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EARLY WARNING REPORT

# HUMAN SECURITY IN ALBANIA

with

## A CASE STUDY On the Energy Crisis

PROBLEMS AND IMPLICATIONS  
UPON HUMAN SECURITY

April 2004

Prepared for: **UNITED NATIONS DEVELOPMENT PROGRAMME IN ALBANIA (UNDP)**  
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The views expressed herein are those of the authors of the report and do not necessarily reflect the views of the United Nations or the United Nations Development Programme.

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## INTRODUCTION

Following the crisis of 1997 Albania has experienced considerable macro economic stability. However, as experience has shown macro economic stability is not necessarily a sufficient condition for political and social stability. Furthermore, in the Albanian case macro economic stability has not yet produced prosperity and economic well being at the family and individual level.

The motivation for the production of an early warning report was that relevant qualitative research was not being done on a consistent basis and as such, no trend or dynamic conclusions could be drawn to inform response strategies and pro-active decision-making. The main goal of the Early Warning reports is to develop an analytical framework in which potential factors that could cause instability in Albania could be measured. It is through this framework that data gathered and the analysis of early warning information would be brought to all interested parties, such as the government, media, civil society and international organizations so that appropriate measures can be taken. However, the main target group of this reporting process will be the government of Albania at the central and local level to enable the formulation of timely and pro-active policies dealing with the identified concerns.

Unlike the previous two attempts at Early Warning Reporting, which were largely thematic in their focus, this revised Report format will emphasize the establishment of an effective monitoring system. The first Albanian Early Warning Report was written after the Kosovo crisis. Since elections have proven to be conflict generating events during the past decade in Albania, the second report focused on political risk assessment of the 2001 pre-electoral situation in the country. The situation is now slightly different as the country is recovering and has made considerable improvements in terms of political and economic stability. The challenge now is to adapt an Early Warning tool for crisis prevention in a post-crisis country that is no longer under emergency conditions.

The Albanian Early Warning System will develop an appropriate methodology for the Albanian context through the lens of human security. Human security is a very broad concept that encompasses economic, social and political security. Therefore, human insecurity as a precondition to human development can be considered as the main source of potential crises situations. In order to better assess the levels of human security in Albania, monitoring indicators will focus increasingly on macro to micro developments and from the national to local level. The increased focus on micro developments is necessary in order to accurately assess personal security levels. It is only in this way that potential crises areas can be identified and recommendations be produced accordingly. This is even more necessary in the

Albanian context given the large internal migration rates and the growing regional disparities the latter having a negative implication on future levels of human security and economic development in Albania.

The way the report is compiled and the data has been monitored offers a baseline upon which quarterly reports will be developed in order to formulate a trend analysis.

Qualitative and quantitative indicators and analyses will be used in a complementary fashion. The assessment of human security concerns will be conducted based on four main reporting instruments that consist of research, case studies, national surveys and round tables. Specific data will be provided on indicators that have been monitored by AIIIS, as well as quarterly statistical data issued by the Albanian Institute of Statistics (INSTAT), the Bank of Albania and primary data that comes from the two nation- wide surveys organized by AIIIS, with the cooperation of INSTAT (one already organized at the beginning of the project in September 2003 and the second to be carried out a year after. The information reported here is largely based on the findings of the survey conducted by AIIIS&INSTAT<sup>1</sup>, which was especially designed for the purposes of this study in cooperation with UNDP Albania.

## EXECUTIVE SUMMARY

The analysis developed in this report focuses on the issues of poverty and unemployment, rule of law and corruption, crime and individual security, natural disasters and pollution, with a case study on energy, which is considered highly problematic and embedded with potential human threats.

**Poverty and Unemployment.** The report identifies poverty and unemployment as the primary concerns for human security in Albania – a conclusion that comes out of the survey results where 58% of respondents pointed out poverty as their most concerning problem. Apart from the monetary aspects of poverty there are other basic non-income dimensions of deprivation which are mostly experienced in terms of the shortages of electricity and running water and the lack of access to basic sanitation and services as well as housing. In macro economic terms of performance the state budget suffers considerably from tax evasion and smuggling that has negatively affected the state welfare policies. Informal economy is thriving and there are no substantial and sustainable efforts to intervene.

**The Rule of Law and Corruption.** Rule of law and corruption remain issues of considerable importance for human security since they affect almost all aspects of the social, economic and political life of the country. Furthermore, infringements on the law and the level of corruption have seriously damaged governance performance and the functioning of state institutions. The importance of the rule of law acquires additional importance since it is one of the main chapters of ongoing negotiations between the government of Albania and the European Union within the framework of the Stabilization and Association Agreement. The majority of the survey respondents recognize the importance of the rule of law there is a significant proportion at the national level that believe that Kanun is more important. This indicates the lack of confidence in the rule of law and testifies for the weakness of institutions that enforce it. Not only is there is concern about weak institutions, but there is almost a general belief held by respondents that there are categories of people in Albania that stand above the law such as politicians, the rich and people with the right connections. The percentage of respondents believing that politicians are above the law is a stunning 84 %. The trend is reinforced and the argument becomes really concerning when 83 % of respondents consider politics to be the main source of conflict in Albania. Furthermore, businesses and economy appear to be dependent on politics, rather than on legal and normative institutional framework, hence the tense political climate has negative implications on the economy, which in return negatively affects the living standards of citizens. The survey findings suggests that people pay bribes to government for their problems to be addressed or to have access to a certain service as well as to ensure a qualitative provision of services. Services offered in the public sphere remain the most problematic with a great majority of respondents express varying levels of dissatisfaction

with the health and education services. Courts, Real Estate Registry as well as customs are also singled out as the most corrupt institutions. Corruption and the lack of rule of law remain important challenges for Albania, with threatening potential for the future development of the country. Despite continuous warnings from high Euro-Atlantic officials no efforts have been mobilised to address these issues through a sustained long-term approach. The report emphasizes the need to improve governance, and denote the fight against corruption as a priority cross-cutting all reforms and the time has come for the government to publicly denounce specific cases of corruption either at the central or local level.

**Crime and Personal Security.** The transition in Albania has been followed by a cluster of insecurities, which have often degenerated in different forms of corruption, breakdown of law and order, even delinquency. These insecurities have been combined with other factors such as the inadequacy of the state to properly address the concerns of the citizens and the lack of strong institutions and law enforcement practices. This situation creates serious consequences for personal and community security. The report offers a general picture of the state of fear in Albania. Despite the varying degrees of respondents' insecurities there is a significant discrepancy between perceptions and reality concerning security issues in Albania. High perception rates accompanied by low occurrence rates provides hope for optimism but at the same time raises questions about the factors that have contributed to such a perception building. This identified discrepancy needs to be explored further since above all demonstrates a significant lack of confidence in state and public institutions.

**Natural Disasters and Pollution.** Pollution and natural disasters pose serious threats to the economic development of Albania. Natural disasters, such as floods and heavy snow have endangered the security of people and consequently their local development. Environmental issues such as air and water pollution, the reduction of green spaces, poor urban planning, and sewage are the most critical source of concern for 9.1 per cent of the survey respondents. On the other hand, public awareness of environmental issues is still low, whereas measures adopted by the government are insufficient. Since the state of environment is continually deteriorating, and areas of Albania are in a constant threat of natural disasters, it is important that the government pays particular attention to the enforcement of environmental policies and standards which will be the focus of our upcoming reports.

**Energy.** The impossibility to satisfy the country's needs for energy and the policies of arbitrary restriction of the energy supply, constitute the essence of the energy crisis<sup>1</sup> in Albania. This case study presents the current situation of the energy sector in the light of human dimension, and considers its repercussions on the normal life of the citizens, as well as its implications for the economic development of the country. The report comes out with several recommendations aiming to safeguard the interests of consumers and alleviate the impact of pricing policies by designing subsidy policies for the poor, as well as making the energy tariff and price adjustment mechanisms more transparent accompanied by the promotion of energy efficiency and energy saving measures.

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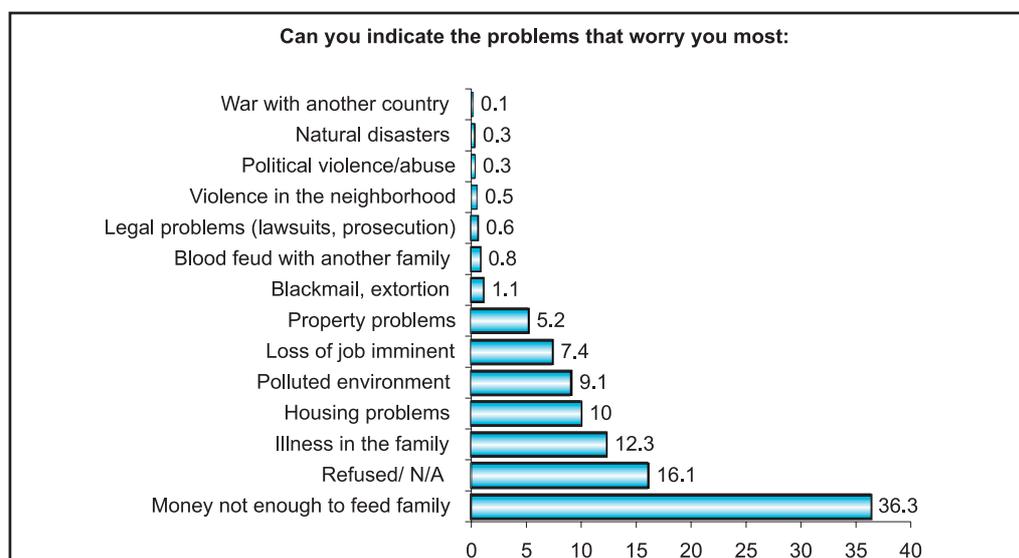
<sup>1</sup> The energy crisis has been understood first of all as a crisis in the electricity sector. However, the electricity crisis is part of a wider energy crisis.

