

ALBANIA:

FROM FRAGILE STATE TO VIABLE INTERNATIONAL PARTNER



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EXECUTIVE SUMMARY

This report is an implementation review of the May 2005 report by the National Committee on American Foreign Policy (NCAFP) – *Project on Failed States: Albania* (www.ncafp.org). The report warned that Albania was at a fork in the road. Down one path Albania risked becoming a failed state run by criminal networks and serving as a transit point for weapons, narcotics, and trafficking, as well as a haven for terror groups. Yet another path was possible, one that would secure and consolidate peace and prosperity through reforms and integration into Euro-Atlantic structures.

This report offers an evaluation of Albania's democratic governance, free market economic reforms, and security sector since the release of the first NCAFP report. Noting Albania's progress over the past 30 months, it recommends that NATO invite Albania to join the Alliance at its upcoming Bucharest Summit in April, 2008. Albania's NATO membership offers immediate benefits by extending the zone of stability in Southeastern Europe at a time when the region is adjusting to Kosovo's independence. Welcoming Albania into NATO would also be a positive signal to other religiously diverse and multiethnic countries with Muslim populations.

This report does not, however, recommend EU membership for Albania at this time. To support the continued progress of Albania's reforms, this report proposes additional assistance via the North Atlantic Treaty Organization (NATO) and the European Union (EU). Becoming an EU member will be a long and difficult process, and is a realizable but distant goal. The prospect of attaining EU membership will help to ensure Albania's continued commitment to international standards, and will reassure NATO countries that are concerned about possible backsliding.

Governance

Democratic governance improved after the July 2005 parliamentary elections and the subsequent peaceful transfer of power. Despite technical shortcomings, the local elections of February 2007 and the successful presidential election in July 2007 were also important milestones in Albania's democratic development. The Central Election Commission (CEC) adequately prepared voter lists, which ensured transparency and gave international and domestic election observers access to election proceedings. The process of voting and counting was generally satisfactory. Police forces carried out their duties in a professional manner and helped calm tensions. However, there were still problems. The local elections of February 2007 were postponed by nearly a month. They were compromised by late or incomplete delivery of election materials and gaps in the citizens' registry. The publication of election results took far longer than expected. The CEC also remains vulnerable to political manipulation.

Regarding judicial reform, the Government of Albania (GOA) has increased popular confidence in the judiciary by adopting legislation promoting an independent judiciary and strengthening checks and balances among the branches of government. Court decisions are now published to enhance accountability. While working conditions for judges have been upgraded and recruitment is based on merit, Albania still needs to improve the quality of its public prosecutors and ensure full implementation of court decisions. Greater cooperation between the GOA and opposition parties would help Albania achieve its goal of overall judicial reform.

To mitigate corruption, the Public Administration Service and other bloated government institutions have been downsized. Tax and customs collections, as well as the procurement process, have become more efficient. Albania is moving towards the goal of nationwide e-tax administration and e-procurement. It has adopted a Law on the Criminal Liability of Legal Persons that is consistent with European standards. Plans

are underway to lift parliamentary immunity for legislators accused of financial crimes. Slander has been removed as a criminal offense to encourage more extensive media coverage of corruption, and new legislation protects whistle-blowers. Yet, it will take decades to eradicate corruption, which is particularly acute at the local level where bribery is linked to securing basic government services.

The GOA has taken steps to curtail the informal economic sector and take on organized crime. In addition to the new Law on State Police, the Law on the Prevention of Money Laundering limits fiscal evasion and cash flows to the informal economy. In 2007, Albania dismantled 202 organized crime groups, arresting 850 of their members and extraditing 191 criminal gang ringleaders from other countries in the region. Despite these efforts, money laundering and the parallel cash economy are still widespread.

A legislative and policy framework has been established to prevent trafficking in humans, narcotics, and other contraband. The State, Border and Migration Police have all been restructured to focus on dismantling the Albanian sex trade. Speedboats and other small private vessels have been banned from coastal waters for 3 years, and a maritime radar-surveillance system is being implemented. In addition, shelter, counseling, and vocational training for trafficking victims have been expanded. Albania has historically been a trans-shipment point for heroin, cocaine, and locally grown cannabis, but this situation has improved due to more robust law enforcement and enhanced international cooperation. All of these developments indicate meaningful progress, but – as the GOA has acknowledged - trafficking is an ongoing problem that is compounded by official corruption. The GOA's national anti-trafficking plan expired and has not been re-issued.

Minority rights have been expanded, especially for Albania's Greek minority. Ethnic Greeks freely practice their Orthodox faith, form cultural associations, and engage in political life. There are no restrictions on the Greek language in both private and Albanian public educational facilities. However, the Roma and Egyptian minorities still suffer impoverishment, disenfranchisement, and marginalization.

Economy

Reflecting Albania's progress with market economy reforms, prevailing conditions of macroeconomic stability are visible in its mild inflation, high growth, relative currency stability, banking credit expansion, and improved rates of Foreign Direct Investment (FDI). In 2007, Albania's GDP growth was 6%. Inflation held steady within the target range of 2-4% with a domestic budget deficit of 2.6%, and exports increased by 28%.

The number of Albanians living in extreme poverty (less than \$1/day) fell from 5% in 2002 to approximately 3.5% in 2005. The number of people living in poverty (less than \$2/day) fell from 25.4% in 2002 to 18.5% in 2005. In 2002, the unemployment rate among women was 19.1% and 13.6% for men. The total overall unemployment rate for the first 9 months of 2007 was 13.2%.¹

An integrated planning system has made it possible for revenue performance to meet expectations, and financial management has been enhanced by weekly forecasts of capital needs based on the requirements of each ministry. Assisted by transportation and other infrastructure improvements, trade volumes are on the rise. Improved debt management has resulted in lower interest costs, with debt declining as a percentage of GDP. Albania's banking system is now well capitalized, liquid, and profitable, and it has adopted appropriate credit risk management. However, inflation is a potential problem that must be addressed in light of rapid credit growth. So are spending and procurement problems that cause earmarked funds to go unspent.

