



LABOUR MARKET REVIEW OF ALBANIA

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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:

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- 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.

- More consideration should be given in the employment policy documents to the linkage between employment performance and other areas of government policy, including in particular the structure of the social safety net, the level and structure of taxation and social contributions, and migration policy.

Together with improvements in the employment policy development process, areas for future work to address existing labour market challenges in Albania include those listed below.

INCREASING THE ADAPTABILITY OF ENTERPRISES AND WORKERS FOR GROWTH

Albania's people and society have shown great adaptability and flexibility in response to the economic shocks of the past decade, through large-scale migration and the creation of income-generating activities. However, flexibility has been associated with informality in the economy. This informality now represents a positive discouragement for small firms to expand and grow. In order to facilitate the development of firms within the formal sector to ensure continued adaptability, innovation and growth, the following actions are recommended, in line with the opinions of other international organisations:

- implement the restitution law that will allow for proper land registration in urban areas, the absence of which is a deterrent to both domestic investment and foreign direct investment;
- address issues of bureaucracy and corruption in the processes of business registration, business closure, and the enforcement of contracts through the judicial system;
- establish a tax and regulatory regime that will allow adaptable and flexible firms to grow.

ATTRACTING MORE PEOPLE TO ENTER AND REMAIN IN THE (FORMAL) LABOUR MARKET

While services and programmes to support an active labour market are relatively underdeveloped in Albania, this must be seen in the context of the size of the formal labour market, with less than 10% of the working-age population engaged in waged employment in the private sector. The main labour market programmes – wage subsidies and the provision of vocational training – do not appear to be well targeted on the groups that most need assistance. In addition, the training that is provided, with its very heavy concentration on language courses and computer applications, is not readily distinguishable from that delivered by a wide range of other (private and public) providers. Finally, there is scope for improvement in the functioning of the National Employment Service (NES) so as to provide better assistance to those needing it.

In order to address the above issues, the following measures are recommended.

- The quality of the NES service delivery needs to be enhanced, through investments in ICT, staff training, and upgrading of the condition of local employment offices.
- NES resources must be better used: some of the pressure on NES staffing resources could be eased by ending the requirement on firms to register with the NES and to provide regular details of their employment levels.
- In the light of the assessment of the limited contribution made by the nine public VET training centres, consideration should be given to how these resources might be better integrated into the initial VET system, whose development should be an urgent priority. The NES should remain involved in the role of supplier of labour market intelligence to the VET system rather than as a supplier of training provision.

- In the longer term, employment subsidy programmes should be eliminated, or at least substantially scaled back. In the shorter term, however, these subsidies might be used explicitly to support firms that are moving into the formal economy as a result of the government's Action Plan for the Reduction of the Informal Economy.
- Consideration should be given to a more expanded programme that provides jobs for welfare recipients on minor public works projects, particularly in smaller towns and villages outside the main urban areas.
- A register should be developed of the skills of Albanian emigrants wishing to return, and of those emigrants who are to be kept informed on a regular basis of opportunities arising in Albania, including in the context of the drive to transform the informal sector. Such developments should be given priority in terms of the ongoing investment in computerisation in the NES.

INVESTING MORE AND MORE EFFECTIVELY IN HUMAN CAPITAL

The quality of the education system in Albania needs to be enhanced at all educational levels in order to address both the needs of children and young people and the needs of adults. The Ministry of Education and Science (MoES) has developed the National Education Strategy 2004-15, which addresses different aspects of education governance and delivery. In 2005 the strategy was reviewed and a more prominent role was given to the development of VET at secondary level. The government's target is to increase participation in secondary VET from 17% to 40% of overall enrolment in the coming years. At the same time action has been taken to establish a sound institutional infrastructure for the implementation of reforms. However, major improvements at school level, such as curriculum improvement, introduction of new teaching and learning methods, and new books and

teaching materials, have not yet taken place on a large scale. In order to achieve a better balance between long-term objectives of system development and short- to medium-term needs for improved delivery of education, the following actions are recommended.

- The policy and financial planning of the MoES should be improved, in order to permit the implementation of the ambitious National Education Strategy.
- Better use must be made of donor funds, including both targeting better the needs of the education system and replicating at system level the positive experiences of donor-funded projects.
- There is a need for a medium-term strategy for VET and an implementation plan with clear objectives and budgets, in order to enable the government to achieve its objective of increasing participation in secondary VET. This strategy should be seen as an integral part of the education development strategy of the country.
- Developments in initial and continuing VET must be coordinated in order to pool resources and permit cross-fertilisation. This can be done by sharing of the training infrastructure for practical training (training centres can be used for this purpose more than is the case at present), and by exchanging information, including on curricula and teaching and learning materials. The work on occupational standards can be the first step towards a closer link between initial and continuing VET, but eventually this should be achieved through the future development of a national qualification system.
- There is a need to strengthen the institutional infrastructure for VET policy development and implementation by enhancing the capacity of the National VET Council and the functioning of the National VET Agency.
- Sufficient financial resources must be allocated to school rehabilitation, equipment and teaching materials in order to enhance the quality of education provision.

