privatization of the 32 biggest and most problematic enterprises, in need of qualified management and financial assistance. After their restructuring it would be decided if they were to be privatized or closed down; DCM no.510, dated 26.10 1993 "On the privatization of agricultural farms", determining the criteria and ways of privatization; DCM no.232, dated 24.05 1994 "On the privatization of the state-owned property in joint-ventures with shareholders", which defined the forms of privatization of the Albanian state property in these enterprises; DCM no.244, dated 22.05 1995 "On massive privatization"¹⁰²etc.

These laws and government decisions made the legal bases for materializing the goals

¹⁰² Official Gazette, Issued by the center of official publications; 1992-1998

of privatization, the criteria, the methods, and necessary organizational structures. Based on these legal acts the institutional pyramid was constructed, which would work towards a correct enforcement of the laws. Until 1996, three main bodies took their final shape:

1. The National Agency for Privatization

- It Steering Committee considered and approved proposals of the Agency and checked its work;
- The Agency itself prepared the short-term privatization platform, gave approval on proposals made by the Ministries, on actual objects to be privatized and checked the performance of subsidiaries of the Agency in the regions;
- The Agency Boards in the regions, were responsible for taking actual decisions, the privatization of small and medium enterprises inside their jurisdiction;
- Agency subsidiaries in the region were responsible for the correct implementation of legal procedures.

2. The Commission for the Preparation of the Privatization Process, a directorate under the Ministry of Finances. The duties of this link involved the inspection and approval of appraisals made to objects to be privatized.

3. The Privatization Directorates in the Ministries, which proposed the objects to be privatized in the subsidiaries under their management. Experience gained and a better regulation and control over the privatization process led to the establishment of the Ministry of Privatization, which included the National Agency for Privatization and the one on the restructuring of enterprises.

4.3 Targets and criteria of privatization

The government programs and laws approved included the objectives and criteria for privatization. Some of the most important objectives are identified below¹⁰³:

¹⁰³ Official Gazette, Issued by the center of Official publications; 1996

The elimination of the centralized communist economy and the installation of a market economy adequate to the circumstances of Albania. This major objective contained several associated objectives:

- Reviving an economy in full collapse, the macroeconomic recovery and stability;
- Establishing and strengthening as soon as possible a private sector in the area of production and services, in order to reduce poverty and unemployment and guarantee sustainable pace of economic growth and development;
- Creating the necessary conditions for the operation and consolidation of a capital market;
- Establishing of a new generation of managers, able to strengthen and grow the market economy. This path would also serve to the political stability and strengthening of the democratic institutions;
- Attracting powerful foreign investors,;
- Deepening the denationalization process and reducing the role of the state in the economy, removing state subventions for enterprises reporting losses and reducing budgetary expenses.

Along the process, these objectives were further perfected, achieved and materialized into laws, actual measures and steps. Likewise, privatization criteria and methods underwent improvement, change, consideration and alternation.

As regarding criterias, we can divide them into main and technical ones. Among the main ones, one can identify the following:

- Speed. This criteria originated from the need of a speedy change of the system and of the revival of the economy, which was at a state of critical collapse;
- Transparent procedures. This criteria served to the widest participation possible and ensuring support for the process itself. For this purpose, procedures regarding announcement in the media about the object to be privatized, the price of privatization, timeline and necessary paperwork, etc., were developed;

- Social justice. This criteria involved the effort to undo past injustices, to achieve legal equality in privatizations, create enthusiasm and free initiative. The main concept was the participation with priority of the former politically persecuted people, former owners, employees of enterprises under privatization. There were also certain exceptions applied to corrupted people.

In order to understand the content and the peculiarities of the privatization process, it is important to recognize the criteria and technical methods utilized. Observing the content of some of the main laws pursuant to which the privatization process was carried out, enabled me to understand the technical requirements and approaches, as well as to identify some of the main characteristics of the process¹⁰⁴:

- A local could purchase any enterprise asset, such as the land, buildings, machineries and equipment, but a foreigner could not purchase the land, but only receive it on concessionary for a period of 99 years. This was later amended, and foreigners were also allowed to purchase the land.
- Land owners in urban areas enjoyed priority regarding their right to privatizing enterprises or parts of them, that were located in the land, certainly according to strict established rules and at due time. In case of violation of rules, they would lose this right. It was argued that this measure was necessary in order to avoid obstructions and delays in the process. The law however recognized the right of the privatization boards to decide in favour of the former owners in certain cases.
- Financial obligations of enterprises, such as debts, loans, etc, could not be sold. They had to be forwarded to the state budget.
- Production lines or services would not suspend work during privatization. The profile of the enterprise could not be changed for at least two years.
- The privatization process aimed initially individual ownership, then group ownership, with or in the absence of an owner controlling the majority of shares.

¹⁰⁴ See The Law no.7501 dated July 19, 1991 "On the Land", the Law no. 7512 dated August 10, 1991 "On Sanctioning and Protecting Private Property and Free Initiative", the Law no. 7652 dated February 12, 1993 "On the Privatization of State Housing", the Law no.8606, dated March 14, 1998 "On the Privatization of Economic Sectors of Special Importance", enter into force after publication on the "Official Gazette" btw. 1991 - 2004

In the case of big enterprises and industrial plants, the law prescribed their partition into smaller units.

- Enterprises could not undergo important restructuring, major investments on new technology or production expansion, before privatization. Exception made enterprises of special importance such as hydropower plants, telecommunication, etc., supported by the government through grants, loans and some type of other form of assistance.
- Renting out enterprises, as an interim stage of privatization. This form was reduced to the maximum, because it contravened the criteria of speedy privatization.
- Enterprises enjoying monopoly in the market, such as power and water supply, required fast privatization while aiming at the establishment of antitrust institutions of control and regulation. These would serve as a referee between the manufacturers and consumers and would carry out their mission mainly through fiscal policies.
- Purchasing from state institutions or enterprises of state enterprises or their units, and of enterprises with more than 20% of their shares state property, was banned. Likewise, the transfer of assets of a joint or private enterprise to a public enterprise or institution was also banned.
- This measure aimed at preventing both, the increase of state property, but also cases of possible abuse.
- Retracting one's bid from privatization, after its announcement was possible only upon a court order or a decision of the government.
- Minimum sale prices for an object were determined by the application of consistent methods throughout the country, in order to avoid corruption.

4.4 Implemented methods

4.4.1 Methods of Direct Transfer of the Right to Ownership

This involved the sale, which was later achieved in several forms. Thus, it was carried out through an auction with determined bidders/purchasers. The auction was mainly

used for the privatization of enterprises while the one with pre-determined bidders/buyers, was used for the privatization of houses, shops, restaurants, parts of enterprises, etc. Likewise, another form used was selling to group of employees. This was mainly used for the privatization of parts of enterprises. Another form was passing ownership to employees of the enterprise through privatization vouchers. These were used to offer everyone parts of the national wealth for their contribution given in its establishment throughout the year.

The emission of privatization vouchers contained the principle of social justice in the division of property. This served to accelerate the process, attain the objectives and transform citizens into owners, increase effectiveness and economic development. This form was especially encouraged by the fact that Albania was the poorest in the eastern countries and Albanians had no financial possibility of taking part in the privatization. Privatization vouchers emerged as a form of remuneration for all citizens who had reached the age of 18 years old by the 1st of September 1993, as a form of compensation for former owners and politically persecuted people and as remuneration for villagers who had left their land. According to a Presidential Decree, the privatization vouchers or the privatization Lek/money, as they were randomly referred to, were distributed at the amount of 750 USD per capita. Likewise, selling was used in the case of bankrupt enterprises under liquidation. Another form of sale that emerged was the one involving strategic investors representing truly powerful groups. This form was initially thought to be employed for major enterprises, but was quickly applied to small and medium enterprises as well.

4.4.2 The method of allowing the state retains its property ownership right on a temporary basis or on the long-term

The need for this method was determined under the influence of certain circumstances: little financial opportunity in the country and difficulties in attracting foreign investors, emergency economic needs and the size of enterprises. This method was also seen as a preliminary groundwork for privatization or even as a way of utilizing co-ownership. This method also took various forms in its application. Thus, it took the form of a

transformation of state enterprises in trade companies, placing them under a private financial and economic arrangement. These forms originated by the need to get the economy back on the tracks of the market economy, but also to enable them survive under the new conditions of liberalizations. In this case, the state became their share holder.

This method took also the form of restructuring of state enterprises. The establishment of the Enterprise Restructuring Agency served to this purpose as well, upon the suggestions of the WB. These forms aimed at allowing enterprises adopt themselves to the free market conditions and increase their value through the privatization process. The structure in place never became effective and it merged in 1996. Another form utilized as part of such method was lending state enterprise. Its main purpose was to increase effectiveness and encourage people to take risks in their enterprise and profit from the market economy.

An important form was the concessionary agreement. Under the conditions of very limited financial resources, this form was used to exhaust underground riches, for the development of the road, power infrastructure, etc. This was possible due to the fact that Albania has sufficient reserves in fuel, chromium, copper, lead-nickel, hydra resources, etc.

An important form used was the establishment of joint ventures. This form known as "*Joint-Venture*" was a combination of the capital of existing enterprises with advanced technology possessed by well known companies in the same line of production or service. After banning credit and loan taking upon the Constitution of the year 1976 this form was the first legitimate form on credit taking from abroad. This method recently appeared also in the form of a contract between public authorities and private companies, especially in the field of specific services, such as city cleaning, etc.

4.5 Privatization stages

The process of privatization in Albania, even though it began applying the fast

privatization approach, it moved into several stages. Each of the stages has a distinctive content, which marks the progress and the depth of the process. In fact, we are dividing it into stages for study purposes, because privatization represents a unique process, marking the attainment of important objectives step by step and serving to liquidate the centralized economy and the installation of private property and market economy. Every stage has its own characteristics, shaped by the objectives set and results attained. In this perspective several stages can be identified:

- The first stage involves the conception of privatization reforms and the beginning of its massive implementation. (1991-1998)
- Second stage involves the privatization of major enterprises. (1998-2008)
- Third stage marks the beginning of the sale process or privatization of the state owned parts. (2008 and later)

4.5.1 Privatization of small and medium enterprises

Considering its content, this is viewed not only as the beginning of the process, but also as the stage of massive privatization, when the privatization of small and medium manufacturing enterprises and services took place. Before analyzing the content of the process at this stage, several essential features enabling us to understand the volume and content, as well as the peculiarities of privatization at this stage, can be identified.

- This stage aimed at enabling the creation of a private sector in Albania within 5-7 years. Thus, this stage focuses the fast privatization with mainly quantitative objectives, in order to “ensure the creation of a private sector that in 1999 would provide for over 99% of the GDP”¹⁰⁵.
- The total privatization of the economy with the aim of shrinking the state sector to the maximum at any area of its activity.
- Defining the principle or line of “privatization and later restructuring”, in order not to lose time in the creation of the market economy and place the private property at its foundations.

¹⁰⁵ Official Gazette, Issued by the center of Official publications; 1993

These features show that privatization was to be fast, and would commence with small and medium enterprises as well as the most necessary services, aiming mostly at the quantity aspect and shrinking of the public sector. All of these were to serve a fast recovery, an immediate transition to a sustainable economic growth and development and ensuring the irreversibility of this process. This meant that this stage was to be dominated by a fast privatization and not economic effectiveness. The economic criteria of privatization did not prevail at this stage, but began to do so at the second stage. This circumstance limited the content of the process, solved the issue of where the process had to begin and restricted the methods and main techniques to be used.

Looking at the progress of the privatization process, it is found that small and big enterprises were privatized at this stage. It includes the stage of the massive privatization, which included initially the trade network, the service enterprises, housing residences, and land. This stage ended by mid-1993. This important phase of this stage is known as the privatization of the SMEs. This phase concluded at the end of year 1998, but it includes a small part also after this year.

Law no.7512 in year 1991, Law no.7631 and no.7638 in year 1992 clearly determined the requirements for considering an enterprise as small or medium size. A small enterprise was one that had a value of up to 100.000 USD, or no more than 50 staff members. While a medium enterprise was one that had a value of up to 500.000 USD, or less than 300 staff members.

The approval of the law no.7512, dated 10.08.1991 "On sanctioning and protecting private property and free initiative for independent private activity and privatization" was the juridical step which opened the way for wide-scale privatization¹⁰⁶. It was precisely the privatization of this trade network and service enterprises that marked the beginning of a fast privatization. It was designed and achieved through the method of symbolic sale prices and giving priority to bids made from its employees. This process was completed almost entirely within 1992, and it did not bring about any problems to services provided to the population. This marked the creation of the first contingents of

¹⁰⁶ Official Gazette, Issued by the center of Official publications; 2004, no.61

new owners as part of what could be considered as a “populist capitalism”. This privatization, however, was extremely favouring towards a small part of the society, placing it at a somewhat privileged position. This also due to the fact that sales performed based on a monthly rental fee, ensured employment and property, creating thus opportunities for profit. Likewise, this way of privatization created the first problems for the landowners of the territory where these enterprises were built upon.

The privatization of housing residences pursuant to the law no.7652, dated 12.02.1993 “On the Privatization of State Housing” was another element. Residences made of two rooms and one kitchen, constructed before the date of 31st of December 1970, were privatized in the form of donation and partially through the method of very low sale prices. According to Article no.7 of the Law no.7698, dated 15.04.1993, several social categories of former politically persecuted people and labour invalids and invalids of the National Liberation War, but also citizens living under the minimum living standard benefited free housing. Other citizens living in state residences inundated due to the construction of the hydro power plant of Fierza, also benefited their residence for free. This law recognized also the right of the former owners to their nationalized residences inhabited at the time by other citizens. In two years time, the state was to solve the housing issue of tenant families. In reality, it was not carried out as provided by the law. Despite this, the privatization of housing residences created the housing market, opening the way to the process of their improvement, sale and purchase and increased the number of the private property owners. Likewise, such privatization influenced to a certain slowing down the rise in the value of the housing market.