# 1. POVERTY AND UNEMPLOYMENT

According to a nationwide survey conducted by the AIIIS and from data collected by the Albanian Institute of Statistics, it appears that non-surprisingly poverty and unemployment are the primary concerns for human security in Albania. The perception of poverty has been ascertained following analysis conducted within the formulation of the National Strategy for Social and Economic Development, other quantitative and qualitative reports, and has been consolidated within the context of the AIIIS survey. The following section focuses on these two issues and the related implications.

## 1.1 Poverty

According to the AIIIS survey, 58 per cent of the respondents feel that poverty is the problem that concerns them the most. Poverty has been defined as being composed of a number of interrelated components including insufficient money to feed the family which 36.3 per cent of respondents cited, illness in the family which 12.3 per cent of respondents cited and housing problems as cited by 10 per cent of respondents. As reflected in Chart 1 a clear picture is given of the list of problems concerning the population, and their importance for the household.



**Chart. 1.** The hierarchy of citizens' concerns.

The Statistical data of the Institute of Statistics (INSTAT) confirms the findings of the aforementioned survey. According to INSTAT, 5 per cent of the population cannot even satisfy their personal needs for food. LSMS (Living Standard Measurement Survey) indicates that 25.4 per cent of the population lives below the poverty line, while 4.7 per cent are extremely poor. Furthermore, 38 per cent of the poor cannot even satisfy their basic needs for two or more items.

**Table 1:** Poverty and inequality in Albania

	Tirana		Other urban		Rurals areas		Total	
	Poor	Very poor	Poor	Very poor	Poor	Very poor	Poor	Very poor
Poverty headcount	17.8	2.3	20.1	4.8	29.6	5.2	25.4	4.7
Poverty gap	2.8	0.6	4.7	0.9	6.6	0.7	5.7	0.8
Average consume/capita (Lek)	<b>9.043</b>		<b>8468</b>		<b>7212</b>		<b>7801</b>	

**Source:** NSSD - National Strategy for Socio-economic Development

One poverty indicator is the low level of incomes of Albanian families. Poverty is also related to the high unemployment rate, which is estimated to vary between 25-30 per cent<sup>3</sup>. INSTAT reports the average national income is approximately 7801 Leke per capita.

According to indicators documented by the AIIS team, the level of poverty in Albania is much worse than that indicated by official data. As a consequence, this suggests a great sense of human insecurity with potentially strong destabilizing effects. According to the Albania newspaper, 46.6 per cent of the population lives on less than \$2/day, while 17.4 per cent lives on less than \$1/day within the category of low-income. Pensioners constitute 20 per cent of the poor in Albania<sup>5</sup>.

While the level of actual poverty may be higher than the level officially documented and there are important regional differences. It is believed that 1/5 of the poor live in the north/east part of the country. There are also differences between Tirana and the other urban centres, as well as between urban-centres and rural areas. The average income in Tirana is approximately 9043 lek/capita, in the other urban centres it is 8467, and in rural areas it is 7212 leke/capita. Other sources have also indicated regional disparities that have an effect over people's daily life<sup>7</sup>.

The AIIS national survey indicated that 57.2 per cent of Albanian families live on a monthly income that varies between no incomes at all (2,3 per cent) and 10000-17000 Leke (23.4 per cent). Considering that the average number of members in a family in Albania is approximately 4.5 people, with the help of a simple arithmetic it may be concluded that more than half of the Albanian households live on incomes that are well below the national average.

The alleviation of poverty is assisted by remittances sent from Albanian emigrants abroad. However, according to the survey, 16.1 per cent of the respondents do not receive any remittances at all and only 0.9 per cent of the respondents receive over 300\$ a year. Variations in the amount of remittances may have important macro-economic implications as remittances have a positive impact upon the GDP, prices, and investments, hence on the socio-economic development of the country and the well being of its citizens. According to data provided by the Ministry of Finance, remittances have steadily grown since 1999, despite a slight decrease in

<sup>3</sup> More details will follow in the next section.

<sup>4</sup> See: Albania newspaper, 24.10.2003.

<sup>5</sup> A forthcoming report shall provide more analytical and comprehensive data on regional disparities and their effects on human security.

2002. In 2001, 2002 and 2003 remittances amounted to respectively 85,042.67; 7,124.8, and 82,805.8<sup>8</sup> million Leke. Data provided by the Bank of Albania and other studies on the issue confirm the above trend, despite discrepancies with regard to remittances in 2002.<sup>9</sup>

Living standards are also an indication of the level of poverty in Albania. Many of Albanian households lack basic facilities, such as washing machines (less than 60 per cent have one), refrigerators (less than 90 per cent have one). Other equipment, such as computers, and air conditioning are still luxury items for Albanian households.

According to the survey, living standards also vary among strata of society in Albania. While 21 per cent of respondents affirm that they do not have sufficient money for food, 30 per cent of respondents barely have sufficient money for food and another 29.6 per cent can only afford basic necessities. In total, 80.7 per cent of households would not be able to afford medication in case of illness occurring in the family.

In addition to low standards of living, there are other basic non-income dimensions of deprivation that constitute human poverty. The most frequently perceived problems are energy shortages, affecting 86.2 per cent of the population and lack of access to electricity which is a concern for 1.8 per cent of respondents<sup>10</sup>. Alarming figures are reported on the level of supply with running water and access to sanitation as 66.6 per cent of the population experience shortages of running water for more than 8 hours. Moreover, 40 per cent of the population does not have access to basic sanitation. Furthermore, abusive interventions in the water supply network constitute another concern. Consequently, there has been an interruption of running water for 5 days in the city of Berat and one week in the city of Lushnje<sup>11</sup>

The problem of the supply of electricity and the lack of running water are accompanied by poor accommodation that, according to INSTAT data, concerns 12.5 per cent of the population, while 16.7 per cent of the population faces the problem of overcrowded small residences (single rooms).

## **1.2. Unemployment**

Poverty has a correlation with unemployment and underemployment, especially in rural and mountainous areas. The national survey undertaken by AIIIS indicates that 13.1 per cent are unemployed, while another 8.6 percent are casually employed. This latter category could easily add up to the number of unemployed, since the perspective of new job openings

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<sup>8</sup> The 2003 data is a forecast by the Ministry of Finance.

<sup>9</sup> See: The encouragement of social-economic development in relation to the growth of the role of the remittances, I.Gedeshi, H.Mara, Xh.Preni, Centre for Economic and Social Studies (CESS), 2003. According to this study, the Bank of Albania reports remittances of 631 million USD in 2002.

<sup>10</sup> More details on the energy problems and the related human security implications will follow in the energy section of the Early Warning Report.

<sup>11</sup> See, Korrieri, 1.10.2003, p.19.

is very scarce.

Furthermore, the survey indicates that only **31.3 per cent of the labour force is employed on permanent working contracts**. The negative perception of respondents concerning their employment is reflected upon job security issues. Accordingly, 7.4 per cent of respondents consider the imminent loss of the job as one of the most significant concerns besides poverty, which concerns 58.6 per cent of them.

Unemployment in Albania can be identified from various statistical data, often controversial, from different public institutions. According to INSTAT, during the second half of 2003, there were 165 867 registered unemployed or 15.2 per cent of the active labour force. The Central Bank of Albania reports the number of unemployed to be 25-30 per cent of the active labour force,<sup>12</sup> whereas REPOBA – the unit of registration of the population and habitat, reports unemployment to be around 27 per cent.

The actual level of unemployment is not just disputed, but also unequally distributed throughout Albania. Some regions have a much higher unemployment rate than the average, i.e. the district of Elbasan, where unemployment is 37.6 percent of the active labour force<sup>13</sup>. This is an example of outstanding disparities between different districts which, if not addressed appropriately through corrective measures, may lead to social tensions and mounting development challenges.

### **1.3. Perceptions Regarding Poverty and Unemployment**

The perception of the threat created by poverty and unemployment is exacerbated by people's perceptions that the situation will not be improved. Expectations are subjective and they affect people's attitudes towards different problems, especially when they pose a threat to people's social existence. People's hope for better future affects their endurance towards current concerns and encourages positive behaviour. The AIIIS survey investigated how citizens shape expectations for their current and future socio-economic situation and the results are not very encouraging.

Compared to last year, 71 per cent of respondents are not satisfied at all, or not quite satisfied with the situation of their household. In relative terms, the situation does not encourage positive expectations for the respondents. Thus, as compared to a year ago 21.6 per cent of the respondents see the situation of their household deteriorating (2.8 per cent believe that it is much worse and 18.8 per cent believe that it is considerably worse, while 53.4 per cent do not perceive any change).