1. ECONOMIC SITUATION AND BACKGROUND

1

1.1 MACROECONOMIC TRENDS

Albania has a population of 3.3 million and a land area of 28 750 km². It is a very mountainous country, and despite limited opportunities for intensive farming (only around 24% of Albania is classified as agricultural land, while 36% is covered by forest and 15% by pasture), it remains an agricultural economy.

The Albanian economy has undergone a number of economic and social changes over the past decade. At the start of the transition process the country experienced a sharp contraction of its real GDP, and high inflation. However, a recovery began in 1993 and the economy grew by around 9% per year until 1996. During the same period, inflation declined considerably and both the current account balance and the fiscal deficit improved significantly.

This period of rapid growth was halted by the internal confusion caused by the collapse of pyramid financial schemes at the end of 1996 and the beginning of 1997.

This collapse led to a loss of the government's legitimacy and to chaos across most of the country, effectively paralysing all economic and social activities. The external value of the currency fell by more than 40%. Despite some recovery later in 1997, the year ended with a fall of 7% in GDP, an inflation rate of 42%, a budget deficit of 12% of GDP and the highest deficit of the account balance since 1991. The unemployment rate, which had fallen from a peak of 27% in 1992 to around 12% in 1996, rose to almost 15%.

The situation improved in 1998. Continuing the recovery that commenced in late 1997, GDP rose by 12.7%, inflation had fallen to 8.7% by the end of the year, and the budget deficit returned to the pre-crisis level of 10.4% of GDP. However, unemployment rose further, to 17.5%.

The macroeconomic situation continued to improve after 1998, despite continued political instability, a change of government in 1999, and the difficulties caused by Kosovo refugees and the damage resulting

from the war. GDP rose by 10% in 1999 and by over 6% on average each year between 2000 and 2004. As a result, in 1999 real GDP exceeded its 1990 level for the first time; by 2004 GDP was around 36% above its pre-transition level.

Inflation was also contained during this period. The inflation rate fell close to 0% in 2000 and 2001, and while it rose gradually to over 5% in 2002, it fell back to 2.4% in 2003 and 3% in 2004. The Albanian currency, the lek (ISO code ALL), has also appreciated gradually since 1998, rising from a rate of ALL 166 to the euro in early 1999 to ALL 127 to the euro at the end of 2004.

Macroeconomic stabilisation has been achieved in part through restrictive monetary policies. Fiscal policy has also played a role, with the budget deficit (including grants) falling further from its 1998 level of 10% to below 5% by 2003. The initial reduction in the deficit was achieved by taxation increases (government revenue rising from 18% of GDP in 1997 to 25% in 1999). Subsequently, control of public expenditure played a greater role, with a fall from 35% of GDP in 1999 to just over 28% in 2003. In recent years the majority of the financing of the deficit (around 70%) has come from domestic sources rather than from foreign loans.

The external balance has also been kept under control. Although the trade deficit has generally been in excess of 20% of GDP during the period 1998-2004, the primary current account deficit has been lower – typically at around 7% of GDP – mainly as a result of the level of remittances from Albanians living abroad. In most years, too, Albania has been a recipient of international aid grants which have helped to fund the balance of payments deficit, although these have fallen gradually relative to GDP, from as much as 4% of GDP in 1999 to around 2% in 2004.

Investment has generally been in excess of 20% of GDP each year, with the International Monetary Fund estimating the

investment share at 25% for 2004. The public sector accounts for approximately a fifth of total investment.

In summary, generally sound policies have underpinned a reasonably successful macroeconomic performance over recent years. However, despite the pace of recent economic growth, Albania remains a relatively poor country. According to the World Development Indicators data of the World Bank published in 2005, of 188 countries for which 2004 gross national income per capita data are available, Albania is ranked in 97th place with USD 2 080. This is one of the lowest among the transition economies and still a long way from those of the major EU members. Moreover, even the relatively rapid growth in GDP in recent years has not as yet translated into any significant rise in employment. The official estimates suggest that employment has been broadly stable since 1999, and while the unemployment rate has fallen gradually from 18% in 1999 to under 15% in 2004, this has been mainly as a result of a decrease in the size of the labour force¹.

1.2 GDP: SECTORAL TRENDS AND RESTRUCTURING

At the beginning of transition the sectoral structure of output in Albania, as in most of the centrally planned economies, was heavily concentrated in industry at the expense of services. In 1990 industry accounted for over 40% of GDP, agriculture for around 25% and services for only 33%. However, the industrial sector was most affected by both the decline in GDP in the early 1990s and the financial collapse of 1997. As a result, by 1998 industry's share of GDP had fallen to 19%, agriculture's had risen to over 30% and the services sector accounted for 50% of GDP.

