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Corruption and money laundering in post-communist Albania

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Abstract

Since the fall of communism in 1991, Albania has experienced major political, economic, and social transformations. While the transition toward democracy and a market economy created opportunities for development, it also produced conditions favorable to corruption and money laundering. Weak institutions, political instability, organized crime, and ineffective law enforcement contributed to the growth of illicit financial activities. This paper examines the relationship between corruption and money laundering in post-communist Albania, focusing on the historical transition period, the role of organized crime, the impact on economic development, and the reforms introduced through European Union integration efforts. The study argues that although Albania has made progress in strengthening anti-money laundering legislation and anti-corruption institutions, enforcement challenges and political influence continue to limit effectiveness. Understanding the connection between corruption and money laundering is essential for evaluating Albania’s democratic development and its aspirations for European integration.

Keywords: corruption, money laundering, Albania, organized crime, post-communism, European Union.

1. Introduction

The collapse of communism in Albania in 1991 marked the beginning of a difficult and complex transition from a rigid centralized economy to a democratic and market-oriented political system. After decades of isolation under the communist regime of Enver Hoxha, Albania emerged as one of the poorest and least institutionally prepared countries in Eastern Europe. The transition period was characterized by political instability, weak state institutions, economic uncertainty, and widespread unemployment. According to the World Bank (2000), Albania faced severe structural challenges during the early 1990s, including inflation, privatization difficulties, and limited administrative capacity. These conditions created an environment in which corruption and money laundering could expand rapidly and become deeply embedded within political and economic

structures. The rapid shift from a state-controlled economy to privatization created significant opportunities for abuse. Public assets were frequently transferred without sufficient legal oversight, while newly formed institutions lacked the experience and resources necessary to regulate financial activities effectively. During this period, corruption spread throughout political institutions, public administration, the judiciary, and private business sectors. Bribery, favoritism, abuse of public office, and political patronage became widespread practices that weakened public confidence in democratic governance (Vachudova, 2009). The absence of strong legal frameworks and independent institutions allowed many public officials and business elites to exploit the transition for personal gain. At the same time, organized crime networks grew rapidly in Albania and throughout the Balkans. Albanian criminal groups became increasingly involved in drug trafficking, human trafficking, arms smuggling, and other illicit cross-border activities. According to the United Nations Office on Drugs and Crime (2011), Albania's geographic position between Eastern and Western Europe made it an important transit route for organized criminal activity. Profits generated from these illegal activities required mechanisms through which criminals could conceal the origins of illicit wealth. As a result, money laundering emerged as a major challenge during the post-communist transition. Money laundering refers to the process of disguising illegally obtained money in order to make it appear legitimate within the legal financial system. The process generally involves three stages: placement, layering, and integration. Placement introduces illegal funds into the financial system, layering conceals the origin of the money through complex financial transactions, and integration returns the laundered money into the economy as apparently legitimate assets (Financial Action Task Force [FATF], 2023). In Albania, money laundering activities frequently occurred through construction projects, real estate investments, cash-intensive businesses, and informal financial transactions. The large informal economy and widespread use of cash made financial monitoring particularly difficult. Corruption and money laundering are closely interconnected phenomena because corrupt officials often rely on laundering mechanisms to hide illicit profits obtained through bribery, embezzlement, tax evasion, or abuse of power. Likewise, organized crime groups depend on corruption to avoid prosecution, secure political protection, and gain influence within state institutions. In Albania, the transition period allowed criminal groups and corrupt political actors to exploit weak governance structures, ineffective law enforcement, and limited financial oversight. This relationship between corruption and money laundering contributed to the weakening of democratic institutions and undermined the rule of law (Mungiu-Pippidi, 2015). One of the most significant examples of institutional weakness during Albania's transition occurred in 1997 with the collapse of nationwide pyramid investment schemes. Thousands of Albanian citizens lost their savings after fraudulent financial companies failed, leading to widespread social unrest and near state collapse. The crisis demonstrated the inability of government institutions to regulate financial activities and protect citizens from economic fraud (Jarvis, 2000). The aftermath of the crisis further strengthened organized crime networks and accelerated the growth of illicit financial activities within the country. In response to growing international concern,

