

## **INSIGHT ON RISE AND FALL OF PYRAMID SCHEMES IN ALBANIA, 1997**

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### **ABSTRACT**

*By the beginning of 1997, just as the world celebrated one year of peace in Bosnia, another Balkan state, Albania, plunged into crisis. Shortly after it broke up, government authority collapsed, and the state fell into anarchy as marauding gangs took control of several cities. International forces were eventually called in to help provide humanitarian assistance, control lawlessness, and prepare for new elections.*

*This study tries to analyse how this convulsion in Albania was triggered by a collapse in shady pyramid investment schemes, while its root causes were decades of economic mismanagement and political corruption. It also makes an attempt to reveal how these developments influenced Albania's performance in terms of economic, social and political aspect, how they affected Albania's road towards democratization and what was the role and impact of international actors in such developments. In the process of scientific research, it is used the methodology of getting familiar with different sources, from various perspectives, drawing a qualitative approach, while retaining objectivity and critical approach to come to genuine and scientific analysis, interpretations and assessments.*

**KEYWORDS:** *Pyramid Schemes, Crisis, Economic and Political Development, International Actors*

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### **INTRODUCTION**

The 1990's earth-shaking changes in Eastern Europe eventually reached Albania too. When it started the transition period whose three main goals are: independence, political pluralism and market economy, Albania was the poorest, the most isolated and the most backward country in Europe. Her being largely unknown and inaccessible country for a whole period from 1945 until 1985, was compounded by the rigid communist dictatorship of Enver Hoxha which eliminated all forms of private property thus cutting the country off from outside contact and influence. Evidently, when the transition period started in 1991, the majority of the population was unfamiliar with market institutions and market practices.

Meanwhile, the elections of 1992 brought the overwhelming victory of the strongest opposition Democratic Party which was expected to bring a decisive break with communism and join Western capitalism in terms of economic, political and social aspect. Thus, the new government had to face the daunting task of reconstruction which in 1992-1994, implied undertaking radical reforms intended to transform centrally-planned economy into market economy. But the privatisation programme which was essential at that stage did not produce the expected results. Instead, an informal market grew whose development was encouraged by Albanians' unfamiliarity with financial markets and the deficiencies of the country's formal financial system.

Within this informal market, some new deposit-taking companies that invested on their account instead of making loans were grown. These companies were the ones that turned into pyramid schemes which as a new phenomenon in Albania were important because their scale and their influence relative to the size of the economy were unprecedented.

At this stage the international community was spurred to act. It recognized that its efforts would be crucial simply because Albania itself could no more recover and improve matters on its own. Moreover, some feared the violence could spill over into neighbouring countries too.

## **PYRAMIDAL SCHEMES - A NEW PHENOMENON**

### **Background and Recent Trends on the Route to Transition**

In 1992, Albania broke finally from communism and made her way to Western capitalism. Soon after coming to power in 1992, Berisha initiated programs aimed at privatizing state-owned enterprises and strengthening the country's ties with Western Europe and the USA. This reform program consisted of two phases: The first phase (1993-1995) included privatisation through auction of small and medium enterprises of production and services. The second phase (May 1995-1997) included the privatisation of not yet privatised strategic and non-strategic large and medium enterprises. Thus a new private sector that fostered the flourishing of small private activities was born but it is worth noting that during those years, the largest numbers of private businesses operating in the Albanian market were in trade.

Actually, the government granted licences in 1992 to certain individuals which allowed them to trade in currency outside of the national banks. Despite this fact, the free-market evidenced the operation of unlicensed dealers quite openly and unofficially tolerated by the government. So, one survey in early 1996 revealed that almost 80% of the street vendors were operating illegally and almost all of the new dealers since 1993 were without a licence. Furthermore, it was noticed that during the first transition years, the free-market(which people due to their mentality thought would solve all their economic problems based on external factors more than on internal ones),was the driving force in the Albanian exchange rate market and that the official rate reacted to movements in free-market rates more than it determined them. During that period, the main characteristic of the informal credit market was the high level of interest rates on the market and this fact was to have a strong influence shortly after.

Notably, this situation might be predictable when considering that the Albanian society came from a centralized and extremely socialized economy and lacked market skills. This is one reason which accounts for the government's mishandling of the economic sector and partially, accounts for the fact that the Albania's economic recovery and revival until 1996 has followed a consumption-led rather than a manufacturing-or even agricultural-led strategy.

Meanwhile, the privatisation process was going very slowly while the public was growing impatient and expressing distrust about the government-led eagerly-expected reforms.

In addition, the institutional reform proved to be the least developed in Albania during 1991-1996. If it had been carried out properly, it would have meant issuing a new constitution, establishing political institutions, setting up a new tax system, a central bank, market regulations, etc.

Anyway, despite these irregularities, assessments of the Albanian economy until the end of 1996 were positive: The "lek" (money) was stable and had even become a strong currency, monthly inflation rate since mid-1994 was lower on average than that of most EU countries, and budget deficit fell from 17.4% of GDP in 1992 to 7.6% in 1995.