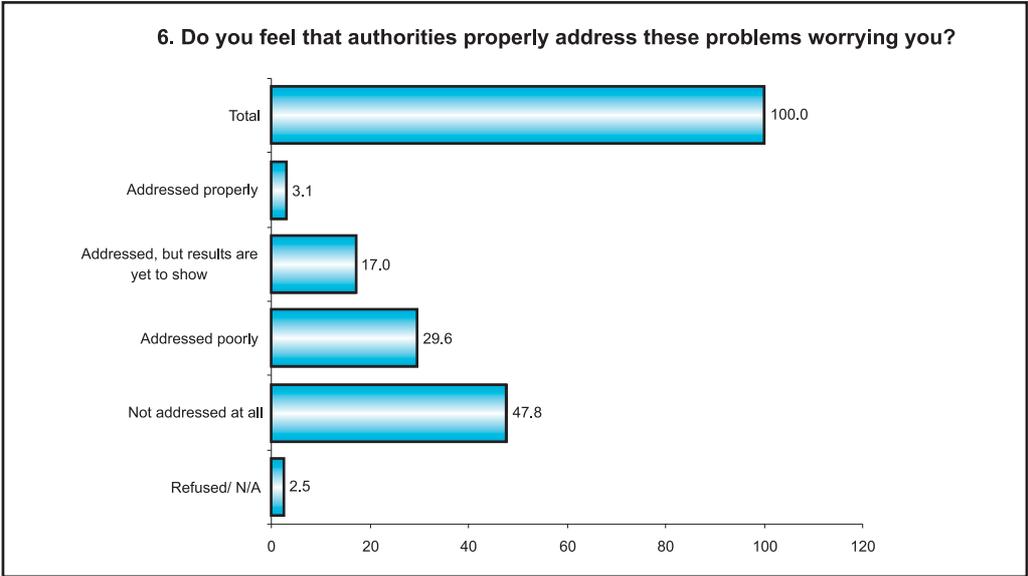
The responses concerning the deterioration in household situation become more significant considering that respondents show no confidence in the government's commitment to address these concerns. Accordingly, 62 per

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<sup>12</sup> See Koha Jone, 19.10.2003, p.11.

<sup>13</sup> See Korrieri, 23.10.2003, pp.11

cent of respondents remain sceptical about the way government addresses citizens' problems, despite variances in the confidence level, which varies from (30.5 per cent) 'Not confident at all', (18.9 per cent) 'Addressed poorly' and (10.8 per cent) 'Results yet to show'. Figure 7 gives a clear picture of the situation.



**Fig. 7.** To what extent the government addresses the issues that worry citizens.

Based on the analysis of the survey, it may be concluded that poverty and unemployment are the two main sources of insecurity for Albanians. This sense of insecurity could in turn generate potential social tensions and crisis with considerable impact upon the development of the country.

**1.4. Perceived threat and potential public reaction**

The negative implications of poverty and unemployment become more evident when we consider the increasing inclination of the public to resort to violence, as a forum for expressing their dissatisfaction. Observations reveal that conflicts springing from poverty, unemployment and related factors may have sufficient potential to destabilize the country and its institutions. The situation becomes more precarious when these factors are exploited for political mobilization or the coverage of criminal activities.

Protests have been organized throughout the country against continuous electricity cuts<sup>14</sup>. The situation is critical in the northern part of the country, where protesters have repeatedly blocked the national road, paralysing the whole economic activity in the city of Shkodra and Lac. The business community has warned that they are going to transfer their economic activity to neighbouring Montenegro, which may aggravate poverty and unemployment in this area of the country<sup>15</sup>. Pensioners, who represent the poorest category of the population, have also organized several protests. Protests

The important element out of these facts is that the endurance of the citizens has gone beyond the passive resistance. The outbreak of protests and strikes related to the poor economic situation and causing factors are becoming more frequent.

<sup>14</sup> See Koha Jonë, 31.10.2003, pp.9, 3.11.2003 and Korrieri, 17.11. 2003, pp.5

<sup>15</sup> "Opinion", TV- Klan, 18.03.2004.

The expectations grounded on the stagnation even deterioration of some of the parameters of overall micro economic situation predict the continuation of the protests and in the case of neglect their radicalization.

have also been organized under the leadership of the Independent Trade Unions of Albania. Protests organised by workers in Durres, Elbasan and Bulqize have blocked the activities of foreign companies such as Kurum in Durres and Elbasan, or the factory of Ferrochrome in Burrel.<sup>16</sup> The focus of the protests have been redundancies, low salaries and the lack of social assistance. Protesters have also complained about the lack of government attention to their requests, in addition to other problems related to the administration of these factories, who they claim infringe the Labour Code and other related laws.

## 1.5 Future Prospects

### 1.5.1. Economic growth: analysis and prospects

The macroeconomic situation in Albania is not expected to ameliorate, considering the declining trend of GDP growth observed in the last years. The yearly GDP growth has declined from 8.9 per cent in 1999 to 7.7 per cent in 2000, 6.5 per cent in 2001 and 4.7 percent in 2002<sup>17</sup>. Experts believe that the fall of GDP growth is due to declining aid and grants to Albania that peaked during the Kosovo war complemented by the energy crisis, which has harmed domestic production. The government forecasted GDP growth of 6 per cent for 2003, which was based on an estimated 27 per cent increase in the number of tourists<sup>18</sup> that visited Albania in 2003. However, experts evaluate that this figure comprises all categories of foreign citizens entering the country, including illegal migrants, businessmen, etc., who do not have the same effects as tourists on the growth of the country's revenues.

**Table 2.** Balance of Payment Indicators:

	1999	2000	2001	2002
<b>Current Account</b>	<b>-132.9</b>	<b>-163.1</b>	<b>-217.9</b>	<b>-406.8</b>
Trade Balance	-662.8	-821.0	-1,027.0	-1,155.1
Capital Account	67.5	78.2	117.8	121.2
Financial Account	36.8	182.5	109.0	206.2
<b>Direct Investments</b>	<b>41.2</b>	<b>143.0</b>	<b>207.3</b>	<b>135.0</b>
<b>Portfolio Investments</b>	<b>0.0</b>	<b>-25.0</b>	<b>-23.4</b>	<b>-36.8</b>
Other Capital	-4.4	64.5	-86.9	102.7
<b>Total Balance</b>	<b>123.5</b>	<b>131.9</b>	<b>145.0</b>	<b>28.6</b>
Reserves and related items				
Reserve assets	-123.6	-131.9	-145.0	-28.6
Usage of fund credit and loans	20.9	19.3	12.0	5.3

**Source:** Bank of Albania

<sup>16</sup> See KJ, 31.10.03, p. 18

<sup>17</sup> Source: Bank of Albania

<sup>18</sup> For more detailed analysis see: 'Norma e rritjes ekonomike, serisht ceshtje lapsi, (The norm of the economic growth is still a question of calculations) Monitor, 3 December 2003.

Moreover, considering that none of the factors that contribute to the increase of the GDP have experienced comprehensive changes, growth expectations remain dubious. Credit to economy, which is 1.4 times higher than one year ago, is mainly used to finance imports rather than production. Consequently, the contribution of the production sectors on GDP is in constant decrease. Direct and portfolio investments also show a decreasing tendency<sup>19</sup>.

**Foreign direct investments have been reduced by half as compared to 2001 (see table 2). Public investments in infrastructure fell from 16 billion to 9.4 billion leke, due to required cuts from the state budget. The number of private businesses fell from 63,000 in 2000 to 56,000 in 2002. The reduction of investments and business activities increased unemployment. Hence, the number of employed fell from 1.1 million in 1998, to 921,000 in 2002. The trade balance deficit jumped to 1.2 billion dollars in 2002, from 603 million dollars in 1998<sup>20</sup>.**

- In 2002 investments reached only 77 per cent of the planned budget share.
- In 2003, the level of investments fell to 70 per cent.
- In 2002, the Albanian Development Fund had a budget of 2 billion leke for investment. It managed to disburse only 38 per cent of it.

Source: Official Gazette and the reports of the High State Control Commission.

**Table 3.** General economic indicators

	Real growth of GDP	GDP (current prices, mIn \$)	PBB/capita (current prices, \$)	No. of employed people (1000)	Unemployment (%)	Inflation
2000	7.8	3836.3	1128	1068	16.9	4.2
2001	6.5	4113.7	1332.6	1085	14.6	3.5
2002	4.7*	4695.4*	1521.0	921	15.8	2.1

**Source:** Bank of Albania (\* estimation of the Ministry of Finance and IMF)

Hence, based on the above macroeconomic indicators, the poverty and unemployment situation is not expected to change in the short run.

### 1.5.2. The informal economy and state budget

The percentage of collected taxes to the GDP is an important indicator of the informal economy, and Albania has the lowest **tax collection** performance when compared to the countries of the region. Experts estimate that lacking budget revenues related to the informal economy amount to 16 per cent of the state budget<sup>21</sup>.

The smuggling of goods has also has a direct negative impact on the reduction of state budget revenues, according to the IMF report of the 4<sup>th</sup> International Conference in Saranda, the state budget was deprived of 10 billion Leke or 1.5 per cent of GDP as a result of the smuggling of tobacco. The report concludes that **50 percent of imports are not declared; therefore no contribution is paid to the state budget. In total, smuggling costs the state budget an estimated 600 million US dollars.**

<sup>19</sup> See, Bank of Albania, *The Albanian economy, Figures and Facts*, June 2003.

<sup>20</sup> See also: Altin Ylli, "Mbi ekonomine informale" (About the informal economy), Monitor, 26 November 2003, p. 23-25.

<sup>21</sup> Ibid.

The reduction of the state budget due to tax evasion, has negatively affected the state welfare policies. On the other hand, it may also have had an impact on unemployment. The lack of investments due to shortages of funds may reduce the possibilities of new job openings. Expectations for growth are not optimistic.

### *1.5.3. Inflation and prices*

Inflation, which has a negative impact on real incomes and the purchasing power of households, has been constantly decreasing in recent years. Inflation has decreased from 4.2 per cent in 2000 to 2.1 per cent in 2002. However, in 2003 inflation rose to 4 percent<sup>22</sup>, and the Customer Price Index increased as well. The annual average inflation has increased from 3.13 per cent in 2001 to 5.35 in 2002<sup>23</sup>. Inflationary pressures are likely to increase during 2004 due to the rise in prices of public utility services, such as electricity and telephone landlines since December 2003.