Albania gradually introduced reforms aimed at combating corruption and money laundering. International organizations such as the European Union, the Financial Action Task Force, and the Council of Europe pressured Albania to improve legal frameworks, strengthen judicial independence, and enhance financial oversight. Albania adopted anti-money laundering legislation, created financial intelligence structures, and increased cooperation with international law enforcement agencies. However, despite legislative progress, enforcement challenges continue to limit the effectiveness of anti-corruption and anti-money laundering efforts. This paper analyzes the development of corruption and money laundering in post-communist Albania and evaluates the effectiveness of reforms aimed at reducing financial crime. The study also examines the influence of European Union integration and international pressure on Albania's anti-corruption and anti-money laundering policies. Understanding the relationship between corruption, organized crime, and financial crime is essential for evaluating Albania's democratic transition, economic development, and long-term efforts toward European integration.

2. Historical Background of Post-Communist Albania

After decades of political isolation under the communist regime of Enver Hoxha, Albania entered the 1990s with weak state institutions, an underdeveloped economy, and little experience with democratic governance or free-market systems. Under communist rule, Albania maintained one of the most isolated political systems in Europe, limiting foreign investment, private enterprise, and international cooperation. According to Fischer (1999), the authoritarian structure of the communist regime prevented the development of independent institutions capable of supporting democratic accountability and economic regulation after the collapse of communism. As a result, the country faced enormous challenges during its transition toward political pluralism and capitalism. The rapid transition from a centralized economy to a market-based system created widespread economic uncertainty and institutional instability. Privatization policies were introduced quickly, but legal frameworks and oversight mechanisms remained weak and poorly organized. State-owned enterprises were transferred into private ownership without adequate transparency or regulation, creating opportunities for corruption, favoritism, and abuse of power. Ramet (2006) argues that many post-communist countries in Eastern Europe experienced similar difficulties during privatization, but Albania's institutional weakness made the problem particularly severe. Public officials and politically connected individuals often benefited from the privatization process while ordinary citizens struggled with unemployment, inflation, and poverty. Corruption flourished during this period because Albania lacked strong judicial institutions, effective law enforcement agencies, and transparent administrative systems. Bribery and political patronage became common practices within public administration, while weak accountability mechanisms allowed corrupt behavior to continue with limited consequences. According to the World Bank (2000), Albania's transition economy was heavily affected by informality, weak governance, and insufficient institutional

capacity. The absence of reliable financial oversight created favorable conditions for both corruption and organized criminal activity. One of the most significant crises during Albania's transition occurred in 1997 with the collapse of nationwide pyramid investment schemes. During the mid-1990s, several fraudulent financial companies promised extremely high returns to investors and attracted deposits from a large portion of the Albanian population. Many citizens invested their life savings, believing the schemes were supported or tolerated by the government. However, when the pyramid schemes collapsed in early 1997, approximately two-thirds of Albanian households suffered major financial losses (Jarvis, 2000). The economic collapse triggered widespread public protests, violent unrest, and a near breakdown of state authority. The 1997 crisis exposed the weakness of Albania's financial regulatory system and demonstrated the inability of government institutions to monitor illegal financial activities effectively. Law enforcement agencies and public officials failed to intervene despite clear warning signs regarding the unsustainable nature of the schemes. According to Bezemer (2001), the collapse of the pyramid schemes reflected deeper structural problems within Albania's transition economy, including weak governance, lack of transparency, and poor financial supervision. The resulting political chaos damaged public trust in democratic institutions and created further instability throughout the country. The instability of the 1990s also encouraged the growth of organized crime networks in Albania and the wider Balkan region. Weak border controls, political instability, widespread poverty, and ineffective law enforcement allowed criminal organizations to expand rapidly. Albanian criminal groups became increasingly involved in drug trafficking, human trafficking, weapons smuggling, and illegal migration routes across Europe. The United Nations Office on Drugs and Crime (2011) identified the Balkans as a major transit corridor for illicit trafficking activities connecting Asia, the Middle East, and Western Europe. Profits generated from organized criminal activities required sophisticated methods for concealing and integrating illegal wealth into the legal economy. As a result, money laundering became increasingly widespread during Albania's post-communist transition. Criminal organizations invested illicit funds in businesses, construction projects, real estate developments, and financial institutions in order to disguise the origins of their profits. The large informal economy and widespread use of cash transactions further complicated government efforts to monitor suspicious financial activity. According to Levi and Reuter (2006), countries with weak institutions and transitional economies are particularly vulnerable to money laundering because limited regulatory oversight allows criminal organizations to operate with greater freedom. The relationship between organized crime, corruption, and money laundering created long-term consequences for Albania's democratic and economic development. Criminal groups often relied on corrupt public officials to avoid prosecution and secure political influence, while corrupt elites benefited financially from illicit economic activities. This interconnected system weakened public confidence in state institutions and undermined efforts to establish the rule of law during the transition period. Although Albania has implemented reforms in recent decades, the legacy of institutional weakness and organized criminal influence continues to affect anti-corruption and anti-money laundering efforts today.

