

# **Integrating Albania: the Role of the European Union in the Democratization Process**

JUDITH HOFFMANN,  
Humboldt University, Germany

*The EU conditionality has been analyzed mainly in the context of the more advanced transition countries of Central and Eastern Europe. While the positive role of the EU incentives for transition to democracy and market economy has been widely recognized in that case, it remains to be seen whether the EU instrument of conditionality will work similarly in the case of Western Balkans. Taking a look at the case of Albania, it is argued in this article that the EU is increasingly faced with the dilemma that the application of conditionality does not sufficiently work towards reform. At the same time, aiming to stabilize the region, the EU is seeking to ensure that the pace of reforms is kept up in the countries of the Western Balkans. In order to analyze the incentive structure provided by the EU to Albania, a critical look will be taken at two main conditionality instruments: (1) access to negotiations, and to further stages in the accession process, and (2), aid and technical assistance. The article concludes that the incentive structure provided by the EU has not been sufficiently adjusted to the needs of a less developed transition country.*

*Key words:* the European Union, conditionality, European integration, Albania, Western Balkans.

## **Introduction**

The Kosovo Crisis in 1999 was another climax of the war-torn 1990s in Southeast Europe. It had a major impact on the attitude of the European Union (EU) toward the region leading to a strong effort to enhance its stabilization and democratization. Although in 1996, the EU started an initiative that aimed at stabilizing the so-called “Western Balkans,”<sup>1</sup> it was not until 1999/2000 that the EU made a clear commitment to integrate these countries into its own structures, and providing them with the prospect of full membership, once they

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are ready for it. (Kommission der Europäischen Gemeinschaften 2001: 6). The Stabilization and Association Agreement (SAA) created an instrument that was aimed at enhanced contractual relations with the EU, similar to the Europe Agreements with Central and Eastern Europe (CEE). Yet, the outcome of the EU's Stabilization and Association Process (SAP) in Southeast Europe (SEE) is not clear. So far, the pace of reforms in these countries remains slow.

Academic research on transition countries in Eastern Europe has widely seen the prospect of the EU membership as the "EU's most powerful instrument to encourage them to undertake major economic and political reforms" (Smith 1997: 7). The literature on the international dimension of transition, and recent studies on the Europeanization of Central and East European Countries (CEEC), emphasize the important role of the EU incentives for the promotion of democracy and market economy.<sup>2</sup> Within this context, conditionality has been used as an analytical tool to explain the effects of external actors on democratization (Grabbe 2002, Schimmelfennig 2005). It is argued that incentives provided by international organizations, especially the EU, have acted as a main mechanism for a positive change and for the promotion of reforms in Eastern Europe. While in the context of the CEE, the EU conditionality is widely recognized for its major impact on the transition process, it remains to be seen whether the EU instruments of conditionality will work in the same direction in the case of Southeast Europe.

Thus, conditionality has been analyzed mainly in the context of the more advanced transition of CEECs (Kubicek 2003). While these cases can be regarded as successes – defined in terms of accession to the European Union in 2004 – the outcomes of external incentives exercised by the EU on the less developed Southeast European countries remain unclear. Yet, research on the effectiveness of conditionality in the context of Southeast Europe has been limited so far.

Taking the case of Albania, this article intends to shed light on the challenges that the EU faces in integrating the Western Balkans into its structure.<sup>3</sup> Compared to CEECs, the region is characterized by remaining security risks, as demonstrated by the outburst of violence in Kosovo in March 2004. Furthermore, its transition process is much more difficult given the generally lower level of income and structural weaknesses, such as institutional capacities, or the rule of law. It will be argued that the EU is increasingly confronted with the dilemma that the application of its conditionality does not work sufficiently toward reforms. At the same time, the EU is seeking to ensure that the pace of reforms in these countries is kept up in order to stabilize the region. To analyze the incentives structure provided by the EU to Albania, I develop an assessment of two main instruments used as conditionality levers: (1) access to negotiations and to further stages in the accession process and (2) aid and technical assistance.

The article proceeds as follows: first, the theoretical framework of the paper will be laid out. It concentrates on *conditionality* as a concept that helps us understand the role of the EU in the transition process of Eastern Europe; second, the Albanian case will be presented in order to critically assess the conditionality approach in the context of Southeast Europe. After a short overview of the relations between the EU and Albania since the start of its transformation in 1991, I will take a closer look at two important instruments of conditionality, namely the political dialogue and the negotiations, and the aid assistance provided by the EU. Both are regarded as very important incentives for reforms. Assessing the EU's strategy in support of Albania's transition process, I will also discuss some shortcomings of its instruments. After considering possible reasons for Albania's slow pace of reforms, I draw some concluding remarks.

### **Theoretical implications of EU conditionality**

The literature on the third wave of democratization increasingly refers to the role of external factors (Huntington 1991). Especially in regard to the transition in CEE, the EU has been given a prominent role as an external actor providing incentives for internal reforms toward democracy and market economy. According to Schmitter, external actors wield the most important influence in a regional context, especially if regional blocs like the EU apply democratic conditionality (Schmitter 1996). "By conditionality, one refers to the linking of perceived benefits – e.g., political support, economic aid, membership in an organization – to the fulfillment of a certain program, in this case the advancement of democratic principles and institutions in a "target state" (Kubicek 2003: 7).