The increase in the price of electricity is believed to be stretching the incomes of Albanian households. According to an INSTAT study, **22 percent of the total incomes are spent on electricity bills**. From December 2003 the electricity price is 12 leke/kwh or 5 leke more than the average energy price during 2003. The rise in telephone tariffs was applied at short notice from December 2003, (3 times higher) while the leasing tariff became 4 times higher.

Inflation and customer prices are expected to have negative effects on poverty and unemployment. The most affected population category shall be the poor since subsidies, designed to support the poor categories of the population, are estimated to be insufficient.

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<sup>22</sup> The data is forwarded by the Governor of the Central Bank of Albania, at Koha Jone, 19.10.2003, pg.17.

<sup>23</sup> See, Bank of Albania, The Albanian economy, Figures and Facts, June 2003.

## 2. THE RULE OF LAW AND CORRUPTION

The rule of law and corruption remain issues of considerable importance for human security since they affect almost all aspects of the social, economic and political life of the country. Furthermore, law infringement and the proportions of corruption have seriously damaged the performance of the government and the functioning of the state institutions, by creating problems for the functioning of the society and serious difficulties for individuals. The importance of the rule of law acquires additional importance since it is one of the main chapters of ongoing negotiations between the government of Albania with the European Union within the framework of the Stability and Association Agreement.

### 2.1. Rule of Law

The majority of the survey respondents recognize the importance of the rule of law. Only 5.1 per cent of the respondents believe that the customary law (Kanuni) is more important, while 16.9 per cent partially agree with this statement. **Although low, this figure is significant at the national level, because it indicates the lack of confidence in the rule of law and testifies for the weakness of institutions that enforce it.** Limited identification with the Kanun or other customary law has led to individuals taking the law into their own hands through - blood feuds conflicts, conflicts concerning property issues, gang clashes, and conflicts between employees and employers. Blood feuds and property clashes have become acute and the frequency of these phenomena has created a conflictual climate and may hold potential threats for the personal and community security, as well as for the development of the affected regions.

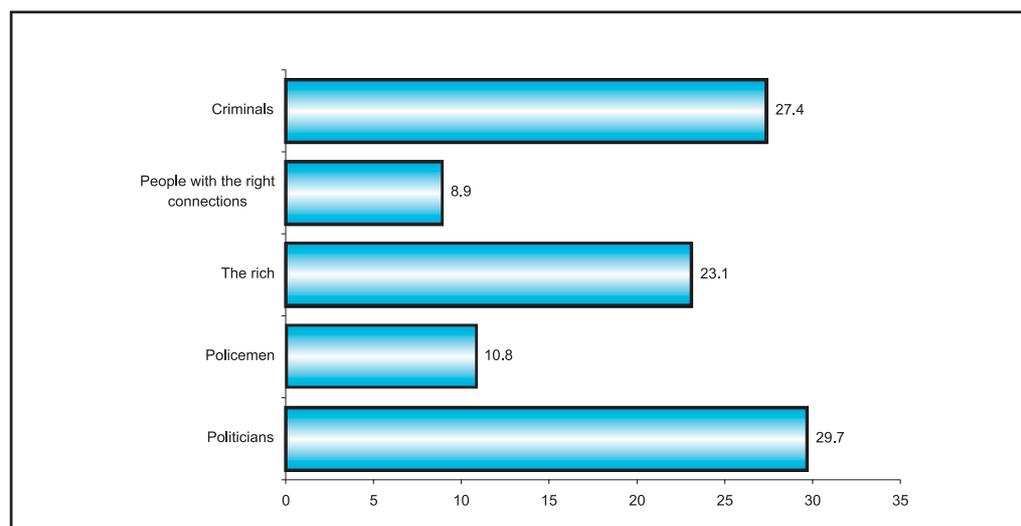
The survey indicates that the different kinds of conflict mentioned above distress a considerable percent of those interviewed, 19 per cent of the respondents perceive that blood feuds have increased hostility and violence in the country. Moreover, 33 per cent of the respondents see property issues as an important source of conflict<sup>24</sup>. In practical terms blood feuds have already created social problems in terms of a lack of access to public services, education and development of the concerned individuals and communities.

Not only is there is concern about blood feuds, but there is almost a general belief held by respondents 70.87 per cent (40.3 per cent partially agree, 30.6 per cent agree entirely) that there are categories of people in Albania that stand above the law. 84 per cent of respondents of the above

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<sup>24</sup> Both issues will be analyzed in more detail in two separate reports.

(or 29.7 per cent of the total number of respondents) believe that politicians stand above the law. Other categories that are considered to be above the law are better illustrated in figure 8 that offers a combined presentation of the respondents' answers, in reference to different mentioned categories.



**Fig. 8.** Groups of people that are believed to be above the law.

**The infringement of the rule of law remains of great concern and in many respects creates impediments for the normal development of the country, as well as conflicts with destabilizing effects whose consequences are hard to predict. The situation becomes more acute when associated with corruption.**

## 2.2. Corruption

Corruption is one of the gangrenes of Albanian society, which has paralyzed normal functioning of several aspects of the social, economic, and political life of the country. Corruption in state and public institutions and in the legal system has compromised the mechanisms that handle the concerns and the problems of the citizens in a non-violent and dialogue-based manner. Corruption may generate destabilizing effects in case the citizens decide to associate themselves with individuals or groups that opt for non-institutional solutions to their problems. This association could facilitate the engagement of different actors in destabilizing actions at national level. The events of 1997 in Albania proved that this combination of factors has high destabilizing effects for the country.

Corruption is a widespread phenomenon. Transparency International monitored corruption levels in Albania and the situation appears to be deteriorating. In 2002, Albania was ranked 82-100 level of 130 monitored countries. In 2003 the situation has deteriorated and Albania has been ranked 92-100 levels, together with Argentina, Ethiopia and Tanzania. The coefficient of corruption is measured in the interval 0-10 and Albania is at the range of 2.5.

The findings of another research published by the World Bank entitled “*The Administrative Barriers for Investments and Business in Albania*” (2002) pointed out the Index of Corruption for all Balkan countries. Albania tops the list of 8 Balkan countries. The index of corruption has increased negatively by 8 points (68.4 in year 2002 from 60.4 in 2001).

Furthermore, the AHS survey suggests that people pay bribes to government officials in order to receive assistance. People are continuously upset from the requests for bribes in order for their problems to be addressed (25.2 per cent of respondents) or to have access to services (26.9 per cent of respondents). The quality of the provided services is another issue. People need to pay extra money (40.3 per cent of the respondents) to receive satisfactory services. Services offered in the public sphere remain the most problematic.

Corruption is not the only field where respondents are dissatisfied. 92.5 per cent of respondents express varying levels of dissatisfaction with the health service in Albania: 46.5 per cent are not at all satisfied, 27.8 per cent little satisfied and 18.2 per cent are somewhat satisfied. Public education is also another area in which respondents demonstrate dissatisfaction, thus, 66.7 per cent of respondents are not at all satisfied with education offered, (7.8 per cent), or little satisfied (16.5 per cent) or somewhat satisfied (42.4 per cent). The respondents are dissatisfied with fix telephone landline services as well. 58.7 per cent of the respondents are not at all satisfied with the services (22.8 per cent), or little satisfied (14.2 per cent), or somewhat satisfied (21.7 per cent).

The survey identifies a correlation between the qualities of public services provided and the level of corruption. The poor quality of services in the health sector, due to lack of comprehensive reforms, favours bribing and corruption. 82.7 per cent of respondents believe that the most bribery occurs in hospitals. The other institutions where most bribery takes place are perceived to be the Courts (66.7 per cent), the Real Estate Registry (41.8 per cent), and the customs (57.4 per cent).

### **2.3. Expectations for the future**

According to respondents, businesses and the economy are dependent on politics, rather than on legal and normative institutional framework, due to insecurities arising from corruption. Hence, the tense political climate has negative implications on the economy, which in return negatively affects the living standards of citizens.

The survey data discloses the lack of confidence in different key public and state institutions. Respondents show concern about the work of the Parliament with 46.3 per cent not satisfied at all with its performance. 38.8 per cent of the respondents are not satisfied at all with the Courts, while 33.0 per cent does not value the government performance at all. These answers may represent the level of friction between citizens and inquired institutions, and help make an estimation of threats coming from unsatisfied people.

Furthermore, 6.2 per cent of respondents believe that all civil servants are corrupt, 17.5 per cent believe that most civil servants are corrupt, while 50.7 per cent believe that some civil servants are corrupt. Merely 19.6 per cent of respondents believe that only few civil servants are corrupt. Corruption appears to be rather concerning when there is no perception of improvement for 50.7 per cent of respondents, or when the situation is perceived to be deteriorating for 18.2 per cent of respondents.

## 2.4. Perceived threat and potential public reaction

From the AIIIS survey, **83 per cent of the respondents identify politics as the main source of conflict in the country.** Moreover, the implications of the deficiency of the rule of law and corruption grow beyond people's perceptions. The threat from the lack of a standardized political system creates real impediments to foreign investments, macroeconomic stability, decline in the households' purchasing power, and speculation concerning prices.

Business people  
consider politics as an  
implicit threat to their  
activity.

Monitor Magazine  
(3 December 2003)

A survey conducted by the Monitor magazine focuses on the problem that political instability is causing to businesses and other aspects of economic activity. Businesses complain about the lack of government policies on sustainable development of domestic production. Taxation and importation policies, although impaired by Albania's agreement with WTO, are seen as harmful for the development of domestic production and investments in the business environment.