3. The Relationship between Corruption and Money Laundering

Corruption and money laundering are deeply interconnected problems that reinforce one another and create significant obstacles to democratic governance, economic development, and institutional accountability. Corruption occurs when public officials abuse their positions for private gain through activities such as bribery, embezzlement, favoritism, and misuse of public resources. Money laundering, meanwhile, involves concealing the illegal origins of financial profits in order to integrate them into the legitimate economy. In many transitional states, including Albania, these two phenomena operate together as part of a broader system of political and economic criminality. Corrupt officials may accept bribes, embezzle public funds, manipulate public procurement procedures, or misuse state resources for personal enrichment. Once these illicit profits are obtained, laundering mechanisms are often used to hide their origins and make them appear legitimate. According to the Financial Action Task Force (2023), corruption is considered one of the major predicate offenses connected to money laundering globally because illegal profits generated through abuse of public office frequently enter the financial system through concealed transactions, shell companies, or real estate investments. In Albania, weak financial oversight and a large informal economy have historically made these laundering activities more difficult to detect and prosecute.

At the same time, organized crime groups depend heavily on corruption in order to operate successfully. Criminal organizations involved in drug trafficking, human trafficking, weapons smuggling, and illegal trade often rely on bribery and political connections to avoid law enforcement investigations and judicial prosecution. According to Shelley (2014), organized criminal groups seek relationships with political and administrative elites because corruption reduces operational risks and increases access to economic opportunities. In Albania, this relationship between organized crime and corruption became particularly visible during the post-communist transition, when institutions lacked the capacity to regulate rapidly expanding economic and criminal networks. The connection between corruption and money laundering has created a destructive cycle that weakens democratic governance in Albania. Corruption undermines the effectiveness and independence of anti-money laundering institutions because officials responsible for enforcing the law may themselves be influenced by political or criminal interests. Law enforcement agencies, courts, and regulatory institutions become less capable of investigating suspicious financial activity when corruption exists within the system itself. As noted by Mungiu-Pippidi (2015), corruption weakens institutional trust and reduces the effectiveness of democratic accountability mechanisms, especially in transitional democracies where institutions are still developing. At the same time, money laundering strengthens criminal organizations by allowing them to convert illegal profits into economic and political influence. Once illicit wealth enters the legal economy, criminal groups can expand their power through investments in businesses, construction projects, tourism, media outlets, or political activities. In Albania, the construction and real estate sectors have frequently been identified as vulnerable areas