These two types of privatization have to be recognized as the most positive aspects of the overall process, especially considering that “in a very brief period of time, a number of 220 thousand state owned apartments were privatized”.¹⁰⁷ Political and social, rather than economic motives, drove the privatization process for this part of the national wealth. Naturally, this privatization was based on the criterion of social justice even though justice was not delivered until the end, considering the fact that the entire society

¹⁰⁷ Mema, Fatmir; 1997, pg. 22

had contributed for the construction of housing residences and yet, they were acquired for free to a part of the population. The biggest losers in this process were the former owners of housing residences and housing sites. According to the press of that time, upon approval of the law “there were about 10.000 families residing in the residences of former owners¹⁰⁸”.

Privatization turned many tenants into owners, but the government position towards former owners, expressed through such measures as “suspended” rental fees and others that involved a long wait of 2-3 years before actual occupiers vacated the residences of former owners, made this a solution at the expense of owners. This was a typical expression of communist mentality. However, if we consider this issue has yet to be completely solved, than it becomes understandable that the costs of this solution are burdening the former owners of housings. This resulted from the application of the administrative and not economic approach, marking a true denial of the right to their property. I think that the application of economic criteria in various and diverse forms would allow for a better application of the social justice criteria.

Despite the importance of such privatizations, clearly the privatization of arable land was of major importance and carried a great weight because it would open the way for the establishment of a land market, a greater domain for market economy, giving an end to the social property sanctioned in Article 77 of the Constitution of 1967, according to which “land is given for social use to state enterprises and institutions, judiciary cooperatives and social organizations, as well as for personal use to citizens. Land is given for use without any compensation”¹⁰⁹.

At the same time, the approach to be used for land privatizations allowed for possible solution of social injustices and problems created by the communist agricultural reform carried out in the period of 1945-1946. Land privatizations began pursuant to law no. 7501, approved on 19.07.1991. This is one of the most controversial laws in Albania, accused of being the reason why the issue of land property has yet to be solved, and

¹⁰⁸ Ballkan, Newspaper; 2005, pg 3

¹⁰⁹ Constitution of the Republic of Albania; 1976

why property has yet to be resituated to the former lawful owners. This law was approved under a pluralist parliament, where a right wing party was represented, but in opposition. Moreover, this party had neither a clear and comprehensive vision about this privatization, nor an actual legal alternative in its hands. It had no way of resolutely imposing a full restitution of property to the former legal owners.

The concepts of this party about private property were eclectic. This was not only shown by the fact that it almost supported the alternative presented by the left wing party in the Parliament, but also by the fact that even though the Democratic Party (a right wing party) won the elections of 22nd of March 1992, it did not amend the above mentioned law, which continued to be enforced until almost today. The only aim of all later amendments to the Law no. 7501 and of sublegal acts issued by the Government was the enforcement of this law. This is the origin of the range of complex and hard problems accumulating throughout these last 18 years, which have not allowed for property restitution to legal former owner.

Pursuant to the above-mentioned law and subsequent sublegal acts issued for the purposes of its enforcement, the privatization approach used was donation of land to local families, former employees of agricultural cooperatives and agricultural state farms, almost equally, based on the number of family members. Land was classified based on its quality, arrangement, and irrigation capability, proximity to the market and inhabited areas. In fact, state farm employees were initially granted the right to use the land, later converted to ownership rights with no compensation.¹¹⁰ Through this form of privatization, the Government paid in a way its debt to citizens, whom received land from the communist state based on the principle “The land belongs to those who work it”, but later, lost it to the collectivization reform against no compensation. This process ended in the beginning of the 1970s with the liquidation of the so-called “cooperativist yard”.

Another interesting development is the approval of the law 7698, dated 15.04.1993, which was supposed to regulate how former owners, possessing land before

¹¹⁰ Report on the Process of Privatization in Albania, 1991-1997”; GTZ Project; 1998, pg. 38

29.11.1944, i.e. before the communist agricultural reform, were to be compensated. The introduction of certain criteria for this purpose shows the absence of a clear vision on private property and its restitution to former legal owners and on the recognition of the right to private property. Thus, according to this law, former legal owners were to be compensated in land or in cash value. Restitution was to be limited up to 10.000 m². For those who owned more land, the form of compensation would be on money according to certain criteria set. Thus:

- For areas from 15 to 100 hectares, every hectare over the first 15 ones, would be compensated with the value of 0.1 ha;
- From 100 ha to 1.100 ha, every hectare over the first 100 was to be compensated with the value of 0.002 ha;
- Areas of arable land, pastures, meadows, woodlands and forests over 1100 hectares would not be compensated.

Also according to the abovementioned law, under no circumstance would the value of money compensation extend an equivalent area of about 43.5 hectares. In order to administer this process, the “Land Government Commission” was established, at the Ministry of Agriculture. Likewise, land distribution commissions were established at every Regional Council¹¹¹. Other commissions were established at the smallest local government units, communes and every village.

At the end of 1993, about 92% of the arable land was privatized, or more specifically 93% of the former arable land pertaining to the agricultural cooperatives and 91% of the former state farms.¹¹² This step expanded the areas under private property and the market economy even though initially, the law did not allow for the sale and purchase of the land. This lasted until 1995, when another special law opened the way for the purchase and sale of land. This privatization was of special importance if we keep in mind the fact that 2/3 of the population lived in the rural areas. This was a democratic solution implemented through a law. It expressed in a sense the relation between the

¹¹¹ The Regional Council is the main body of authority in a local administrative unit

¹¹² Albanian Institute of Statistics; Annual Bulletin; 2002

powers of the time when it was carried out and when the category of former owners almost did not exist. This law, however, not only failed to solve the issue of the former owners, but it also failed to address problems created by the communist agricultural reform, and it even created new problems related to the right of ownership and the establishment of a developed land market. This privatization changed the structure of the Albanian agriculture radically. Accompanied by the liberalization of commerce and prices, it opened the way to private entrepreneurship in this important sector.

The law was practically enforced in two ways: in the lowlands the law was properly enforced in accordance with its content, but in other areas, land was divided based on the title of ownership granted before the year of 1945. This means that former owners did receive their land back. According to data made public in the press also: “only 148 277 hectares of land was resituated according to the law no.7501 and 260 417 hectares were resituated to the former owners based on property ownership prior to the agricultural reform of year 1946”¹¹³. Such implementation of the law created tensions and was associated with acute problems and conflicts within the family also. According to data published in the press, almost 2/3 of annual court cases, especially in the last 10 years, are related to property disputes/conflicts. During these last 3-4 years, land ownership related issues have been the reason for 5-7 murders or serious injuries a year. This means that the law, although based on the criterion of social justice, created rage of acute social problems and disputes inside the family and between legal owners and the Government. Likewise, this manner of land distribution brought about the fragmentation of land into hundreds of small parcels, with properties being less than 1 hectare per economy.

466 659 land units or parcels were created in year 1998, occupying an area of 451917.1 ha in total and an area of farmed arable area of 397900.1 ha. According to statistical data about ¼ of this area was ploughed by hand and about half of it was worked with the assistance of animals and by hand¹¹⁴. This kind of land fragmentation affected the level of technology used to work, irrigate, fertilize the land, and make new investments. Many

¹¹³ Ballkan, Newspaper; 2005, pg. 3

¹¹⁴ The Statistical Yearbook 1993-2001; 2003, pg. 191-192

problems related to the quality and standard of agricultural products, marketing, etc., emerged. The agricultural sector is still suffering from a lack of vision to increase its development through advanced technology, low competitiveness within the country and in foreign trade and the absence of a modern marketing. Likewise, acute infrastructure problems and a considerable lack of financial resources roughed the surfaces and have resulted in low production levels. Free trade agreements, signed with EU and neighbouring countries have placed the Albanian agriculture in a very unfavourable position beyond competitiveness.

Considering the complex range of accumulated problems in the agricultural sector, the Albanian Government began from 2004 preparing several legal and sublegal acts involving particularly the issue of property restitution to its former owners. Many property restitution related problems are connected with the transformation the property had undergone during the communist system. For almost half a century, the communist state changed the configuration of the land, many arable or forestry lands were transformed into building sites due to the expansion of the cities and the creation of new cities or the construction of industrial plants. Likewise, population growth brought about consequently multi-fragmentation of land heritage. Legitimate owners are now organized in associations such as “Property through Justice”, and “The Coastline”, which have as their mission legal recourse to the physical restitution and compensation of their property. According to these Associations, 90% of the owners have addressed the courts to protect their ownership rights and until 2004, property was restituted to 50% of them¹¹⁵. The privatization of SMEs occupies a special place at this first stage of privatization. Achievements in terms of macroeconomic stabilization and massive privatization during this period of analyses enabled the Government to pass a medium term program for the years of 1994-1996. This program was approved by the Parliament at the end of 1993. In August 1994, the “1994-1996 Privatization Strategy in Albania” was approved based on this program. The main objective was the completion of the privatization of SMEs in order to move on with the privatization of major enterprises. Increased attention was paid to the economic effectiveness of privatization at this stage.

¹¹⁵ Gazeta Albania, Newspaper; 2004, pg. 3

The main approach applied in the privatization of the small and medium enterprises (SME) was that of auction. This approach allowed for transparency and timely appraisal of the real value of the object before its sale to potential buyers. In this way, it was possible for the right to ownership to pass from the state directly to private buyers, through open competitive bidding. Considering that there was insufficient buying power, the Government carried out through legal acts the disassembly of major enterprises into smaller units. Their shares were later sold at auctions. This allowed for greater participation of entities in the privatization process and faster sale of enterprise assets. Thus, what came to be known as the massive privatization began, stretching between the years of 1995-1997. In this process were used vouchers, or otherwise known as privatization bonds, with no need for a financial mediator.

People bought shares of state enterprises in exchange of the privatization bonds. Vouchers began to be handed out in April 1995. Vouchers were handed out to all citizens who had reached the age of 18 years old. Vouchers could also be purchased in the market freely according to their nominal value. This circumstance created room for a group of society to manoeuvre and purchase them, leading to the rapid decline of up to 3% of their nominal value in the voucher's market. The value of the massive privatization bonds amounted to a total of 4.5 billion Lek. Beginning from 1995, those began to be exchanged for up to 25-30% less than their nominal value, while during 1996 it dropped to 11%. In 2003, privatization bonds were sold at 3% of their nominal value. This meant that these bonds were not used for privatization any more, but for sale at the free market.

Under these conditions, but also to give an impetus to the process, the Government used certain specific rules which, occasionally, circumvented the auction. Thus, it was decided that former land owners would be the first to be entitled to purchase an enterprise or parts of it, under the condition that its construction occupied 80% of their land. Likewise, former employees of enterprises and a category of former politically persecuted prisoners were also entitled to be primary buyers. This gave the process a form of direct sale. If the sale could not be completed in this way, then the assets of the enterprise would be sold at the market to any of the citizens. If the sale was not possible

in this way either, then it was to be offered to foreign persons or companies. In this case, the sold enterprise could not change its destination for two years without the approval of the “National Agency for Privatization”¹¹⁶. This requirement was never achieved in reality.

The beginning of the massive privatization saw the privatization of 97 small and medium enterprises, 13 of which belonged to the food industry, 12 to the construction industry, 12 to the mechanics industry, 6 to transport, 6 to typography industry, 5 to textile industry, etc.¹¹⁷ All above related data speak about a speedy process. In 1991, the recorded number of SMEs was less than 2000, in 1993 this number reached 9000, in 1994 it rose to 16640, in 1997 it dropped to 3000 and in 1998 it rose to 4800. The privatization process of small and medium enterprises ended in fact in 2001¹¹⁸. The table below provides a summary of the results of privatization at this stage¹¹⁹:

Table 7: Privatization through direct sale and bid/tender , in million Lek

Year	No.of objects	Lek	Privatization on Bonds	Totalamount
1991-1992		537.9		537.9
1993	3268	4477.0		4477.0
1994	277.5	1838.0		2182.1
1995	2924	597.2	828.0	4129.5
1996	2248	314.5	2407.3	3505.9
1997	717	185.1	747.8	1002.5

Source: National Agency for Privatization, 2007

Table 8: Privatization through the massive Privatization Program, in million Lek

Year	No.of objects	Lek	Privatization on Bonds	Totalamount
1996	50	450.0	1703.0	2153.0
1997	47	311.7	2873.2	3184.9

Source: National Agency for Privatization, 2007

¹¹⁶ Midterm Strategy for the Development of Small and Middle enterprises; Academy of Science; 2001, pg. 15

¹¹⁷ Albania between domestic reforms and European Integration; Bank of Albania; 2001, pg. 164

¹¹⁸ Albania between domestic reforms and European Integration; Bank of Albania; 2001, pg. 170

¹¹⁹ Transition and Economic Freedom in Albania, National Agency for Privatization; 2007, pg. 131

Based on this outlook of the process at this first stage, we can comment on the specificities and problems it presented. Privatization carried out between the years 1991-1993 were associated by a massive exodus of the labour force. This influenced the creation and growth of hard currency stock in Albanian families, promoted the import market of consumption goods, but it also led a blow to the small private producers in the field of agriculture and that of industry. Poor administration of the currency stock, and an interpretation rather political and euphoric of this economic “*boom*”, based on fast privatization, did not allow for the necessary liberalization of the financial market. Due to this circumstance, the chance to make this liberalization less painful and minimize acute social problems was lost.

Likewise, lack of structures to control the money flow, the obstruction of the state financial market by high budget level, stagnation in the market of commodities, the obstruction of small producers and failure to create the necessary conditions to promote greater investing human capacities, created favourable conditions for the accumulation of free money into suspicious financial groupings. This phenomenon of uncontrolled informality and corruption allowed money to circulate at first in all kinds of smuggling markets creating a consumers’ system with no development generating capacity.