The unstable political climate has a negative impact on domestic and foreign investments in the private sector. Referring to an EBRD study on the level of corruption in transition countries, the 'bribery tax' for Albanian enterprises is estimated to have increased twice compared to 1999. 'Bribery tax' constituted 1.7 per cent of incomes in 1999, and 3.3 per cent in 2002. Corruption and the lack of the rule of law create unnecessary barriers to business and investments<sup>25</sup>. In many respects, corruption and the lack of the rule of law are both products of politics as well as being associated with it. At the same time, legislative improvements, law enforcement and eliminations of corruption depend on the political will of the main political forces in general and the leadership of state institutions in particular.

Corruption and the lack of rule of law create a situation of instability and animosity among different interest groups and government at central and local level. There are sporadic events that speak for clashes between bands of gangs, often followed by innocent casualties. There are continuous warnings coming from high Euro-Atlantic officials about the association of crime with government structures.

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<sup>25</sup> Administrative Barriers to Investments and Business in Albania, World Bank (FIAS), 2002.

## 3. PERSONAL SECURITY AND CRIME

### 3.1 Personal and Community Security

Personal security is otherwise defined as “freedom from fear”<sup>26</sup>. Several aspects of “fear” may be considered as factors that threaten individual security. First and foremost, personal security is a question of qualitative factors, i.e. feelings and perceptions. The understanding of feelings and perceptions is important because they define the context of individual reaction.

The survey conducted by AIIIS offers a general picture of the state of fear in Albania. Consequently, 14 per cent of respondents feel unsafe at home, compared to 20 percent of the respondents that feel unsafe on the street. Perceptions about violence in the community are also high with 31 per cent of respondents perceiving more violence in the community. In respondents’ perceptions violence is caused by clashes between gangs (65 per cent of respondents), conflicts between rich and poor (46.5 per cent), employees and employers (58.2 per cent), and government and opposition parties (76 per cent). However, from the responses to the survey it would appear that violence is more of a perception than a reality, and 90.5 per cent of respondents have not experienced violence in the community, while 97 per cent admitted that their family has never been subject to violence.

The significant difference between perception and reality concerning violence in Albania provides hope for optimism, and at the same time raises questions about the factors that have contributed to the perception building. It is believed that the main source of information concerning violence is the media. Newspaper reports, and information broadcasted by electronic media are full of reports of violence and criminality, which may have considerably affected the perceptions of respondents.

### 3.2. Crime

According to national statistics, in the period January-June 2003, 2444 penal acts were recorded, from which 2056 (or 84 per cent) have been resolved by the police. The number of individuals prosecuted was 2699 during, while only 1775 were taken into custody or arrested.

The documented crime varies in nature from crimes committed against people, to property disputes, and others. The Ministry of Public Order report (July, 2003) indicates 710 cases of **crimes committed against other individuals**, this constitutes 30 per cent of the total number of crimes

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<sup>26</sup> United Nations Development Program (UNDP), (1994) *New Dimensions of Human Security* (New York: Oxford University Press)

committed. 61 cases of crimes committed against individuals have resulted in murder while 100 other cases resulted in injuries. Another category of crime, now taking worrying proportions, is **the assault against private business**. There are many cases when successful businessmen have been subject of kidnapping, aggression and even murder.

Other cases of *crime* **have been fuelled by property disputes**. There 694 cases of crimes generated by property issues (or 23 per cent more than the same period of the previous year). There have been 105 cases of **criminal acts against private property**. Compared to the same period of the previous year, the figure for this category of crime is 35 per cent higher in 2003 (until June). Other categories of crime consist of robbery, stealing, shoplifting, housebreaking, burglary and the like.

Concerning the geographical distribution of crime, it is present throughout the territory of Albania, however, Tirana, as the capital and metropolitan centre, tops the list of organized and individual crime. Compared to the same period of the previous year (2002), the number of cases has increased by 300.

**Organized crime** is the most serious threat to personal and community security, with considerable implications for the country stability. Albania is considered to be part of different international drug and tobacco smuggling networks, and it is often criticized for human trafficking by the international community. Organized crime entails social problems and violence acts of all kinds. Despite important measures adopted by the government, organized crime remains a major problem for the country. Success of the fight against organized crime depends on the combination of international efforts, political will, consolidation of institutions and legal system, and civil society awareness.

### **3.3. Expectations regarding personal security and crime**

The analysis undertaken in this section demonstrates that the number of crime cases has increased in several categories, while people's perceptions demonstrate that individuals feel unsafe. According to the Ministry of Public Order, the police do not investigate all cases of crime and those who commit penal acts remain unidentified in many cases. Moreover, even when criminals are intercepted and brought to justice, on several occasions some of them are released. However, it should also be pointed out that, due to cooperation with foreign partners, important progress has been made in investigating serious crimes and those who commit them.

### **3.4. Perceived threat and potential public reaction**

Issues of personal security and crime have a direct relationship with public order, and as such carry a high potential for destabilisation. The combination of crime and politics interconnected with international crime networks amplifies this destabilizing potential. The outcome of this combination remains highly unpredictable.

## 4. ENVIRONMENTAL AND NATURAL DISASTERS

According to the results of the survey, environment issues such as air and water pollution, the reduction of green spaces, poor urban planning, sewage and other environmental concerns have become a serious threat to citizens' health. Respondents are highly concerned about the situation of the environment with 9.1 per cent of the respondents considering environment pollution as one of the issues that concerns them the most.

Furthermore, environmental factors not only have an affect on the health of the population, but also create serious problems for the economic development of the country. Natural disasters, such as floods and heavy snows, also pose a serious threat to people's security and their local development. In Albania, frequent floods occur in certain areas of the northwestern plain, causing damage to agricultural production and the loss of livestock. Floods have repeatedly disrupted the functioning of national roads and rail networks, by impeding communication and the circulation of goods and services throughout the country and abroad. Communication with rural areas that often remain cut off from the rest of the country is one of the most problematic concerns. Apart from the direct damage to production and services, natural disasters can also cause serious problems to the supply of energy, and water throughout the country.

The social implications of natural disasters are clear, and can be classified in two groups: individual/family and national. The social impacts of natural disasters on the individual/family category include people being left without homes, and being deprived of expected revenues. At the national level, the implications are more diversified in nature. The lack of preventive measures in tackling natural disasters reduces confidence in the government. The destruction of agricultural production, loss of live stock or dried goods create problems for the state budget, which affects the country's gross domestic product and may be followed by the increase in the prices of agricultural products. Natural disasters also seriously damage the landscape of the country, which may create problems in attracting foreign investment and tourism.

### 4.1. Current and future expectations and the environment

The survey undertaken by AIIS has looked into environment issues with relation to the past and present situation. The survey suggests that 43 per cent of the respondents feel that the status of the environment has deteriorated, while 17.1 per cent consider it to have deteriorated, 26.7 per cent somewhat deteriorated.

The general prospects of macroeconomic development have direct implications on the financial resources needed to protect the environment and

prevent natural disasters. Despite some donor-supported attempts, poor prospects of development at macroeconomic level as well as problems related to the functioning of local governments give little hope for funding projects that aim at preventing natural disasters through a proactive approach at the central and the local level.

## 5. CONCLUSIONS AND RECOMMENDATIONS

Albania is currently undergoing a transition process, which aims to fully integrate Albania with the European Union structures. This process will commence with the signing of the Stabilization and Association Agreement. However, the Stabilization and Association Agreement and all other commitments with the European Union cannot be seen as an aim in itself. The main objective of the Agreement is to stimulate state institutions and society to undertake reforms in the political, economic, and social fields that would benefit the whole of society. No progress is made in terms of European integration and the signing of Stabilization and Association Agreement might be postponed if domestic reforms are not implemented. In order to achieve integration into European Structures, comprehensive reforms in the fields of the rule of law, economy, and other sectors are decisive.

### i. Poverty and unemployment

According to the survey and analysis undertaken by AIIIS, poverty and unemployment remain the main issues of concern for Albanian citizens. However, this report aims to define the threat that these two factors pose to the stability and the prosperity of the country. The data compiled by the assessment of the situation, people's expectations and the analysis of the macro-economic development prospects of the country suggest that problem of poverty and unemployment have **reached the level of despair**. Since the situation of poverty is unlikely to change in the short run only the basic indicators of Inflation, unemployment, consumer Price Index, credit to economy will be monitored to elaborate the trend analysis of the poverty situation in Albania. Additional findings of the AIIIS survey will be illustrated in the following reports with regard to other people's perceptions of their poverty status. The main recommendation shall be:

- o Suitable conditions for the private sector as the driving force to reduce poverty and unemployment should be established. To achieve this, tax policies to help the development of small businesses must be formulated and be accompanied by interventions to improve the competition of businesses.
- o The complete, final and accepted solution regarding property ownership in Albania would have direct consequences for the economic development of the country, by bringing more Albanian and foreign investments to the economy, as well as strengthening the rule of law.
- o Minimizing the informal economy accompanied by clear results in the fight against organized crime and corruption, as well as formulation of development policies.

## ii. Rule of law and Corruption

Although there have been positive results in the fight against human trafficking during last year, drug trafficking and smuggling still remain problematic. Corruption and the lack of rule of law remain important challenges for Albania, with threatening potential for the future development of the country. The report emphasized the need to improve governance, and denote the fight against corruption as a priority cross-cutting all reforms. In this context, attention should be paid to:

- o Strengthening of public administration on the basis of professional competition and increasing transparency so as to avoid nominations based on nepotism and political basis.
- o Strengthening of the judicial system so as to avoid political influences in this sphere or pressure coming from certain groups or individuals through corruption.
- o Deepening the reform of agencies responsible for law enforcement and the preservation of order through structural changes and not through campaigns which lead to dismissing of certain individuals out of jobs.
- o Coordination and the creation of an integrated system among state institutions so as to fight organized crime and corruption, as well as applying effective policies to fight these phenomena should be attained.
- o Stopping the trafficking of human beings not only by reforming security and law enforcement institutions. It is important to build special policies to fight poverty and minimize economic differences that are obvious in different regions of the country.