Conditionality is used as one of the dominant and most developed approaches to explain the EU's effectiveness in supporting the reforms toward democracy and market economy in CEE (Kubicek 2003). By using incentives as "carrots", the EU tries to effectively influence the reform process in the target countries. In this context, the EU relies on a wide range of instruments to effect institutional and policy transformation in CEE. These can be categorized as 1) the access to negotiations, 2) the provision of legislative and institutional templates, 3) aid and technical assistance, 4) policy advice, and 5) monitoring. "[A]ccess to negotiations and other stages of the accession process is the EU's strongest conditionality lever, and hence its most powerful political tool for institutional change" (Grabbe 2002: 257). Moreover, aid assistance has been a very important tool because the EU is the largest external source of funding for CEE as well as for SEE.

Nonetheless, two further provisions have to be taken into account while dealing with the concept of conditionality in the context of Southeast Europe: the first is the argument put forward by Grabbe. Analyzing the EU incentives,

she questions whether “the accession and transition are part of the same process and that preparations to join the Union are coterminous with overall development goals” (Grabbe 2002: 253). She proposes that, while the EU as an aid donor is imposing conditions and offering incentives that are intended to support third countries in their transition process, the EU requires specific prerequisites that are necessary for the accession process. These developments do not necessarily go hand in hand. Her arguments will be taken into account when analyzing the EU’s financial aid provided to Albania.

The second argument is put forward by Kubicek. He remarks that the use of conditionality does not guarantee that changes occur in the direction intended by an external actor such as the EU. He therefore poses the question “whether and under what conditions can conditionality actually work?” (Kubicek 2003: 17). Kubicek develops several hypotheses related to his question. In his opinion, the incentives of external actors have to be bigger than the “costs” of losing power that domestic elites face when they start to engage in and continue a democratization process. He proposes that governments “who are relatively certain that they would lose under genuine democratic contestation will be less likely to push ahead with democratization, even in the face of external pressure” (Kubicek 2003: 17). Second, he argues that threats posed by external actors have to be credible in order to be effective. That means that international organizations have to be willing and able to fulfill their commitments. This is possible only when they are the supreme power in negotiations. As I will show in the second part, analyzing the negotiation process of a Stabilization and Association agreement, neither does conditionality work “automatically” in the direction of reforms nor does the EU actually use negative sanctions when facing a reform slowdown.

### **EU-Albania relations**

The EU has supported Albania's transformation since 1991, when the Union integrated Albania into its PHARE assistance program.<sup>4</sup> Since then, Albania has received approximately €1 billion in EU assistance. In December 1992, the European Commission (EC) concluded a Trade and Cooperation Agreement with Albania. In this context, a Joint Committee was set up to pursue the political dialogue between the Albanian government and the EU concerning all bilateral issues. Furthermore, EU-Albania relations have been embedded into the EU regional approach toward the Western Balkans. The first EU regional initiative, the Royaumont Process, launched in December 1996, aimed at supporting the implementation of the Dayton Peace Agreements and focused on promoting regional projects in the field of civil society, culture, and human rights. Its objective was to enhance the cooperation between the countries of the Western Balkans at the regional as well as sub-regional level (Europäische Kommission 1996: 1). Since the perspective that was offered to the countries of the region was neither accommodated to the needs of each single country

nor offered a clear perspective of European Integration, they quickly lost interest in the Royaumont-Process (Ehrhart 1999). As a response, the EU developed the Regional Approach in 1997. Similar to the Royaumont Process, the Regional Approach sought to support the implementation of the Dayton Peace Agreements and to enhance political stability and economic development in the region; yet in contrast to the Royaumont Process, the EU established with the Regional Approach clear political and economic conditionality for the development of bilateral relations with the five countries of the region (EU General Affairs Council Conclusions of 29 April 1997). The conditions included the respect for democratic principles, human rights, the rule of law, the protection of minorities, market economy reforms, and regional co-operation.

Two years later, in 1999, the European Commission acknowledged that Western Balkan countries did not react positively to the incentives provided by the EU Regional Approach (European Commission 1999: 3). Furthermore, the Kosovo Crisis of 1999 had a major impact on the EU's strategy toward the region, and especially towards Albania. In May 1999, reacting to the instability in the region that the 1999 Kosovo crisis demonstrated, the European Commission proposed the creation of a Stabilisation and Association Process (SAP) as a new framework for the development of relations between the EU and the Western Balkan countries. The SAP reflects a more ambitious vision for the region's development, which is based on the recognition that the main incentive for reform in the region is a credible prospect of EU membership for each individual country (Kommission der Europäischen Gemeinschaften 2001: 6).