for money laundering due to large cash transactions, rapid urban development, and insufficient financial transparency (European Commission, 2023). Large-scale investments financed by illicit capital may appear legitimate while concealing profits generated from organized criminal activity. For example, criminal groups may invest illicit profits in construction projects, political campaigns, hospitality businesses, or commercial enterprises. These investments provide opportunities not only to legitimize illegal wealth but also to increase political and economic influence within society. According to the United Nations Office on Drugs and Crime (2011), organized criminal networks often use legal business structures to integrate illicit assets into the economy while simultaneously gaining social legitimacy and political leverage. In Albania, concerns have frequently been raised regarding unexplained wealth in urban construction projects, particularly in rapidly developing areas of Tirana. The economic consequences of corruption and money laundering are substantial. Illicit financial activity distorts fair market competition because businesses connected to criminal organizations may operate with unfair financial advantages. Legitimate companies that follow tax laws and financial regulations often struggle to compete against enterprises supported by laundered money. This environment discourages entrepreneurship, weakens investor confidence, and reduces economic transparency. According to the World Bank (2020), corruption and weak rule of law reduce foreign direct investment because investors prefer stable environments with transparent legal protections and predictable governance systems. In addition to economic damage, corruption and money laundering also harm Albania's international reputation. Countries associated with organized crime, financial crime, and corruption often face increased scrutiny from international organizations, foreign governments, and financial institutions. Albania's efforts to join the European Union have intensified pressure to strengthen anti-corruption and anti-money laundering reforms. The European Commission (2023) has repeatedly emphasized the importance of judicial independence, institutional transparency, and effective prosecution of organized crime as necessary conditions for further integration into European structures. Furthermore, corruption and money laundering undermine public trust in democratic institutions. Citizens may lose confidence in government when political elites appear protected from accountability while criminal organizations continue to accumulate wealth and influence. This erosion of trust can contribute to political disengagement, social frustration, and increased emigration among younger populations seeking better opportunities abroad. In Albania, public dissatisfaction with corruption has remained a major political and social issue throughout the post-communist period. Although Albania has introduced legal reforms and created specialized anti-corruption institutions such as SPAK (Special Anti-Corruption Structure), major challenges remain in implementation and enforcement. Political interference, limited institutional capacity, and corruption within judicial structures continue to complicate efforts to combat financial crime effectively. Therefore, addressing corruption and money laundering requires not only stronger laws but also independent institutions, transparent governance, and long-term political commitment to the rule of law.

4. Anti-Money Laundering Reforms and EU Integration

Albania has introduced several reforms to combat corruption and money laundering, particularly as part of its broader European Union integration process. Since obtaining official candidate status for membership in the European Union in 2014, Albania has faced increasing pressure to strengthen the rule of law, improve institutional transparency, and address organized crime and financial corruption. International organizations such as the Financial Action Task Force, Council of Europe MONEYVAL committee, and the European Commission have consistently identified corruption and money laundering as major obstacles to Albania's democratic development and EU accession process (European Commission, 2023). One of the most important reforms involved the adoption and modernization of anti-money laundering legislation. Albania revised its legal framework to align more closely with international standards established by the FATF and European Union directives. These laws expanded the definition of money laundering offenses, increased obligations for financial institutions to report suspicious transactions, and strengthened mechanisms for asset confiscation and financial monitoring. According to the Financial Action Task Force (2023), compliance with international anti-money laundering standards is essential for preventing criminal organizations from exploiting weaknesses in national financial systems. Albania's legal reforms therefore represented an important step toward improving financial transparency and reducing opportunities for illicit financial activity. Another significant reform was the creation and strengthening of financial intelligence structures responsible for monitoring suspicious financial transactions. Albania established the General Directorate for the Prevention of Money Laundering as the country's primary financial intelligence unit. This institution is responsible for collecting, analyzing, and sharing information related to suspicious financial activities with domestic and international law enforcement agencies. Increased monitoring of banking activities, real estate transactions, and cross-border financial transfers aimed to improve Albania's ability to detect illicit financial flows connected to organized crime and corruption.

Judicial reform has also played a central role in Albania's anti-corruption strategy. For many years, the judiciary was widely perceived as one of the country's most corrupt institutions, with concerns regarding political influence, bribery, and lack of independence. In response, Albania implemented a comprehensive judicial reform process supported by the European Union and the United States. One of the most significant aspects of this reform was the vetting process for judges and prosecutors, which evaluated public officials based on professional competence, integrity, and unexplained wealth. According to the European Commission (2023), the vetting process aimed to restore public trust in the judicial system and remove individuals linked to corruption or organized crime from positions of authority. The establishment of the Special Anti-Corruption Structure (SPAK) represented another major institutional reform. SPAK was created to investigate and prosecute high-level corruption, organized crime, and money laundering cases independently from political influence. Together with the National Bureau of Investigation, SPAK has become one of Albania's primary anti-corruption