The survey results clearly indicate that the time has come for the government to publicly denounce specific cases of corruption either at the central or local level. Specific measures should include firing civil servants or public employees charged with corruption. In the upcoming reports the following quantitative indicators will be monitored to assess efforts towards combating corruption that is crippling Albania's European integration process. In particular data will be obtained and monitored concerning;

- The number of state employees (civil servants) cases sent to the Office of Prosecutor on charges of corruption;
- The number of state employees (civil servants) charged with corruption as well as the respective sentences;
- The number of public sector employees (especially in the sectors of health, education, and utilities) charged with corruption and the rate of dismissal;
- The number of identified smuggling and trafficking cases;
- The number of dismissed corrupt judges;

- The number of people charged for tax evasion and the respective sentences.

### **iii. Personal and Community Security**

The identified discrepancy between perceptions of personal and community security and the level of crime has to be explored further since it demonstrates a significant lack of confidence in state and public institutions. Therefore, the following indicators will be monitored to better track the performance of concerned institutions such as the police, courts and others;

- Crime against individuals;
- Crimes fuelled by property disputes;
- Blood feud related crimes;
- Criminal acts against private property;
- Assaults against private businesses (including kidnapping);
- Organized crime incidents (human and drug trafficking);
- The number of charges for organized crime and respective sentences;
- The number of notorious criminals sent to court and the relevant sentence;
- The number of policemen accused of connections with criminal activities and the charges;
- Percentage of cases solved by the judiciary.

### **iv. Environmental and natural disasters**

Since the environment is continually deteriorating, and areas of Albania are in a constant threat of natural disasters, it is important that the government pays particular attention to the enforcement of environmental policies and standards. Taking into consideration that environmental and natural disasters may have negative long term social implications, the EWR will monitor the subsequent indicators:

- The number of environmental related incidents;
- The number and severity of natural disasters
- Casualties and material loss due to environmental and natural disasters

**As a cross cutting conclusion**, the participation and interaction of different elements of society is imperative concerning all problems and concerns identified in this report. This process should consist of:

- o The effective participation of the public in the policy making processes;
- o More active involvement of the Members of the Parliament;
- o Improved inter-governmental co-operation;
- o The formulation of targeted interventions to effectively attract donor contributions; with particular focus on the local level and communities at risk.

## CASE STUDY: THE ENERGY CRISIS

### The Problem and Implications upon Human Security

Since the early 1990's, Albania has experienced serious difficulties in matching the constant supply of energy with the increasing demand for it. Given the difficulties of the transition, and the failure of previous and current governments to address the energy situation, the implication forthcoming from the energy crisis is still at the centre of public concern. On various occasions, the level of the crisis has acquired worrying proportions for country as a whole, and in particular for the affected communities.

This case study aims to examine the constant energy crisis in Albania. The impossibility to satisfy the country's need for energy, either with domestic production or from imports, followed by the policies of arbitrary restriction on the supply of energy, constitutes the centre of this crisis.

#### 1. Monitoring energy production

There are two main indicators used to monitor the current status of energy production: (i) energy intensity<sup>27</sup> and (ii) energy consumption per capita<sup>28</sup>. These two indicators respectively indicate the efficiency of energy usage and the level of comfort individuals may potentially enjoy in normal conditions of supply.

Figure 1, synthesizes both indicators for Albania and compares them to Croatia and Greece, chosen as benchmarks respectively from the region and from the European Union. The red arrow indicates the future direction that both indicators should develop. The interrupted line calculated on the base of Gross National Product (GNP)<sup>29</sup> indicates the status of both indicators in Albania, which are not moving in the direction of the red arrow. Compared to the European average the energy intensity for the economic production is 5 times higher, while compared to Greece and Croatia it is 2 times higher.

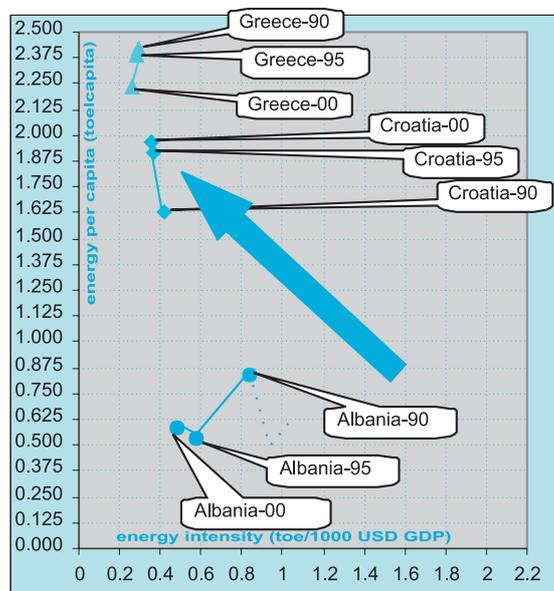
According to figure 1, consumption per capita was reduced by 1/3 in 2000, in comparison with 1990. This is mainly attributable to electricity supply shortages. Energy shortages have had a direct impact on the deterioration

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<sup>27</sup> Energy intensity is an indicator of energy efficiency and it accounts for the energy consumption per 1000 USD of the Gross Domestic Production (GDP).

<sup>28</sup> Energy per capita as labelled in the title is the consumption of energy per individual.

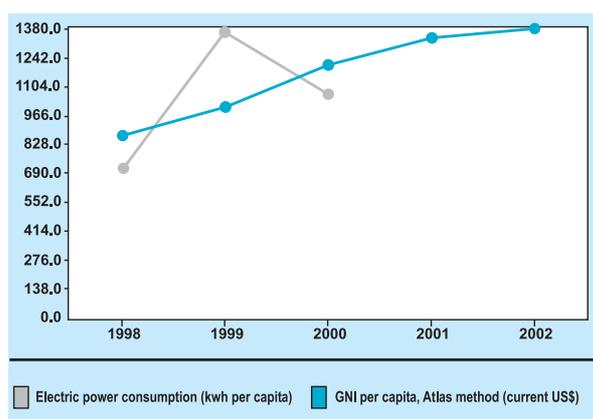
<sup>29</sup> In the case of Albania, it is better to refer to the Gross National Product (GNP) for a net consumption of energy. The distinction between GDP and GNP is important considering that remittances and incomes from foreign aids and foreign investments are substantial on the calculation of Albania's GDP.



**Figure 1:** Energy intensity and energy consumption per capita

of living conditions.<sup>30</sup> Energy consumption per capita has declined from 0.875 toe/capita in 1990, to 0.625 toe/capita in 2000. The level of energy consumption per capita in 2000 was 3.2 times lower than the energy consumption in Croatia and 3.8 times lower than the energy consumption in Greece (in the same year).

The figures above suggest that Albania is facing an energy crisis that, due to the fact electricity is the main energy source in Albania, is mainly perceived as an electricity crisis. Figure 2 below illustrates the electric power consumption per capita (kWh/capita) and GNI per capita (Atlas Method, current USD), and clearly shows the decreasing trend in electricity consumption/capita. It will be argued in this report that the downward trend in electricity consumption is a result of the shortage of electricity rather than of decreasing demand.



**Figure 2:** Electricity consumption per capita and GNI per capita in Albania<sup>31</sup>

<sup>30</sup> As defined in the document of the Department of International Development: *“Energy for the Poor: Underpinning the “Millennium Development Goals”*, the demand for energy is a ‘derived demand’: people do not want energy itself but the energy services provided including -cooking, lighting, heating, water pumping, transportations, etc.” (2002: 5)

<sup>31</sup> Source: World Development Indicators Database

An important factor in the energy crisis is the changing nature of energy consumption. The household sector has experienced important changes in energy consumption: in 1990 households consumed 14.6 per cent of the total used energy, increasing to 21 per cent in 2001. Households acquire the lions' share of electricity consumption, almost 60 per cent of the total. According to an estimation of the World Bank, the demand of households for electricity has increased by an average of 8.3 per cent, while only 4.1 per cent of it is satisfied.

In comparison to the household sector, the demand in the industrial sector is as following; In 1990, the industrial sector consumed 50 per cent of energy, this decreased to 35 per cent in 1992 and 17 per cent in 2001. The average consumption of electricity in the industrial sector has increased by 4.6 per cent. While large industrial companies receive uninterrupted electricity, some smaller businesses still suffer from electricity cuts.

In particular, a constant growth trend in energy consumption has been experienced in the transportation sector, especially with regard to oil and its derivatives. The share of total energy consumption in the transportation sector has increased from 6 per cent in 1990, to 44 per cent in 2001.

A sharp increase in energy consumption has been experienced in the service sector as well: its share of energy consumption has increased from 5.4 per cent in 1990 to 16.5 per cent in 2001. However, a downward trend in electricity consumption has been noticed in the service sector as well. This downward trend does not indicate a fall in the real demand for electricity: the decline in consumption is due to the fact that this sector, more than any other, faces arbitrary and continuous electricity load shading. Electricity consumption in the service sector has declined by 12 per cent in 2002, compared to 1999.