Lack of management structures and instruments for the liberalization of the economy and the absence of legal regulation, led to the circumvention of competition, to the monopolization and concentration of the mainly commerce economic activities in great units, to the failure of managing the economy and inability to avoid the crises of year 1997. This influenced considerably the flourishing of informal economy and of disturbing level of corruption that continue to risk the stability and sustainable economic growth. Under these circumstances, privatizing the capital of small enterprises and partly of medium size enterprises, served mainly to administering the import goods market.

The speed with which all privatizations were carried out, aimed at expropriating the state, and failure to harmonize privatizations with market liberalization and control, turned it into some kind of property fragmenting process. Privatizations carried out at this stage created a considerable number of small private owners and facilitated streamlining the market economy. The new reality promoted free enterprise/initiative, the

development of capital markets, but also a new culture and mentality in the management of property and production. This phenomenon, however, did not create the necessary conditions for the introduction of latest technology in the new enterprises. Except for the privatization bonds, the new owners did not have major financial capabilities. It is a striking fact that ownership began to concentrate on the hands of very few owners later. The lack of knowledge on the rights of shareholders created conflicting situations between managers and shareholders.

What draws one's attention more than anything else as it regards the essence and content of privatization at this stage is an overrating of the quantitative aspect with little attention paid to quality, which in this case, it has to do with ensuring the economic effectiveness of privatized enterprises. The phenomenon of no profit in privatized or mismanaged enterprises, led to their inability to use a good part of their fundamental funds or transforming some of them into warehouses for various purposes.¹²⁰

4.5.2 Privatization of the strategic sector

This stage stretches over a long period of time, starting from 1998 until 2008. This stage is rich in its content. It includes primarily the full completion of the privatization process of small enterprises, the intensification of property restitution to and compensation of former owners and naturally, the beginning of the privatization process of major enterprises or strategic sectors. This stage was by then carrying the load of successes and failures of the first stage. It was also taking a new qualitative dimension. Now privatization is conceived as a vital alternative to ensure an effective functionalism of the actions of players in the private and state market and guarantee the necessary competitiveness as the bases for the development of a free market.

This means that by now market economy rules were to dominate economic criteria, categories, and improvements in market management. A better harmonization between legal and sublegal acts, economic and financial categories and social and political elements was observed. Thus, the consistency and irreversibility of this process were

¹²⁰ Transition Features and the Strategy for Economic Development in Albania; A publication of the Academy of Science; 2002, pg 24

better guaranteed.

In this framework, detailed programs were developed, designed to allow the selection of rules for all market types and levels; new structures responsible for policy development and field development strategies were established; market analysis capacities were built and financial programming and controlling systems were perfected; designs of monitoring the overall inspection of privatization process were reconceived. It must be pointed out here that these were halfway strategies developed by the various Governments and political incumbents, and opposed by opposition parties, switching back and forth from power to opposition time after time. As it was underscored earlier, this stage saw the full completion of the privatization of small and medium enterprises. Over 500 economic units such as enterprises, trade associations, etc., were privatized. Privatizations led to the opening of 7 thousand new job positions and an investment of 85 million USD. The results of this process are shown in the table below¹²¹:

Table 9: Results of Privatization Process

Type	Number	Amount in Lek
Anonymous State Companies	40 Companies	4.6 billion
Joint Stock Company	23 Companies	0.7 billion
Privatized Facilities	1209 Facilities	1.4 billion
Stand-Alone Machinery/Detached Machinery	969 Machinery	0.1 billion
Constructed Land Sites		1.2 billion
Total amount from privatization		8.0 billion

Source: Ministry of Finance and Albanian Institute of Statistics

The main content of this stage however consists of the privatization of major enterprises or strategic sectors, such as the telecommunication and mail sector, the electro-energy sector, the oil and gas sector, the mining sector, the transport sector (air, sea, road and rail), the banking and insurance sector (second level banks), the water supply sector, etc. Privatization at this stage re-dimensioned the role of the state in many aspects and it involved about 80% of all assets of the economy in the strategic sectors. The content of this process was further elaborated in the privatization strategy, approved by the law no.8306, dated 14.03.1998 "On the privatization strategy of sectors of special

¹²¹ Ministry of Finance and Albanian Institute of Statistics; Annual Bulletin; 2007

importance”¹²². Upon the DCM no.621, date 25.09.1998, the “Consultancy and Transparency Committee” was established. This main goal and idea permeating this strategy was to consider all enterprises on state capital or companies in the sectors of special importance as adequate for privatization¹²³.

The three main objectives of this privatization were:

- Ensuring sustainable and long-term development through restructuring and developing of sectors, rational use of natural resources and production capitals, freeing budgetary finances from these sectors and reducing budget deficit ;
- Increasing market effectiveness by promoting competitiveness and allowing more room for an economy driven by market laws. This would ensure optimum capital use, increased quality and standards in production and service delivery;
- Attracting private foreign capital and advanced technologies. The selection of foreign investors based on development programs, financial capabilities, management skills and penetration into foreign markets;
- Developing a capital market in the country, and making the necessary legal and administrative amendments¹²⁴.

The privatization process at this stage was the more difficult, complex and slower than that of privatization of small and medium enterprises. Pursuant to this strategy, 31 laws and over 133 governmental decisions were approved. Some of them determined the criteria and methods of privatization such as the law on concessions, on privatization of the electro-energy sector, the law on the privatization of trade companies, mining, etc. The privatization of these sectors was to be carried out through the sale of shares approach, applying the strategic investor concept. In the privatization of these strategic sectors, several characteristics of its condition that could affect its sale value were kept in mind. To mention some of them: very outdated technology, lack of investments in a long time, huge number of work force, a primitive organization and management, which was not based on the market categories and indicators, various forms of state

¹²²Official Gazette, Issued by the center of Official publications; 1998

¹²³Official Gazette, Issued by the center of Official publications; 1998

¹²⁴ Official Gazette, Issued by the center of Official publications; 1998

intervention in their development, an intervention which did not reflect the demands of the market. Many had earned the status of becoming unique natural monopolies despite their numerous financial problems.

Recognizing this reality gave the necessary impetus to restructuring and commercialization efforts aimed at increasing economic effectiveness, strengthening the financial situation and the value of their shares. Privatization covered all sectors, but for the purposes of this research, will be listed as follows, which shows to a certain extent the sequence of events in this process:

1. The privatization of the telecommunication sector

This privatization included at first the mobile companies and later the fixed telephony company. AMC was the first mobile company privatized in 2000 by passing 85% of its shares to the ownership of a strategic foreign investor at a value of 85.6 million USD. Later, the Vodafone mobile company was granted the second license at the amount of 38 million USD and initiated the procedures for a third operator, which it was thought to be carried out alongside the privatization of the fixed telephony ALBTELEKOM¹²⁵. The public company ALBTELEKOM had 233 thousand subscribers in 2004. Profit achieved that year amounted to 2 billion Lek (about 20 million US dollars) and the profit rate stood at 15%. Subscribers owed the company 1.8 billion Lek. The privatization process began in 2001, based on the law no.8810 "On determining the form of privatization for the ALBTELEKOM anonymous companies and the structure of this form of privatization". Out of 11 companies, 4 were selected such as the Turk-Telekom/Calik Enerji Telekomunikacion consortium, the Telekom Korean/Samsung consortium, Telekom Slovenije and MTC-Kuwait. The company was sold to the Turkish consortium at 120 million euro for 76% of the capital shares, which included the license for a third mobile company "Eagle Mobil".¹²⁶

¹²⁵ Angjeli, Anastas; 2007, pg. 136

¹²⁶ Angjeli, Anastas; 2007, pg. 136

2. Privatizations in the electro-energy sector

Albania has one single company in this sector that generates, transmits and distributes the energy, that of "KESH" Inc. The generating capability, dependant mainly on hydro resources stands at 1656 MW, 1460 MW of which is power generated by the Hydroelectric Power Plants and 196 MW by Thermoelectric Power Plants. The annual generation capability is 4 billion KW/h. The restructuring of KESH, carried out with the assistance of the Italian company ENEL, led to its separation in two companies: one in charge of power generation and transmission and the other for distribution.

Pursuant to DCM no.862, dated 20.12.2006 "On the establishment of the Power Distribution System Operator Company" (sh.a./stock corporation), the Power Distribution Department, OSSH, is separated from KESH. A second decision no.436, dated 8.04.2008 decided for OSSH to be privatized. Upon the conclusion of international tendering procedures, it was decided for 76% of the OSSH's shares be sold to the Czech company "CEZ". The process had to be concluded within September of 2008. The sale bid was 102 million euro¹²⁷. After several postponements, the Government of Albania issued a new decision on 6 March 2009 forgiving OSSH its debts and increasing its assets, i.e. giving out for free 60% of its value. Point 5 of the above cited decision determined that OSSH was not to be burdened with credit arranged between KESH and the European Investment Bank at the amount of 2.3 billion Lek, and between the Republic of Albania and the World Bank at the amount of 2.6 billion, but these were to be transferred to KESH as an obligation¹²⁸.

Likewise, assets financed through long-term credits, completed during 2008 by KESH-sh.a. (stock corporation), on behalf of OSSH- sh.a. (stock corporation), at the amount of 1.1 billion Lek, were transferred to OSSH and registered under the ownership of this operator. Up to 1 billion Lek in short-term obligations for the purchase of power and in transfer rate that OSSH pays to KESH and to the Transmission System Operator (TSO/OST) accordingly, would be nullified and reflected as capital growth on behalf of the OSSH. While the amount of 0.53 billion Lek, corresponding to the 2008 payment of

¹²⁷ Official Gazette, Issued by the center of Official publications; 2007

¹²⁸ See same reference

long-term loans by KESH, be reflected as a growth of capital for the OSSH, sh.a. (stock corporation), 129. Therefore, even though the sale bid was at 102 million euro, its real price would fall to 43.5 million euro.

Another approach followed in this sector is that of granting the concessionaries of about 34 small Hydroelectric Power Plants and two major Hydroelectric power plants, one of them located in Kalivac of Tepelena city, southern Albania and granted to an Italian company and the other located in Ashte of Shkodra city, northern Albania, granted to the Austrian company "Verbund". Likewise, giving to the Austrian company AVN the concession for the construction of a hydroelectric power plant cascade in Devoll River in the south part of the country is another important agreement. Discussions are under way on the concession of about 100 small hydroelectric power plants and one important concession for the construction of another cascade over the Vjosa River, in the southern part of the country.

In order to increase domestic power generation capability and fully regulate the cascade of Drin river in the north of the country, the Albanian Government held at the end of March 2009 a tender process to give on concession the Skavica Hydroelectric Power Plant. This power plant is anticipated to have a generating capability of about 300-400 megawatt. Six powerful companies competed in the pre-qualification stage, such as the Italian consortium "TGK", a South Korean company, a Norwegian company, the Austrian company "Verbund" and "KELAG Group" as well as the German company "RWE" AG.

3. Privatizations in the Oil and Gas Sector

At the center of activities in this sector in Albania, stands the company of Albpetrol Inc. The management of this sector by this company was associated with a drastic drop in production. Thus, in 1990 the quantity of unprocessed oil was 1 067 000 tons, in 1997 production dropped to 359 670 tons and in 2002 it rose to 355 817 ton. Thus, the sector began experiencing the crises situation¹³⁰.

¹²⁹ Gazeta Shqiptare, Newspaper; 2009, pg. 11

¹³⁰ Hana, Lulezim; 2005, pg. 134

Dividing this sector into the four small enterprises listed below, was the first measure taken to end the crises in this sector:

- "The Albanian Oil Corporation", tasked with joint-venturing with other established companies and coordinating their technical and financial activity. In 2003, upon the DCM no. 28, dated 16.01.2003, this company was liquidated and began transferring its shares and quotas to other companies.
- "Albpetrol Inc." tasked with conducting oil researches and oil extraction.
- "Armo Inc." tasked with oil processing and product marketing. This company has processed about 300-400 tons of oil annually providing for about 20-25% of market demand and contributing to the state budget with about 33 million Lek a year. The privatization process for this company began in 2003 and it was privatized in 2008.
- "SERVCOM Inc." tasked with special services. Beginning from 2001 this company underwent an organizational and operational restructuring. In 2002, the restructuring effort led to the establishment of two new non-strategic, limited liability companies.
- "The Trans-Oil " and "The Mechanical Plant". By then, procedures for its possible sale were already completed¹³¹.

It is understandable therefore, from this overview that despite its separation, production growth or the necessary technological improvement were not achieved. This means that the privatization strategy in this sector was not successful.

Special government decisions granted concessions to several Austrian, Canadian and British companies for oil and gas probing at numerous locations on the ground and in the sea. Likewise, another concession granted in this sector is that of two projects involving the construction of port oil terminals and storage facilities, with an investment value of 65 million USD. Moreover, a concession for the construction of a powerful TEC and an energetic park in the south of the country has been granted¹³².

¹³¹ Hana, Lulezim; 2005, pg. 134

¹³² Angjeli, Anastas; 2007, pg. 137

4. Privatizations in the mining sector

The privatization and concessionaries of mines aimed at revitalizing the use of mines, which were at a state of utter collapse. This led to the restructuring and privatization of the “Albkrom Inc.” corporation. As it regards composing units of this sector, these were given under a concessionary terms to the Italian firm “Darfo”. The copper industry and the “Albbaker” corporation underwent a restructuring process and later privatization of specific units. Even until today, the concession for this activity remains to be granted in 6 cities of the country at an investment value of 60 million USD in 2004¹³³.

5. Privatizations in the Transport Sector

With the exception of the railway sector, the rest of them established joint-ventures and entered into several agreements with serious companies such as “Loched Martin”, etc. In relation to the air transport sector, it is worth mentioning the concession granted for the “Mother Teresa Airport” in 2004 at a value of 96 million USD¹³⁴. In the road transport sector, it is worth mentioning the concession granted to the US-Turkish company “Behtel” for the Durrës-Kukës road.