Privatization and measures to improve the business climate are moving forward. Albtelecom, the government owned telephone company, has been privatized, and the insurance sector (INSIG) and energy enterprises (e.g. ARMO) are in the process of privatization. Market barriers have been eased for business by streamlining the registration process and establishing a "one-stop-shop" for registration as well as on-line regional

registration centers. Both the profit tax and the small business tax have been reduced by about 50%. A flat personal income tax of 10% was implemented in July 2007, and a flat corporate tax of 10% was instituted in January 2008. The establishment of an electronic tax filing system is also likely to improve collection rates.

Although economic trends are generally positive, pervasive economic problems and poverty persist. Serious shortages in the energy sector are slowing economic growth and discouraging FDI. The informal economy is still significant, constituting an estimated 24-28% of GDP.² Inadequate land titles have undermined efforts to establish a credible property market, and there is no timetable for addressing the problem of clarifying and securing property rights.

Security

The GOA is proactively upgrading the Albanian Armed Forces (AAF). Albania raised its 2007 defense budget from 1.35% to 1.84% of GDP, and has pledged to spend 2% of its GDP beginning in 2008. Albania already takes part in NATO-led operations in Afghanistan. Its Special Forces participate in Operation Iraqi Freedom, and it has a peacekeeping contingent in Bosnia and Herzegovina. It also participates in NATO's naval counter-terrorist Operation Active Endeavor in the Mediterranean Sea. Albania hopes to make the AAF smaller, better trained, and more fully equipped so that it is capable of serving alongside NATO forces by 2010.

Albania and the United States cooperate extensively on security matters. Albania is a signatory to a number of important treaties, including the 2003 Prevention of Proliferation of Weapons of Mass Destruction and the 2004 Supplementary Agreement to the Partnership for Peace Status of Forces Agreement. It is also engaged with other Alliance members, including Germany, Italy, Turkey, and the United Kingdom, in military-to-military cooperation and assistance.

Good neighborly relations are an important criteria for NATO membership. The GOA has been a vigorous supporter of Kosovo's independence, and has played a useful role in encouraging moderation by Kosovo's political leaders and supporting efforts by NATO and the international community to promote stability. It re-established diplomatic relations with Yugoslavia in 2000, and maintains good relations with Montenegro and Greece. Albania has also encouraged implementation of the Ohrid Agreement for Macedonia. The Adriatic Charter ("A-3") has been a useful framework fostering cooperation between Albania, Croatia and Macedonia.

Regardless of Albania's progress in meeting NATO standards, it will not be welcomed in NATO as long as some member states believe that Albanian political leaders support a "greater Albania" encompassing Albania, Kosovo, and ethnic Albanian parts of Macedonia and Montenegro. This false notion is propagated by those who oppose Kosovo's independence and seek to undermine Albania's continued development and integration into NATO. The GOA has publicly rejected the notion of a greater Albania and has repeatedly affirmed its support for international borders in the Balkans, including Kosovo.



INTRODUCTION

The National Committee on American Foreign Policy (NCAFP) May 2005 report – *Project on Failed States: Albania* (www.ncafp.org) – assessed Albania's democratic and economic development. The report warned that Albania was at a fork in the road. Albania was at risk of becoming a failed state run by criminal networks and serving as a transit point for weapons, narcotics, and trafficking, as well as a haven for terror groups. Yet another path was possible, one that would secure and consolidate peace and prosperity through reform and integration into Euro-Atlantic structures.

Since Prime Minister Sali Berisha formed a government in September 2005, the Government of Albania (GOA) has demonstrated its commitment to political, economic and security sector reforms. This research report serves as an implementation review measuring Albania's progress. It is not intended to be comprehensive, and this report does not evaluate specific steps taken to address each recommendation in the NCAFP's May 2005 report. Instead, it provides an overview of trends by providing and interpreting data. Its findings are based on interviews with GOA officials and figures in Albanian civil society, as well as discussions with representatives from the international community. It draws on documents provided by international organizations, Albanian non-governmental organizations (NGOs), and media reports. Its recommendations are based on Albania's performance in the governance, economic, and security sectors.



FINDINGS

Governance

Elections

Albania is a young democracy, but a functional one. Historically, elections had been flashpoints for conflict and violence, with elections typically producing conflict between the losers, who were unable to accept defeat, and the winners, who ignored allegations of electoral fraud. The peaceful transfer of power after the July 2005 parliamentary elections offered a hopeful departure from precedent.³ After the 2005 ballot, both Democratic and Socialist party leaders showed restraint.⁴ The Socialist Party accepted the outcome after a limited recount, a sign of significant progress. February 2007's local elections and the presidential election in July 2007 were also important milestones.

Subsequently, the GOA implemented important electoral reforms. According to the Election Observation Mission Report issued by the Organization for Security and Cooperation in Europe (OSCE)/Office for Democratic Institutions and Human Rights (ODIHR), local elections held in February 2007 were calm overall. In addition to greater overall transparency, the accuracy of voter lists improved and many multiple entries were removed. The Central Election Commission (CEC) performed well in its adherence to rules governing appeals and complaints as well as its respect of the procedural rights of the parties. OSCE/ODHIR maintained that, "Despite numerous last-minute appointments and replacements of election officials, both the voting and the counting process were generally satisfactory."⁵

In February 2007, the CEC effectively guaranteed access to international election observers and accredited 3,729 domestic observers, some of whom conducted parallel polling that tracked official results.⁶ Albania's media, including both state and private TV, provided balanced exposure to candidates. More than 1,000 mayoral candidates and about 6,000 candidates for council seats in 384 local government units campaigned without constraint.⁷ Police forces carried out their duties in a professional manner, and helped to calm tensions when disputes arose.⁸ The parties also abided by a new requirement that they track and publish campaign finance details.

