



# LABOUR MARKET REVIEW OF ALBANIA



**etf**  
SHARING EXPERTISE  
IN TRAINING

**THE EUROPEAN TRAINING FOUNDATION IS THE  
EUROPEAN UNION'S CENTRE OF EXPERTISE  
SUPPORTING VOCATIONAL EDUCATION AND TRAINING  
REFORM IN THIRD COUNTRIES IN THE CONTEXT OF  
THE EU EXTERNAL RELATIONS PROGRAMMES**

**HOW TO CONTACT US**

Further information on our activities, calls for tender and job opportunities can be found on our web site: [www.etf.europa.eu](http://www.etf.europa.eu)

For any additional information please contact:

External Communication Unit  
European Training Foundation

Villa Gualino

Viale Settimio Severo 65

I – 10133 Torino

**T** +39 011 630 2222

**F** +39 011 630 2200

**E** [info@etf.europa.eu](mailto:info@etf.europa.eu)

# LABOUR MARKET REVIEW OF ALBANIA

*Prepared by Agron Hetoja (national expert), Terry Corcoran (international consultant), Anastasia Fetsi, Natalia Popova and Francesco Panzica (ETF experts)  
Special thanks to Milva Ekonomi (INSTAT director), for providing the necessary statistical information and valuable analysis for the preparation of this paper and the staff of the Ministry of Labour, Social Affairs and Equal Opportunities, in particular Muharrem Xhelili and Stavri Lako, as well as the National Employment Service for providing useful information.  
European Training Foundation  
2006*

***Europe Direct is a service to help you  
find answers to your questions  
about the European Union***

**Freephone number (\*):  
00 800 6 7 8 9 10 11**

(\* Certain mobile telephone operators do not allow access to 00 800 numbers or these calls may be billed.

A great deal of additional information on the European Union is available on the Internet. It can be accessed through the Europa server (<http://www.europa.eu>).

© European Communities, 2006  
Reproduction is authorised provided the source is acknowledged.

# CONTENTS

<b>PREFACE</b>	<b>5</b>
<b>EXECUTIVE SUMMARY</b>	<b>7</b>
<b>1. ECONOMIC SITUATION AND BACKGROUND</b>	<b>11</b>
1.1 Macroeconomic trends	11
1.2 GDP: sectoral trends and restructuring	12
1.3 Foreign trade and foreign direct investment	14
1.4 Micro enterprises and the informal economy	14
1.5 Extent of poverty	15
<b>2. LABOUR MARKET TRENDS</b>	<b>17</b>
2.1 Population and labour force	17
2.2 Employment trends and structural shifts and changes	18
2.3 Inactivity, unemployment and social exclusion	22
2.4 Qualification of the workforce and skill mismatches	24
2.5 Main challenges	27
<b>3. REVIEW OF POLICIES, AND LEGISLATIVE AND INSTITUTIONAL FRAMEWORKS FOR ADDRESSING LABOUR MARKET CHALLENGES</b>	<b>29</b>
3.1 Employment policies as part of the overall policy agenda	29
3.2 Increasing the adaptability of workers and enterprises	32
3.3 Attracting more people to enter and remain on the labour market: making work a real option for all	34
3.4 Investing more and more effectively in human capital and lifelong learning	40
<b>4. CONCLUSIONS AND RECOMMENDATIONS</b>	<b>45</b>
<b>ANNEX: OFFICIAL DATA ON EMPLOYMENT</b>	<b>49</b>
<b>ACRONYMS</b>	<b>51</b>
<b>BIBLIOGRAPHY</b>	<b>53</b>



## PREFACE

During the past decade all Western Balkan countries, at different points of time and at different speeds, have started the process of economic and social transformation into functioning democracies and market economies. As in other transition countries the transformation process has been difficult, and despite the progress made to date, major challenges still exist in all fields, including social and economic development. The Western Balkan countries will need to continue their intensive and systematic efforts in order to succeed in the economic restructuring process and to ensure the necessary economic growth and social cohesion to enable them to catch up with, and sustain a closer relationship with, the European Union (EU). Given the contribution of employment and productivity to economic growth, some of those efforts need to be directed towards the development and implementation of employment policies and structural labour market reforms that support the economic restructuring process and lead to increases in productivity. In this context emphasis must be given to efforts for the development of an adaptable, entrepreneurial and well-skilled labour force through adequate investment in human capital. Importance must also be given to the promotion of inclusive labour markets (open to all and attracting the inactive) for greater social cohesion.

The European Training Foundation (ETF), in agreement with the European Commission, has undertaken a series of in-depth reviews of the labour markets in the Western Balkan countries with the aims of contributing to a better understanding of their functioning and of identifying areas for further work in the fields of employment policy and education and training reform.

The reviews have a dual purpose:

1. to contribute to EU programming by providing well-documented input to the programming documents of the CARDS programme, to the annual country progress reports on the Stabilisation and Association process, to the European Partnership papers, and to the action plans that the governments will have to prepare in order to address the challenges identified in the European Partnerships;
2. to provide a comprehensive background instrument that will enable the European Commission and the countries of the Western Balkans to support policy developments.

Specifically, the reviews:

1. analyse the economic context in the Western Balkan countries, and in particular the pace of the economic restructuring process and its impact on jobs and employment (Chapter 1);
2. analyse recent trends in the labour markets with the aim of identifying major challenges in the labour markets in terms of the economic restructuring process (Chapter 2);
3. assess policy responses and the institutional setting for addressing the challenges identified from the perspective of supporting economic restructuring and growth (Chapter 3);
4. provide recommendations for further action (Chapter 4).