As previously noted, since 1998 the average annual increase in GDP overall has been in excess of 6%. Within this total the services sector has expanded rapidly, by almost 9% annually. Agricultural output has risen more slowly, by less than 3% annually. Finally, while the industrial sector

¹ Trends in employment and unemployment are discussed in greater detail in Chapter 2.

1. ECONOMIC SITUATION AND BACKGROUND

overall has expanded by 9% annually, this has been almost entirely as a result of expansion in construction output, which almost tripled in real terms between 1998 and 2004. In contrast, output in the remainder of the industrial sector (primarily manufacturing) has increased by only around 2% per annum.

As a result of these differential growth trends, agriculture's share of GDP has fallen back from 30% in 1998 to around 25% in 2004; the services sector's share has risen from 50% to 55%. Moreover, while the overall industrial share has risen marginally from 19% to 20%, within this total construction has risen from 5% to 10% of GDP and the share of the remainder of industry has fallen from 14% to 10%.

Sectoral performance can also be examined in terms of the contribution of each sector to the overall growth of output. From this perspective it may be noted that overall GDP rose by 45% between 1998 and 2004. The services sector accounted for 30 percentage points, or two-thirds, of this overall increase, agriculture contributed 5 percentage points, and construction contributed 10 percentage points. Overall growth in the economy, therefore, can be seen to be driven primarily by the growth of the services sector and by the construction boom of recent years.

These sectoral trends are related to the process of restructuring economic activity in terms of the ownership and size of the typical enterprise. Prior to 1990 private enterprise was entirely absent. Productive capacity in industry, and to a lesser degree agriculture, was concentrated in very large units. Typical unit size in the services sector – principally distribution – was small by comparison. Large-scale privatisation began in 1992, and had different impacts depending on the sector and the method of privatisation.

Much of the industrial capacity of the country fell into disuse between the civil

disturbances of 1991-92 and 1997, as the enterprises concerned were unable to compete with imports. This was the case with both enterprises that were restructured while in public ownership and those enterprises that had been privatised either in full or through joint ventures. As a result, most surviving industrial firms are micro enterprises.

Privatisation in agriculture involved breaking up state farms and cooperatives and allocating land in small parcels to individual families. As a result, by mid 1995 some 465 000 families controlled 546 000 hectares of land. Land reform achieved its initial objective of privatising cooperatives and state farms very quickly, with a reasonable degree of equity, while achieving political and social stability. Almost 15 years on, however, the average farm remains small and fragmented.

Private activity in services, utilities and construction also tends to be in micro enterprises, either newly created or having emerged from the original small-scale privatisation process. Among large enterprises in these sectors, the National Savings Bank was finally privatised in 2004. However, delays have occurred in other privatisations, including Albatelecom (telecoms), KESH (electricity) and the energy companies Albpetrol (production), ARMO (refinery) and Servcom (distribution). As a result, nearly all of the surviving large firms in these sectors are still in public ownership.

In the short or medium term it is unlikely that the structure of the Albanian economy will change dramatically. Hence, the potential for growth is expected to come from existing sectors such as the agri-business industry, transit trade, the export of products of light manufacturing (such as the footwear and textile industries), and tourism (World Bank, 2004). This last sector has very important potential for development, mainly in the coastal areas, and because it is labour intensive, it can contribute to job creation.

1.3 FOREIGN TRADE AND FOREIGN DIRECT INVESTMENT

The liberalisation of foreign trade was one of the first measures taken by the Albanian government in the transition to a market economy. Steady progress towards a liberal regime has generally been maintained, despite concerns over the continuing high level of the trade deficit. However, at the beginning of 2005 Albania, for fiscal and economic reasons, sought and received a waiver from the World Trade Organisation in relation to previous commitments on the schedule for tariff reductions. It is still planned that the overall target for tariff reduction will be reached by 2009, and Albania is seen externally as operating 'a considerably liberalised trade regime' (European Commission, 2005a). Albania does not use export subsidies.

Apart from these developments in relation to the generalised trading system, Albania has also negotiated bilateral trade agreements with neighbouring Croatia, the former Yugoslav Republic of Macedonia, Bulgaria, Kosovo, Romania, Serbia and Montenegro, Moldova and Bosnia and Herzegovina.

Despite these liberalising measures, international trade is still relatively undeveloped. During the period 1999-2004 imports accounted for between 2% and 33% of GDP, while exports have typically been in the range of 7-8% of GDP. As previously noted, this has meant that the trade deficit exceeds 20% of GDP.