In July 2007, Albania elected a president. Electoral procedures met the constitutional provision requiring that two-thirds of MPs support a candidate. While jockeying was intense over three rounds, the outcome demonstrated a level of political maturity not previously evident in Albanian politics. NATO Secretary General Jaap de Hoop Scheffer commended the "healthy political culture" in Albania, noting that "The way politicians and the political class deal with each other and treat each other is an important yardstick" for progress.⁹

The GOA is considering additional electoral reforms, and established a bipartisan commission to develop recommendations for improvements in the Electoral Code. The OSCE is also helping the GOA to develop an electronic civil registry of voters as well as other e-identification documents, including e-passports.

Problems

The July 2005 election did not fully comply with international standards.¹⁰ Problems persisted during the local elections of February 2007, which were postponed by nearly a month as a result of bickering between the major political parties. When the ballot was finally conducted, intimidation and vote-buying were reported.¹¹ Other problems included the tardy or incomplete delivery of election materials, which caused many voting centers to open late. Observers reported that thousands of names were missing from the citizens' registry, and also identified incorrect procedures with identity checks, vote secrecy, and the use of ink to prevent multiple voting.¹² The publication of election results took far longer than expected, with major delays in urban centers. Even three days after the vote, the CEC had issued results from less than one third of the counting centers. Diverging from international norms, parties were allowed to change the order of candidates on their lists after Election Day, and there were also problems registering Roma and immigrant voters.¹³

The CEC suffers not only from inadequate resources, but also is vulnerable to political manipulation. Appointment of CEC officials by political parties hinders the professional and non-partisan performance of the Commission. In addition, the CEC is mandated to conduct closed-door meetings on administrative matters, inviting charges of bias.¹⁴

The political participation of women in Albania remains inadequate. Though women vote in large numbers, only 9 of the 140 national assembly deputies are women. Women fill only 1 of the GOA's 16 ministerial posts. Only 7.1% of government officials are women, and Albania is 114th in the world in female representation in government.¹⁵ None of the major parties are led by a woman, and just 33 of the 1073 mayoral candidates in the February 2007 elections were female.¹⁶

Judiciary

Albania has increased citizens' trust in the judiciary by adopting measures that enable it to better fulfill its constitutional role. The Law on Organization and Functioning of the High Council of Justice and the Law on Organization of Judicial Power provide a legal framework for comprehensive judicial reform, and other ad hoc measures have strengthened checks and balances between branches of the government. Court decisions are currently published to enhance accountability, and working conditions for judges have been improved. The recruitment of judges is now based on merit, and their salaries have been increased to guard against corruption. Professional training is provided for new judges at the School of Magistrates. A presidential commission was established on September 17, 2007 to identify and mobilize support for judicial reforms, and to channel the expertise of international advisers to help Albania's judiciary meet international standards for transparency and legitimacy.¹⁷ Albania has cooperated fully with the Venice Commission of the Council of Europe.

Problems

In May 2006, European Parliament President Josep Borrell praised Albania for numerous reform efforts, but expressed concern over the continued need for a fair, transparent, and efficient judicial system.¹⁸ To this end, Albania still needs to enhance the role of public prosecutors and to implement court decisions more rigorously. The working conditions and professionalism of judges need additional improvement, and the Court of Serious Crimes and the School of Magistrates would benefit from capacity building. Greater cooperation between the GOA and opposition parties would help achieve the goal of overall judicial reform that includes more

transparent appointment of judges, increased salaries for support personnel, better infrastructure, and sanctions against attorneys and others who do not comply with court procedures.

Corruption

Prime Minister Berisha has used the bully pulpit of his office to speak out strongly against corruption. In addition to an inter-agency task force on financial crimes, the GOA has downsized the Public Administration Service and taken steps to streamline other bloated government institutions.

In 2006, the number of Tax Police was reduced from 350 to 262.¹⁹ Other measures have been adopted to increase the efficiency of tax and customs collections, as well as the procurement process. As a result, Albania has experienced a 16.5% increase in customs collections between 2006 and 2007.²⁰ In June 2006, parliament approved a new procurement law enhancing the competitiveness of the bidding process for government contracts and procurements. Based on the success of pilot projects, Albania is moving toward the goal of nationwide e-procurement by July 2008. To make it easier for citizens to report corruption, especially bribes of police and local officials, an Ombudsman for Public Procurements has been established and hotlines have been set up. E-tax administration is also being implemented.

Since 2005, the Albanian parliament has authorized a slate of anti-corruption measures. For example, the parliament adopted a Law on the Criminal Liability of Legal Persons that is consistent with European standards, and the GOA has taken steps to lift immunity for parliamentarians accused of corruption and financial crimes. Slander was removed as a criminal offense, thereby encouraging more extensive media coverage of corruption. New legislation protects whistle-blowers and awards them 6% of the value of crimes they identify. Increasing the competitiveness of the salary structure for public employees has enhanced the ability of the civil service to attract competent employees, and young ministers who are untainted by the corruption that was prevalent in previous administrations are now in key leadership positions. The GOA has also put the brakes on bogus privatization deals that enrich a few without benefiting the national economy.

These measures have encouraged a slow but positive trend in the overall rate of corruption. Transparency International ranked Albania 126th among the world's most corrupt nations in 2005. Albania was 111th in 2006 and 105th in 2007.²¹

Problems

It will take decades to eradicate corruption in Albania, which is especially prominent at the local level where paying bribes has become a way to gain access to basic government services. Bribery has the most severe effect on marginalized persons. It also has a corrosive effect on the economy. As a hidden cost of doing business, bribery undermines the business climate and has a deleterious effect on FDI. When the GOA downsized public administration, the lack of transparency and unclear criteria led to charges of bias and cronyism.