6. Privatization of second level banks and insurance companies

The new banking system in Albania came about in 1992, with the approval of the laws “On the Bank of Albania” and the law “On Banks in the Republic of Albania”. This laid the foundations for the establishment of a banking system at two levels: The Bank of Albania with attributes of a Central Bank and the establishment of three state owned banks, such as the National Bank of Commerce, the Savings Bank, and the Agricultural Bank for Development, which was later named the Agricultural Bank of Commerce. From the start these new banks were faced with concerning issues especially that of unreturned credits.

At the end of 1996, bad bank loans of state capital made up 80% of the total of their portfolio. The Agricultural Bank of Commerce was the first to succumb to these problems and was liquidated in 1997. A traditional banking crises, was not the cause of the 1997

¹³³ Angjeli, Anastas; 2007, pg. 137

¹³⁴ Angjeli, Anastas; 2007, pg. 137

one. Many financial activities in the economy of the country at that time were conducted outside licensed financial institutions, in the informal financial market. The absence of a formal and functional banking system and insufficient supervising structures facilitated the boom of informal pyramid financial schemes. The crises of 1997 consumed the financial system and banks in the country quickly, but it also served as an impetus to reform this system.

Reforms in the financial and banking system focused on several elements:

- Amending laws and legal regulations referring to the “Law on Banks” in 1998, or “The Law on Bankruptcy” and that “On Safe Transactions” in 2001.
- Establishing the Loan Handling Agency.
- Strengthening the financial infrastructure that involved greater supervision, upgraded technology and upgraded payments and accounting system.
- Establishing the Credit Information Bureau.

The privatization of the National Bank of Commerce in 2000 and especially that of the greatest bank, the Savings Bank in 2004, purchased by the Austrian bank “Raiffeisen Bank” at 100% of its shares for a price of 126 million Euros, was an important moment. These privatizations opened the way for competition that in turn brought about an increase in the number of private banks of domestic instead of foreign capital. Several private banks of domestic capital operate in the country such as the Credins Bank, Union Bank and Peoples’ Bank. In 2006, the Intesa Sanpaolo Bank group bought 100% of the shares of the Italian-Albanian bank and in 2007 it bought 80% of the shares of the American Bank of Albania. In 2007, the French giant “Societe Generale” bought 75% of the shares of the Peoples’ Bank. The private banking system is currently composed of 17 banks with 190 subsidiaries in the entire country, 101 agencies and three subsidiaries outside Albania¹³⁵.

An important element at this stage of the privatization process is the privatization of insurance companies. An important moment is the sale of the shares of “Sigal”

¹³⁵ See Annual Report, Bank of Albania; 2007

Insurance Company shares to the “UNIQA Group Austria” in 2007. Currently there exist several private insurance companies such as “Sigma”, “Atlantik”, “Intersig”, with the biggest insurance company in the country “INSIG” being offered for sale. The assets of INSIG amount to 49 million Euros, with an income level that stood at 17 million Euros for 2007. This company has ensured an income level of 8.4 million Euros in the domestic market, of 5.5 million Euros in Kosovo and 3.2 million Euros in Macedonia. The Albanian Government owns 61% of the shares of INSIG, while the rest of shares are owned by EBRD and IFC, of 19.5% each¹³⁶. Government partners in INSIG have yet to decide what will their course of action will be in relation to their shares, after agreeing in principle to its sale. The privatization tender process for this company has failed over four times. The reason for this delay has to do more with its lack of competitiveness.

At this stage, it is interesting to see efforts made to address the pending issue of property restitution to its legal owners and to solve the difficult issues, known as the legalization and urbanization of informal areas. Due to its complexity and steps taken in 2009, this issue will be addressed as part of the third stage of privatization.

4.5.3 Legalization of property towards a “total privatization”

This was one of the main objectives of privatization in Albania. This stage began in 2008, upon the decision of the Government to offer for sale the state –owned share of the remaining property. In October 2008, the Government announced its initiative to privatize all state assets. The Albanian Prime Minister, in its cabinet meeting worded the content of this initiative as follows: “Privatizations have been completely successful and have exceeded expectations with their success. There are plans that INSIG as well, for which an international tender process has been announced, to get privatized within the year 2009 alongside AMC shares, and later Alb Telecom shares, and AMRO’s. The Government does not wish to be a shareholder. It has another mission and other major tasks in the field of economy, to keep the promise for a transparent privatization of public enterprises”¹³⁷.

¹³⁶ Gazeta Shqip; Newspaper; 9 December 2008, pg. 21

¹³⁷ Gazeta Shqip; Newspaper; 20 October 2008, pg. 5

Thus, the sale of all shares the state owns in various companies represents the last stage of privatization in Albania. This is the last act of the total privatization concept materializing. The Government was even quick to anticipate that this would be achieved within the year 2009.

In the words of the Albanian Prime Minister “Within a year we are going to give up our shares in various companies and enterprises”¹³⁸.

Albanian academics hold different views in relation to both, the total privatization concept, its approach and timeline. Thus, Dr. Alqi Naqellari, openly expressing his position against the total privatization states that: “I am for a multi-ownership economy of the Chinese kind, or of the kind that other western developed countries apply, where state property is not ignored nor its role in the area of competitiveness. The reason for this is that competition and the market become more dynamic when there exists state property, not in the concept of a producing state”¹³⁹. Dr. Naqellari is particularly and strictly against the privatization of all second level banks. According to him, there should be multi-ownership in the banking system as there must be multi-ownership in the system of production and services. To further argument his view, he asserts that “these private banks have already determined their targets in several risk-free sectors, which is profitable for the banks”. According to him, “they have not invested in crediting agriculture and tourism because these represent risks for them”¹⁴⁰.

In my opinion, at this stage of the total privatization it is necessary to solicit the opinion of institutions of science and economic thought, in order to weigh all possible risk and issues. This step, in fact, was a decision of the incumbent government, the coronation of its political program, rather than a requirement for economic effectiveness. No research or preliminary discussion informed this decision. Furthermore, this would require a full inventory and publication of its findings before privatization began. This would create a better overview of the economic effects in the internal market but also of current

¹³⁸ Gazeta Shqip, Newspaper; 20 October 2008, pg. 5

¹³⁹ Naqellari, A in “Telegraf” Newspaper; 2008, pg. 13

¹⁴⁰ Naqellari, A in “Telegraf” Newspaper; 2008, pg. 13

international developments, today's world crises and possible consequences that might bring about. Such reasoning does not question the supremacy of the market economy over the public economy, total privatization however begs for deeper and more comprehensive analyses. Actual experiences have to be taken into consideration. The case of total privatization in Argentina cannot be ignored if we consider the consequences of the crises it brought about.

Currently, new ideas are being developed and actual measures combining realities of private and public activities are being taken, as a need to face the challenge of the world financial and economic crises. The discourse about the two main lines of thought, that of "Friedman" and "Keynesian" is truly keen, but the fact remains that the state has taken an interventionist role in the economy. Likewise, we have to keep in mind the experience of countries with a mixed economy, private and public, which are handling the current world economy rather well. In the reality of today, with developed countries such as the US, and EU countries engaging in state intervention and discussing the introduction of new rules various forms of control aimed at facing the crises and reviving the economy, the step taken by the Albanian Government to work towards complete privatization and do it as soon as possible, can be considered a poorly researched, or a step towards the unknown and risk, or an adventure that might involve probably irreparable consequences.

It would be in the best interests of the Albanian economy to maximize profit, maximize transparency over activities between the state and the private entities, and publish the annual reports on financial performance. This would allow for a sounder judgment, a fairer and timely action. Naturally, it is important in this step of privatization to have a clear financial balance, appraised assets, and further enforcement of rules. Thus, considering the latest 2008 report of the High State Audit, it was decided to sell 27 state companies that had reported losses. During 2007, these companies reported balance sheets with losses amounting to 16 million dollars. 20 of them operate 100% on state capital. All anonymous companies and those with state as a shareholder have also reported losses.

During 2007, the Ministry of Economy, Trade and Energy, anticipated a profit of 60 million USD from the companies under its supervision, but it received instead less than 10 million USD . The INSIG insurance company reported losses while the AMC Company did not pay its dues to the state. Likewise, until 2007 “Albpetrol” and “OSSH” failed to pay to the State Treasury about 1 million dollars due to negative balance sheets. The State Treasury failed to receive an income of 4 million dollars from its shareholding in the water supply enterprises. According to the Ministry of Economy, the issue of paying dividend income as an obligation deriving from previous years 1996-2002 at an amount of 1.1 million USD is a pending problem. According to the HSA (High State Audit), there is little hope that privatized entities will pay about 8 million USD.¹⁴¹

Judging by the way the Albanian Government is acting, as well as the economic situation of the companies with the state as a shareholder, Dr. Zef Preci states the following in relation to the total privatization: “This measure is not taken at the right moment and is announced at a time when emerging trends go quite to the opposite of it, certainly with the sole underlying motive of increasing production effectiveness in each fragment of property, being public or private, to the benefit of the owner or owners. This is done in a transparent and competitive manner which unfortunately for our national economy, we are lacking.”¹⁴² While Selim Belortaja is of the opinion that the privatization of state assets will have a very mild impact on budget due to reduced interest of foreign investors because of the global crises. He suggests that: “Initially, the Government must improve the quota in decline in this last years. Shares for which there has been little investment made and which generate income of no value, can be offered for sale in the market. Many of these enterprises report losses, while others do not pay their dividend or delay the payment”. In his opinion: “the sale of shares can take place in small percentage, that is to say where the state is a minority shareholder, while there should be some serious number-crunching for major companies such as INSIG”.¹⁴³

¹⁴¹ See Annual Report of Government Audit; 2008

¹⁴² See Preçi, Zef in Shqip, Newspaper; 27 December 2009

¹⁴³ See Belortaja, Selim in Gazeta Shqip, Newspaper; 2008

The Director of the Institute for Contemporary Studies Artan Hoxha is of the opinion that the privatization of this part of state property, of the remaining shares, is a process left in half by previous privatizations and its completion is useful. He calls for the supremacy of the market economy to be considered at this step and views this stage of privatization as the fulfilment of the initial objective towards total privatization.

The government has now determined the actual rules for the privatization of state assets. Selling at auction will be the main approach. According to a governmental decision, taken on 17.12.2008, state-owned physical assets for which there is no deliberation by the Property Restitution and Compensation Commissions, will be sold and these funds will be used to compensate former owners. This decision specifies that if the facilities are located in the land site of the expropriated persons, the sale will not be at auction and that the expropriated owners of the territory will be entitled to the right of first purchase of the facility at its original value, according to the Law no. 9235, dated 29 July 2004 "On Property Restitution and Compensation". If the facility to be privatized was not found inside the territory of the expropriated entities, it would be sold at auction. The right of former owners to first purchase does not apply at auctions conducted for the sale of companies undergoing liquidation. If the former owner is the winning bidder, the value of the recognized or resituated territory is deducted from the price.¹⁴⁴

The first actual step as part of this stage has been taken. In March 2009, the Albanian Government sold to the Cosmote Group its 12.6% state-owned shares in the AMC mobile company for a price of 12.48 million euro. Likewise, the selling process for the 24% state-owned shares in the AlbTelecom company has already began.¹⁴⁵ A problem pending solution at this stage is that of property restitution and compensation of former owners, i.e. of owners that belong to the period prior the communist agrarian reform. A great number of legal and sublegal acts have been approved, but none of them is based on a clear researched strategy, and with specific deadlines. It is obvious the fact that these legal acts have not taken into consideration the interest of legal owners. The process of property recognition, restitution and compensation is complex and it has

¹⁴⁴ Official Gazette, Issued by the center of Official publications; 2008

¹⁴⁵ Information of Ministry of Finance, taken by Shqip, Newspaper; 2009, pg. 3

been dragged for years. A number of laws and sublegal acts were approved during the period of 1993-2004, starting with the Law no.7501 in year 1991 "On the Land". The Laws no. 7998 and no. 7699 approved in 1993 were still in effect until the year 2004, when the Law no. 9235 "On the Property Restitution and Compensation" was approved, which is still in effect after certain amendments.¹⁴⁶ According to this law, the process involves physical restitution and financial compensation if the physical restitution is impossible. The process itself has many aspects and problems. There are historical problems such as those created by the post-communist governances and the way the process was designed and implemented. Some of the main problems in this context are:

- Problems arising from the uncontrolled mechanical movement of the population during the transition from the dictatorship to the pluralist democracy;
- The way of governing of post-communist governments created new problems related to the ownership, such as property overlapping and robbery as a result of corruption;
- Former or legal owners have determined their position, which questions many key aspects of the process carried out and the position of the Government on the complete solution of this problem;
- The process of land restitution and compensation is associated with acute conflicts, an increase in the number of court cases on ownership related issues but also in the number of murders and injuries due to ownership related conflicts. This phenomenon is especially obvious during the period of 2005-2009.

Several international bodies, such as the IMF and the World Bank have identified and treated the half-way solved problem of property in Albania as a serious question for the economic and sustainable development of the country. In fact, Albania is the most problematic country out of all former eastern countries as it regards the resolution of the property issue. A report prepared at the end of February 2009 by the "Alliance for Property Rights" based in Washington, in cooperation with the Hernando De Soto Institute for the International Property Rights Index, ranked Albania at the 104 place, out

¹⁴⁶ Official Gazette, Issued by the center of Official publications; 2005 - 2007

of 115 countries observed. Albania is part of the last group where the right to property stands below the 20% limit, and shares this position with Bosnia, Cadin, Venezuela, Angola, Mozambique, Zimbabwe, Burundi and Bangladesh. This report consists of three components: the political and legal environment, the physical rights to property and rights to intellectual property. Compared to previous year, Albania improved by 1 point, moving from the 105 position to the 104th.¹⁴⁷

1. Uncontrolled mechanical movement of the population

The uncontrolled movement, which began in 1991, led to the creation of informal areas through illegal usurpation of state property and those of former owners. The direction of this mechanical movement had two senses, from the villages towards the cities and from the mountainous and hilly areas towards the major cities at the center of the country. Several major cities such as Tirana, Durres, Elbasan, etj., began experiencing a complex range of problems. Property usurpation was associated by the illegal construction of houses that met none of the legal urban planning or technical requirements. A fund of about 20-30 thousand illegal constructions was quickly stocked up.