But, on the other hand, the services offered by the state - health, education, public order, transportation, sanitation remained in the former state of degradation or worsened and disappointment grew as people witnessed corruption in government and law enforcement, as well as government inability to provide security for citizens and prosperity in illicit trade which in all became a handicap for fuelling a legitimate economy. Accordingly, the general picture of Albanian economy during 1992-1996, was an economy based on trade rather than production, in which imports were four times exports, the country's resources were unused and the infrastructure was neglected, and a country which was supported not by the work of its inhabitants, but by the emigrants, by international aid and by imports .

Worthy to mention, is the education system which is an indispensable part of the transition period. Beginning from 1991 on, education lost its value since it no more guaranteed a job and since trade was considered as the primary source of wealth (which according to them, needed no education) and getting into business was better than waste time at school. Hence, the country's cultural level was on the decline. At the same time, social imbalances arose as people were rushing to cities, especially to Tirana. Meanwhile a large number of people (especially young) were going abroad as emigrants. These emigrants would soon provide a very strong influence on the Albanian developments. Clearly, all these events were interwoven and left their stamp on political sphere too.

The enthusiasm through which people had supported Sali Berisha's Party and Government had declined. Berisha (was thought) resorted to arbitrary rule and the enactment of laws that offended basic democratic principles. Most significant were his enactment of "Genocide Law" on September 1995 , which led to disqualification of many candidates (mostly from SPA) in the 1996 elections, the imprisonment of the chairman of the Socialist Party, Fatos Nano, the failure of Berisha's attempt to hold a referendum on a new constitution that would have reinforced his position and which according to opposition, aimed at transforming Albania into a Presidential Republic , as well as suppressing dissent and dismissing DPA members. Finally, of strong influence were the results of May 1996 elections which CSCE called as "far below standards for free and fair elections to be considered legitimate".

To sum up, all this background, these trends and events would soon have a strong impact on the Albanian people and his history, reaching their peak after the pyramid schemes collapse.

### **Albania under the Shadow of Pyramid Schemes**

In a classic pyramid scheme, a certain fund or company attracts investors by offering those very high returns (and claiming reinvestment of the depositor's money) which in turn is paid to the first investors out of the funds received from those who invest later. These schemes initially flourish due to the high interest rates they offer but soon face a new problem as more new investors are drawn in, their number in the scheme increases which means that more money is needed to meet their interest payments. Obviously, since the investors are finite and schemes are insolvent (liabilities exceed assets from the very day they have been opened) they are doomed to fail. When investors discover the truth, they rush to withdraw their money back but it is too late since their capital sum will have been used to pay the interest.

This was the case in Albania. Starting by the early 1995 some pyramid Schemes appeared. Supposedly, some of them began their activity as investment companies and some others as pure pyramid schemes. Among them were Vefa, Gjallica, Silva, Kamberi, Sudja, Xhaferri, Populli, Cena, etc.

Where did the Money Derive From? Firstly, the emergence of pyramid schemes was driven by the inflow of the remittances. As it is well-known, the political and economic changes that swept Albania in the early 1990's brought the phenomenon of mass emigration.

So, the government relaxes of control on foreign travelling, the collapse of central planning which led to widespread unemployment, and the chronic food shortages, induced many to leave their country and find work abroad. According to some data, an annual average of 400 000 men and women were employed in either Greece or Italy between 1992-1996. These emigrants soon realised that the well-paid casual work presented them with the opportunity to accumulate substantial sums.

Accordingly, driven by the pressing needs of family members at home and mainly by the attractions of the high-interest pyramid schemes which proliferated in 1995 and 1996, a huge amount of remittances whose value was estimated in the region of US 300-1,200 million dollars per year, in flowed. These remittances were technically classed as an invisible credit on the Albanian current account and had the effect of balancing the current account, thus preventing both the depreciation of the lek and rising inflation. But it was estimated that remittances could at most account for slightly less than half of total deposits with pyramid investment schemes. Hence, it is clear that these schemes were financed by other sources too.

Second, being struck by investment fever, many Albanians at home provided another source: They were convinced that their money was well invested so they sold their possessions-houses, apartments, livestock, land, etc. They were convinced too, that they enjoyed the government's support ensuring them security in investing their money into these schemes, which for the time being, promised the best conditions.

Other possible source was the illegal activity in which Albania was involved.

Beginning from 1992, an expansive underground economy had unfolded. It consisted of the trade in oil, arms smuggling and narcotics which fostered the progress of illicit trade. This in turn was largely developed as a result of the embargo imposed by international community on Serbia and Montenegro and the blockade enforced by Greece against Macedonia. On the other hand, the financial proceeds of this kind of trade were recycled towards other illicit activities (and vice versa) including a vast prostitution racket between Albania and Italy. Drug money was also laundered in the Albanian pyramids. After accumulating exorbitant sums of money from these main sources, let's turn to pyramid schemes' functioning and their effects. At the beginning of their activity, these companies offered annual rates from 4-5% a month to 6% or almost 100% annually in real terms.

Then, the approaching of parliamentary elections, prompted the companies to increase their rates again by 8% a month. Meanwhile, by the early 1996, other new pyramid schemes such as Xhafferi, Populli, Sude, appeared offering interest rates 12-19% a month.