As a response to the above electricity shortages, motor generators are commonly used as alternatives to electricity supplies. The change in the structure of electricity consumption is more dramatic considering the enhanced demand: **thus, the available electricity supply cannot currently satisfy the increasing demand.**

Table 1 provides another dimension of the crisis: the geography of the electricity shortages,

**Table 1.** The distribution of electricity cuts<sup>32</sup>

DISTRICT	CITY	VILLAGE	DISTRICT	CITY	VILLAGE
Tiranë	2 hours	4 hours	Dibër	6 hours	10 hours
Durrës	6 hours	10 hours	Kukës	12 hours	16 hours
Elbasan	6 hours	10 hours	Gjirokastrë	1 hours	4 hours
Korçë	6 hours	10 hours	Vlorë	7 hours	10 hours
Lezhë	6 hours	10 hours	Berat	6 hours	10 hours
Shkodër	16 hours	17 hours	Fier	9 hours	22 hours

<sup>32</sup> Source: Korrieri 28 October 2003, p.5.

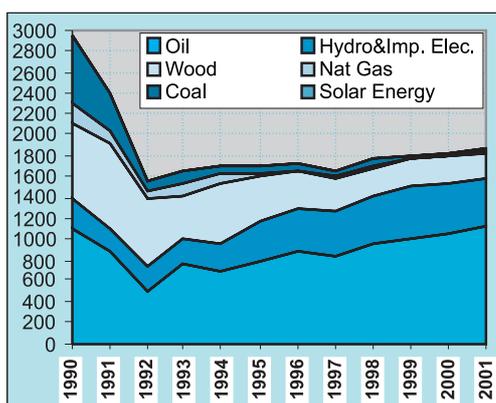
## 2. Understanding the problem behind the energy crisis

- *Reduction of power plant capacity and poor resource management*

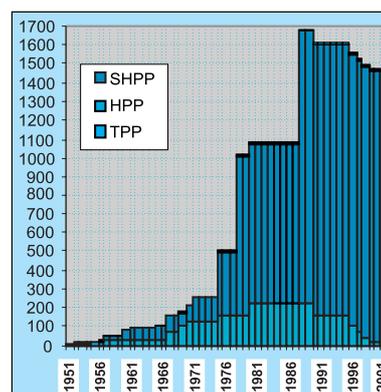
Until 1990, Albania was an exporter of its energy products, which consisted of oil, gas, coal, firewood and electricity. With the beginning of the transition from centralized to market economy, the energy sector embarked on a deep crisis. The situation is most acute in the electricity sector. Therefore, the energy crisis in Albania is mainly perceived as an electricity crisis, due to the frequent, and prolonged electricity cuts.

In the early 1990s the continuous electricity cuts were caused by the technical insufficiency of the electricity transmission and distribution network. In recent years, the electricity crisis may be mainly attributed to the shortage of supplies and resources. The two main causes are **(i) poor resource management (technical and non-technical losses, that erode 56 per cent of production and imports)**, and **(ii) limited power plant capacity**.

- An important factor contributing to the electricity shortages is the high level of electrical loss. According to estimations by experts of the Albanian Energy Corporate, technical and non-technical losses (abusive interventions in the network) account for 35 per cent of the supplies, or 56 per cent of the domestic electricity production<sup>33</sup>.
- According to data from the Albanian Energy Corporate (KESH) the generating capacity of electricity resources was reduced by 14 per cent during the last decade. This has contributed to the decrease in the domestic electricity supply, whereas the demand has been constantly increasing (see figure 3 and 4). Therefore, there is an



**Fig.3.** Supply with energy resources (KTOE)<sup>34</sup>



**Fig.4.** Installed capacity of generating electric power

<sup>33</sup> There are improvements in the reduction of losses thanks to restrictive measures taken by the Albanian Energy Corporate to reduce non-technical losses, combined with Italian investments to improve the infrastructure of electricity transmission and distribution. Due to the restrictive measures against consumers, and the stoppage of electricity as punishment for un-paid bills, the authorities claim that they have increased the payment rate from 50 per cent last year to 75-80 percent this year (2003).

<sup>34</sup> Source: Albanian Energy Corporate and National Agency of Energy.

inverse relationship between energy demand and supply. According to KESH, domestic production satisfied 97 per cent of the demand in 1990, while in 2001 it satisfied only 47 per cent.

- *Insufficiencies of the electrical network*

The electricity transmission and distribution network is not technically able to face the increasing demand for electricity in Albania. In order to match demand with continued and reliable electricity supply, the Albanian Energy Corporate has been forced to constantly increase the import of electricity. Nevertheless, daily imports may not exceed six million KWH, due to the limited technical capacities of the interconnections linking Albania to the international network.

- *Lack of alternative energy sources*

99 per cent of electricity is produced by the hydro power plants, which have been constructed on the main Albanian rivers<sup>35</sup>. Continuous and prolonged droughts in the country have had a direct negative impact on the production of electricity. Due to prolonged droughts, the water supply to the northern power plants has reached the lowest level in a decade, and has led to a reduction in production. In addition, no new power plants have been built in Albania in the past 15 years and the situation is not expected to change in the short run. The World Bank, the European Investment Bank and the European Bank for Reconstruction and Development have expressed their support to finance a new TPP with a considerable capacity following 18 months of comprehensive studies carried out by American and Albanian specialists.

The construction of the combined cycle TPP will be divided into three phases. Each phase will have an installed capacity of 135 MW and an initial investment of 112.6 Million USD (first phase). In the meanwhile, the Regional Council of Territory Adjustment of Vlora District (23 December 2002) and the National Council of Territory Adjustment of Albania (16 February 2003) have agreed to the construction site. The third phase that will be the complete assessment of the environmental impact is expected to start soon.

In order to have coherent analysis the prices of energy sources in December 2003 have been taken into consideration. The total cost for these services has been calculated based on prices and average efficiency of equipment or plants, energy resource prices and the energy demand for heating, cooking and hot water production. The calculation shows that fuel wood guarantees space heating with the lowest total cost, while LPG and electricity have higher costs, 9.6 (current price) and 10.8 lek/kWh (approved price after April, 2003) for a higher consumption than 300 kWh/month.

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<sup>35</sup> There are contingency plans to rehabilitate existing facilities working with resources other than hydro power plants, i.e. the TE in Fier. The United States Trade and Development Agency financed a feasibility study of the rehabilitation of the TEC in Fier.

- *Pricing policies and abusive electricity usage*

According to KESH, electricity prices do not cover production, transmission and distribution costs.

- **Non technical losses**

As mentioned previously, the payment rate for electricity has increased to 75 per cent from 50 per cent. The increase in electricity prices is expected to cover the lion share of the technical and non-technical losses. The cost of non- technical losses is currently included in the electricity cost structure. Hence, regular customers are being indiscriminately penalized as well for non-payment by other citizens.

- **Electric meters**

There is an identified need for the installation of around 300 000 electric counters at private residences. According to observations<sup>36</sup>, 63 per cent of families in the countryside do not have electricity meters counters, while 16 per cent in Tirana and 42 per cent in the other cities do not have electricity meters. The lack of electricity meters may increase estimations for actual energy consumption, since invoicing is made based on average consumption. Some families may also feel they are being charged unjustly, if their consumption is well below the average.

- **Pricing policies**

The cost of electricity generated by domestic resources was only 1.08 leke/kwh in 2002. The average cost of energy production and importation varies between 2 and 2.5 leke.<sup>37</sup> The cost of imports and losses build up to the energy production cost, by increasing it to 6.44 lek/KWH<sup>38</sup> (see figure 5 – in Albanian). Electricity production cost takes up 40.5 per cent of the total cost, while transmission and distribution respectively take up 10.4 per cent and 49.1 per cent.<sup>39</sup>

The increase of electricity prices has upset many Albanians. Previously, 300 kw/h spent by Albanian families were charged at 4 ALL/KWH and the rest at double the price. From December 2003, the level of subsidized consumption dropped to 220KWH. From the data reported by INSTAT, electricity bills take up 2 percent of the budget of the Albanian household (this was the situation before December 2003).

The price liberalization policy in the energy sector has resulted in a sharp increase in energy products prices. As a percentage, the prices have grown from 160 percent (firewood) to 500 percent (kerosene)<sup>40</sup>. Domestic supplies of hydrocarbons can satisfy in average only 26 per cent of demands. The price of the energy resources and especially hydrocarbons are subject of international price fluctuations.

For instance, Tirana pays 97 per cent of the electricity bills but receives only 75 percent of the demands for energy, or 2-3 hours of arbitrary interruption in the city and 4 hours in the rural area every day. Shkodra pays only 8.5 percent of the consumed energy. According to this level of reimbursement Shkodra should be supplied with only 1 hour of electricity: it instead receives 8 hours of electricity in the city and 7 hours in the rural areas. This distribution policy intends to cushion social and political implications.

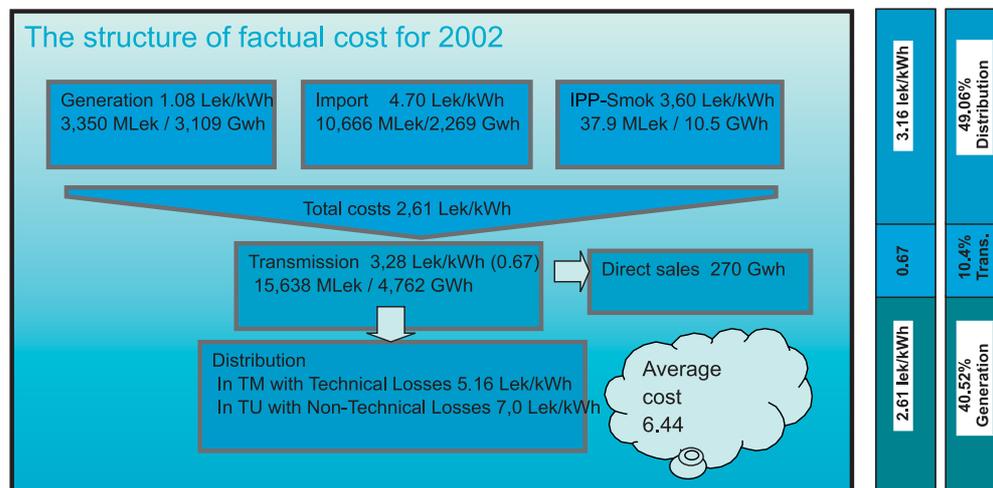
<sup>36</sup> AII&INSTAT survey.