A key element of the SAP is the creation of Stabilization and Association Agreements (SAA). These new contractual relations are to be established as soon as certain political and economic conditions are met.<sup>5</sup> The objective of the SAA is to support the consolidation of democracy, the rule of law, the economic development and the regional cooperation. It eventually aims at establishing a Free Trade Area between the EU and each of the Western Balkan's countries (Kommission der Europäischen Gemeinschaften 2001: 23). According to the EU, the SAA will contribute to the EU's objectives in three ways. It will bring the countries of the region closer to the standards which apply in the EU; focuses attention on respect for key democratic principles (human and minority rights, stable democratic institutions, etc.); and, includes the core elements which are at the heart of the EU single market (competition and state aids, intellectual property rights, etc.)

In addition to the bilateral relationship between individual countries of the region and the EU, the SAP emphasizes also the regional dimension of the integration process. Therefore, the SAA requests from each country a clear commitment to regional co-operation.

In order to support the Stabilization and Association Process, the European Council established in December 2000 the “Community Assistance for Reconstruction, Development and Stabilization” (CARDS), as a new financial instrument for the region (Council of the European Union 2000). It aimed to bring a more strategic approach to the EU assistance by supporting the objectives and mechanisms of the SAP by increasing financial resources allocated to the region as well as by shifting the priorities of aid assistance. It focuses on the reforms and institution building necessary to implement the obligations that are included in the SAA. Albania started to receive funds under the CARDS regulation in 2001.

### **The instruments of integration: aid assistance and negotiations**

In the following, I analyze two important EC instruments of conditionality aimed at bringing the Western Balkans closer to the EU: the EC aid assistance, as well as the political dialogue and the negotiations. Both can be considered as the main incentives the EU is providing to support the transformation toward democracy and a market economy. I will mainly focus on the decisive period from 1997 onward, when the collapse of pyramidal schemes<sup>6</sup> in Albania led to a major political and economic crisis and marked a serious drawback in its transformation process.

#### *PHARE and CARDS assistance to Albania*

The EU support to Albania started in 1991, when the country was included in the PHARE assistance program together with other CEECs. In order to analyze the EU aid assistance to Albania, three different phases will be distinguished. The first phase lasts from 1991 until 1997; the second phase, from 1997 to 1999, when the EU decided to develop its Stabilization and Association Process; and the final phase, from 2001 onwards, when the EU started its new CARDS assistance program for the Western Balkans. In the following, I will take a detailed look at the EU strategies laid down in various Country Strategy Papers as well as the aid assistance provided by the EU to Albania throughout these three phases. Thereby, the strategic objectives of the EU combined with the amount of funds allocated to specific sectors will be used as an indicator for the EU's focus and its priorities in assisting Albania.<sup>7</sup>

During the first phase, the EU assistance in the amount of €318 million was allocated predominantly for emergency and food aid. Additionally, €190 million in grants were allocated to support the economic reform process (European Commission 2001: 18). According to the 1995 Albania Country Strategy Paper, the general objectives of the EU intervention for the period 1996-1999 were: promoting macroeconomic stability; stimulating private sector development; rehabilitating basic infrastructures; maintaining and

rehabilitating essential social services; and protecting natural resources (European Commission 1995). The Multi-annual Indicative Program (MIP), which lays out in more detail the EU key priority areas of support for the years 1996-1999, stated that the main role of the PHARE program would be to assist in completing market reforms and the medium term restructuring and modernization of the economy (European Commission 1996: 1). It also emphasized that assistance would be provided to support Albania's ambition to develop further relations with the European Union. The MIP indicated the allocation of financial resources amounting to 140 million ECUs in the period 1996-1999. According to the priorities of the 1995 strategy, a great amount of assistance was attributed to the sectors of transport, energy and telecommunications – 27,9 percent; water and environment - 16.4 percent; as well as, local community development - 12.1 percent. The latter largely supported small-scale infrastructure projects aimed at rehabilitating basic infrastructure in Albania. Taking all three sectors together, infrastructure projects were supported with 56.4 percent of the available funds. Secondly, public administration project received 12.1 percent of the assistance. It included, among others, support for civil service and supreme audit institution reforms, customs, police, judiciary, approximation of legislation, public awareness, and statistics (European Commission 2001: 60). Funds for agriculture remained at nearly 10 percent of the total resources, while funds for the education, health, and private sectors remained under 8 per cent. While there was a strategic focus for supporting infrastructure, the six other areas were, by and large, supported equally.

The second phase of the EU assistance started after the dramatic developments in Albania during the 1997 crisis. In light of the severe institutional and economic instability triggered by the collapse of pyramid schemes, the EU had to reconsider its strategy. It did so in its 1997 Country Strategy Paper, which main point of departure was the acknowledgement that “institutional development remained weak” in Albania (European Commission 1997: 2). It stated that although Albania's macro-economic and structural achievements were impressive, Albania lacked judicial implementation capacity, as well as an efficient public administration, and that it suffered from an unreformed financial sector. With the 1997 strategy paper, the EU aimed to adjust its strategy, identifying the following strategy areas of action: restoring and developing governance and promoting civil society; designing and implementing sound economic and social policies; and reviving economic activity.