Evidently, this led to an increase of the number of depositors to make huge amounts of their fortunes within a short period; so, according to the same source, Xhafferi and Populli between them attracted nearly 2 million depositors-in a country with a population of 3.5 million-within a few months.

On the other hand, this situation increased competition between the companies which began to offer higher interest rates on deposits. Concretely, in September 1996, Populli began offering 30% a month followed by Xhafferi which offered to treble depositors' money in 3 months and Sude which offered to double principle in 2 months.

Meanwhile, Gjallica sponsored the Miss Europe competition in September 1996 which occasionally announced commercial breaks for Gjallica. It was due to this television spectacular or other rumours that during September, Gjallica was taking in S 300,000-S 400,000 per day.

Meanwhile, the Albania's largest financial "pyramid" - VEFA Holding-had been set up with the support of the Western banking interests and claimed it had legitimate investments such as supermarkets, clubs, etc. As a result of these pyramid schemes functioning, until the end of 1996, Albania was doing well-at least it seemed so on the surface. The lek (currency) was stable, inflation dropped and GDP was growing fast. Relative to the country's size and wealth, foreign investment had started to pick up significantly. But despite the positive effect they had in the short run on the growth of the Albanian economy, in the long run they retarded her economic development by soaking up investible funds which could have been used for rebuilding the Albanian economy. At the same time, the private sector was vibrant and the public sector was unable to deliver what it was supposed to; civil society was basically non-existent and institutions were weak and not gaining strength.

In such a situation, Albania would certainly have problems: By the end of 1996, the total value of deposits that all pyramids had received-excluding the accrued interest at the time of the estimate-reached an astonishing 1.2 billion dollars or 50% of the country's GDP.

Despite the repeated warnings from the IMF and the World Bank, it was only in November 1996 that in response to outside pressure, the government decided to set up a committee to investigate the schemes. During that month Sude (the first) defaulted on its payments. No doubt, Albania was on the brink of an already unavoidable crisis: The collapse of pyramid schemes and presumably even worse...

## **CHAOS AND ANARCHY – ALBANIA ON THE VERGE OF CIVIL WAR**

### **January-June 1997: From Economic Crisis to Political Collapse**

In January 1997, Sude scheme declared bankruptcy followed by Gjallica, Xhafferi and Populli schemes. The other schemes also ceased to make payments soon. February saw the collapse of the 2 of the largest investment schemes-Vefa holding which was based in Tirana, and Gjallica which was centered upon Vlore. This situation which persuaded Berisha to declare a state of emergency shocked the public opinion and triggered riots against the government. People's immediate demands were to overthrow the government, imprison SaliBerisha (the President of the Republic) and take their money back.

Why did People Blame the Government? Truly, throughout the year the government did not ask the public to invest in the pyramids; however, being a passive spectator to them implied for the people that the government was legitimizing these schemes.

Despite the enormity of the problem and the warnings of IMF and World Bank about the pyramid danger, it was too late when in October 1996; the finance minister issued a formal warning about the risks of investing in the pyramids. Moreover, pyramid managers were seen at official receptions and were daily interviewed by the government-controlled television stations.

So, people felt secure that such a scheme which involved almost every Albanian family and enjoyed the government support would no doubt be guaranteed. That's why people regarded their mistake in investing on such schemes as minor to that of government, which according to them, had not only tolerated the schemes, but actively encouraged their operations describing them as the miraculous achievements of the free market policies it had been advocating .

Otherwise, according to them, the government should have frozen and if necessary seized the schemes assets once it discovered that they were operating as pyramid schemes. Since the contrary happened, people considered them as a means through which the government attracted all their money and, accordingly, the responsibility was to fall on the government.

After some firms had declared bankruptcy in January 1997, the government tried to take some steps. It refused to compensate depositors for their losses, then it began to move against some of the companies by freezing their money and finally, in February 1997, parliament passed a law banning pyramid schemes. Nevertheless, it was too late: by March 1997, Albania was in chaos. Protests had broken out, especially in several southern towns, such as Vlore, Gjirokastra, Saranda and Berat which were hit hard by the schemes and enjoyed less of government largesse dispensed by northern Berisha So, Albania was once again on the road to social, economic and political instability.

Although Berisha made some efforts to restore order and maintain power, he tried to avoid domestic and international criticism of his heavy-handed measures and refused entreaties to form a coalition government and call for new elections. Instead, on 2 March 1997, he imposed a state of emergency, giving police the right to shoot on sight armed rioters, whom he dubbed "communist rebels helped and financed by foreign espionage services". The next day of declaring the state of emergency, Berisha was re-elected president for another five-year term believing that his regime had enough troops and police to suppress the insurgents in the south.

But the major surprise for the regime came from the military side which collapsed in just a few days making Albania a collapsed state without a military.

Naturally, there were reasons for the military's collapse: First, it was almost impossible to maintain military unity in actions against citizens (the army was given shoot-to-kill orders under the state of emergency). Second, many military members had also lost their life savings in pyramid schemes. Thirdly, there was strong dissatisfaction with president Berisha's "military reform" when the military was practically decapitated.