The EU is the country's main trading partner, accounting for around 75% of Albanian imports and 85% of all exports. Italy alone supplies a third of Albania's imports and takes 75% of exports. Greece is the next most important trading partner country, accounting for 20% of imports and 12% of exports. Most exports (over 65%) are textiles and shoes, with most of the remainder being made up of relatively unprocessed food, vegetables, tobacco, construction materials and metals. Imports are mainly machinery and other highly processed products.

Foreign direct investment (FDI) has the potential to be an important component in the development of the private sector. However, despite a regime considered rather liberal for foreign investors, Albania has not been very successful in attracting FDI, in either absolute or relative terms. FDI has recently been running at between 3% and 5% of GDP each year. The cumulative value of FDI to Albania over the period 1999-2004 is similar to the corresponding value in Bosnia and Herzegovina and Macedonia, but is 15% to 25% lower than the values in Croatia, Romania and Bulgaria. The FDI that has taken place is heavily concentrated in Tirana and Durrës, and in retail and wholesale distribution (65%) and industry, particularly textiles and shoe-making (20%). The two main source countries for FDI are Italy and Greece, each accounting for over 40% of the total.

1.4 MICRO ENTERPRISES AND THE INFORMAL ECONOMY

Since the beginning of the transition process, the number of small and micro enterprises has been rising significantly. Today 94% of all enterprises are micro and small enterprises that generally have difficulty growing, for several reasons, such as limited access to funds, restrictive regulatory frameworks (including taxation) and inadequate advisory services. These reasons are further discussed in Chapter 3 of this report.

Another important feature of Albania's current situation is the size of the informal economy, which is estimated to account for over half of all output in the non-agricultural private sector and for over a quarter of gross national product overall. This poses major problems for the operation of the government in general and of economic policy in particular. For example, the extent of unrecorded and undeclared activity is a key impediment to generating tax revenue from channels other than international trade, and the concentration of revenue-raising effort in such a narrow range of activity can, in turn, further distort the pattern of activity. Sectoral economic

policies are difficult to formulate and implement when estimates of activity in the sectors concerned are subject to wide margins of error as a result of unrecorded business. Informality and undeclared incomes also increase the difficulty of targeting social policy interventions on those most in need. Some of the specific effects of the informal sector on the operation of the labour market are examined in more detail in Chapter 3.

1.5 EXTENT OF POVERTY

As already noted, Albania remains a relatively poor country in terms of GDP per capita. This aggregate poverty is reflected in the living conditions of individual citizens and families. The Living Standards Measurement Survey (LSMS) carried out by the World Bank and INSTAT (2002) measured poverty at two levels: (i) nutritional poverty – where income falls below ALL 3 047 per month; and (ii) general poverty – where income is below ALL 4 891 per capita per month. The results of the assessment show that 25.4% of Albanians (780 000 people) live below the general poverty line and 4.7% fall below the nutritional poverty line. This figure is high compared to other countries of South-East Europe, but is similar to those of Central Asia.

The incidence of poverty is related to a range of characteristics of individuals and families. Most notably, poverty is more prevalent among:

- those living in rural areas, particularly in the most remote districts in the north and north-east of the country;
- those whose main income source is agriculture or a pension, or where the head of the household is unemployed;
- those living in large households;
- those who are least educated (households headed by people who are illiterate or who have only basic education are 20 to 30 times more likely to be poor than households headed by university graduates).

Inequality in the nationwide distribution of incomes is not unusually high in Albania. The Gini coefficient², which is used to measure such inequalities, is around 0.28 (UNDP, 2005). This is a similar level to those in other countries in the region, which suggests that the relatively high incidence of poverty in the population is related more to the low level of aggregate income in the country rather than to the distribution of that income.

² The Gini coefficient is a measure of income inequality measured between 0 (perfect equality) and 1 (perfect inequality).

2. LABOUR MARKET TRENDS

2

2.1 POPULATION AND LABOUR FORCE

The 2001 census registered 3 069 275 Albanians, a decrease of 3.6% compared to the 1989 census. This decline is the result of falling fertility rates³, but also mainly of the large-scale emigration that began in 1990. Around 1 000 000 Albanians have emigrated since the beginning of the transition period, with most moving to neighbouring Greece and Italy. The vast majority of the migrants went abroad to find work.

During the socialist period the population growth was actively encouraged by the government and for the period 1960-90 the Albanian population grew by 2.4%, three to four times more than in other European countries.

Since 1991 the growth rate has decreased from 1.8% to 0.58% in 2004. Based on statistical data of life births, the crude birth rate⁴ decreased from 25.8% in 1990 to

13.8% in 2004 and the number of children per woman decreased as well due to high values for migration of fertile population, decrease of number of births; increase of marriage average age for both men and women; application of family planning methods, etc.