In order to reshape its engagement in Albania, the EU decided to reinforce some sectors of intervention while gradually abandoning others “to free the necessary funds for priority programs and to allow a more efficient concentration of efforts (and a critical mass) for key interventions” (European Commission 1997: 9). The EU priorities were set within the context of the newly developed Regional Approach for Southeast Europe as reflected in the

General Affairs Council Conclusions of April 29, 1997. The 1997 strategy paper explicitly stated that it is in the mutual interest of Albania and the EU to promote the development of a society adopting the “rules of the game” and the basic principles underlying other European societies (European Commission 1997: 9). A priority objective of the EU assistance was therefore the “existence of a proper regulatory and legal framework and the capacity of the government to enforce it” (ibid.). Accordingly, the EU revised its MIP.<sup>8</sup> It reallocated the funds and reduced the overall number of support areas. In the revised MIP, the EU significantly increased its support for public administration, which rose from 12.1 percent to 19.4 percent. Furthermore, its support for agriculture rose from 9.6 percent to 12.6 percent. Meanwhile, the EU started to withdraw from health, education, and private sector development, including privatization, small and medium enterprises (SMS), banking, and tourism, which diminished from nearly 22 percent to only 9.9 percent. Still, the focus of aid assistance was clearly put on infrastructure projects, which amounted to 58 percent in the revised MIP compared to 56.4 percent in the original MIP, taking the support for transport, water and local community development together. This means that, although the EU adjusted its strategy to the new situation after the crisis of 1997, the priority of its aid assistance did not radically change. Rather, the need for a greater emphasis on the support for institutional reforms became an additional objective to the continuation of the “old programme” (European Union 1997: 10).

After the 1999/2000 decisions to take further steps for integrating Albania into European structures by offering the prospect of potential membership, the third phase of the EU assistance started. In 2001, Albania became eligible for CARDS assistance funds. “The CARDS program underpins the objectives and mechanisms of the SAP and, as each country moves deeper into that process, assistance will focus increasingly on support for the reforms and institution building process necessary to implement the obligations in the Stabilisation and Association Agreements” (European Commission 2001: 6). In contrast to the previous strategy papers, the 2001 Country Paper, which laid out the indicative assistance program for the period 2002-2004, placed much more emphasis on sectors such as justice, democratization, and public administration (European Commission 2001). Observing the areas of support and the funds allocated to the new priorities, we can see a significant shift in the EU’s focus of assistance. The major focus of the EU assistance during 2002-2004, support to public administration,<sup>9</sup> received more than 60 percent of the funds, while ranking far behind, local community development (small-scale infrastructure projects) received around 16 percent of the resources. Assistance to the environment diminished to 7.6 percent. While no funds were foreseen for agriculture and transport, support for “democratic stabilization” as a new budget item was developed with 2.1 percent of the funds. The overall indicative CARDS assistance in 2002-2004 amounted to €143.9 million (European Commission 2001: 58).

Taking into account the SAP as the new regional strategy, aid flows to Albania were significantly adjusted to fit the new requirements, and to support areas that would be of major importance for implementing a future SAA. Along with support for overall administrative reforms (in the area of justice and home affairs, overall administrative capacity building, etc.) the CARDS program provided funds for very specific measures which were central for the implementation of a future Stabilization and Association Agreement and a future Free Trade Area with the EU, e.g., public procurement, competition and state aid, statistics, integrated border management, asylum and migration, trade, legal and regulatory framework including norms, technical standards and certification as well as veterinary and phyto-sanitary control (European Commission 2001: 3).

The shift in the EU assistance during the three distinct phases becomes even more obvious when the funds allocated in all three periods are compared to each other. While during the previous strategies (1996-1999 MIP and revised MIP), the primary focus of assistance was on infrastructure support with around 60 percent of the funds, during the period 2002-2004, this shifted radically to public administration (including the judiciary reform) becoming the single most important area of support with 60 percent of the assistance allocated.<sup>10</sup> During the same period, neither the transport sector nor the agriculture sector received funds. This means that support for infrastructure remained limited to small-scale infrastructure projects under the local community development component.<sup>11</sup>

Comparing the EU assistance toward the Western Balkan countries with the EU strategy toward CEE, we can discover major differences, as well as significant similarities in the EU's strategic support and approach.

A major difference relates to the sector of support in both cases once the accession process and association process, respectively, started. Until 1997, in the CEE, the "EU aid policy was oriented towards a broad range of goals connected with transition toward pluralist democracy and market economics" (Grabbe 2002: 258). Since the PHARE assistance was demand-driven, the Eastern European governments were able to request support in the field of institutional reform and infrastructure according to their own priorities. Only after the 1997 Luxembourg Summit did PHARE become explicitly an instrument of pre-accession policy for the CEECs and "all instruments were then more closely focused on detailed preparations for accession" (ibid.). While the main priorities during the accession phase in the case of CEECs were institution building (with approximately 30 percent of the funds) and the development of infrastructure (approximately 70 percent of the funds), we observe in the Albanian case nearly the opposite (with around 60 per cent provided to institution building and around 24 percent to infrastructure) (ibid.). Furthermore, in the case of CEE, additional pre-accession funds are still

distributed through the ISPA and SAPARD programs.<sup>12</sup> Until now, Albania has not been eligible for these additional funds.