Consequently, disorder intensified and spread to such a degree that the country became ungovernable with crowds helping themselves to weapons from the armouries.

As a result, demonstrations which culminated into armed revolts spread to most of the south of the country and hundreds of lives were lost; Public buildings were attacked and burned, prisoners were released from jail and effective control of a wide area passed into the hands of armed gangs which formed salvation committees. The danger of civil war seemed imminent.

Under these circumstances, the government was finally forced to resign. Meksi had been sacked early in March and Berisha agreed to the formation of a government of national reconciliation and to the holding of general elections in June; an interim cabinet was formed under the socialist, Bashkim Fino, on 11 March. This event made people feel that the new elections would be a vital step to begin to put an end to the chaos and move forward again.

Nevertheless, the crisis was far from being resolved and a period of economic, social and political instability, followed. The interim government inherited a desperate situation. Large parts of the country were no longer within the government's control. More ominously, while the south was in a state of spontaneous revolt, the north was led into "organized chaos" by Berisha himself. Ignoring and often remanding Fino's orders, he opened armouries and invited his supporters to help themselves. Accordingly, the country seemed as if was divided into Berisha-led north and Nano-led south.

Also, the government's revenues collapsed as customs posts and tax offices were burned. Prices increased and the lek depreciated, output fell by 7% in 1997 and recorded imports fell by more than 25% . Many industries temporarily ceased production and trade was interrupted. Social effects were profound too. In addition to the loss of many lives, thousands of people were impoverished either by the loss of their investments in the pyramid schemes, or by the destruction of their property in the ensuing violence.

Within this background, Albania was going towards new elections which were due on 29 June, 1997. Would they provide what were people expecting?

### **Post-Crisis Developments**

As expected, the new elections marked the overwhelming victory of SPA (Socialist Party of Albania) with Fatos Nano as prime minister; meanwhile, after the defeat of the DPA, Berisha resigned as president on 23 July 1997, the assembly nominating RexhepMejdani of the SPA as his successor.

The new government (which included a number of other Parties too), committed itself to restoring order, eliminating corruption and crime, reconstructing the armed forces and reforming the administration although the difficulties were obvious. It began to restore to some confidence in the financial system by approving a law that allowed for the auditing of all pyramid schemes whose liquidation was a prerequisite for the implementation of an IMF-sponsored recovery strategy.

At that period, ERA (Enterprise Restructuring Company) carried out measures for financial recovering which aimed at leading the restructuring of Albanian enterprises producing 40% of the industrial production of the country . To overcome the difficult economic situation, a comprehensive program starting from macroeconomic stabilization was designed and put into operation by the last quarter of 1997.

Nevertheless, the economic and social situation was still critical; the level of unemployment was alarming-the only industries in Albania being some small foreign manufacturing enterprises, often Italian, which used mostly female labour force. Under pressure from the IMF, the government increased taxes and cut items of public expenditure and called for private and foreign investments to be encouraged. The population continued to move to the cities, abandoning the mountains which constituted the largest part of the Albanian territory. Meanwhile the 1997 crisis triggered a new wave of emigrants seeking work abroad.

An exacerbating existing problem was the seemingly unbridgeable gap between the two major political factions which made people dismisses all politicians as crooks.

Evidently, in such an atmosphere, political reconciliation seemed unconceivable. One of the most troubling issues was the continued lawlessness and violence in the country. The government's weapons return program was an absolute failure. People had declared that they would only surrender their arms when they would have their money back . With arms still on people's hands, roads were still unsafe at night, blood feuds continued among rival gangs and bands and arms trade continued to flourish too.

The greatest damage inflicted on Albania by the 1997 events, however, was the diminishing of respect which central government enjoyed in the country. Consequently, particular crimes expanded with great rapidity, most notably smuggling, the main commodities being drugs, cigarettes, stolen cars and human beings, especially young women from Moldova, Ukraine, Belarus and Russia, most of whom were destined for the whorehouses of the western world.

During 1998-1999 on the other side, the government presented a very optimistic view: It claimed it brought macroeconomic and financial stability within a short period of time, economic growth in 1998 reached 8% (as compared to 7% decline in 1997), budget deficit was domestically financed and inflation rate was reduced to 8.7% at the end of 1998 despite the fact that Kosovo crisis strongly influenced on domestic and foreign investment, which virtually ceased as a result of fear of war in the region.

However, in a July 1999 speech to the Albanian Institute for International Studies Symposium in Tirana, listed indicators for the success or failure of Albania were rather pessimistic: Only in the economic area had Albania made visible (albeit limited) progress through privatization and market reforms. All the other areas—Political Stability, Institution Building, Civic Society and Organized-Crime Fighting, were dangerously deficient.

Obviously, this background was thoroughly affected by that crisis and deeply threatened Albania's route towards democracy.

## **THE INVOLVEMENT OF INTERNATIONAL COMMUNITY**

### **In Search for a European Solution - Reluctance, Dilemmas and Uncertainties**

After the crisis broke out and as matters continued to deteriorate, Berisha realised that he would have to make both some concessions to the opposition and some overture for international assistance since Albania could no more recover on its own.