institutions. The creation of specialized institutions reflected international concerns that traditional judicial structures lacked the independence and effectiveness necessary to prosecute politically sensitive cases. Several investigations involving senior officials, judges, prosecutors, and organized criminal networks have demonstrated increased institutional willingness to pursue high-profile corruption cases in recent years. Albania has also expanded cooperation with international law enforcement organizations and foreign governments. Cooperation with agencies such as Interpol and Europol has strengthened efforts to investigate transnational organized crime, drug trafficking, and money laundering networks operating across Europe. International cooperation has become increasingly important because many Albanian criminal organizations operate beyond national borders, particularly in Western Europe. Sharing intelligence and coordinating investigations with foreign authorities allows Albanian institutions to track illicit financial flows more effectively and identify criminal assets hidden abroad. Despite these important reforms, enforcement remains inconsistent and continues to face major structural obstacles. Critics argue that political interference, limited institutional resources, weak administrative capacity, and corruption within state institutions continue to obstruct investigations and prosecutions. While Albania has improved its legal framework considerably, implementation gaps remain a serious concern. According to Freedom House (2024), corruption continues to affect multiple levels of government and public administration, limiting the effectiveness of anti-corruption initiatives. In some cases, investigations involving politically connected individuals have progressed slowly or failed to result in meaningful convictions, contributing to public skepticism regarding institutional independence. Additionally, Albania's large informal economy and continued reliance on cash transactions create ongoing vulnerabilities to money laundering. Criminal organizations often exploit weaknesses in financial monitoring systems by investing illicit funds in sectors such as construction, tourism, and real estate. Rapid urban development projects, particularly in Tirana, have generated concerns regarding the origin of investment capital and the possibility of illicit financial flows entering the legal economy. The European Commission (2023) has repeatedly emphasized the need for stronger financial oversight, increased transparency in public procurement, and more effective confiscation of criminal assets. Another major challenge involves public trust in institutions. Although reforms such as SPAK and judicial vetting have produced some visible progress, many Albanian citizens remain skeptical about the long-term effectiveness of anti-corruption efforts. Decades of political corruption and weak governance have created perceptions that powerful political and economic elites remain protected from accountability. As Mungiu-Pippidi (2015) explains, anti-corruption reforms are most successful when institutional changes are accompanied by broader political and cultural shifts that strengthen transparency, accountability, and civic participation. Ultimately, Albania's anti-corruption and anti-money laundering reforms reflect both domestic necessity and international pressure connected to European integration. While the country has made measurable progress in strengthening legislation and institutions, the persistence of corruption and organized crime demonstrates that legal reforms alone are insufficient. Sustainable progress will

require stronger institutional independence, consistent enforcement of laws, greater transparency, and long-term political commitment to democratic governance and the rule of law.

5. Economic and Social Consequences

and money laundering have had profound consequences for Albania's economic and social development since the collapse of communism. These interconnected forms of financial crime weaken state institutions, distort economic activity, and reduce public confidence in democratic governance. In transitional economies such as Albania, where institutions have historically struggled with limited capacity and political influence, corruption and illicit financial flows create long-term structural obstacles to sustainable development and social stability. One of the most significant economic consequences of corruption and money laundering is the distortion of legitimate market competition. Illicit financial activities allow criminal organizations and politically connected businesses to operate with unfair advantages over lawful enterprises. Businesses funded through laundered money may not depend on profitability in the same way as legitimate companies because their primary purpose is often to conceal illegal wealth rather than generate transparent economic growth. According to the World Bank (2020), corruption reduces market efficiency and discourages entrepreneurship because businesses operating legally face unfair competition from enterprises supported by illicit financial resources. In Albania, sectors such as construction, tourism, and real estate have frequently been identified as vulnerable to these practices due to high levels of cash transactions and limited financial transparency. Corruption and money laundering also reduce government tax revenues and weaken the state's capacity to provide public services. When businesses evade taxes, public contracts are manipulated, or criminal profits remain hidden within the informal economy, the government loses important financial resources needed for national development. According to the International Monetary Fund (2019), corruption weakens fiscal performance by reducing tax compliance and increasing public sector inefficiency. In Albania, the persistence of informality and illicit financial flows has complicated efforts to improve public infrastructure, healthcare systems, and educational institutions. Public resources that could be invested in economic development are instead lost through bribery, embezzlement, and fraudulent financial activity. The economic effects of corruption also influence Albania's ability to attract foreign direct investment. International investors often avoid countries perceived as politically unstable, legally unpredictable, or highly corrupt because corruption increases business risks and reduces confidence in contract enforcement. According to Mauro (1995), corruption negatively affects economic growth by discouraging both domestic and international investment. Investors may fear that success in corrupt environments depends more on political connections than on fair competition or legal protections. For Albania, this perception damages international credibility and slows economic modernization efforts connected to European integration.