Similar to the EU approach to the former accession countries in CEE, with the start of the CARDS program – an *accession-driven* approach – the main focus of the EU aid changed to support the integration process under the SAP. While previously, the EU assistance under PHARE was demand-driven and focused more on supporting economic development and reconstruction – a *developmentalist* approach – the introduction of the CARDS program led to an *integrationist* approach, which aimed at supporting the areas of major importance for the future implementation of the SAA. Therefore, the majority of aid assistance was given to areas important for the future implementation of the SAA.

While according to EU documents, the prerequisites and regulations necessary for the implementation of the SAA – e.g., standards and certification – will eventually lead to the development of the country – e.g., by attracting foreign investors – this causal link is questionable (European Commission 2001: 23).<sup>13</sup> The former Head of the World Bank's country office in Albania stated in an interview that that institution framework will only be successful if the underpinning of reform and democracy, i.e., socio-economic development, is promoted.<sup>14</sup> In his opinion, the EU should pay more attention to economic development and the creation of income. Furthermore, building institutions should lead to better services for the citizens and the development of the country. It cannot be seen as an end in itself.

In conclusion, analyzing the EU strategies and aid assistance between 1991 and today, we can observe a major shift in priority, from an approach aiming at reconstruction and economic development to one of integration. Although this can be interpreted as positive from the point of view of political and symbolic integration into European structures, in terms of economic development, the aid assistance under the CARDS program seems not to be suited to meet the enormous challenges Albania is facing. Starting the transformation as the poorest country in Europe, Albania's political and economic development is still much endangered by the lack of basic preconditions, e.g., underdeveloped infrastructure, weak institutions, high emigration rates, a very high brain drain, etc. "For the countries at the back of the queue, making enormous efforts to meet EU product and process standards may be inappropriate in the context of the pressing needs of transition and their lack of spare administrative and financial capacity" (Grabbe 2002: 266). In this context, a contradiction between development and accession can be observed, which becomes especially obvious in the case of the less-developed countries in Southeast Europe. This contradiction reveals limits of an integration approach, which does not sufficiently take into account the country's specific transformation problems. The following question of the former Minister of Economic Cooperation and Trade well expresses the problem of the EU approach: "How

can we make use of the trade liberalizations with our neighbors if we do not even have a proper road to Kosovo?"<sup>15</sup>

### *Political dialogue and negotiations*

In order to analyze the EU's second instrument of integration, I take a look at the EU approach towards the region, and especially Albania. As will become obvious, looking at the EU-Albania relations, the period from 1999 onward has been decisive for Albania's closer integration into European structures. Only in 1999 did the EU offer to the countries of the Western Balkans a clear integration perspective by developing the Stabilization and Association Process as the main framework for the future relations between the EU and the Western Balkan countries (EU General Affairs Council of 21/22 June 1999). Until the negotiations for an SAA were finally opened in January 2003, a number of steps had to be taken. During each step, the EU assessed the progress made by Albania in regard to reforms toward democracy and a market economy.<sup>16</sup>

The first step toward the new relationship with the EU was a report on the feasibility of negotiating a Stabilization and Association Agreement with Albania prepared by the European Commission in 1999. In that report, the Commission concluded that Albania was not yet in the position to start negotiations. "Albania remains marked by important economic, political and institutional weaknesses which do not facilitate the perspective of an association with the EC and its Member States. At least, in parallel to the opening of negotiations, if not before, the country must do its utmost to address the weaknesses" (Commission of the European Communities 1999: 16). In particular, the report drew attention to three set of problems that would hamper a full association with the EU: first, the institutional instability, the weak governance and public administration, and weak rule of law; second, the difficult establishment of a Free Trade Area with the EU given the relative importance of revenues from custom duties for Albania, where 90 percent of the imports originate in the EU; and third, the weakness of the Albanian economy and its high dependency on foreign aid (Commission of the European Communities 1999).

At the Feira European Council in June 2000, the EU member countries' Heads of States and Governments confirmed that all the countries of the Western Balkans "are potential candidates for EU membership" (European Council 2000). In the Presidency Conclusions, it is further stated that "the objective remains the fullest possible integration of the countries of the region into the political and economic mainstream of Europe through the Stabilization and Association process, political dialogue, liberalization of trade and cooperation in Justice and Home Affairs" (ibid.). The Zagreb Summit in November 2000 sealed the Stabilization and Association Process. The countries of the Western Balkans agreed to a set of objectives and conditions in return "for the EU's

offer of a prospect of accession on the basis of the Treaty on European Union (TEU) and the 1993 Copenhagen criteria” (European Commission 2001: 5).