Organized Crime

The GOA has taken steps to curtail the informal economic sector. In addition to the new law on State Police, the parliament recently approved a bill authorizing cooperation with EUROPOL to train law enforcement officials, monitor criminal activities, and facilitate the flow of actionable intelligence.²² Working with the US Department of Justice and European Commission intelligence and law enforcement agencies, Albania established a joint Common Financial Crime Investigation Task Force. The Law on the Prevention of Money Laundering as well as the establishment of a new Anti-Money Laundering and Economic Crimes Division within the General Directorate of the State Police targets fiscal evasion and cash flows to the informal economy. As a result of these efforts, as well as a newly-established Witness

Protection Program, Albania has dismantled 202 organized crime groups, arresting 850 of their members and extraditing 191 criminal gang ringleaders from countries in the region.²³

Problems

Since 2003, legal investments, which have averaged about 200 million euros, have been dwarfed by funds invested “off the books,” which are in excess of 1 billion.²⁴ This ratio of 1:5 is holding steady, and money laundering remains a serious problem. New laws have been drafted or adopted, but they have not been fully implemented. In many cases, the GOA lacks the institutional capacity and resources for law enforcement. Politicization and selective enforcement remain a problem.

Trafficking

Albania is known as a trafficking center for humans, narcotics, and other contraband. The GOA recognizes the severity of Albania’s trafficking problem, and has taken steps to establish a legislative and policy framework aimed at prevention through improving border control, raising trafficking prevention awareness in society, and more effectively training the police in investigative and prevention techniques.

The GOA established special structures within the State Police to deal with trafficking and added articles to the Penal Code specifically promoting anti-trafficking goals. In 2004, Albania created the Court of Serious Crimes and expanded the capacity of the Prosecutors’ Office.²⁵ The State, Border, and Migration Police have all been restructured with the goal of shutting down the so-called Balkan route, a notorious path for sex-trade traffickers that runs through Albania.²⁶ To this end, the Border Police have acquired more modern equipment including communication and information systems. In April 2006, the parliament focused on the transportation infrastructure used to move drugs and humans by banning speedboats and other small private vessels from coastal waters for three years.²⁷ A Joint Operations Center was established in Durrës to improve patrols of Albanian territorial waters and the GOA signed a \$17 million contract with Lockheed Martin for a maritime radar-surveillance system.

Launched in 2004, the Albanian Initiative on Coordinated Action against Human Trafficking is now fully underway. The program offers shelters, provides counseling, and vocational training emphasizing reintegration for victims. Regional Centers to Fight against Human Trafficking were set up in 2006.²⁸ NGOs have also increased their ability to deliver rehabilitation programs and provide social services to affected individuals and communities.²⁹ Education campaigns have sharply reduced the number of girls sold into prostitution abroad, deceived by traffickers who told them they were going out of the country to work as cleaners or nannies.³⁰

In July 2005, Albania was characterized by a Western diplomat as “Europe’s main warehouse for heroin.”³¹ Albania is still a trans-shipment point for heroin and cocaine, as well as locally grown cannabis. However, the situation is changing. According to the GOA, it confiscated 248.5 Kilos of heroine, 18.5 kilos of cocaine, and 500,000 cannabis plants between September 2005 and July 2007.³² It has also cracked down on syndicates involved in the illicit trade of cigarettes and cell phones. Progress was made possible because of enhanced in-country capacity, as well as intensified international cooperation with the FBI, Eurojust, the Police Assistance Mission of the European Community, Italy’s Guardia di Finanza, as well as drug enforcement and intelligence liaison officers posted at foreign embassies in Tirana.

Problems

Prime Minister Berisha has acknowledged that trafficking remains an ongoing problem, linking it to official corruption, especially in the judicial system and among law enforcement.³³ The national anti-trafficking plan lapsed and has not been re-issued. Border control remains porous, and social services to victims are inadequately resourced. Shortages of women police officers at border crossings limit the capacity of law

enforcement to conduct interviews identifying trafficked women and girls. Though more drug couriers and petty traffickers have been arrested, few of the drug kingpins have been brought to justice.³⁴ Local police often turn a blind eye in exchange for a share of the profits or because the suspect has political contacts.

Minority Rights

The GOA maintains that “Albania is continuously engaged in implementing the highest standards in respecting the rights of ethnic minorities in compliance with the Copenhagen Charter and the European Convention on Human Rights and the European Framework Convention on the Protection of Minorities.”³⁵ Albania has largely addressed the needs of its Greek minority, and Albania and Greece have developed a strategic partnership in which Greece supports Albania’s NATO and EU aspirations and, in turn, Albania pays special attention to the political, cultural, and economic rights of ethnic Greeks in southern Albania.

Within weeks of forming a government, Prime Minister Berisha met with his counterpart from Greece at the UN General Assembly. As a result, Albania amended its constitution to allow dual citizenship for qualified ethnic Greeks and pledged an end to discrimination against holders of dual citizenship.³⁶ Travel restrictions between Albania and Greece have been eased. There are no restrictions on the use of the Greek language in both private and public Albanian educational facilities. Ethnic Greeks freely practice their Orthodox faith and are allowed to form Greek cultural associations. Through the Union for Human Rights Party (PBDNJ), Greeks in Albania participate in local and national politics. PBDNJ is a member of the ruling coalition, and PBDNJ officials serve in the cabinet, in senior government positions, and in local government. Ethnic Greeks living in Southern Albania have benefited from overall improvements in Albania’s economy, as well as from cross-border trade and investments from Greece.