Thus, during the years of 1991-2005, a vast informal area, difficult to address, took shape. It was impossible to force people out of their residence areas and or demolish their illegal houses, considering that state irresponsibility played a role in this as well. A solution involving the legalization of these illegal constructions was designed. Designed as such, this solution presented additional costs for the legal owners of the land. In order to deal with the issue of these constructions and informal areas, on 28th of October 2004, the Law no. 9304 was approved. This law defined the concept of legalization, the necessary mechanisms and their duties, the solution to the issue of ownership, the maximum construction site to be legalized, which was set at less than 500 m², the legalization stages and the payment methods. Article 8 of this Law determines the stages of legalization¹⁴⁸.

¹⁴⁷ International Property Rights Index & Institute De Soto, Hernando; 2009

¹⁴⁸ Official Gazette, Issued by the center of Official publications; 2005

- Citizens self declare in the urban planning offices at the Local Government Unit their illegal constructions and the territory they have occupied;
- The local government units, after verifying the occupied surface, will draft a request for their inclusion in the legalization process;
- The Albanian Council of Territorial Regulation will review the request no later than three months from the day it is submitted, at which time it will designate or deny its designation as “an informal area”;
- The Local government units shall conduct urban researches in the informal areas within six months of their designation as such;
- The Council of Territorial Regulation shall review and approve urban plans within 4 months. This body authorizes the initiation of the legalization process and residents submit their legal documentation at the office of urban planning in the Local Government Unit;
- The local government unit issues the legalization permit in 60 days.

This law failed to be enforced and currently it has been announced that the distribution of the legalization permits has started in several cities, beginning with the unauthorized additional floors in buildings. The enforcement of this law became more difficult due to the influence of several factors: the lack of actual measures supporting the enforcement of this law. This law was used to serve political ends. A government decision taken in 2005 revoked the authority of local government units to issue legalization permits, vesting it to an Agency operating at the Government level, which came to be called ALUIZNI. The opposition challenged this governmental action with the Constitutional Court, which delivered that the decision of the Government was anti-constitutional. It is absurd, but the Government did not follow the decision of the Court allowing this Agency to continue its operations. In March 2009, the Government sent to the Parliament an amendment authorizing this state agency to issue legalization permits, bypassing the local government units.

Harmonizing the legalization process with the urbanization of informal areas through this law was not possible. According to Article 9 of this law, legalization would commence only after all areas designated in the respective urban plans public sites, were vacated.

Laws on Urban Planning are still under development, including those for the capital of the country. Moreover, the former owners also challenged the content of the law on legalizations. They demanded the physical restitution of their land, and that their property issue be solved based on the law and through legal recourse and not by state bodies and the agency working near the Government. The legal owners did not agree with the prices and fees determined in the law either. The law prescribed that appraisals will be based on the market value of the property at the time of its legalization. Former owners have requested that prices be set according to actual market prices. In fact former owners, declaring in favour of the legal recourse, announced their vision for the solution of their property restitution issue.

2. Property Overlapping and Robbery as a Result of Corruption

The former owners requested that the problem of property and property reforms be solved in compliance with EU requirements and constitutional provisions respecting the title of ownership. This process had to be divided into two specific stages, the restitution and upon the completion of the property restitution, the compensation would begin; the government distribute and differentiate between property legally owned by the state which is also the holder of the original property titles; and as it regards property for compensation, to identify only that altered before 1991 in order to construct residence buildings or that still in use for public needs in conformity to the law; determine a set deadline for the physical compensation according to the documentation of 1945.

Property be resituated to the immediate family members of the lawful owner, signatory of the will; all state action taken after 1991 and which allowed the transfer of the property of expropriated entities to third parties be revoked; property be fully resituated to its legal owners and rightful owners be granted the right of first purchase on facilities constructed on their land sites and privatized by government officials; indemnity be paid to rightful owners or as necessary a financial assessment be made and obligations of third parties that have unfairly profited from the property of legal owners in these last 18 years, be assigned; a map of free lands and a price map be developed along with a fund for necessary compensations to take place upon the conclusion of the restitution of property; compensations be made using original state property if such a facility covers

52% of the land site; compensation be foreseen only for property that continue to be used for public works or which was altered into a residence building site during the period of 1944 to 1991.¹⁴⁹ These options presented by former owners were publicly announced and sent to the Government which did not issue any direct statement regarding these options.

Ismet Elezi also considers the Government alternative on the compensation of owners as “irreconcilable with the Constitution and unachievable”. “How can the right to private ownership be guaranteed when the state decides for everything without taking in consideration the requests and rights of the lawful owners; when they are forced to give up their land sites and agricultural lands”, he argues. According to him, “without first abrogating the Law no.7501, and the issue of property rights over agricultural lands and land sites in a fair and constitutional way, there can be no talk of advancement in agriculture, expansion of foreign investment, reduction of appeals to the Strasburg Court, integration of Albania into the EU, or reduction of social conflicts”.¹⁵⁰

Elezi brings two alternatives for discussion:

The first being - “the restitution of property to its lawful owner who may later enter into an agreement with whoever has acquired such property according to the Law no. 7501, and decide together whether this property will be leased or sold to the new owner or agree to some other conditions, acceptable for both parties shown in a signed contract. “The advantage of this alternative is that it complies with the Constitution and property is resituated to its lawful owner, while persons currently in possession of it, may buy it. This however, is an arrangement that involves the possibility of refusal and it may bring about acute social problems.

The second,— “alternative would be that of physical compensation, considering that financial compensation is impossible. Thus, maybe there can be a shift in direction. Those who have acquired someone else’s property based on the Law no. 7501 be compensated, instead of the former owners, and the latter be resituated their property,

¹⁴⁹ Hana, Lulzim; 2005, pg. 198, 199

¹⁵⁰ Elezi, Ismet; 2009, pg. 24

without becoming of course yesterday's landlords"¹⁵¹. This alternative complies with the Constitution and democratic principles, but it also requires an overall rearrangement at a time when new owners might invest and create various ownership relations, which makes the pursuit of this alternative almost a utopia.

3. The process of Property Restitution and Compensation has been associated with social conflicts and problems

What lies beneath is problem of property restitution to the expropriated owners as part of the communist agrarian reform. Naturally, a number of issues behind conflicts have resulted from the incorrect enforcement of the law and especially corruption. Such conflicts have been associated even with extreme phenomena such as murders or serious injuries, but also with a rise in the number of court cases on property issues.

Information published in the press shows that the number of court cases on property issues has increased considerably in these last 4 to 5 years. Those make over 50% of the total number of court cases. In 2008, the Tirana Court House has heard 2500 property related cases. In the first quarter of 2009, the Tirana Court House alone had 7 property conflict lawsuits filed a day, which shows the acuteness of the property issues. In this last quarter, a number of 219 property lawsuits were filed. The number of complaints filed with the Strasburg Court is also increasing. Until today, more than 40 lawsuits have been filed with this Court, after first exhausting all the judicial remedies in the Albanian judiciary system. The Albanian state not only has lost such cases, but it has also been punished with fines. The Court has heard 5 cases until now which have all ended with a court decision in favour of the property owners. 261 thousand Euros is the sum of fines imposed by the Court for only three of these cases.¹⁵²

The process of property legalization and restitution has made room for corruption. Thus, according to the TPI, 60% of citizens' complaints are about corruption in the enforcement of property related laws. Legislation issues and corruption have created the disturbing phenomenon of property overlapping. The Office of Prosecutor General has

¹⁵¹ See same reference

¹⁵² Information, The Supreme court of the ROA; Panorama, Newspaper; 2009, pg. 11

now investigated the map of overlapping. 10 criminal proceedings have been found/ until today to be linked to hundreds of hectares of overlapped property, mainly in the major cities and the touristic areas along the coastline.¹⁵³

Corruption has allowed criminal gangs to acquire property illegally. According to State Police information, about 11 million Euros have been collected after confiscating illegally acquired properties of criminal bands. Likewise, the daily press publicly accuses government officials profiting property in corruptive and illegal ways. Phenomena related to the various citizens possessed, and the underdeveloped culture of property amongst citizens and the public officials, as well as shortcomings in the enforcement of the law have become the cause of tensions and conflicts. Thus, the chief of Nevica southern Commune, states that the majority of the families there have three different titles for their land sites. One of which dates back to 1870, when Albania was part of the Ottoman empire; another issues by the Land Registry kept by King Zog, in the 1930s and another issued to them in 1994, after the restitution of the lands collectivized during communism¹⁵⁴.

Property related conflicts are becoming even more acute and the rise in the number of property related crimes such as murders and serious injuries, even within family members, speaks for it.¹⁵⁵ According to information published by the State Police, starting from 2005 there have been 3-4 murders and 7-10 injuries related to property and property redistribution conflicts.

Despite this complex range of problems, the contradictions of lawful owners and their suggestions to resolve the property restitution problem in compliance with the Constitution and through social justice, the Government continues to move forward with the legalization process. This process has already procrastinated for a long time, violating all legal deadlines and the Government is now about ready to issue the legalization permits. According to the head of the State Agency in charge of addressing

¹⁵³ Kondi, Genc in "Gazeta Shqiptare" (Newspaper) ; 2009, pg. 6

¹⁵⁴ Libertas; 2009, pg. 11

¹⁵⁵ See Information of Ministry of Interior in Sot, Newspaper; 2009, pg. 7

the issue of informal areas, this Agency completed in March 2009 the necessary paperwork for about 70% of self-declared informal sites. This Agency has verified first hand in the field 134 341 informal constructions and has prepared the relevant technical, general plans, maps, etc. This Agency reports that it has approved the transfer of 16 329 informal construction plots under the ownership of the occupiers and it has calculated their financial bill. Likewise, the financial remuneration of 653 lawful owners has already been approved. According to the press, 60 legalization permits were distributed throughout the country in March 2009.¹⁵⁶

¹⁵⁶ ALUIZN Information in “Panorama”, Newspaper; 2009, pg. 9

5 Outcome of the Research

5.1 Analysis of the implementation of economic policies during transition period and the influence of political interest on shaping and implementing the reforms

After conducting an analysis of the main elements of the Albanian transition, it becomes possible to draw certain conclusions on the effectiveness of economic policies and problems that came out with their implementation. This is related to how these policies were designed and implemented, the approach it was used to determine priorities, their effectiveness, and their social and economic consequences, etc. The main goal is to identify some of the main attributes of these economic and social policies.

5.1.1 Setting Priorities

A quality indicator of the vision of the Government about the market economy is also its understanding on priorities, the approached used to identify and decide on them. Proper identification and definition of priorities is very important for a qualitative policy development and of economic and fiscal reforms. A correct definition of priorities makes a good base for success. In this context there was some spontaneity, quantity-orientation trend and subjectivism as well as some degree of relativity in their selection, a prevalence of short-term policies and interests to the detriment of long-term and sustainable development. In the complete absence of a national strategy for economic and social development, a new reality was created, which was, as the well-known economy researcher and head of an independent institute, Selim Belortaja, called it, “a jungle of priorities”¹⁵⁷.

Certainly, during the process of market economy installation and consolidation arose numerous and complex problems, difficulties and needs. But, it is precisely there where the state has to play its role, conduct a comprehensive analysis and identify the relevant priorities. The phenomenon of underdeveloped agriculture and farming is a result of

¹⁵⁷ See Belortaja, S in Gazeta Shqiptare, Newspaper; 2008

these shortcomings in relation to priorities. The major problems of today are the fight against poverty, the rule of law and the fight against corruption, informality, investments and increasing of their absorbing capabilities and meeting the EU membership standards. It is found that anything that has to do with economic development is considered a priority. Any negative phenomenon mentioned as a criticism by international organization is automatically announced as an “absolute priority”.

In reality, aside from this relativity that accompanied the process of setting priorities, other paradoxal phenomenas emerged, such as:

- Installing a market economy and the rule of law and allowing the boom of pyramid schemes;
- Custom duties liberalization walking hand in hand with an increase of excises and the introduction of reference prices;
- Facilitating the fiscal burden walking hand in hand with a multiplication of business fines;
- Favourable business climate accompanied by assets seizure upon bankruptcy;
- Economy deregulation along with stronger control and state intervention over the economy, associated with both, a higher role and weight of the state, and more conflicts between the state and the business;
- Rapid privatization associated with an unjustified procrastination on several strategic privatization ;
- Constitutional sanctity of the property ownership associated with a legalization policy that recognizes the right of usurpers of the private property and fails to solve the issue of property restitution to its former owners;
- Protecting the environment from pollution associated with permits issued for the construction of cement plants and outdated environment polluting technologies;
- Harmonized economy development associated with a significant dereliction of the agriculture, associated with the phenomenon of imports exceeding exports by four times.

Such approach on setting priorities has brought about many other negative phenomena and it has resulted in unprofessional positions kept by the Albanian Governments in

addressing the issue of: “economic problem and available resources to address it”. Resources are expressed in terms of time, means, budgets, and energy. It is a well-known fact that problems exceeded resources, but this is where the quality and the value of management comes to the forefront. A typical expression of this is the fact that still does not exist any Energy Development Strategy at a time when the energy (power) crises is impeding business development, foreign investment attraction and it is affecting the people’s life quality. This approach toward the process of setting priorities, or declaring anything as a priority, creates a situation where the role of priorities is depreciated. This situation creates uncertainty, insecurity in terms of development and lack of accountability. As it regards governance, eclecticism and relativity towards priorities creates comfort, but it harms sustainable and long-term economic and social development, economic growth rates, it deepens imbalances and makes certain issues almost irreparable.