By the beginning of March, Berisha finally agreed through Franz Vranitzky, a former Austrian Chancellor appointed to head the OSCE's mission in Albania, to talk with the opposition and form a coalition government (whose Prime Minister was Bashkim Fino – a Socialist), ease the state of emergency and hold internationally – monitored elections. Warning that the country was on the brink of the civil war, Fino called for EU and UN military intervention.

Just from the moment Albania sent this alarming request, a long diplomatic campaign ensued including major international institutions and capital cities of the West which treated the so called Albanian crisis with much reluctance, efforts to avoid the intervention and conflict of interests. Meanwhile, Western governments appeared more concerned with the threat of massive emigration and the rising importance of Albania as a center of European criminal networks than with political conflict.

Accordingly, the European response initially appeared to be no more than sending a European Community Humanitarian Office (ECHO) commission. To many, it appeared as though Europe was revisiting a phase of Bosnia-like indecision, prompting newspaper headlines like "Europe fiddles while Albania burns" (London Times Literary Supplement, 4904:13, March 28, 1997).

However, on March 19, the European Parliament's Foreign Affairs Committee called for humanitarian aid convoys in Albania to be given military protection, and called on the Council to take the necessary steps to support democracy in Albania.

Simultaneously, the Committee of Ministers of the Council of Europe declared its willingness to participate in a multi institutional mission to Albania with the EU and the OSCE. But, on the question of deploying troops, British and German resistance foreclosed any collective European military response due to consensus rules. The EU Foreign Council was willing to authorize humanitarian aid but passed the responsibility to the 54 – member OSCE, of which Albania was one. This in turn passed the responsibility to the United Nations which endorsed a three – month intervention for

humanitarian reasons through Security Council resolution.

Along with the EU failure to sponsor a European mission to Albania, NATO was one of the first to reject any possibility of military intervention in Albania although the latter was one of the countries which signed “Partnership for Peace” and was considered a valuable NATO participant. According to the statement of Solana, NATO’s Secretary – General, the Alliance considered the Albanian crisis an internal affair.

The American administration made it clear that it would not implicate itself in a possible intervention to Albania. One of the reasons for this decision is that after being implicated in Bosnia, it would be very difficult for Clinton’s administration to again engage troops in another Balkan country. A new peace – making operation in Europe would be too much for an average American and could cause unpredictable problems in the Congress.

Another possible reason is linked to the Washington’s dissatisfaction with the policy of the major European countries towards Berisha, i.e. by definitely tossing the ball in the European court, the refusal might serve as a message to Europe that it should itself resolve the crisis it helped create. Nevertheless, although both USA and Russia refused to send the troops, they did not accept to be left aside the diplomatic negotiations.

On this context of reluctance and dilemmas, there were some efforts undertaken in Albania by the international community, notably the OSCE and EU. Thus, in May 1997, the WEU Council decided to send a Multinational Advisory Police Element (MAPE), to Albania whose primary aim was to provide advice and train instructors.

Initially, MAPE’s teams were concentrated in Tirana and Durrës and consisted in providing advice to the Ministry of Public Order on restructuring the Albanian police. As a result a new State Police Law which contained the foundations for building a democratic police to internationally accepted standards was drawn up.

Later on, MAPE mission enhanced its geographical coverage and expanded its training and advice to selected ministries, directorates and “low risk” police districts down to the operational unit level.

The MAPE mission was finally concluded on 31 May 2001.

Regarding the extend and degree to which international action helped to restore order in Albania, worth mentioning is the Donor Coordination which intensified after the 1997 crisis in order to be able to provide timely advice and assistance for post – crisis recovery.

So, as a result of close collaboration between the European Commission, World Bank, IMF and EBRD, a blueprint for post – crisis recovery was drawn up and a successful Donors Conference in Brussels was organized in October 1997. Donor assistance was particularly essential in helping restore public security and wind down the pyramid schemes.

Another important aspect is the international community involvement with measures to address weapons availability in Albania. Thus, the Report on the Evaluation Mission to Albania (June 1998) suggested that the UN would sponsor and organize a program which was effectively an arms amnesty in return for a development programme in the district of Gramshi. On this context, the UN proposed a package funded by the UNDP and the WB that would involve building 90 kilometres of road, employing 2000 people, setting up a small – scale processing plant, a furniture making factory and so on. But what questioned the effectiveness of this programme, was the issue of law and order without which could be no possibility of collecting weapons.

Regardless of these measures, it was evident that much more needed to be done.

### **A Profile of the OSCE Role during the Crisis**

The widespread chaos in Albania led it to appeal to international support to restore order and stability in the country. The idea of Albania authorities was that the force would not have an enforcement mandate but rather monitoring and supporting tasks e.g. establishing storage facilities for military equipment and armaments; so the question arose of an appropriate framework for a multinational security force to work in. At that time former chancellor Vranitzky who had been appointed the OSCE coordinator for Albania, was of the opinion that the OSCE could provide the basis for such a multinational force.