The Albanian population can be considered as very homogeneous, with only 2% to 3% from minorities. Because the 2001 census did not include this data, the figures presented by the Albanian government and those presented by the associations representing minority groups are controversial. The Greek, Macedonian and Montenegrin minorities have been recognised as national minorities, while Roma people and Aromunians are seen as ethnolinguistic minorities.

Since the beginning of transition there has been substantial internal migration from rural to urban areas, mainly to Tirana and Durrës but also to other cities. Over the past seven years, the proportion of rural

³ INSTAT census 2001.

⁴ Number of births per 1 000 population (INSTAT 2005).

inhabitants has decreased by 13%, while according to data from the LSMS⁵, the urban population has continued to grow, by 3.2% in 2002-03 and 2% in 2003-04. The population of Tirana alone is estimated to have grown from around 200 000 in the early 1990s to close to 800 000 in 2005⁶. Much of the internal migration has been work-related. Despite the internal migration, Albania still has a predominantly rural population. According to INSTAT estimates, 56.1% of the population lived in rural areas in 2004.

According to INSTAT Labour Market Assessments, the participation rates of the population have been declining since the beginning of 2000s, from 66.2% in 2000 to 57.7% in 2004 (the LSMS gives a higher activity rate of 65.9% for 2002). The highest participation rates are among the 35-49 age group. The gender gap in terms of participation is extremely pronounced across all age groups (74% for men and 52% for women), and has persisted over time. This can be explained by several factors, including cultural reasons, low overall labour market demand and the lower skill levels of women.

2.2 EMPLOYMENT TRENDS AND STRUCTURAL SHIFTS AND CHANGES

The collapse of the communist regime and the subsequent closure of already

unproductive public enterprises combined with the dismantling of the agricultural cooperatives were a shock to the Albanian labour market, and completely changed its nature. During the past decade there has been (i) a radical shift from wage employment in the public sector towards the private sector and self-employment; and (ii) a significant reduction in the number of people involved in agriculture (although agriculture is still the most important sector in terms of employment). According to information from the INSTAT Labour Market Assessments, public sector employment fell from 850 000 in 1991, at the end of the communist period, to 176 000 in 2004, as a result of the privatisation and collapse of the larger state-owned enterprises, particularly in the industrial sector (the main industries hit were mineral extraction, metallurgy, chemicals, textiles and paper). The number of people working in agriculture fell from 750 000 to 540 000. Employment in private businesses outside agriculture, non-existent prior to 1991, has risen to an estimated 213 000. According to LSMS data, employment in the private sector is still increasing, and reached 84.6% of total employment in 2004 (see Table 2). However, despite the growth in the private sector, it is clear that most of those displaced from the public sector and from agriculture have had to go abroad in search of work.

⁵ The statistical information presented here is based on the LSMS questionnaire that was implemented in the second quarters of 2002, 2003 and 2004.

⁶ This means that Albania's migration flow has been five times higher than the average migration flow in developing countries (IMF, 2005).

Box 1: Data sources and basic labour market indicators

The main information sources for the analysis of the Albanian labour market are:

1. official estimates for (i) employment and activity, from INSTAT estimates based on business registration processes and population projections for activity and employment; and (ii) unemployment registers, which are the only source of information on employment trends during the 1990s and the early 2000s;
2. Census of Population 2001, which provided information on the labour market position of individuals at one point in time;
3. Living Standards Measurement Surveys (LSMS), repeated on three occasions in 2002, 2003 and 2004.

There are major inconsistencies in the official estimates for employment for 1998-2004 (see Annex) for both agriculture and the non-agricultural sector in 2001. The results of the 2001 census proved that the previous official figures had greatly underestimated private sector employment in industry and services while greatly overestimating employment in agriculture. The underestimation in industry and services appears to relate to the high level of employment in the informal sector of the economy, which would not have been picked up in administrative statistics on employment based on registers. The agriculture overestimate suggests that the scale of out-migration from rural areas was much greater than had been previously thought. Only in the public sector were the official estimates broadly consistent with the actual employment figures from the census. While the official estimates for 2001 and later years seem to have been benchmarked to correspond with the 2001 census results, estimates of the trend since 2001 continue to rely on administrative sources. There can thus be no guarantee that they will not be subject to major revision once more when new reliable data become available, from either a census or a large-scale sample survey of the population. There is a similar dearth of reliable trend data on structural aspects of the labour market – for example on the patterns of employment, unemployment and participation by age, gender and region. Furthermore, official estimates of employment and activity provide little information on the labour market impacts of emigration and immigration.