5.1.2 The social cost of the reforms

Government policies reasonably aim at minimizing social consequences as much as possible. In reality, the need for reforms and attention to face social consequences is overrated. Social consequences have been allowed to befall almost completely on citizens. This distracts attention from the collective plight of those people who become unemployed and who do not have anymore the means to live. Embarking on such deep, uninterrupted, and even drastic reforms was necessary to streamline the market economy and ensure sustainable rates of development and economic growth.

Reforms, however, must have as their goal the betterment of peoples’ life, which means that they must presume the requirement for a soft transition. Reforms are not and cannot be a purpose in itself. Policies must avoid extreme sufferings. It is a fact that extreme polarization and a high level of poverty associated the process of installation and consolidation of the market economy in Albania all the way. Today, after 18 years of development in the path of the market economy, Albania remains the poorest country in Europe.

Reforms are successful only when laws and principles of the market economy are properly enforced in accordance with the reality, when such reforms put effectively in motion domestic material and human resources, and when social consequences have been well calculated. It is true that there are no reforms free of social consequences, but the extent and degree of severity of such consequences should not reach extreme fatality levels. The degree of social consequences depends to a considerable extent on the quality of policymaking and governing skills. It can be certainly said that disregard for or a dilettante handling of social consequences in Albania, shows that the term “social consequence” has been mainly used to cover incompetency in governance.

Under the conditions of a market economy, there exist differences between the rich and the poor. But there is a limit, when such a difference takes on disturbing attributes. Human history is greatly influenced not so much by general abundance, or general poverty, but from the degree of inequality between social groups. This is the reason why major international institutions such as WB exist, with poverty and social inequality at the center of its programs. These programs aim at poverty alleviation and narrowing the differences. All of this is based on respect for human life, human dignity, but also on the need to avoid deterred development because of social inequality, or even destabilization and possible conflicts. It is a fact that social inequality is a great concern at a global level, while in Albania is a severe phenomenon of great proportions/magnitude.

In stark difference from other countries where free competition does exist, inequality in Albania has to do also with informal activities and illegal resources, such as illegal trafficking, money laundering, etc. In this reality of inequalities, the lack of comprehensive programs to handle this phenomenon is obvious and naïve solutions of the type taking from someone to give to someone else, or even of the communist type, as in the case of the latest statement made by the Albanian Prime Minister against those who have golden bathtubs, are brought fourth. He stated that “we cannot allow a situation where some have nothing to eat and others can wash themselves in golden bathtubs.”¹⁵⁸

¹⁵⁸ See Berisha, Sali; R.D Newspaper; 2008

5.1.3 The predictive and preventive “intelligence”

The merits of many governments in the developed countries to successfully solve issues of economic and social development and anticipate crises and possible shocks, rest with the creation of what is known as “predictive and preventive intelligence”. This is a kind of special sense that allows you to see the big picture through the particulars. More specifically, it means thinking and acting by allowing logic to explain today correctly, and elucidate the future of development. Looking at specific official statements regarding the food crises of 2007-2008, we will find similar declarations made by the Government such as: “our economy is very exposed and therefore experience changes in the international market immediately”; or “we find ourselves with no suspension system in face of this crises of prices”¹⁵⁹; or statements such as “we have no means of defence” against the rise in food prices. The well-known researcher Adrian Civici underscores that such statements “reflect the erroneous syndrome of being a small country, reflect a lack of ability and capacity to build and make predictive and preventive intelligence structures effective”.¹⁶⁰

The latest crises in oil and food productions was predicted in many reports and recommendations of the international institutions, in many scientific discourses and political debates in many developed countries, in international conferences and panels held in these last 4-5 years. All of them asserted that food patterns and demand for food products is increasing faster than supply; that China and Japan were consuming an increasing amount of animal proteins, meaning a rise in the world demand for grain is expected; or that the USA or the EU, the main food supplier of the world market, are reviewing their agricultural policy in order to lower the strategic world wheat stock and gradually eliminate subsidies and primes on grain producers; or that the multi-year power crises in the USA and EU is increasingly pushing them towards the production of ethanol and other bio-fuel generated from corn, soy, etc., something that is expected to encourage a considerable rise in the prices of these products in the 10 to 15 years to come.

¹⁵⁹ Ministry of Finance; Press conference; 12 December 2007

¹⁶⁰ See Civici, Adrian in Gazeta Shqip; 9 December 2007

The Albanian Government did not show any sign of reflection, vision or serious programming. When the power and food crises knocked hard on the doors of the Albanian reality, the only reaction displayed was: "there is nothing we can do against a capricious world market, we are an open economy and our chances of changing the order of events, are modest".¹⁶¹ In my opinion the crises price rise in Albania in 2007 was as imported as it was domestic. Domestic resources in Albania shrank. Agriculture, farming, and agro-industry were also neglected.

A distinctive feature of Albanian governance during transition was that it focused more on emerging phenomenon rather than the ways to overcome it, and that there was no research or preliminary prediction of the causes and the future of development. This type of governance is both, a consequence and also the cause of the fact that there are no scientific or research centers or institutes in Albania attached to the Government. Even though there exist independent private scientific institutions (although in few), the Government has not asked for they conduct specific researches on its behalf. In fact, there is a disturbing underestimation of science and its people.

5.1.4 Structural imbalances in economic developments

A clear indicator of the effectiveness of economic policies applied until now is the existence of the phenomenon of structural imbalances in economic developments. This phenomenon emerged in the form of dereliction at an important branch, with great potential for development, such as agriculture. Naturally, this is not an exclusive Albanian phenomenon, but it is a bitter reality for Albania to be faced with. In these last 17 years, agriculture, and agro-industry in Albania have been the last areas to be truly considered as primary in the development of the country. Even though Albania is considered an agricultural country, this branch of economy is one of the most underdeveloped. There is still no serious reflection regarding this short-sighted inconsideration towards agriculture. Availability of agricultural land per capita in Albania is 2100 square meters per capita due to the applied policies and lack of attention. In

¹⁶¹ See Statement made by the Ministry of Finance, Bode, Ridvan in R.D, Newspaper; 2007

Albania, arable land continues to be used as a construction site for houses, warehouses, fuel stations, factories. The loss of arable land continues at a fast pace due to erosion and mismanagement of river beds. Currently, according to statements issued by the Ministry of Agriculture, Albania has 2-5 times less arable land per capita than the average of regional and EU countries.¹⁶²

Agriculture and agro-industry leaves much to desire for. Although 50% of the population continues to live in the rural areas with agriculture as their main activity, spending 75-80% of their days working in the farm, yet Albania is a country importing 450-500 million Euros a year in agricultural and food products. Every year, foreign markets meet 25-30 % of the need of our country for food. Albania imports 7-8 times more agricultural and food products than it exports. Internal agricultural production is insufficient to meet the domestic demand, and not only in terms of quantity. It is quickly changing structurally and qualitatively. Albanian agriculture operates on a primitive production technology and with a very low level of mechanization. Due to the serious situation of road infrastructure, considerable quantities of agricultural products never make it to the main markets of the country. In fact, a category of farmers consume only what they produce. According to the statement of the Ministry of Finances, farming families consume 70% of the agricultural production¹⁶³.

Even though 18 years have already passed there is no developed land market and the restitution of land to legitimate owners has yet to take place. In fact, practices followed favouring and recognizing the right of illegal usurpers to property. 65% of the farmers have completed the 8-year compulsory education. The school dropout and illiteracy percentage is higher than in the cities. The introduction of new technology in this sector is almost insignificant. Under these circumstances, the major part of the land is not cultivated. A survey conducted recently, showed that 40% of the land is not cultivated. The average area of farms in Albania ranges around 1.1 hectares per family, but even this is fragmented in 1.8-2 million plots. There is a very poor fertilization, mechanization, and electrification. According to the report of the WB "On Strategic Policies under

¹⁶² See Information of Ministry of Agriculture in Gazeta Shqiptare, Newspaper; 2008

¹⁶³ World Bank, Annual Report; 2008

Development” Albania has an agricultural performance 3 times smaller than that of Macedonia, 8 times smaller than Croatia and 31 times smaller than Slovenia.¹⁶⁴

Even though agriculture contributes to the gross domestic product (GDP) with 22-23%, the remuneration that it receives in return from state budget and public finances is 15-20 times smaller. In these 17 years of transition, even though in paper the Government has proclaimed agriculture as a priority, budgets have never exceeded 0.5-1.5% of the GDP. It has to be said that even these budget levels, consists mainly of current expenses for payments and additional salary payments, rather than direct investments. In these 2-3 last years, a change has been noticed even though not in the demand level. Thus, 10 million dollars from the 2008 budget year were anticipated to subsidize farmers, fruit-culture, olive groves, and vineyards. There was talk about developing designs in support of the priority agricultural sectors. Likewise, there is more attention paid to livestock/farming. Measures taken, however, did not bring any qualitative change in the situation. Only 1-1.2% of the total bank credits were allocated to the agricultural sector in these last two years. The Agricultural Bank founded long ago, with the main purpose of developing agriculture, went bankrupt. Governmental designs to reduce oil excises, was corrupted and cancelled.¹⁶⁵

In terms of agricultural development, the green light has currently been turned on by non-banking institutions or foundations or micro-credit that are expanding their activity. Financing of agriculture requires a true overhaul in the philosophy of governance. Financing in this sector and rural spaces will bring about a qualitative change in the economic development and handling the current food products' crises but it serves especially to long-term sustainable developments. These radical changes would change considerably the level of income and the life of inhabitants of rural areas. About 22-23% of the poor or very poor population in Albania lives in these areas. This means that poverty in Albania is generally a rural poverty.¹⁶⁶

¹⁶⁴ World Bank, Annual Report; 2008

¹⁶⁵ Civici, A; 2008, pg. 89

¹⁶⁶ Albanian Institute of Statistics; Annual Bulletin; 2008

Currently it is being reflected on the role of agriculture. Based on what is mentioned above, one can conclude that policymakers in Albania need to reflect profoundly, in order to develop a comprehensive strategy for the mid and long term development of agriculture.

Even though Albania has plenty of resources for the development of tourism, this circumstance has not been addressed through policies and effective strategies. Income from this sector has increased thanks to the free initiative/enterprise of private business, which has mainly developed family and popular tourism. But there is no developed tourism structure and there is no developed cultural or elite tourism in particular. There exist complex problems with the quality of service especially in terms of infrastructure and the road infrastructure in particular. In 2008, there was a great influx of tourists, but this cannot cover for the acute range of problems in this lucrative economic sector. In 1993 a strategy for the development of tourism was approved upon the decision of the Government no. 90, dated 13.03.1993, which failed utterly. The approval of a new strategy upon the decision no.517, dated 3.7.2003, providing for the development of tourism until 2012, marks a positive legal step in many directions.¹⁶⁷ Despite good goals identified in this strategy, Albanian tourism suffers from complex structural, managerial, and infrastructural problems that are not allowing the achievement of profitable indicators in this sector.

5.1.5 The influence of the political interests on the pace of the reforms

During the transition period in Albania one can identify a considerable influence of political parties in the design and development of reforms. In many cases, party political interests have had more power and decisive role than the economic law requirements or reforms content. This influence has been more evident in the selection of reforms, conception, as well as in relation to the depth of reforms and their method of implementation. This power of the narrow politics has greatly influenced in the absence of reforms positive results, and has caused considerable deformations and negative consequences.

¹⁶⁷ Official Gazette, Issued by the center of Official publications; 2003

Thus, even though the Albanian government and foreign donors have made great investments greatly for the development and training of the state administration, yet its work is little efficient or qualitative. This quality of the state administration has been identified in the periodical reports of international organizations monitoring Albania. Thus, in these last 18 years, it has become a regular ritual to see the administration vacated with every change in the government and ardent political supporters of the new incumbent party be assigned instead. This has estranged numerous skilled specialists and has increased the administration training costs. The capacities of the administration in terms of domestic and foreign investments are still low.

Likewise, it has been noticed a subjective disguise of negative phenomena and failures of economic policies and reforms carried out from narrow party interests' position. Celebrating only successes has led to the amplification of serious negative phenomena such as corruption, informality, fiscal evasion, monopolies, etc.

Economic and financial policies are closely tied to the overall political climate. It is an almost negative fact that the Albanian transition was characterized by a political climate filled with disputes and at a certain point even hostilities, a considerable lack of dialogue and cooperation between the incumbent and opposition party. This climate limited participation and attracting the Albanian scientific and intellectual potential within the opposition party, the civil society, and independent scientific institutions. Thus, almost throughout the entire transition, important reforms were carried out under the imposed will of the incumbents and without soliciting the domestic scientific thought. Consensus between the opposition parties and incumbents has been very rare and has lacked regarding the most important economic reforms. Likewise, the Albanian opposition, despite its colours, has been under the weight of the nihilist mentality and superficial criticism to serve small party interests. Oppositions during this transition have generally displayed a lack in preparation and alternative. This has affected the quality of reforms and poor effectiveness of applied economic policies. The race of alternatives has not worked well, and reforms have suffered from shallowness, unilateralism, and a complex range of problems.

The most important aspect is the prevailing trend of not soliciting the opinion of interest groups and failing to reflect on their remarks. Fiscal policies have under no occasion been developed after soliciting the opinion of interest groups. This has brought about significant conflicts in business climate of the country. This political climate has impaired the overall quality and effectiveness of reforms carried out until today. As a result, either objectives set have not been achieved or negative consequences have made them inefficient.

5.1.6 The low data credibility

What draws one's attention in the Albanian transition is the low data credibility. Thus, for the same economic or financial indicators, different figures are given by the three main information sources: the Ministry of Finance, the Bank of Albania and the Institut of Statistics (Albanian Institute of Statistics). There is even incongruity between information provided by official sources and information provided by independent sources.

There are even incongruities between information provided from the Ministry of Finance and international organizations in Albania such as the IMF and WB. It is understandable to see incongruities between official information and independent sources of information. Understandably, the poor level of competence in using advanced accounting methods has had its influence, along with the unprofessionalism in gathering information for economic and financial indicators, the poor cross-sectoral and cross-institutional coordination, etc. Naturally, the process is improving. There is, however an influence of governmental populism, especially before elections and a politicization of figures to defend or disguise of failure or lack of effectiveness of economic and financial measures. Disguise is a characteristic of the incumbents while exaggeration of phenomena a characteristics of the opposition.