In other words, the OSCE should provide a mandate for the multinational force. But the OSCE could do little more than adopt a decision which shifted responsibility to the Security Council, thus ending the perspective of the first OSCE peacekeeping operation on the bases of chapter III of the Helsinki II. According to this document, the OSCE is “a regional arrangement” and as such it cannot undertake enforcement action without the authorization of the Security Council. Also, based on this document the OSCE can undertake peacekeeping operations without the authority of the Security Council as long as these operations can be classified as ‘the peaceful settlement’ of disputes as described in chapter VI of the U. N. Charter. These peacekeeping operations which include monitoring of troop withdrawals, support to maintain law and order, supervision and help to achieve cease-fires, provision of humanitarian and medical aid, regard an operation as part of a peace-making process: the parties are willing to find a political settlement and have consented to the deployment of a peacekeeping force.

The document goes further however. The provision of guarantees for the safety at all times of personnel involved, might reduce the risks of a peacekeeping operation, but also makes it less likely for such operations to take place. Apparently the OSCE participating states wanted to protect the OSCE against becoming too easily involved in a peacekeeping operation.

In order to achieve a mission safety and its success, the chapter VII of U. N. Charter authorised proper rules of engagement: 1. the right to use force to accomplish the mission, 2. the right to position defence (i.e. the right not to withdraw or surrender in order to avoid the authorized and legitimate use of force). Precisely these two elements of the rules of engagement made an OSCE mandate somewhat undesirable.

Still, even though it didn't send a force keeping mission, the OSCE, as the only pan-European security organization which has a key role in European peace and stability, did play an important role in Albania during her crisis.

Concretely, on the basis of the reports by the Personal Representative of the Chairman

In-Office, Dr. Franz Vranitzky, on his visits to Albania on 8 and 14 March 1997, and following the Decision No. 158 (107th Plenary Meeting of 20 March 1997), the Permanent Council in its Decision No. 160 (108th Plenary Meeting of 27 March 1997), decided to establish an OSCE Presence in Albania, which in co-operation with the Albanian authorities, would help to guide this country toward political stability and to promote national reconciliation.

This source further makes known that the Presence started working in Tirana on 3 April 1997. Active throughout the entire territory of Albania, it included a head office in Tirana and five field stations in Shkodra, Kukës, Gjirokastra, Vlora, and Tirana/Durrës. Through this Presence in Albania, the OSCE aimed to provide advice and assistance in particular in the following fields

Democratization, the media and human rights

Election preparation and monitoring

Furthermore, it expanded its assistance in monitoring the collection of weapons

On this context, as previously mentioned, by the beginning of March, while Albania was on the verge of the civil war, Franz Vranitzky, helped to reach a deal between Berisha and the opposition in which the former agreed to form a new coalition government, ease the state of emergency and hold internationally-monitored elections (agreed to be held on June, 29, 1997) for which of great value was the contribution of OSCE Presence.

Yet, according to this source, in order to ensure a credible electoral and observation process, the OSCE urged the Albanian authorities to

Immediately provide for the remaining information which was essential for printing the ballot papers

Set up all Zone Election Commissions and all Polling Station Committees

Distribute all voting materials in good time; and Agree to opening hours of the polls which also facilitate for the OSCE to improve monitoring of the vote counting

Except for the assistance of the election process, the Presence has pursued activities in support of its mandate through three substantive departments - Human Rights and Rule of Law, Democratization and Security Co-operation .

Within this landscape, the updated mandate of the Presence approved by the OSCE Permanent Council, called for it to assist and advice in the areas of

Legislative and judicial reform, including property reform

Regional administrative reform

Electoral reform

Parliamentary capacity building

Anti-trafficking and anti-corruption, including supporting the implementation of relevant national strategies

Development of effective laws and regulations on the independent media and its code of conduct

Promotion of good governance and targeted projects for strengthening of civil society

Police assistance, in particular training for border police, within a co-ordinated framework with other international actors in field .

Finally, related to OSCE successful mission in Albania, Dr.Vranitzky confirmed that “the OSCE and MPF managed to coordinate and combine through constant dialogue and flexibility, the political and the military efforts effectively!” In so doing, OSCE mission in Albania helped to a certain degree to give way to the spring 1997 'crisis.

### **“Alba” Mission as a Peacekeeping Force in Albania**

As previously mentioned, the responsibility for a peacekeeping operation in Albania, was shifted to the Security Council, which through 1101 resolution authorised the participating countries in the multinational protection force to conduct an operation on the basis of chapter VII of the Charter of the United Nations. Based on this resolution, the objectives for this mission were:

- To guarantee the safe arrival, stockpiling and timely delivery of humanitarian aid.
- To provide a security environment for the international organisations engaged in the Albanian crisis. In accordance with the Security Council resolution the force was to act in a neutral way. It also authorised the member states participating in the force, to ensure security and freedom as regards the movements of the personnel of the multinational force.

This mission was a coalition of 9 willing member states – codenamed “Alba” (meaning dawn and implying a new beginning for Albania) and consisting of approximately 7000 soldiers, was led by Italy.