For the Census of Population 2001, the employed population is defined as those individuals engaged in productive activities during the week before the interview, as well as those individuals who have regular jobs but who are not working in the relevant period, because of annual leave, health problems or other reasons. Unpaid family members contributing to the family enterprise were considered to be employed. Declaration of employment was based on self-reporting without reference to the number of hours worked. Students and retired people were considered as not working, even if they were performing a job. Unemployed people were defined as those looking for work, but with no reference to the period of job seeking. Activity rates were defined on the basis of the ILO 1990 standard and the current approach, which is a one-week or one-day reference period.

The LSMS used the same definition for 'employed' and the same reference period (i.e. the week before the interview) as those used in the 2001 census. The difference is that all those who have worked for one hour or more during the week prior to the date of the interview were considered as employed. Hence, data should be treated with care.

According to INSTAT calculations only 75% of those working (aged 15 years and over) usually work 35 or more hours per week. Identification of those who were unemployed was made on the basis of the ILO criteria. Both the census and the LSMS better capture informal employment.

Table 1: Employment rates (%) of the working-age population (15-64 years old)

	2002	2003	2004
Total	59.1	60.8	60.3
Men	69.5	72.1	71.9
Women	49.8	50.6	49.6
By educational attainment			
Lower secondary and below	56.5	57.3	56.4
Upper secondary	60.1	63.9	65.1
Tertiary	79.7	83.5	78.2

Source: INSTAT, LSMS 2002, 2003 and 2004

According to LSMS data (Table 1), employment rates remained fairly stable between 2002 and 2004 at around 60%. This is a relatively satisfactory employment rate by EU standards and compared with other countries in the region. However, as shown in Table 2, much of this employment is (i) self-employment (63% in 2004); (ii) in agriculture (around 58% to 59% of all employment); and (iii) quite often part-time (24.4% in 2004 – a unique phenomenon of the widespread use of part-time employment in the region). Among those actually working as employees, the majority are in the public sector; employees in the private sector account for no more than 16% of all employment, and many of those are in informal businesses.

These figures demonstrate that the vacuum created by the closure of large state-owned enterprises has not been filled by a dynamic private sector creating job opportunities in the formal economy. Instead, given the lack of employment opportunities, individuals have been starting activities on their own – a positive thing – but often in low-productivity activities in agriculture or small trade, and certainly under precarious conditions. In addition, it is clear that not many of the small-scale businesses have grown to the stage where they begin to take on additional employees.

Table 2: Employment by economic sector and type as a percentage of total employment

	2002	2003	2004
Agriculture	57.6	NA	NA
Industry	8.2	NA	NA
Services	34.3	NA	NA
Private sector	83.8	84.4	84.6
Self-employment	66.0	65.7	63.0
Part-time employment	NA	25.7	24.4

Source: INSTAT, LSMS 2002, 2003 and 2004
NA: not available

The employment rate in rural areas is higher (70%) than in urban areas (less than 50%) (see Figure 1). However, most rural employment is in subsistence farming. In addition, 70% of those employed in rural areas work 35 or more hours per week and around 22% to 26% work 16 to 34 hours per week. In contrast, in urban areas 85% to 90% of those employed work 35 or more hours per week. This indicates that although the employment rate in rural areas is higher, at the same time a considerable number of people work less than 35 hours per week. The extent of underutilisation of the labour force in rural areas is thus greater than suggested by the 'raw' employment data.

The gender gap in employment

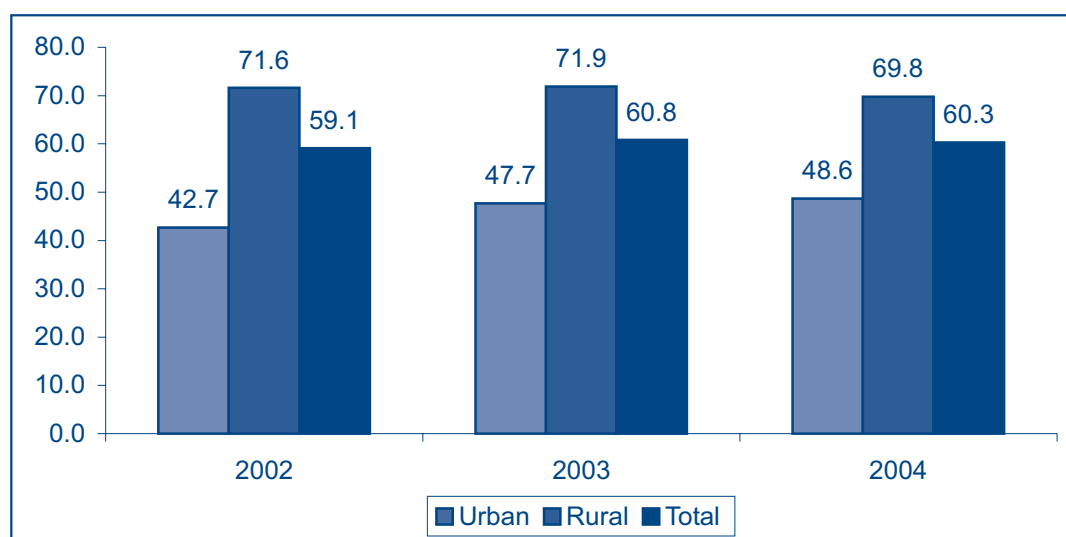
There is a significant and persistent (over time and across educational levels) gender gap in employment rates that is much larger than in the EU and most other countries in the region. This gap is particularly pronounced in urban areas, where women have very low employment rates (35.4% against 61.8% for men in 2004), while in rural areas the gap is less significant (60.2% against 80.3% for men). This may be explained by the lower level of involvement of women in informal economic activities in the urban areas, and/or by the higher involvement of women in subsistence agriculture as family members in the rural areas.