Thus, the Government announced that in 2008 the economy of Albania grew by 9.9-10%. IMF opposed it and gave a lower figure of 6%. It is interesting the position of Albanian Institute of Statistics, which had already mainstreamed in its work method the publication of quarterly economic performance indicators. This body, obviously under the

pressure of the Government, gave the same figure of 9.9%. Understandably, this figure could not be neither an indicator of the last quarter nor an annual indicator, considering the impact of the world crises beginning from the month of October 2008. This forced the Ministry of Finance to state that the economic growth stood at 7.1%.¹⁶⁸

There are no official correct data on the level of unemployment and informal economy. Official statistics show almost a constant level of unemployment at 13% at a time when independent researches speak about a level of unemployment ranging from 35 to 40%. Likewise, official figures on informal economy either are not published at all or are claimed at a low level, at a time when international organizations placed this percentage of informal economy to 50%.

5.2 A new postcommunist Albanian society

Starting from 1992, Albania entered a path of overall transformation in the political, economic, finance and social area. Reforms carried out in all of the areas, creating a new reality of social relations, new attributes for political and social institutions, a new way of organization and governance form the content of what now is referred to as the Albanian transition. In these last 18 years, despite difficulties, problems, and zigzags, Albania has pushed forward in its irreversible path, and it is not anymore an old communist quality, from a political, economic and, social standpoint.

The passage from a communist dictatorship and centralized economy into a pluralist democracy and a market economy is a new experience. This change over does not represent a single act but a process involving radical changes in the overall construction of the former society. Part of this passage into a new society was the installation of democratic institutions and of a market economy. This changeover process from a communist dictatorship and centralized economy into a pluralist democracy and market economy, was labeled as transition by politologists.

¹⁶⁸ Press conference of the Ministry of Finance in Shqip, Newspaper; 2009, pg. 2

"The path to the establishment of an effective democracy, a genuine legal state and the rule of law, is neither brief nor easy, writes the renowned Albanian constitutionalist Prof. Luan Omari. The existence of a parliament, even of a pluralist one and of a Constitution drafted in accordance with the most advanced international standards, would not suffice to achieve this end. These are undoubtedly crucial factors in creating the premises and opportunities to establish in the coming years a democratic, parliamentary and pluralist system in Albania as well, one that does not lag behind models of other countries".¹⁶⁹

This due to "...democracy being a complexity of relations, covering not only the legislative or normative aspect, i.e. the promulgation of a string of rights and principles, but their practical realization as well, overcoming obstacles rising from various objective and subjective factors, such as existing old totalitarian and anti-democratic mentalities or the magnetic pull of personal or group interests and benefits"¹⁷⁰. Thus, the dilemma consists of the question as to why the foundations of a pluralist democracy, such as a legal state, an open society and a market economy, do not have the same efficiency and applicability as in the old western countries.

The leitmotif of the anti-communist movement in Albania and of the governments that ran the country during the Albanian transition was "let's make Albania like the rest of Europe". The European concept has two meanings, that of the "European House" and that of the "European Family". The "European House" involves what is tangible, such as political and institutional structures, the economy, the laws, administration, etc. Whereas "the European Family" signifies interpersonal relations, identity, traditions, culture, values, etc.

From this perspective, it seems as though it is easier to install democratic institutions rather than becoming a part of the European Family, something which requires cultural and civil transformations in the society. Researches on social transformations in post communist countries have mainly focused in the study of institutional structures, economic and political relations, material resources, etc. As the qualitative change of the

¹⁶⁹ Omari, L; , 2000, pg. 232

¹⁷⁰ Idem, pg. 235

social construction implicates the human factor, and its socio-psychological components, researching the human factor, becomes imperative.

The post communist period in Albania was characterized by an extreme politicization of the political and social life. This period was accompanied by harsh and relations of conflict between the opposition and the ruling party. Parliamentary sessions were marked by “the violence of the vote card” rather than collaboration between the ruling party and opposition. The installation of democratic institutions likewise the construction of a society of democratic standards, was greatly affected by the absence of a functional civil society as well as old political concepts on the state, society, human rights, etc.

Developed western democracies consolidated themselves through an evolutionary process, involving the binom of state and civil society, or political structure and cultural infrastructure. This seems to accompany the gradual maturity of democracy, of democratic institutions and the people. This gamut of problems, seem to determine the time line for what is called transition. Every country experiences a range of specific problems despite the general similarity in how change is implemented. In Albania, there is still debate about the prolongation of this period and according to some opinions, the Albanian transition is not over yet. The work at hand, attempts to give an answer to the question of the content of this transition and to the most controversial question of whether it is over.

This is a question of a theoretical and practical value and it is mostly addressed by politicians in Albania and less addressed by researchers. In fact, there exists no special theory that clarifies this issue, except for some statements that the transition has not ended, and that it will be long, making it difficult to anticipate its end. Voices in this area and in the media say that the Albanian transition has entered a dead end tunnel.¹⁷¹ The Albanian transition is thought to be longest and harshest. There are even views according to which the “game” with the transition period and its prolongation is not happening by chance. “This is linked to the interests of keeping in power the

¹⁷¹ Sokoli, L; 2000, pg. 111

incumbents". Based on this alternative, he thinks that "the ones that initiated the transition in Albania cannot have the ability to end it".¹⁷²

Arguments in support of the opinion that "the transition has not ended", are concentrated in the domain of politics. These refer to the frailty of the democracy, the weakness of democratic institutions and the rule of law, the failure to meet the democratic standards during elections, illustrated by the controversy and disapproval of election results from the losing party. Other arguments brought forth deal with the conflicting relation and often hostile between the incumbents and opposition parties, the very limited room for dialogue and cooperation among them; the obvious tendency to play the majority card in the Parliament, even on issues for which consensus is required. Likewise, it is thought that the Albanian transition "generated the type of the conflictual leader, who perceives power as his own property, therefore is ready to start everything from the beginning".¹⁷³

The abovementioned phenomena are naturally present in the Albanian reality. A series of acute issues are identified also in the economic field such as, the level of poverty, low competitiveness of the domestic products, low production standards, etc., which have to do with the level of economic and social development of the country. Under these circumstances I believe that analyzing the issue whether the transition has ended or not and providing an elaborated response requires for mostly a clearly determined scientific method and outlook.

Anastas Angjeli brushes upon the issue of the end of the economic transition underlining the benefits of using the comparative approach. While expressing his opinion, he follows a line that falls under the type of "in this aspect" and "in that aspect" reasoning. This approach does not allow for a conclusion. Thus, according to Mr. Angjeli "...as it regards the first question, that of whether the economic transition in Albania is over or not, in my judgment, transition in general and the economic transition in particular, in Albania or in all former communist countries walking the path of democracy, must be viewed and judged on the bases of two aspects: The first one deriving from the comparison between

¹⁷² Sokoli, L; 2000, pg. 110

¹⁷³ Sokoli, L; 2000, pg. 110

today's economic reality in Albania with the regime, the previous communist system. The second aspect is judging the economic transition in Albania from how much and how has the Albanian economy developed; the extent of economic freedom achieved, the levels and standards the economy reached compared to the rest of the countries in the region and Europe; and how has it been able to meet the needs of the country for economic and social development, welfare and poverty reduction; to what extent and whether it has been able to face integrating and globalizing processes in terms of standards, quality, technology, competitiveness, investments, freedom, etc".¹⁷⁴

The way this problem was addressed does not allow for a clear perspective or either provides a definite, comprehensive answer, and certainly not well argued in accordance with the reality. This is because every reality is always full of numerous problems, phenomena, and contradictions. Every quality has a diverse contradictory content. Likewise, development has an actual content, as it has various levels and degrees. If our reasoning remains at this level, it is natural to find ourselves at the level of introducing the actual life, but not at the level of determining quality. The concrete qualitative forms and realities undergo an uninterrupted process of change and perfection. For this reason in my opinion the reasoning of Angjeli, i.e. "from this aspect" and "another aspect" leaves on in eclectic positions, and does not allow for a clear and sustainable solution.

Even Angjeli cannot escape this position, as he concludes that the transition has ended in a certain aspect, and it has not, in another. Thus, considering the first aspect, that of comparison between the actual economic reality in Albania and that of the former communist regime, he states that "From this standpoint, I think and believe that the economic transition in Albania has ended".¹⁷⁵ Likewise, considering the other aspect, i.e. looking at the Albanian economy from the standpoint of its level of development, he states that "from this standpoint, the Albanian economic transition not only has not ended but it has a long way ahead".¹⁷⁶

¹⁷⁴ Angjeli, Anastas; 2007, pg. 342, 343

¹⁷⁵ Angjeli, Anastas; 2007, pg. 343

¹⁷⁶ Angjeli, Anastas; 2007, pg. 343

In my opinion, this problem must be analyzed based on/starting from the content of the concept of transition, which in its essence marks a process of transition. Therefore, the most appropriate method to address the question we are facing would be to consider it as a transition from an old quality to a new quality, i.e. analyze whether this transition has been qualitative or not. The fairest judgment would be considering the elements that characterize the new quality compared to the old quality, i.e. analyze the new economic and political system and see whether it has the values of a new quality.

Any socio-economic system is a strictly defined quality. It has a defined content and structure of the social relations, where production relations and the character of the property play a special role. There is a defined system of political institutions that fit with the quality of production relations and its bases, that of property relations. From this standpoint, we may quite rightly assert that Albania has completed its transition from a dictatorship to a pluralist democracy. Democratic institutions have been installed and are functioning based on a new democratic constitution, which sanctions the democratic principles of governance and human rights and freedoms. Citizens recognize them as democratic institutions and become participants in the policy making and functioning of the democracy.

Democratic standards, the maturity of democracy with all its composing elements, have special importance to the development of democracy, but it is crucial that these standards live and develop in a new quality..In addition, this new quality is the Albanian pluralist democracy. Democracy itself is a continuous process of making and perfection. It is true that the Albanian democracy is frail, but it is walking the path of continuous consolidation that is taking shape on its new foundations. There do really exist a series of problems tied to the development of the rule of law, as there exist many negative phenomena of legal violation, or incorrect or unequal enforcement of the laws. But, the phenomenon of abuses with the law is being fought.

In the democratic reality of the Albanian constitution, it is impossible for laws diametrically opposed to those of the western democratic countries to be approved. There exists only one significant process of alignment between the Albanian legislation

and that of the EU countries and determination to achieve the modern standards of the rule of law.

Albania has installed the market economy which follows the path of making it functional and increased effectiveness; free enterprise/initiative and private property. All institutions of such an economy have been established and are functioning and the process of privatization analyzed in this research, has installed and strengthened the private property. The private sector provides for over 95% of the GDP. Total privatization is at its final stage of completion, i.e. the remaining state shares from privatizations are being privatized. The state part is administered upon the principles of the market economy. Thus, there is no cohabitation of the market economy and the “socialist” sectors in the Albanian reality. This means that the Albanian economy moves and develops on its own private bases and along the safe tracks of market economy. The real process is that of making the market economy functional, achieving a sustainable market economy and developing free enterprise/initiative, in ensuring economic growth, improvement of the life standard, greater welfare, and reduced poverty.

There is no doubt that the stage is an important indicator of the economic development, but this stage does not determine the quality and the content of economy. The economic development of Albania has reached a certain stage, but it is built upon a new foundation that is the private property, free enterprise/initiative, and market economy. Privatizations carried out, structural reforms, liberalization of economy, banking, financial and fiscal reforms, competitive policies, functioning of economic and financial institutions of the market economy, have become part of the new content of the new quality of the Albanian economic reality. Certainly what and how much is produced, its standard, quality and competitiveness are important, but what production approach is used, who is the owner, how it is produced, through free enterprise/initiative, or whether guided by market categories or a centralized and planned communist economy, is also of great importance.

The reality of the market economy differs from country to country in its level and production standards. There are countries experiencing very low developments and a

high poverty level, but are not a communist country in terms of their quality. This is because the development level does not determine the quality of the phenomenon. This is the reason why the world economy reality includes groupings such as the G7 or G20, as well as developing countries. Both, the first and the latter are which have streamlined market economy and free enterprise/free initiative and are both operating on these bases.

Following this line one could come to the conclusion that in the political, constitutional, juridical, economic, and social aspects, Albania represents a new reality. Albania has not only departed from its initial state of transition, but has also overcome it. This new quality is completely, clearly and fully distinctive from the old communist quality and clearly comparable with the market economies of the western countries. Viewed from a qualitative substance standpoint, the Albanian society and economy does not fall short being considered a market economy with a pluralist democracy. The pluralist democracy and the market economy are present, living, and improving.

Albania has a governance of new quality that does not leave any room for doubting whether the transition from the old to the new quality is complete. The transition from a communist dictatorship to a pluralist democracy is complete. Albania has abrogated its old communist legislation and is taking steps to align its legislation with that of the EU countries. Likewise, in the economy domain, it can be certainly concluded that the process of transitioning from a centralized communist social-based economy to a market private property based economy, is complete and there are no doubts whether it can be considered as such. For this reason, the Albanian transition can be considered complete and done with. Now there exists one line: development, consolidation, improvement, the qualitative and quantitative expansion of a new economic and social reality. Albania cannot be considered as a country under transition, but a developing country in terms of standards and level of poverty, but qualitatively speaking it is a pluralist western democracy with a developing market economy. Naturally, this argument is open to discussions in many aspects.

5.3 Political and economic challenges of the Albanian government, conclusions, and recommendations

Based on the analysis of the process of installation of the market economy in Albania and that of making it functional we can conclude that an actual model has been built. The market stands at the center of this model serving as a source of development. The state is placed at the service of the market economy, but its role is limited to ensure order and a system of justice. It is the gatekeeper of the private property and free enterprise. The macroeconomic stability is the priority, which in essence implies a monetary policy that keeps inflation under control and reducing budget deficit.