The member states of operation ALBA, which was not under the direct control of any international organisation (UN, OSCE, NATO) , reported back to the UN through the Steering Committee, which based in Rome, provided the political control of this operation.

Its challenge was to coordinate the military with the civilian and humanitarian parts of the mission.

The participating countries in this mission were: Italy, Greece, France, Austria, Portugal, Romania, Denmark, Spain and Turkey. Meanwhile, representatives from the OSCE, EU, WEU and the United Nations participated in the Steering Committee only as observers.

It is interesting to note that the participating countries in the Alba mission represent a combination of the Mediterranean countries (Italy, France, Spain) and the Balkan countries (Greece, Turkey, Romania). Moreover, the majority of these countries had once, in one way or another been involved in the history of Albania in this century.

Italy was in charge of leading the mission. Its soldiers made up one half of the whole number and together with Greece, are supposed to be the most interested actors first of all to stop refugees flowing to their countries. In addition, Italy was the principal trade partner in Albania and its primary investor. Greece too, among other reasons, was interested due to the minority population of Greek origin in southern Albania.

The other participating countries – France, Spain, Romania, Denmark, etc were interested too, in activating the European influence in its commitment to solve the crisis.

Slovenia, on her part, decided to participate in the operation with a platoon – sized medical unit by the end of April.

The Alba peacekeeping forces operated throughout the territory of Albania in an atmosphere of chaos and anarchy associated by the difficulty of the armed population.

It should be mentioned that despite this background, important was the fact that the country was not caught up in a civil war, the conflict had neither ethnic nor religious dimensions and above all that there was no political force or any other group, including civil committees of national salvation, which would be against the arrival of multinational forces.

On this context, they deployed their forces in Durrës, Lezhë, Elbasan, Gjirokastër, Berat, etc where they conducted the landing of some hundred military means, such as armoured vehicles, heavy means of transport, logistic means, ammunition and troops. They supported the opening of schools to avoid the present fear which had caught the pupils, teachers and parents.

Despite carrying out its mission, operation Alba was even more important than the task it was entrusted with – the symbolism of the mission and its psychological aspect were equally important. Foreign troops were considered an

important premise for the holding of the new elections, irrespective of the fact that these forces would not be directly engaged in the electoral process.

Alba mission was not only successful in achieving its stated objectives, but it also ensured credible elections (which OSCE considered acceptable) and a peaceful transition to a socialist coalition government.

Operation ALBA came to a close on 12 August 1997.

## **YEARS LATER**

Years have passed. People know a lot about pyramid schemes but not everything. Who created them? Who is responsible for the crisis? Will people ever take their money back?

During and after the crisis many Albanian commissions were held to audit the borrowing companies. So far, no final report has come out by any of these commissions. Besides, the Albania's Finance Ministry had invited Coopers & Lybrand Company to check the accounts of the 12 loan taking companies to control their units and assets and find out how much money could be available to the creditors.

Meanwhile, the World Bank had allocated a \$3, 5 million funds to the other auditing company Deloitte & Touche to carry on the transparency process of 5 other Albanian loan taking companies

The chief controller of the government investigation into the 5 such firms, Farudin Arapi said a preliminary report by administrators of Deloitte & Touche which showed that their money had been mismanaged. This report was referring to: Vefa, Kamberi, Leka, Cenaj and Silva.

Referring to Coopers & Lybrand company, Arapi said that they would know by June (1998) how much money was left and whether the firms were pyramid schemes. *"From looking at the documents, we think there have been financial transactions with foreign banks, mainly in Italy and Greece"*, Arapi said.

According to the Deloitte & Touche, Vefa had too few assets to pay back its creditors. It operated only through some small businesses, without making any considerable profit. There were less than \$7 million in the banks and these were very few to pay the creditors. Moreover, no deposits had been made in the banks which meant that the company was not generating profits. Vefa reportedly owed around \$300 million to some 80,000 creditors. Robert Cameron-Ellis, head of a Deloitte & Touche administration team in Tirane said: *"We do not believe this situation is going to change in the future; We think that Silva has many chances to make some quick payments"*.

This is all we have nowadays from these auditing companies (which is almost nothing), both Albanian and foreign ones related to the pyramid schemes and their activity.

Meanwhile, investigation on these firms has been carried out by the General Prosecutor in Tirane which only 8 years after the crisis, published their whole list (22 in all) considering them pyramidal schemes. The Prosecutor punished the heads of all 22 firms and charged them with stealing through swindling (most of these firms had collected money without official documents)

This judicial process was postponed due to some reasons: the huge number of the creditors, the absence of collaboration with them, the absence of documents, the lawyers' attempts to postpone the trials, etc...

Recently, it was discovered that an approximate sum of \$30 million of Vefa and Cenaj companies had been transferred into banks in Greece. The deputy KristoGoxhi has confessed that he has transferred around \$10 million on behalf of CenajCompany and according to him this transfer was totally legal. But he negated accusations of his links with any Albanian ministers.