Youth and employment

Young people (in particular the 15-19 years old) present lower employment rates than older age groups, and it could be said that they are disadvantaged in the labour market. However, the employment rates of young people in Albania (for the 15-19 and 20-24 age groups) are much higher than the EU average or the rates in other countries in the region (for example Serbia, where the employment rate of young people aged 15-24 years is 17%, and Bosnia and Herzegovina, where the rate is around 19%). This implies that young people in Albania enter the labour market sooner, rather than remaining in education (see also Section 2.3).

According to the MoES, 27% of pupils who completed compulsory education in 2004/05 did not continue to secondary level. This means that 128 000 pupils were potential new entrants to the labour market. Some of them were already in the informal labour market, others tried to emigrate, and only a small proportion went to the employment offices in order to register and search for a job. Related to this is the issue of child labour, for which the only available data is from an ILO-IPEC study in 2002 that indicates that there is a significant level of child labour, the vast majority of which originates from low-income households with jobless mothers. According to this survey it is estimated that there are 6 700 working and street children across Albania.

Figure 1: Employment rates (%) of the working population aged 15-64 years old, for rural and urban areas



Migration and employment

The labour market impacts of emigration and immigration seem quite significant for Albania. There are probably far more Albanians employed in the private sector outside the country than within it. There is substantial ongoing movement into and out of Albania within this migrant labour force; even among those who have been consistently abroad for some years, there are doubtless many who would prefer to return. Emigrants thus form a major potential source of labour for a growing Albanian economy. Indeed there is some evidence that returning migrants are already making a valuable contribution: around a third of the owner-operators of small businesses in Tirana interviewed in a recent ETF study had work experience from abroad, and some 68% of these considered their foreign experience to be very useful for their business. Unfortunately, the lack of information on the movements of migrants is a major gap for the dynamics of employment in Albania.

sources only. They indicate that in the early years of transition, unemployment was over 20%, and since 1999 the rate has been falling, reaching 14.4% in 2004. This is close to the level of unemployment in some new EU member states such as Poland and Slovakia, but much higher than the levels in the EU-15 countries.

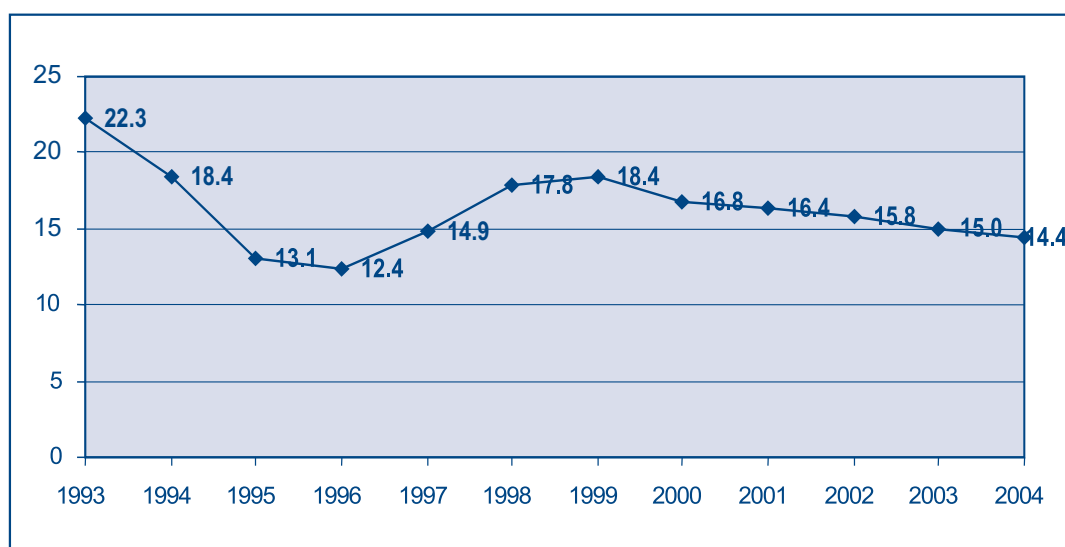
While it might be expected that administrative data would greatly understate the level of unemployment, given the scale of the informal sector and the limited role of the NES, survey data do not bear this out. Based on the LSMS for 2002, the internationally comparable ILO rate of unemployment was 10% (3% in rural areas, 20% in Tirana and 23% in other urban areas). Even on the basis of a more extended definition of unemployment designed to allow for the extent of discouraged and seasonal workers in the current state of development of the country, the rate was no higher than 15.4% overall. On this broader definition, the rate of unemployment was around 7% in rural areas, 25% in Tirana and 32% in other urban areas.