Problems

As in most of Southeastern Europe, the Roma of Albania suffer impoverishment and disenfranchisement. A vast majority of Roma suffer from squalor: 78% live on less than \$4.30 a day, and 45% are unemployed.³⁷ Faulty registration deprives many Roma of identity cards and compromises their political participation, as does their widespread lack of information and knowledge about the political process. Mainstream political parties are uninterested in Roma issues, and do not campaign actively among the Roma electorate. In addition, Roma are underrepresented in public office and inadequately represented in local law enforcement.³⁸ The Egyptian minority is also underrepresented in official statistics, and their interests are ill-served by the local and national governments.

Though women and children’s rights are not minority rights *per se*, the welfare of women and children merit discussion. Many communities, particularly in the rural northeast, still follow the traditional code (“kanun”) that subordinates women.³⁹ The practice of “honor killings” continues in Albania.⁴⁰ According to the UN Children’s Fund, Albania lacks social policies to protect children facing poverty, discrimination, and social exclusion. Many children from poor families work or beg to earn money. Some are taken to neighboring Greece and Italy to work illegally.⁴¹

Economy

Prevailing conditions of macroeconomic stability are visible in Albania’s mild inflation, high growth, relative currency stability, banking credit expansion, and improved rates of FDI. In 2007, Albania’s GDP growth was 6%. Inflation held steady within the target range of 2-4% with a domestic budget deficit of 2.6%, and exports increased by 28%.⁴²

The number of Albanians living in extreme poverty (less than \$1/day) fell from 5% in 2002 to

approximately 3.5% in 2005. The number of people living in poverty (less than \$2/day) fell from 25.4% in 2002 to 18.5% in 2005. In 2002, the unemployment rate among women was 19.1% and 13.6% for men. By 2005, it had fallen to 17.2% among women and 12.1% among men, and by 2006, it had fallen to 16.8% for women and 11.8% for men. The total unemployment rate for the first 9 months of 2007 was 13.2%.⁴³

Steps are being taken to address energy insecurity by improving the efficiency of the publicly owned utility (KESH) and diversifying supplies. To address problems associated with KESH, the GOA has pledged to raise domestic electricity prices to cost-recovery levels, focus on improving collection of payments from residential and commercial customers, and develop cut-off procedures for non-paying customers. The construction of a World Bank, European Investment Bank, and European Bank for Reconstruction and Development-sponsored thermal power plant is underway to diversify sources and help keep pace with demand.⁴⁴ Production sharing agreements have also been signed for oil exploration with MedOil and Swiss-based Manas Petroleum.⁴⁵

Privatization plans and measures to improve the business climate are moving forward as part of the GOA's national economic development program. Albtelecom has been privatized, and the insurance sector (INSIG) and energy enterprises (e.g. ARMO) are being privatized. The GOA maintains that it is seeking to diversify Albpetrol-One and sell its minority stake in the AMC telephone company. The privatization of KESH's distribution arm is also under consideration, and to this end, the EBRD is financing the upgrading of high-voltage transmission sub-stations that would also facilitate Albania's integration into the Energy Community of Southeastern Europe. The tourism sector, which attracted 70% more tourists in 2007 than 2005, is increasingly attractive to private investors.

To improve the overall business climate, the GOA's Regulatory Reform Task Force put forward several recommendations to ease market entry barriers and simplify the regulatory environment. The GOA streamlined the business registration process, establishing a "one-stop-shop" and creating 29 on-line regional registration centers. These efforts have helped to reduce barriers in the licensing system, streamlining the licensing time frame from 30 days to 1 day.⁴⁶ Measures have also been taken to enhance the impact of the Business Advisory Council and the Chambers of Commerce and Industry, and to improve the commercial court system and the system of land title registration by developing a land value map to facilitate restitution and compensation.⁴⁷ Moreover, a computerized title registry is being developed to help stabilize the property market.

After seeking suggestions from business about tax policy and compliance enforcement, the GOA decided to decrease the profit tax by about 50% and the small business tax by 50%. A flat personal income tax of 10% was implemented in July 2007, and a flat corporate tax of 10% was instituted in January 2008. The establishment of an electronic tax filing system is also likely to increase collection rates. Improved tax administration has led to a tax revenue increase from 22% of GDP in 2005 to 23% of GDP in 2006. Reducing social security obligations for business by 30% has also increased the payment rate to the social security system and helped make the current pension system more sustainable.⁴⁸

Moving forward with an integrated planning system has enabled revenue performance to meet expectations, as have enhanced systems for budget management and oversight. The GOA improved its financial management system by developing a system of weekly forecasts of capital needs based on the requirements of each ministry. Improved debt management has resulted in lower interest costs, and debt has declined as a percentage of GDP. The average domestic debt maturity increased from 284 days in 2006 to 327 days (May 2007).⁴⁹

Since 2005, Albania's insurance sector has grown rapidly. Albania's recent relative stability has helped attract foreign banks that have introduced mortgages, fueling the country's construction boom. Banks are

now well capitalized, liquid, and profitable. Bank credit grew from 15% in 2005 to 28% of GDP in 2007, and is predicted to reach 34% in 2008.⁵⁰ Appropriate credit risk management and monetary tightening measures have suppressed inflation keeping it within the target range of the International Bank for Reconstruction and Development (IBRD).