At the Zagreb Summit, the second step on the way to the SAA between Albania and the EU was taken. The EU decided to establish a High Level Steering Group (HLSG), which aimed at supporting Albania in its preparations for the negotiations of an SAA. “The EU/Albania HLSG was asked to assess progress, recommend the necessary reform measures, provide advice and guidance in all areas of concern set out in the 1999 Feasibility Report, and to report to the Council by mid-2001” (Commission of the European Communities 2001: 9). Evaluating the developments in Albania, the HLSG’s report concluded with a rather positive recommendation. Although the report mentioned that “Albania is not yet in the position to meet the obligations of a Stabilization and Association Agreement” it considered that “if the current pace of change is sustained and if sufficient priority is given to strengthening administrative capacity during the negotiating and transition periods, considerable improvements can be made” (Commission of the European Communities 2001: 8). Furthermore, the report recommended that “the perspective of opening Stabilization and Association Agreement negotiations is the best way of helping to maintain the momentum of recent political and economic reform, and of encouraging Albania to continue its constructive and moderating influence in the region” (ibid.). Finally, it stated that the Commission “therefore considers it appropriate to proceed with a Stabilization and Association Agreement with Albania” (ibid.). The report’s conclusion can be interpreted as the outcome of a difficult bargaining process between the EU member states being in favor of the decision to open negotiations, first of all Italy and Greece, and the ones opposing it, primarily the “northern” member states. The report mentions that the negotiations can “of course, only be concluded when all appropriate conditions have been met” (ibid.). The Gothenburg European Council of June 2001 invited the Commission to present draft negotiation directives to the Council for the negotiations with Albania “by the end of this year if possible” (European Council 2001: 15). For this purpose, a EU/Albania Consultative Task Force (CTF) was established to prepare the negotiations of the SAA with Albania.

Due to increasing political instability in Albania in the aftermath of the 2001 general elections, and rising tensions between the government and the opposition regarding the election results results, negotiation directives to the Council were postponed until June 2002 and only adopted in October 2002. Delaying the start of the negotiations was a clear sign of the EU showing its readiness to use negative measures in critical situations to induce further reforms.

Finally, as the third step, negotiations for an SAA were officially opened on January 31, 2003. This was made possible after the smooth election of a new consensual president in Albania, which led – at least temporarily - to a more

constructive political atmosphere between the government and the opposition. Opposite to the negotiations of SAA in the cases of Macedonia and Croatia, the Council provided the Commission with a specific negotiation mandate, which allowed the continuation of the Consultative Task Force (CTF) meetings, including the member states' representatives, parallel to the technical negotiations with the Commission as the leading actor. This specific provision allowed the member states to monitor more closely the negotiation process. Furthermore, the continuation of the CTF was seen as an important instrument to maintain a platform for discussing and monitoring Albania's general reform progress, e.g., regarding the development of democratic institutions and the rule of law. As the European Commission keeps stressing in its annual SAA reports, progress in the overall reforms will remain a key precondition for the conclusion of the SAA (Commission of the European Communities 2003: 1). Only if Albania is able to prove its ability to sustain the reform process and implement a future SAA, will the technical rounds be concluded (Commission of the European Communities 2004).

Nearly two years after the instigation, the negotiations are still under way. Until now, ten negotiation rounds have been held, and while the technical rounds proceed, by and large, to the satisfaction of the EU, the implementation of the overall reform process is stagnating. By the end of 2003, it became increasingly obvious that throughout that, substantial progress toward the objectives set by the EU had not been made. After the seventh round, in November 2003, the EU published for the first time a press release on the negotiations that was very critical. It warned that "this slow pace of reforms puts at risk the SAA negotiations and urged the Albanian authorities to take immediate actions to address many shortcomings identified by the SAP report and the CTF meetings" (European Union 2003:1). In the opinion of the European Commission, areas of particular concern are the fight against organized crime and corruption, the functioning of democratic institutions, the proper implementation of legislation, and the stability of administration.

While the EU believes that opening the negotiations would have a lasting impact on the Albanian reform process, and although the EU stresses that the negotiations will not be concluded until there is a clear sign of progress, reforms are stagnating. The most recent SAA report (2004) criticized the Albanian government's approach toward reforms. It states that:

The Government has continued to state that Albania's progress in the Stabilisation and Association Process is a top priority. However, its actions have not always supported this. Despite progress made during SAA negotiations in discussing the text of the future agreement, many of the reforms necessary to guarantee its proper implementation have not been carried out. Of particular concern are those issues central to the rule of law. These include the fight against organized crime and corruption and the

functioning of the judicial system. (Commission of the European Communities 2004: 3).

The Commission emphasized that “results have fallen short of expectations in the key areas of organized crime, corruption, judicial system and public administration reform” (ibid.). The report concludes that “since Albania wishes to progress on its path toward the EU, it is crucial that it demonstrates the political will, the determination and the capacity to address the key issues identified in this report without delay” (ibid.).