The banking system has been completely privatized. The local market is open for the international one and there are no protectionist measures. It aims at adapting to foreign investors. Since 2001 until today, there has been a sustainable macroeconomic stability and economic growth at the average rate of 4-6%. The Albanian reality includes change and reforms. The qualities of the macroeconomic stability, sustainability and economic growth, were faced a difficult test with the current world economic and financial crises. The Albanian economy successfully overcame the first wave of this crisis. Even later the Albanian model showed sustainability. Official data show that even in the first five month period of 2009, the Albanian economy characterized by an economic growth, certainly at lower levels, due to the real impact of the effects of the world crises. According to IMF predictions, the Albanian economy will grow with year by 0.4-1%.¹⁷⁷

Insight into this model identifies several phenomena:

1. The model of the market economy in Albania lacks a developed production sector and a competing production sector even more so. This affects economic balances and income generation. It affects the integration of the Albanian economy into the regional and work markets. This shows that the Albanian economy lacks its powerful developing engine. Albanian exports have a very small weight and make a very low percentage of, although in recent years are showing a minor trend of increase. Development passes through the doors of economic growth. Economic growth is the

¹⁷⁷ IMF; Press Conference, Head of Tirana Office; 10 June 2009

challenge of modern times. This means that in order for economic, financial and fiscal policies be effectively designed and implemented, the effective development and expansion of the production activity has to be considered first.

2. A careful observation of the Albanian model of the economy makes you think that it suffers the lack of stable equilibrium and structural handicaps. Thus, the situation and development level of agriculture can be considered as distressing. Despite partial improvements, agriculture remains at a primitive stage. Albanian agriculture products are generated in small quantities and at a high production cost and low standards. Road infrastructure is at a critical state, production technology is very poor and management at an underdeveloped state. Farmers cultivate enough for their families. The level of export of agricultural products is very low and the import of agricultural products from neighbouring countries remains high. The influence of these factors and the implementation of careless economic policies until today along with little financial support, is keeping the Albanian agriculture at an underdeveloped stage and encouraging immigration of the labour force towards neighbouring country and abandoning of villages.
3. The Albanian model of the market economy is founded on total privatization. The last steps in finalizing it are being taken under the effects of today's world economic crises. This full retreat of the state takes place at a time when the world crises has brought back to the table for discussion the issue of reconsidering the role of the state in the economy. This retreat has a direct impact on reducing chances for the implementation of social policies designed for marginalized individuals and communities. One might think that faced with a very high level of poverty, mainly rural, this retreat of the state will have a negative economic and social impact at the same time. Albania has operated on the principle of reduction of subsidies for the domestic product, because of the budget deficit it generated. Likewise, it followed the path of total privatization of the banking system, which placed financial institutions outside state control. This banking system makes funding of domestic enterprises or risk involving sectors harder having thus a considerable influence in the progress of the domestic business. These phenomena essentially leave the state out of the

game and forfeit its role as a promoter of development under a market economy.

4. Economic growth in these last 18 years was ensured chiefly thanks to income from immigration, donations, soft credit, foreign assistance, massive privatization, self-employment especially in the sector of agriculture, construction, etc. Channelling unemployment into illegal immigration towards neighbouring countries, eased conditions and handling of difficulties. Currently there is a drop in the remittances and foreign direct investments, due to the impact of global crises. One of the features, though, of the Albanian model is that it gives priority to foreign and not domestic investments. In these last 18 years, even though Albanians have brought into the country billion of Euros earned through their work, foreign investors have been the main beneficiaries and not the local enterprise. Foreign capital, especially in the sectors of mobile telephony and the banking system, has been of the most lucrative in the Albanian economy. Thus, channelling the savings of Albanian citizens to finance local enterprise it is not a feature of this economic model. Naturally, the great need of the Albanian economy in transition for foreign currency and advanced technology has played its role in this.

The model of a retreated state, one that simply guarantees order, property and free enterprise/initiative is in fact the ideal state of a foreign investor. The state has little room for the application of social policies. This generates extreme inequality and poverty. But, even a state supporting the local entrepreneurship and capital, wouldn't it also generate inequality and poverty? I think it would. In the case of supporting domestic entrepreneurship however, protecting at the same time domestic product would generate added value. In this way, the state would impose better employment conditions. Thus, there would be more room for social policies, because on the other hand the state would guarantee profits for the domestic capital and on the other hand would take a share of this profit to redistribute it and finance public investments such as schools, hospitals, roads, etc.

Giving priority of foreign investments certainly provides greater and faster prospects for development, ensures better technology and modern management, but it also

means the use of the Albanian territory and Albanian resources to their interests of maximum profits. This way cannot create adequate conditions for a balanced socio-economic and territorial development. One might think that the option that supports economic growth through credits, debts and foreign investments, disregards the fact that the economy is dependent on the fluxes, capriccios, and frequent detours of the international financial markets. Likewise, ensuring economic growth chiefly through the export of raw materials and several available/ready-made products, i.e. export of the labour force, means risking security and sustainability of development in the midterm, due to the fluctuations of prices in the international markets.

Perhaps it might be much more effective to guarantee a long term economic growth through the restructuring of the economy and attracting the advanced technologies for the development of the production activity in the country.. The reason for this is the fact that it provides employment, economic effectiveness, high standards, and market competitiveness of products. This might present the chance to improve the model in this area, to enable a harmonized development clearly instructed by production policies, by control over financial stability and national currency, a development that preserves the equilibrium, and bestows efficiency to social policies and reduces poverty, informality, and corruption. An economic growth, which rests on economic and financial grounds, dominated by trade and payment balances deficit, or, with a over appreciated or depreciated national currency, i.e. fluctuating, with an un-harmonized economic structure, cannot be stable. It seems that this applies to the Albanian reality as well. This in turn, demands complex reforms in the framework of a national development strategy.

5. Analysing the evolution of market economy in Albania, one might come to the conclusion that there is a need for some new dynamism. Guaranteeing the sustainability of economic growth is certainly an important achievement, but there is no limit to development. Vital needs are rising, in quantity and quality. Only a sustainable development with a high economic growth would provide for them. The Albanian economy is currently feeling the need for dynamism that would ensure the reduction of poverty and an improvement in the life quality. It feels also the effects of

the world economic crises, which is evident in the slowdown of economic growth, fall in foreign direct investments, lack of liquidity, dwindling of economy crediting from foreign and domestic banks, considerable reduction of remittances, decrease in exports, especially minerals, the close down of several small and middle businesses, failure to harvest the anticipated budgetary income, etc.

In these conditions, preserving macro-economic stability is important in facing the crises and ensuring economic growth. There is very limited room for major and strong fiscal policies. Efficient management of the state budget takes a special importance, by directing funds to encourage economic development, creating new jobs through projects involving infrastructure, public work, and production activities. Thus, economic development needs to receive impetus. Energizing an economy cannot be understood or achieved without first solving the property issue, which would bring about the creation of developed land market and would attract foreign investor, who in this case, would feel more security. Energizing the economy is meaningless without properly addressing the issue of the power supply, by harmonizing the energy resources better.

Energizing is meaningless in the absence of an efficient program for the development of agriculture and stock-farming, of agro-business, and standards for competitive production, or radical improvement of rural infrastructure, or financial support and modern management. Energizing is meaningless without empowering the public services sector, without developing tourism, road infrastructure, and without providing non-stop potable water to the population. Energizing requires a comprehensive reforming of the social and health insurance systems. This type of energizing requires a comprehensive territorial reform and decentralization of power, which would ensure a harmonized economic and social development of the regions in Albania. Energizing the economy is meaningless without a structural reform, which would set new and stable balances for the economic development. Thus, it is through such energizing that an economy developed in all of its aspects, open and competitive, cooperative with the institutions and international markets, would be ensured. In the case of Albania, although it seems it will still experience some

economic growth, in the short-term, it needs to develop an anti-crises program in order to handle any possible adverse situations.

6. The current world crises paraded the boom of speculation and financial fraud. This requires developing the sixth sense for these phenomena, particularly so when considering the bitter experience of pyramid schemes in Albania. The pyramid schemes thrived for 6 years, from 1991-1997. About 1.7 billion USD, or 79% of the GDP, were pick pocketed from 2 million citizens..¹⁷⁸ These schemes were favoured by the fact that the regulatory system was almost paralyzed and not completely finished. Developing countries like Albania remain open doorways for the re-emergence of pyramid schemes. This shows that the chances of their revival are to be taken into consideration. This requires greater alertness and professionalism on the part of supervisory authorities considering the fact that it is hard to identify them from the beginning of their activities. Quite often, these are not installed on the illegal side of the economy, and sometimes are even legally regulated and licensed.

¹⁷⁸ Bank of Albania; Annual Report; 2007

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PERSONAL INFORMATION

Name	KURETA, VANINA
Address	PASSAUER PLATZ 5/1/18 1010 VIENNA, AUSTRIA
Telephone	00 43 676 44 67480
Fax	
E-mail	vaninakureta@hotmail.com
Nationality	Albania
Date of birth	30.06.1982

WORK EXPERIENCE

- | | |
|--|---|
| • Dates (from – to) | 01.06.2007 - on going |
| • Name and address of employer | Raiffeisen Zentral Bank AG, Am Stadtpark 9 1030 Vienna, Austria |
| • Type of business or sector | Global Markets/ Credit Sales/ Fund Advisory |
| • Occupation or position held | Associate |
| • Main activities and responsibilities | Covering Central Eastern European Markets including sales activities and promotion of RBZ ´s Fund Advisory Trading Platform. Identification and Acquisition of new potential clients. |
| • Dates (from – to) | 14.08.2006 – 14.10.2006 |
| • Name and address of employer | Raiffaisen Bank Albania, Rruga “Deshmoret e 4 Shkurtit” Nr. 6, Tirana Albania |
| • Type of business or sector | Treasury & Investment Banking/ Dealing Room |
| • Occupation or position held | Specialist |
| • Main activities and responsibilities | Money Market Operations |

<ul style="list-style-type: none"> • Dates (from – to) 	10.10.2005 – 21.12.2005
<ul style="list-style-type: none"> • Name and address of employer 	Vienna Economic Forum, Stubenring 16/3 1010 Vienna
<ul style="list-style-type: none"> • Type of business or sector 	Danube Region Forum
<ul style="list-style-type: none"> • Occupation or position held 	Program Assistance
<ul style="list-style-type: none"> • Main activities and responsibilities 	Organizational Assistance of 1 st and 2 nd Vienna Economic Forum in Vienna, “Conference on Investment possibilities in South Eastern Europe”.
<ul style="list-style-type: none"> • Dates (from – to) 	01.08.2005 – 30.09.2005
<ul style="list-style-type: none"> • Name and address of employer 	Raiffeisen Zentral Bank AG, Am Stadtpark 9 1030 Vienna, Austria
<ul style="list-style-type: none"> • Type of business or sector 	Global Treasury & Markets
<ul style="list-style-type: none"> • Occupation or position held 	Internship
<ul style="list-style-type: none"> • Main activities and responsibilities 	Insights on Investment Banking

EDUCATION AND TRAINING

<ul style="list-style-type: none"> • Dates (from – to) 	27.06.2009-28.06.2009
<ul style="list-style-type: none"> • Name and type of organisation providing education and training 	Finance Trainer International. Provides state of art capital market know –how to the European banking community. “ On Board Treasury Seminar”
<ul style="list-style-type: none"> • Principal subjects/occupational 	Total bank management and role of treasury, Managing the foreign exchange position, Concept of risk measurement, Interest rate options, Cross currency swaps
<ul style="list-style-type: none"> • Dates (from – to) 	12.01.2009 –16.01.2009
<ul style="list-style-type: none"> • Name and type of organisation providing education and training 	Finance Trainer. Provides state –of-art capital market know –how to the European banking community. “Third Party Sales Seminar”
<ul style="list-style-type: none"> • Principal subjects/occupational 	Options/ Swaps/Pricing of Constant Maturity Swaps
<ul style="list-style-type: none"> • Dates (from – to) 	29.05.2006 - 02.06.2006
<ul style="list-style-type: none"> • Name and type of organisation providing 	Balkan Case Challenge

education and training
 • Principal subjects/occupational

Participation at finals of BCC Model United Nations

• Dates (from – to)
 • Name and type of organisation providing education and training

July 2005

Summer School “ POLITIS”

“Building Europe with New Citizens”

“An Inquiry into the Civic Participation of Naturalised Citizens and Foreign Residents in 25 Countries.”

• Principal subjects/occupational

Conduction of Qualitative Interviews with Albanian immigrants living in Austria

• Dates (from – to)
 • Name and type of organisation providing education and training

Since Summer Semester 2003

University of Vienna, “Institute of Political Science”, Dr. Karl – Lueger – Ring 1 1010 Vienna, Austria

• Principal subjects/occupational
 • Title of qualification awarded

International Relations/ CEE Region / International Development

Conclusion of all Exams. Working on final thesis “ Economic policies shaping

Market Economy in Albania”

• Dates (from – to)
 • Name and type of organisation providing education and training

1997-2001

High School, Gymnasium “ Ismail Qemali”, Rruga Ismail Qemali Shkolla IQ, Tirana, Albania

MOTHER TONGUE

ALBANIAN

OTHER LANGUAGES

• Reading skills
 • Writing skills
 • Verbal skills

GERMAN

excellent

excellent

excellent

ENGLISH

- Reading skills excellent
- Writing skills excellent
- Verbal skills excellent

ITALIAN

- Reading skills excellent
- Writing skills excellent
- Verbal skills excellent

GREEK

- Reading skills basic
- Writing skills basic
- Verbal skills basic

ARTISTIC SKILLS
AND COMPETENCES
*Music, writing, design,
etc.*

Piano, Writing

ADDITIONAL INFORMATION

“ Raiffaisen Funds – Management & Wealth Creation” Malta,
RZB’s Fund Advisory – More then a Fund Broker; Speaker