The labour market challenges and the policy responses are examined against the four broad key objectives set out in the revised European Employment Strategy:

## LABOUR MARKET REVIEW OF ALBANIA

- increasing the adaptability of workers and enterprises;
- attracting more people to enter and remain in the labour market;
- investing more and more effectively in human capital;
- ensuring better implementation of reforms through better governance.

The labour market review of Albania was prepared between April and December 2005 by a team of experts. The reviewing

process entailed a broad consultation of documents prepared by international organisations and national institutions, as well as in-depth interviews with national and local stakeholders. Two fact-finding field visits took place, one in April and one in October 2005, and a validation seminar with national stakeholders of the draft results of the review was held in December 2005. We would like to thank all those involved in the review process for their availability and commitment to this project.



## EXECUTIVE SUMMARY

While economic growth has been relatively rapid in recent years, and macroeconomic policy has generally been sound, Albania remains relatively poor and undeveloped. The privatisation process has significantly reduced the industrial capacity of the country, which was already obsolete. Privatisation in agriculture involved breaking up state farms and cooperatives and allocating land in small parcels to individual families, though this is still an open issue since there is no register of land ownership. Other privatisations have been subject to delay and, as a result, nearly all surviving large firms in telecommunication and energy are still in public ownership. Foreign direct investment (FDI) remains at low levels, at between 3% and 5% of GDP. All in all, Albania is mainly an agrarian subsistence economy, characterised by a large percentage (94%) of micro and small enterprises and a high degree of informality in the economy. Increasing employment levels and improving living standards closer to the levels of even low-income EU-25 countries will require sustained and rapid economic growth for many years to come. Sustained growth will depend in part on exploiting opportunities for development in sectors such as agriculture, tourism and parts of manufacturing. This will require the preparation and implementation of sectoral policies to identify and address barriers to development in these parts of the economy.

### MAIN LABOUR MARKET TRENDS AND CHALLENGES

Given the structure of the Albanian economy it is difficult to analyse the Albanian labour market in the same way as

this is done in the EU and other European transition economies. The extremely high levels of self-employment (63% of all employment) even cast doubt on the mere notion of a labour market. The lack of labour demand has led people to start their own income-generating activities, which are often low skilled, low value added and low paid. Formal sector labour demand is very limited and is largely restricted to the public sector and selected private economic sectors such as banking and, to a certain degree, tourism and construction. Migration has been one of the main ways in which the population has responded to a lack of employment opportunities in the country. It is estimated that a third of the population has emigrated.

The activity rates of the population are satisfactory – at least among the male population – but the quality of jobs is poor. The total employment rate is very close to the EU-25 level (63.3% in 2004) because of the high employment rate in subsistence farming in rural areas. In the cities the female employment rate is particularly low because of limited labour demand. Furthermore, those women who migrate from rural areas have insufficient skills for the limited number of formal jobs available, usually in the public and banking sectors. Compared to levels at the beginning of the transition period, unemployment has decreased, though it is high when measured against the EU-15 level (8.1% in 2004). Young people looking for their first job are particularly hard-hit by unemployment.

The supply-side deficiencies of the Albanian labour market are as apparent as the lack of job creation. The education levels of the population are significantly

lower than the EU average. The situation is further aggravated by the high migration rates of workers with medium- and high-level skills. Participation rates in education for children and young people remain lower than the averages for the EU and other countries of the region at all educational levels, but in particular at secondary level. Children in rural areas and girls are particularly disadvantaged. Drop-out rates in the final years of basic education are high, and a large percentage of children leave the school system without achieving any qualifications. Although skill bottlenecks do not currently seem to be hindering the development of the Albanian economy, technical skill gaps are starting to be reported by employers in urban areas where economic activity is more vibrant. In the medium to long term the low skill levels of the population threaten the attraction of investment and the development of higher-value-added industries and services, which in turn hamper the overall economic development of the country.

### EMPLOYMENT POLICY FORMATION

The overarching process of formulating economic and social policy in Albania is contained in the National Strategy for Socio-Economic Development (NSSED) developed in 2001, which has been monitored and adapted annually since that date. Reducing unemployment and increasing participation in education – including vocational education and training (VET) – are among the main objectives of the strategy. The Ministry of Labour, Social Affairs and Equal Opportunities (MoLSAEO) published its Strategy on Employment and Vocational Training in 2003, focusing on the improvement of the National Employment Service and of vocational training – narrowly defined to include only that part of the provision that is the responsibility of the ministry – as well as on measures to promote SME development and access to finance for business.

Of particular note is the extent to which concrete and specific goals are set through the development of these strategies.

However, there continue to be problems in the actual implementation of planned policies, reflecting:

- some confusion and overlap between different strategic planning processes;
- insufficient integration between strategic plans and the process of government budgeting;
- inadequacy in the resources available to the public authorities as a result of the weakness of taxation revenues.

Apart from these implementation issues, there are severe difficulties for the formulation of employment policies, caused by the inadequacy of the data on employment and the labour market in Albania. These are administrative data which at best give a partial picture of the underlying situation and are not very useful for the identification of groups who might be the subject of targeted programmes and other interventions. Furthermore, employment policy documents do not give consideration to the linkage between employment performance and other areas of government policy, including the structure of the social safety net, the level and structure of taxation and social contributions and the impact of migration in the labour market.

In order to address the above issues the following actions are recommended.

- The strategic policy formulation process should continue to be developed and refined through the NSSED, with a particular focus on the capacity of government to raise tax revenues in order to fund the implementation of the NSSED. Improved donor coordination will also have a role to play. These general implementation issues apply equally to both the employment policy aspects of the NSSED and the Strategy on Employment and Vocational Training.
- There is a need to develop reliable and comprehensive data on the labour market as a basis for setting coherent overall goals for employment policy and for monitoring progress, by introducing, as soon as it is feasible, an annual labour force survey similar to that carried out in all EU countries.





































































