The report’s evaluation concerning the implementation of the Stabilisation and Association Process focusing on the topics relevant to the future SAA (among others, internal market and trade, sectoral policies, co-operation in justice and home affairs) concludes that:

actual implementation of reforms has been insufficient to properly address many of the shortcomings identified in the 2001 High Level Steering Group report, subsequent Stabilisation and Association Process (SAP) reports, and in the framework of the frequent dialogue between the EC and Albania. Only a limited number of the recommendations of the 2003 SAP report and of the various Consultative Task Force meetings (CTFs) have been fully implemented. Albania does not yet offer a sufficient guarantee that it will be capable of correctly implementing the future Stabilisation and Association Agreement (SAA). Prior to the conclusion of SAA negotiations, Albania should demonstrate that it has made significant progress in terms of reform, and that it is in the position to implement the SAA provisions that it has negotiated. More determination towards delivering concrete results in the various priority areas remains necessary (Commission of the European Communities 2004: 18).

In view of these developments, and taking into account the EU’s belief that the perspective of a closer integration is strong enough to induce reforms, it is interesting to explore the reasons for Albania’s slow pace of reforms. It would be one sided to attribute the weaknesses only to Albania’s incapability of implementing reforms. Certainly, capabilities of institutions and human resources are limited but there seem to be other reasons for this stagnation as well, which are connected to the incentive structure of the future SAA. Three of the reasons will be discussed in the following.

First, one of the main benefits of the future SAA will be the establishment of a Free Trade Area with the EU. The SAAs “set out rights and obligations in areas such as competition and state aid rules, intellectual property and establishment, which will allow the economies of the region to begin to integrate with the EU’s” (Kuko 2003: 7). If we consider that 90 percent of the

Albanian imports originate in the European Union, with custom tariffs representing a major source of revenue, the benefits of an FTA with the EU will not immediately be realized since in the short term, custom revenues will be diminishing, and as long as Albania is dependent on this revenues, a FTA does not seem very promising. It is striking that only after the conclusion of a FTA with Macedonia that Albanian businessmen started to realize that they could not compete with Macedonian products. How will they be able to compete with EU producers?

Second, if we take the Albanian governing elite as a political actor with short-term interests, we can assume that they cannot see the immediate benefits of compliance with EU conditions since the EU membership still has a long way to go. Implementation of the SAA will take a number of years, and it is not connected (at least so far) to additional funds to balance possible losses from opening markets to EU members. On the other hand, non-compliance has not been very costly so far, at least as long as the EU is not taking any stronger negative measures such as abandoning negotiations or terminating funding. Taking into account the current situation in the region, especially after the outburst of violence in Kosovo in March 2004, it seems that the EU is willing to pay the price for Albania's contribution to regional stability as long as Albania is willing to contribute.

Third, we have to consider that throughout the 2003, the Albanian elite was very much preoccupied with a major power struggle between the former government ruled by the Socialist Party (SP) and the opposition led by the Democratic Party (DP) in the forefront of the local elections. Although elections took place in October 2003, due to allegations of fraud in the capital city of Tirana, they lasted until December 2003, when the last election round took place. Furthermore, the internal fight for the leadership within the then ruling SP between Prime Minister Fatos Nano and the Deputy Prime Minister Ilir Meta had negative effects on government stability. The power struggle between the former government coalition and the opposition continued throughout 2004. Particularly, the main focus of attention and the source for political tension was the upcoming parliamentary elections scheduled for summer 2005.

In the light of these developments, one has to ask whether the Albanian elite is really interested in the progress of reforms. If we take into account allegations of corruption, fraud, and illegal activities, which seem to have reached the highest ranks of the former government, one could assume that "lacking political will" is nothing other than the lack of common EU and Albanian interests. Given the persistence with which the former Albanian government was making statements in favor of the European integration without ensuring politically that these reforms come into existence, it could be assumed that the Albanian political elite might be profiting from a situation where many areas of

state activities such as the issuing of construction licenses, illegal trafficking, smuggling, etc., are uncontrolled and unregulated.

### **Conclusions**

This article intended to take a critical look at the two most important EU instruments of conditionality in its relations with Albania: the aid assistance, and the negotiations for a SAA. Analyzing the EU assistance program PHARE and CARDS, we saw a major shift of the EU approach after the Kosovo crisis in 1999. In this way, the EU put "integration" on its agenda and focused its aid almost exclusively on institution building. While there was a predominance of aid given to infrastructure during the period until 1997, this changed drastically with the introduction of CARDS assistance in 2001. Taking into account that Albania is one of the poorest countries in Europe and needs a strong economic growth to catch up with the rest of Europe, the almost exclusive concentration of the EU funds in areas necessary to the implementation of a future SAA seems not to be well suited to the needs of the country. In other words, one can conclude that at the moment when the EU decided to politically and economically integrate Albania more closely into its structures, it ceased to support the very basis of this integration. This dilemma can be described as "the Union's twofold role", i.e., as an aid donor and the "club owner". According to Grabbe, it is doubtful whether "the accession and transition are parts of the same process and that preparations to join the Union are coterminous with overall development goals" (Grabbe 2002: 253).