Vefa too, has been accused that it has transferred money in Greek banks. In February 1996, ApostolosVavilis came in Albania and introduced himself as the president of “Elfrone Development LTD” firm and was associated by the secretary of the firm – KostaKostandinidhi. He signed an agreement of \$800 thousands with the president of Vefa Company about some security apparatus, such as: cameras, microphones, eavesdropping devices, etc...

It was thought that through this agreement, Vavilis managed to transfer in Greece a sum of around \$800.000.

To find a solution on this issue, the Albanian General Prosecutor TheodhoriSollaku met his homologue, Linos, in Greece during the first months of 2005.Sollaku asked from Greek party all the information they possessed regarding possible money transfers and banking deposits in Greece by ex – presidents of pyramid firms or their collaborators.

The Greek Prosecutor affirmed there were doubts that money coming from Vefa and Cenaj Companies were of criminal origin and were transferred into Greece to launder. Hence,it froze their money (\$20 million from Vefa and \$10 million from Cenaj) and put Alimucaj and Cenaj under legal proceeding.

Both the two General Prosecutors agreed to reach a deal between the two governments to return in Albania all the \$30million frozen in Greek banks. But this act is not a competence of the Prosecutor and for this matter an agreement between the two States is required.

And this process needs time...

A very important source of information related to pyramid schemes in Albania comes from “Italian agents 007”, SISDE (Italian Secret Service) which consider the 1997’ phenomenon in Albania as a unique case of destroying a State by different criminal organizations.

They concluded that *“the revolution of 1997 in Albania was no more than an act perfectly organized by both Albanian and international mafia”*

According to a 007 report, which was signed by the American Council of National Security too, it is said that “Albania became the classic example of how transnational crime might be transformed into a real danger about the national security of a country”. The Report continues that the Albanian organized crime and its relations to the international crime, helped the latter to circulate in Albania money won by various traffics as well as set up the so-called pyramid schemes which influenced political and economic developments in Albania.

While the Albanian Interior Ministry of that time (the beginning of 1997) had declared that it possessed information which proved that Albanian and foreign mafia were implicated in organizing revolts, the then opposition had declared that this was a removal of responsibility from oneself.

It should be added that based on Western Secret Service, *the role of international mafia in the creation of pyramid schemes did not regard only money laundering, but they were part of a strategy which aimed the removal of State control thus creating free zones out of State and Police control*. Indeed, this picture would serve to carry on transactions of crime quite easily on one hand and secure easier occurrence of arms’ traffic, drugs, prostitution, emigrants and cigarettes on the

other. Thus, the effects of the “revolution” would no doubt influence on the forthcoming years.

Finally, even the elections of July 2005, witnessed the implication of 1997’ pyramid crisis with political goals. The opposition made use of 1997’ negative spots on her electoral campaign to remind people of the bitter experience which according to them, must not be repeated.

## **CONCLUSIONS**

After the collapse of communist regime in 1991, Albania started its route of transition to democracy, which was expected to lead her towards Western capitalism. Instead, a new crisis in 1997 left Albania behind the other transition Countries and enters a period of chaos and anarchy which in turn had a strong impact on Albania's developments.

Thus, the economic mismanagement and on this context, the lack of a well-functioning banking and financial sector which would facilitate the flow of resources from savers to investors as a crucial factor for economic development, opened way to pyramid schemes operation. Initially people thought they were well-investing their money since state television and political leaders invited them to do so. Besides, the widespread participation urged them to cast no doubt on their reliability. When these pyramid schemes collapsed, people lost all their money they had saved for years through back-breaking works, lost their houses, their livestock, everything. Consequently, their damage was enormous and their anger was very strong, thus, embracing most of the population.

Anyway, it was not only the economic reason that brought such a situation to an unavoidable crisis. The existence of political corruption, the lack of civil society and the lack of institutional reforms, caused the loss of democratic values, which gradually created a climate of general unrest. Within this climate, an incentive factor was the political polarity between the two main parties, especially after the left opposition's boycott of parliament in 1996 which further deteriorated the situation. Determination of political leaders has been weak and political motivation very low.

This was better illustrated during the 1997’ crisis, when politicians exploited the situation for political gains. The pyramid crisis served as a perfect chance and opportunity for the opposition to overthrow the actual government and take hold of power. A round table and comprehension between opposition Parties might have avoided the losses and damages Albania suffered at that time and reach a plausible solution.

Truly, popular discontent acquired a political dimension which very quickly became a political movement (that cost many lives lost) either begun by or at least led by opposition forces. People considered the new elections as a new choice for a new beginning although well aware that they would not take their money back.

As for international community, I hold the opinion that it should have given more weight to and be more present in Albania’s matters in the framework of the whole situation in the Balkans; hence, it should have intervened before the crisis got out of control although it did somehow play a positive role to put the situation under way.

Furthermore, the unfulfilled promises of the new alternative, the ruined and underdeveloped economy, the social instability and consequently, the delayed transition, revealed the strong impact the 1997 crisis had on Albanian developments as well as a long-term period and a proper strategy Albania needed for her recovery.

Finally, although the naked truth concerning some aspects of the pyramid crisis has much more to come out, what we all experienced, witnessed and today know for sure is that to Albanian people it cost a lot...

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