Trade volumes are also on the rise, especially with other countries in Southeastern Europe. In December 2006, Albania and eight other Southeastern European countries, including Kosovo, signed a new Central European Free Trade Agreement.⁵¹ Trade flows in the second quarter of 2007 were 17% greater than the first quarter of the same year, and 32% greater than the second quarter of the preceding year. Both imports and exports grew 18% from the first to the second quarters of 2007.⁵² The trade deficit reached \$693 million for the second quarter of 2007 –\$172 million more than for the same period in 2006.⁵³

Trade has also been boosted by improvements in Albania's infrastructure. In 2002, Albania began drawing infrastructure loans from the IBRD, as opposed to being merely a recipient of aid. It supports the AMBO Trans-Balkan Pipeline, and signed a cooperative agreement with GAZPROM in December 2007. Albania also joined with Bulgaria, Macedonia, and Italy to accelerate work on a project to build a transport corridor that will connect the Balkans with Western Europe and the Middle East by beginning to fill in gaps in a 1,300-kilometer network of highways, railways, and ports. The project, which also includes Greece and Turkey, was launched in 1991 but due to a lack of funding little progress had been made.⁵⁴

Problems

Albania's National Strategy for Social and Economic Development (NSSED) has adopted an ambitious agenda, resulting in an increase in GDP per capita from \$2,536 in 2005 to \$3,402 in 2007.⁵⁵ However, poverty is still widespread, and Albania has a great deal of ground to cover before it meets the Millennium Development Goals' social and economic benchmarks for overall quality of life.

Energy sector shortages are slowing economic growth and discouraging FDI.⁵⁶ With a 30% decline in domestic electricity production due to unfavorable hydrology and poor water resource management for hydropower production, Albania was forced to triple energy imports in 2006. As a result, the increase in broad-based exports has been neutralized by a steep increase in electricity imports, worsening Albania's trade imbalance. A 50% drop in collection rates for energy costs in 2006 required the GOA to provide additional subsidies, totaling 1.25% of GDP in 2007.

Cash and foreign currency transactions have had a deeply deleterious impact on the national economy. According to the Organization for Economic Cooperation and Development (OECD), the informal economy is 24-28% of GDP.⁵⁷ Ongoing problems with the process of restitution and compensation for property, as well as inadequate measures to insure ownership protection during the transfer of land titles, have undermined efforts to establish a credible property market. There is no timetable for enhanced protection of property rights, and problems with the property registration process have had a ripple effect on other sectors of the national economy.

Difficulties with spending and procurement persist causing earmarked funds to often go unspent. Inflation is also a problem that must be addressed in light of rapid credit growth. It poses a risk to Albania's overall economic development. Therefore, additional measures are needed to slow the rate of credit provision and establish a reserve fund from profits. Albania obtained its first-ever credit ratings report from Moody's in 2007, but its B1 rank is 4 steps below investment grade rating.⁵⁸

The business sector still suffers from inadequate infrastructure. The World Economic Forum's Networked Readiness Index, which evaluates how well government and businesses implement technologies within

their infrastructure, ranked Albania 106th in 2005-06 and 107th in 2006-07.⁵⁹ Still, the work force is young, dynamic, and increasingly skilled, and a new generation of entrepreneurs who are committed to expanding the use of information technology in the private sector is emerging.

Albania's economic governance still suffers from inadequate links between the strategic planning process and the prioritization of expenditures. Despite progress in public financial management as well improved statistics on coverage, periodicity, and timeliness, the GOA needs better data derived from household budget and labor force surveys.

Security

The GOA is committed to increasing defense expenditures in order to upgrade the capabilities of the Albanian Armed Forces (AAF). Since 1999, Albania has spent approximately \$108 million annually on military expenditures, roughly 1.35% of its GDP, and for 2007 Albania raised its defense budget to 1.84% of GDP. According to Defense Minister Fatmir Mediu, "The defense budget for 2008 year will consist 2% of the GDP" and will be maintained at this level through 2020.⁶⁰

Albania's goal is to create smaller, better trained, and more fully equipped armed forces that will be capable of serving alongside NATO forces by 2010.⁶¹ Overall, the number of military personnel is down to 14,000 from 16,500, and the ratio between leadership and staff has almost doubled.⁶² Reflecting enhanced professionalism of the AAF, the number of conscripts has been reduced. Training and education of military personnel have also been expanded focusing on leadership and the role of the armed forces in a democracy.

Albania has taken part in NATO-led operations in Afghanistan, where an infantry company serves alongside NATO troops as part of the Italian contingent.⁶³ Albanian special force units also participate in Operation Iraqi Freedom, and Albania has a small peacekeeping contingent under German command in Bosnia and Herzegovina. The AAF recently established a new rapid intervention battalion designed for peacekeeping missions, and plans to add 3 such battalions by the end of 2008.

Albania's efforts to enhance the capabilities of the AAF focus on counter-terrorism. In addition, the GOA emphasizes international cooperation aimed at limiting the proliferation of weapons of mass destruction (WMD). It supports the global war on terrorism (GWOT), has ratified all 12 counter-terrorism covenants, and works closely with the UN Working Group on Terrorist Financing. Albania participates in NATO's naval counter-terrorist Operation Active Endeavor in the Mediterranean Sea, and it signed a Memorandum of Understanding with NATO on the Facilitation of Vital Civil Cross Border Transport in 2007.

The United States cooperates extensively with the AAF. Albania is a signatory to numerous important treaties, such as the 2003 Prevention of Proliferation of Weapons of Mass Destruction, the 2004 Supplementary Agreement to the Partnership for Peace Status of Forces Agreement (which defines the status of NATO military troops in Albania and further enables military cooperation), as well as the Promotion of Defense and Military Relations. In 2004, President Bush authorized the use of the Nunn-Lugar Cooperative Threat Reduction program funds to support the destruction of stockpiled chemical agents in Albania leftover from the old Communist regime. Under this program, in July 2007 Albania became the first nation to complete destruction of declared chemical weapons holdings under the Chemical Weapons Convention.⁶⁴ Albania has undertaken comprehensive de-mining activities and imposed controls on excess weaponry and ammunition, which pose a significant public hazard and proliferation risk.⁶⁵ Alliance members, including Germany, Italy, Turkey, and the United Kingdom, have been involved in important military-to-military cooperation and assistance with Albania.