The second part of the paper dealt with the negotiation process for an SAA with Albania as the second element of the EU conditionality. It was shown that the negotiation of in SAA may not be "the best way of helping to maintain the momentum of reform" as the EU suggested in its 2001 High Level Steering Group Report (Commission of the European Communities 2001: 8). Until recently, it was not sufficient to accelerate the pace of reforms necessary to satisfy the EU conditions. Whereas in CEE, starting the negotiations with the EU gave impetus to accession preparations, and the candidates moved quickly through negotiations, we cannot draw a similar conclusion in the case of Albania. Instead, the developments in Albania show that the opinion shared by many scholars, and also the officials of the European Union, that the Union can induce reforms and change by offering the perspective of integration might be too optimistic. Following the argument of Kubicek, it seems that the incentives offered by the EU have not yet been able to offset the costs faced by the domestic elites to engage in an overall reform process.

Thus, the EU faces a serious dilemma in integrating Albania into European structures. Should it to provide Albania with additional incentives? Or should it stick to its conditionality and abandon negotiations or assistance if the slow pace of reform continues? The outburst of violence in Kosovo in March 2004

especially reminded the policy makers in the EU that a successful transition process in Southeast Europe is still heavily threatened by security concerns and instability. In such a context, “external actors might not want to make matters worse and risk the limited democratic gains or wholly alienate the regime” (Kubicek 2003: 19). As Smith points out, the EU has always preferred so far to hold up relations that have already been established. Nonetheless, “the reluctance to use coercion can make manifest serious inconsistencies in the EU's approach” (Smith 1997: 14). In the long run, it puts the credibility of conditionality at risk because it deprives the EU of an important lever. “If individual organizations were perceived to subordinate conditionality to other political, strategic, or economic considerations, the target state might either hope to receive the benefits without fulfilling the conditions or conclude that it will not receive the rewards at any rate” (Schimmelfennig 2004: 7).

In order to make Southeastern Europe a “success story” comparable to the ones in most of Central and Eastern Europe, the EU needs to put a much stronger emphasis on issues of economic development. Although offering a SAA is pointing in the right direction, the incentives structure for Albania has to be shaped differently than the one in CEE in order to be more effectively. In order to gain a detailed understanding of how the various instruments of conditionality work within the region, further research is necessary.

## **Endnotes**

<sup>1</sup> Western Balkans includes the following five countries: Albania, Bosnia and Herzegovina, Croatia, Serbia and Montenegro, and the former Yugoslav Republic of Macedonia.

<sup>2</sup> Among others Demetropoulou 2002, Kubicek 2003, Pridham 1994, Smith 1997

<sup>4</sup> The PHARE Programme was originally created in 1989 to assist Poland and Hungary and later expanded to other countries in CEE and South-East Europe. Until 2000, Albania was as well eligible for funds under the PHARE Programme.

<sup>5</sup> Hereby, the EU follows a “graduated approach” meaning that “progressive implementation of conditions will lead to progressive improvement of relations” (General Affairs Council Conclusion on 20 April 1997).

<sup>6</sup> A Pyramid schemes is a fund or company that attracts investors by offering them very high returns; “these returns are paid to the first investors out of the funds received from those who invest later. The scheme is insolvent—liabilities exceed assets—from the day it opens for business. However, it flourishes initially, as news about the high returns spreads and more investors are drawn in” (Jarvis 2000: 47).

<sup>7</sup> Only PHARE and CARDS assistance is taken into account. Note that all numbers are indicative. Therefore, they will differ from the actual disbursement of funds.

<sup>8</sup> The EU did not increase the overall amount of its aid assistance though, which remained 140 million ECUs.

<sup>9</sup> It includes support to civil service reform, supreme audit institution, customs, police, judiciary, and approximation of legislation, SAA preparation, and statistics.

<sup>10</sup> In order to make the amounts spent on specific areas comparable, I stick to the classification used by the EU and include in "public administration" the funds spent for justice and home affairs.

<sup>11</sup> Due to low rates of disbursement and delays in the implementation of PHARE projects, there were still PHARE infrastructure projects under implementation during 2002-2004.

<sup>12</sup> While the "Instrument for Structural Policies for Pre-accession" (ISPA) was designed to address environmental and transport infrastructure priorities in the applicant CEECs, the aim of the "Special Accession Programme for Agriculture & Rural Development" (SAPARD) is to support the structural adjustment in their agricultural sectors and rural areas, as well as the implementation of the *acquis communautaire* concerning the CAP (Common Agricultural Policy) and related legislation.

<sup>13</sup> "Sustainable economic development is central to the SAP. All of the measures supported will contribute directly or indirectly to this goal" (European Commission 2001: 23).

<sup>14</sup> Interview with Eugene Scanteie, 14.2.2003 in Tirana.

<sup>15</sup> Interview with Ermelinda Meksi, 10.3.2003 in Tirana.

<sup>16</sup> The procedures to be followed until the opening of the negotiation of a SAA are the same for all countries of the region.

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**Address for correspondence:** Humboldt University, Berlin, Germany. Email: [mannhoff@hotmail.com](mailto:mannhoff@hotmail.com)