In addition to economic consequences, corruption and money laundering have serious

social and political effects. Corruption undermines public trust in democratic institutions because citizens may perceive political elites and public officials as acting primarily for personal benefit rather than public service. When corruption becomes widespread, citizens often lose confidence in the judiciary, law enforcement agencies, and political institutions responsible for protecting the rule of law. According to Rothstein and Uslaner (2005), societies with high levels of corruption frequently experience lower levels of social trust and civic participation because citizens believe institutions operate unfairly or selectively. In Albania, public frustration with corruption has contributed to political dissatisfaction and social instability throughout the post-communist period. Many citizens believe that powerful individuals connected to political or economic elites are protected from accountability while ordinary citizens face economic hardship and limited opportunities. This perception weakens democratic legitimacy and increases political polarization. Public skepticism toward anti-corruption reforms remains strong despite institutional changes such as judicial vetting and the creation of SPAK because many Albanians continue to question whether reforms are implemented equally across all levels of society. One particularly important social consequence of corruption and weak economic opportunity has been large-scale emigration. Since the 1990s, many young Albanians have left the country in search of better employment opportunities, higher living standards, and more stable political environments abroad. While migration is influenced by multiple factors, dissatisfaction with corruption, unemployment, and limited social mobility has played a major role. According to the United Nations Development Programme (2022), corruption and weak governance can contribute to “brain drain” by encouraging educated and skilled individuals to emigrate from countries where professional advancement is perceived as dependent on political influence rather than merit. Albania has experienced one of the highest emigration rates in Europe, creating demographic and economic challenges for long-term national development. Money laundering also contributes to social inequality because the benefits of illicit financial activity are typically concentrated among criminal groups, corrupt officials, and economic elites. While these groups accumulate wealth and influence, ordinary citizens often experience poverty, unemployment, and reduced access to quality public services. This unequal distribution of wealth can increase social tensions and deepen economic divisions within society. According to Piketty (2014), unequal systems of wealth accumulation weaken social cohesion and democratic stability because economic advantages become concentrated among narrow elite groups. In Albania, concerns regarding unexplained wealth and luxury developments in urban areas have intensified public perceptions of inequality and unfair economic opportunity. Furthermore, corruption directly affects the quality of public services such as healthcare, education, and infrastructure. When public funds are misused, stolen, or distributed through corrupt procurement systems, essential services suffer from underinvestment and inefficiency. Corruption within healthcare systems may reduce access to medical treatment, while corruption in education can weaken academic standards and institutional trust. Infrastructure projects funded through corrupt contracts may result in poor construction quality, inflated costs, or

incomplete implementation. According to Transparency International (2023), corruption within public administration reduces government effectiveness and limits the ability of states to meet citizens' social and economic needs. The long-term consequences of corruption and money laundering therefore extend beyond financial crime itself. These problems weaken democratic governance, damage economic development, increase inequality, reduce institutional trust, and contribute to social frustration and emigration. Although Albania has implemented important reforms in recent years, the persistence of corruption demonstrates that sustainable progress requires more than legal changes alone. Effective anti-corruption strategies must include institutional transparency, independent judicial systems, civic accountability, economic opportunity, and stronger public trust in democratic governance.

6. Conclusion

Post-communist Albania has faced significant challenges related to corruption and money laundering during its transition toward democracy and a market economy. Weak institutions, political instability, organized crime, and economic hardship created favorable conditions for illicit financial activities. Corruption and money laundering developed together, reinforcing criminal influence and weakening public trust in governance.

Although Albania has introduced important legal and institutional reforms, enforcement difficulties continue to limit progress. European Union integration has encouraged stronger anti-corruption and anti-money laundering measures, but long-term success depends on judicial independence, institutional transparency, and political accountability. Combating corruption and money laundering remains essential for Albania's democratic development, economic stability, and international credibility. Continued reforms and stronger institutional enforcement are necessary to reduce the influence of organized crime and strengthen the rule of law.

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