Modeled on the Baltic Charter, the Adriatic Charter – which includes Albania, Croatia, Macedonia (the

“A3”), and the United States – was created in May 2003 to promote regional security and cooperation in the field of counter-terrorism among “partners and allies.”⁶⁶ Good neighborly relations are important criteria for NATO membership. While the GOA has been a vigorous supporter of Kosovo’s independence, it has played a helpful role by encouraging moderation among Kosovo’s political leaders and contributed to efforts by NATO and the international community to prevent conflict escalation and promote stability. To this end, the GOA supported implementation of the Ahtisaari Plan, which includes provisions for decentralization and minority rights intended to ensure the interests of Kosovar Serbs. It encouraged Kosovar politicians to accept the extension of negotiations by 120 days as proposed by France’s President Nicolas Sarkozy. Addressing the Albanian parliament, NATO Secretary General Jaap de Hoop Scheffer praised Albania’s “moderating voice” in the Balkans, noting: “In view of the conflict which is raging just over your borders, and your understandable concern at the fate of ethnic Albanians outside your country, I imagine that is not always easy to exercise restraint. But the fact that you have exercised restraint has been a vital factor in preventing the Yugoslav conflict becoming even more dangerous.”⁶⁷

Albania has played a constructive role in other Balkan hot spots. It has encouraged implementation of the Ohrid Agreement for Macedonia, re-established diplomatic relations with Yugoslavia after Milosevic was overthrown in 2000, and recently relaxed visa procedures for passport holders from Serbia. It has good relations with Montenegro, which became independent in 2006. Overall relations with Greece are good, and Greece supports Albania’s integration into NATO and eventually the EU. Albania participates in forums that foster regional cooperation (e.g. Center for Fight against Terrorism and Organized Crime, the Migration and Asylum Refugee Regional Initiative, Center for the Control and Verification of Arms in the Region, the Black Sea Economic and Cooperation Council, etc.).

Problems

By the time this report is published, Kosovo will very likely have issued a unilateral declaration of independence. This step is sure to cause discord within the Alliance. Some NATO members believe that Albanian political leaders support a “greater Albania” encompassing Albania, Kosovo, and ethnic Albanian parts of Macedonia and Montenegro. This false notion is propagated by those who oppose Kosovo’s independence and seek to undermine Albania’s continued development and integration into NATO. As long as such suspicion exists, however, Albania will not be welcomed as a NATO member. The GOA has publicly renounced the notion of greater Albania, and has repeatedly affirmed its support for international borders in the Balkans, include those of Kosovo. No credible political party in Albania, Kosovo, or Macedonia supports changing borders to establish a greater Albania.

NATO would prefer to evaluate membership for A3 as a block. But A3’s countries are at very different points in the road toward meeting the criteria for membership: Croatia has made the most progress, with Albania a close second. If A3 members are considered together, Macedonia may hold the other countries back. The GOA believes that invitations should be extended based on the individual performance of each country.

Some NATO members are concerned about Albania’s overly compliant attitude toward the wishes of the United States. Appearing to kow-tow to the Bush administration does not serve Albania’s interests, its relations with the next US administration and other European states, nor is it good for long-term EU-Albanian relations. For example, Albania ignored EU objections by signing a bilateral agreement with the United States on the non-surrender of persons, based on Article 98 of the statute of International Criminal Court in May 2003.

Albania still has a long way to go before it meets NATO standards. With the exception of a few battalions, personnel lack training and capabilities. AAF support elements such as troop transports and helicopters are also inadequate. Given the lack of resources and infrastructure, Albanian forces are not able to operate

independently. Instead, they are embedded within NATO's pool of forces. Albania's air traffic control is sub-standard, as is its capacity to safeguard maritime borders. The armed forces still suffer from low salary rates and, as a result, have not been fully transformed into a professional force. Rank and file personnel lack training on human rights and civil-military issues. The State and Military Intelligence capabilities have been upgraded to interface with NATO's Liaison Unit, but secure information management is still inadequate. Ongoing corruption undermines Albania's overall efforts at security sector reform.



RECOMMENDATIONS

Albania's two primary foreign policy objectives are membership in NATO and the EU. Both organizations are more than a security consortium, a political grouping, or an economic coalition. NATO and the EU are a community of values based on the principles of democracy, human rights, and free market economics.

North Atlantic Treaty Organization

NATO enlargement is an integral component of efforts by the Alliance to project stability and work with partners to build a peaceful, undivided, democratic Europe. Building on the Partnership for Peace Program (PfP) that was established in 1994, the North Atlantic Council affirmed that, consistent with its declaration at the 1997 Madrid Summit and as stipulated in Article 10 of the Washington Treaty, NATO should consider European countries that are able to enhance security in the Euro-Atlantic area for membership.

Albania became a member of the North Atlantic Cooperation Council in June 1992. Six months later, it was one of the first former communist countries to declare its interest in joining NATO. The following year, NATO Secretary General Manfred Wörner visited Tirana to discuss Albania's participation in PfP, and on February 23, 1994, Albania signed a PfP Agreement with NATO. PfP emphasizes interoperability with NATO forces. It also seeks to develop indigenous force structures, enhance local capabilities, and promote a transparent budgeting and administrative system for managing the armed forces. It is a stepping stone to NATO's Membership Action Plan (MAP), adopted in 1999 as a tailored program offering active advice and technical assistance for establishing civilian controls of the military, the rule of law, a market economy, and the capacity for peaceful dispute resolution.

However, participation in MAP does not ensure an invitation to join the Alliance. Criteria for NATO membership include political, economic, security, defense, military, resource, and legal benchmarks. These include settling any international, ethnic, or external territorial disputes by peaceful means, demonstrating a commitment to the rule of law and human rights, establishing democratic control of the armed forces, and promoting stability and well-being through economic liberty, social justice, and environmental responsibility. Military criteria are based on the ability of the country to adopt enhanced defense planning that will contribute NATO's collective defense and its new missions.