<sup>37</sup> According to Luigj Pjetri, Director of the Production Department at KESH. Monitor, 11.02.2004.

<sup>38</sup> Source: KESH.

<sup>39</sup> Besim Islami, Chairman of the National Energy Agency.

<sup>40</sup> EUROSTAT and INSTAT yearly statistical reports.



**Figure 5:** The structure of electricity cost

An increase in the price of electricity is considered to be the solution to the crisis. However, the experience of increasing the price of other resources has demonstrated that there has been no effort to upgrade the present situation of companies' assets, neither by adding new ones, nor by improving efficiency in using existent resources. **Policies of liberalising prices do not seem to hold the key to resolve the deadlock situation in the crisis of the energy sector in general and that of electric power in particular.**

### 3. Risk assessment and stability implications

#### 3.1. Economic implications

The economic growth of the country is impaired by the shortage of energy resources in general, and by electric power in particular.

According to independent energy experts,<sup>41</sup> the energy crisis may have an impact on sustainable economic growth in Albania. In order to sustain a 5 per cent yearly GDP growth, the total energy consumption is expected to rise from 1840 MTOE in 2001, to 2800 MTOE. Thus, the impact of the electricity crisis could be expressed with the category of 'missed production' at the national level. There are no specific indicators that measure the category of the 'missed production' with high accuracy. Nonetheless, there are some economic and social factors and trends that can help us make an evaluation in qualitative terms.

- **The increase in prices of services and impact upon private sector production.** Most private service sector entities have installed private motor-generators. The cost of energy produced by motor generators is higher than the cost of electricity provided through the network.<sup>42</sup> The cost increase is therefore

<sup>41</sup> Opinions were given by Bujar Nepravishta, an independent expert on energy.

<sup>42</sup> The electricity cost of a motor-generator is 20-25 cent/kwh. The price of electricity for the private service sector is 11 cent/kwh. From a simple calculation it is obvious that there is an increase in the costs of energy by 10-15 cent/kwh. This cost increase represents only the difference between the price of electric power supplied by the system with that of a generator. The cost of buying a mini and medium diesel generators and their maintenance is not included in this calculation.

projected in the prices of services and products. The electricity price will increase by 7-8 per cent each year up to 2009. In 2009 electricity prices will reach the long-term marginal running cost of generation/transmission/distribution at the level of 8.78 cent/kWh (from 6.45 cent/kWh, which is the average electricity price of the year 2004.)

- **Electricity imports have had an impact on the trade and cash flow deficit.** Electricity imports have increased from 25.6 million USD in 1990 to 265 million USD in 2001<sup>43</sup>. Electricity, mainly imported from Greece, Bulgaria and Croatia costs the state budget 4.3 cent per kw/h.
- **Declining attraction of potential foreign investments in the country.** The increasing profit opportunities in a growing economy such as the Albanian are likely to be diminished by the economic environment. Such an environment is dominated by unpredictable electric power supplies, which expose investors to unnecessary risks and added costs. While private business is harmed by such erratic conditions, foreign investors opt to divert their investments in more stable economic environments.
- Compared to 1990, energy consumption per capita in 2002 has decreased by approximately 35 per cent and electricity consumption per capita in 2000 by approximately 22 per cent<sup>44</sup>. This reduction is mainly due to energy shortages, in the face of increasing demand. At the same time, it should be pointed out that the electricity supply during 2003 has increased by 14.8 per cent as compared with 2002.

According to the AIIIS survey 86.2 per cent of the population experiences cuts in electricity while about 2 per cent of the population no longer has access to electricity.

### 3.2. The continuation of the crisis

Frustration springing from arbitrary electricity cuts is increasing since it is related to other factors. Drinking water provided by pumps is dependant on the supply of electricity and hence 66 per cent of the population has access to running water for up to only 8 hours per day<sup>45</sup>.

## 4. Assessment of the management of the electricity crisis

The strategy of the Government and utility companies is to resolve the problem of the energy crisis in the **short term** by **reducing electricity consumption** through a range of different policies. These policies vary from the arbitrary interruption of the energy supply to price liberalization of electricity and of other energy resources.

There seems to be a trade off between the fast liberalization of the energy market and privatisation. Large investors that are interested in entering

<sup>43</sup> EUROSTAT and INSTAT annual statistical reports.

<sup>44</sup> EUROSTAT and INSTAT annual statistical reports

<sup>45</sup> It should be pointed out that running water scarcity is not only due to the absence of electricity; however electricity cuts deteriorate the situation.

the market would require long term contracts and state guarantees, which makes the market more rigid. On the other hand, liberalization of prices creates a period of institutional fluidity, which, combined with the risk of discretionary political interventions, scares away potential investors.

In the **long term** the government expects to address the electricity power crisis by:

- **Increasing the import of electricity** to attempt to alleviate the occurrence of arbitrary power cuts
- **Building a thermal power plant in Vlora** with a production capacity of 1 billion kWh/year.
- **Building a 400 kV interconnection line** between Elbasan – Tirana – Vau Dejes double circuit line, connecting the latter to Podgorica as well as Prishtina. This line will increase the capacity of our power system and therefore permit more electricity imports (this line will enable the importing of more than 6 million kWh/day).
- According to the **Rehabilitation of Transmission and Distribution Project**, it will soon become possible to increase security of supply for all consumers
- **Constructing a new hydropower plant** on the Bushat on the River Drin. On the other hand, the hydro power plant of Bushat is nevertheless problematic, since the whole investment requires \$156 million and this figure is high compared to the investment of a thermal power plant. Furthermore, this solution does not provide any improvement or change in the dependency of electricity production on hydro resources, which has proved to be unreliable.

## 5. Conclusions and Recommendations

An economically integrated strategic plan for the energy sector at the national level should be developed. The strategic plan should include:

### i) **Comprehensive investments:**

- Rehabilitation the transmission and distribution network;
- Upgrading and Rehabilitation of the interconnections power system;
- Preservation of domestic energy resources, development of local capacities;
- The regeneration and renovation of generating capacities of domestic energy resources.

### ii) **Diversification of energy sources:**

- Promotion of alternatives to electricity as a power supply;
- Attraction of private investments in the energy sector. This should include support to investments in alternative energy markets that are yet undeveloped in Albania, such as natural gas and oil derivatives.
- Promotion of more feasible energy sources (i.e. gas) for heating. This could be achieved by imposing the compulsory introduction of central heating facilities in new constructions.

### iii. **Privatisation**

- Encouragement of partnerships and attraction of private investments in energy services; the creation of public-private investment schemes in order to encourage investments;
- Speeding up the privatisation of the energy sector, even at the price of slowing down the liberalization of the electricity market;
- Separation of electricity production and electricity transmission and distribution. The distribution network is more appealing for potential investors. Concessions in this sector may develop the distribution and transmission market, and indirectly improve the production market as well.

### iv. **The Government needs to intervene to:**

- Safeguard the interests of consumers where necessary, to ensure public safety and protect the environment.
- Alleviate the impact of pricing policies by designing subsidy policies for the poor, by reducing poverty.
- Work with power, oil, and gas companies to maintain strategic reserves of coal, diesel and petrol.
- Monitor the performance of power companies through the establishment of an agreements control scheme.
- Make the energy tariff and price adjustment mechanisms more transparent.
- Promote energy efficiency and energy saving measures in consultation with the power companies.

## ANNEX: METHODOLOGY OF DATA COLLECTION

The report analysis relies on quantitative and quantitative data procured by a combined variety of resources such as:

- o National statistics and other international and national information
- o Documented indicators collected by the team of AIIS
- o National Survey

The research findings from the monitoring process of the selected indicators are compared with the findings of the October 2003 survey, which was organized in cooperation with the Albanian Institute of Statistics and which reflects people's perceptions on economic, political, social, and environmental security threats. Another national survey will be organized in the last quarter of 2004 and will help us monitor and assess trends and developments of human security in Albania.

### - *Survey sample and Field Work*

The total survey sample is composed of 1200 households. The definition of the sample was based on the principle of equal representation at national level. The family (household) is selected as the unit of representation and the respondent is the head of the household. Quotas were assigned to each district on the basis of a series of equations and were weighted according to the actual household numbers for each district (see tables below). For example, the district of Berat has 29 442 families, at national level (762 895) this figure constitutes 4.1 percent of all the country's households ( $29\,442 / 762\,895 * 100 = 4.1\%$ ). The number of respondents for each district was calculated based on the representation at the national level and the total number of our sample. Within each district, households' selection was random (SRS –simple random sampling- technique was used) respecting urban and rural ratio. In absence of the head of the household, the "next birthday technique" was used to define the respondent.

The survey fieldwork and analysis was conducted during the months of September-December 2003. It began with the training of the interviewers, who were instructed about the aim of the survey, code of conduct during interviews and the accuracy of the reported findings. For each district, a supervisor was assigned who managed and controlled the process of the interviews. The data entry was done by specialized experts based in Tirana who checked each data entry in correspondence with the questions of the questionnaire.

Experts from UNDP Albania, Romanian Academic Society and AIIS designed the contents of the questionnaire taking into account previous surveys carried out in other Balkan countries after improving and adapting them to the Albanian particularities.

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