Aspiring members are required to provide an annual consolidated progress report to NATO foreign and defense ministers. NATO's MAP includes a feedback mechanism on progress, including political and technical advice, and a clearinghouse for coordinating security assistance. Regular consultations and workshops with NATO civilian and military experts allow for discussion on the range of issues relevant to membership.

The goal of joining NATO enjoys broad popular and bipartisan support by Albanians and Albania's political parties, which view membership as a key step towards a stable democracy and a successful market

economy. According to Prime Minister Berisha, “NATO membership enjoys the full support of all political forces and of 94% of Albanian citizens.”⁶⁸

Affirming its commitment to NATO membership, Albania adopted a 10-year Reform Plan and National Security Strategy that focuses on its contribution to peace and stability in Southeastern Europe and outlines its participation in peacekeeping operations and in the fight against terrorism (2000). Albania’s Council of Ministers designated a NATO Coordinator to synchronize Albania’s efforts to meet membership criteria (2007), and the parliament established a bipartisan commission tasked with assuring funding and implementing legislative reforms necessary for NATO membership (2007).⁶⁹

The 2006 Paris Resolution of the NATO Parliamentary Assembly and the Riga Summit Declaration of that same year stipulated that NATO’s invitation to join the Alliance would be based on performance. The Riga Declaration also affirmed support for the A3. President Bush signed a bill backing NATO membership for Albania and authorizing U.S. funds for military assistance, provided that Albania continued to implement democratic and economic reforms (April 2007).⁷⁰ NATO’s Parliamentary Assembly adopted a resolution in Reykjavik endorsing membership for the A3 (August 2007).⁷¹

Based on Albania’s overall performance, this report recommends that NATO invite Albania to join the Alliance at its upcoming Bucharest Summit in April, 2008. Albania’s membership offers immediate benefits to NATO by extending the zone of stability in Southeastern Europe at a time when the region is going through the difficult challenge of adjusting to Kosovo’s independence. Albania’s membership would also be an important signal to other religiously diverse and multiethnic countries with Muslim populations that NATO views them as a partner in the global struggle against terrorism and extremism.

European Union

In May 1999, Albania and the EU initiated the Stabilization and Association Process (SAP), a commitment by the organization to provide the necessary political, financial, and personnel resources to prospective members. Starting in January 2003, negotiations began on the Stabilization and Association Agreement (SAA) committing Albania to harmonize domestic legislation with the requirements of the European Commission and to support the EU’s common foreign policy and security objectives. The SAA was signed in Luxembourg on June 12, 2006.

While European foreign ministers have pledged that all Balkan countries have a future in the EU, they point out that the speed of enlargement must take into account EU aspirants’ progress toward meeting SAP criteria, as well as the EU’s absorption capacity. Turkey’s EU candidacy led to widespread reflection on the meaning of European identity and to calls for a more deliberate approach concerning prospective members.

Reflecting on Albania’s EU prospects, EP President Borrell declared in March 2006: “You are part of Europe and your future lies in the EU.”⁷² To encourage Albanian progress toward membership, the EU concluded negotiations on visa agreements with Albania to make it easier for Albanian citizens to get EU visas as of January 1, 2008.⁷³ It also announced \$54.6 million to help Albania meet EU membership criteria, earmarking funds for the enhancement of civil society and the media, administrative improvements, and economic development.⁷⁴ During an open debate session in the Foreign Affairs Committee at European Parliament, EU Enlargement Commissioner Olli Rehn highlighted positive trends, affirming that “Albania has impressed us with the implementation of the interim agreement of the Stabilization and Association” (May 2007).⁷⁵ Rehn cited Albania as a positive example and commended its achievements (November 2006). However, Rehn also added that progress to membership is “no bullet train, no Eurostar, no TGV...it is a slow, slow train.” Albania is a long way from EU membership; Rehn described it as an “incomplete work

which needs consistency and to be intensified.”⁷⁶

This report envisions a two-stage process to Albania’s integration into Euro-Atlantic structures. The first stage involves NATO membership and continued assistance, both unilaterally via NATO mechanisms and bilaterally from NATO members. Though NATO and EU are not formally linked, it is envisioned that the EU would expand assistance to Albania, basing rewards on the attainment of benchmarks in the second stage.

It will be a long and difficult road to satisfying all 35 chapters and 60,000 pages of requirements for EU membership, and membership for Albania is a realizable but distant goal. The prospect of EU membership will help ensure Albania’s continued commitment to NATO standards, assuaging concerns about Albania’s possible backsliding.



APPENDIX

Acronyms

- A3 – Adriatic Charter (includes Macedonia, Croatia and Albania)
- CAAF – Albanian Armed Forces
- CEC – Central Election Commission
- EP – European Parliament
- EU – European Union
- FD – Foreign Direct Investment
- GDP – Gross Domestic Product
- GOA – Government of Albania
- GWOT – Global War on Terror
- IBRD – International Bank for Reconstruction and Development
- MAP – Membership Action Plan
- NATO – North Atlantic Treaty Organization
- NCAFP – National Committee on American Foreign Policy
- NGO – Non-Governmental Organization
- NSSED – National Strategy for Social and Economic Development
- ODIHR – Office of Democratic Institutions and Human Rights
- OECD – Organization for Economic Cooperation and Development
- OSCE – Organization for Security and Cooperation in Europe
- PBDNJ – Union for Human Rights Party
- PfP – Partnership for Peace
- SAP – Stabilization and Association Process
- WMD – Weapons of Mass Destruction



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Kristen Brill, a student at New York University, served as the project's research assistant.



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