2.3 INACTIVITY, UNEMPLOYMENT AND SOCIAL EXCLUSION

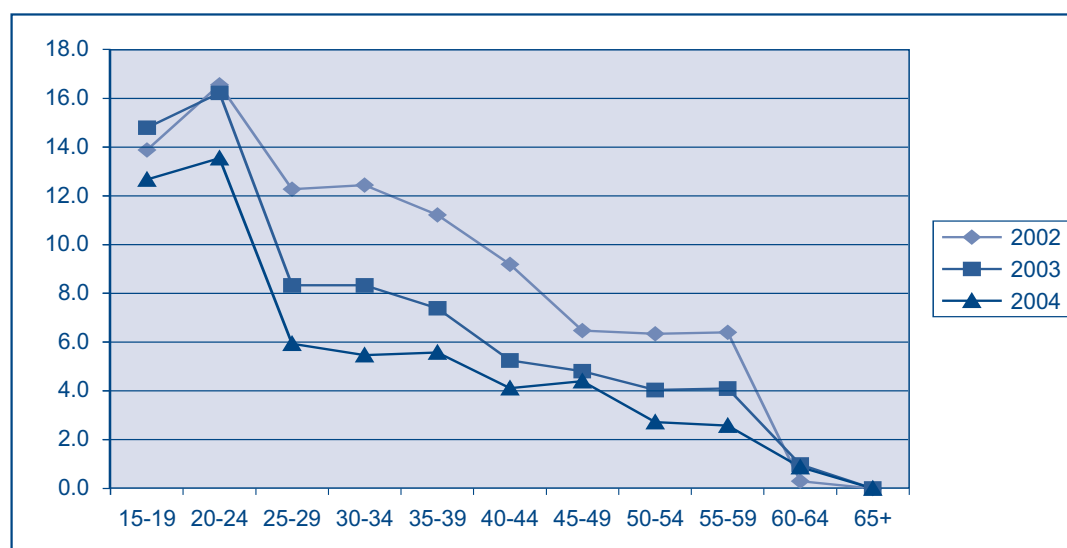
Unemployment in Albania, though high by western European standards, is lower than in many neighbouring countries. The main trend data come from administrative

The standard ILO unemployment rate in 2002 was 11% for males and 10% for females, indicating no significant gender gap in unemployment. This is in contrast to the employment rate, in which the gender gap is clear, and it indicates that many women are inactive or 'discouraged'

Figure 2: Unemployment rate



Source: INSTAT, 2004

Figure 3: Unemployment rate by age group, 2002-04 (standard definition)

Source: INSTAT, 2004

workers. These differences are reflected in the extended-definition unemployment rate for 2002, in which there was a more noticeable gender gap – 14.6% for males against 17.5% for females. Those most affected by unemployment are young people aged 15-19 years and 20-24 years, as shown in Figure 3.

Some detailed trend data on registered unemployment are given in Table 3. The decline in registered unemployment over the past few years appears to be fairly similar for men and women, and for those who are short- and long-term unemployed. Unemployment seems to have fallen more rapidly for those with secondary or higher education than for those with only primary schooling.

Unemployment by level of education

The available data on unemployment by level of education suggest that unemployment is higher for those with secondary education than for those with primary education; the lowest rate is found among those with tertiary-level qualifications. There are several possible explanations for this, including that:

- the labour market does not provide information to the education system to enable it to anticipate skill needs;
- the education system, still under reform, is unable to provide the necessary skills because of a lack of adequate infrastructure, modern curricula, and qualified and motivated teachers.

Table 3: Registered unemployment (by gender and status)

	2000	2001	2002	2003	2004
Total registered unemployed	215 085	180 513	172 385	163 030	157 008
Women	101 919	85 420	81 326	77 125	75 150
Unemployed receiving unemployment benefits	21 894	14 322	11 184	11 279	11 125
Long-term unemployed	192 724	165 656	160 466	150 992	144 959
• with primary education	104 604	89 309	87 297	86 910	84 100
• with secondary education	104 615	87 097	82 267	73 541	70 219
• with university education	5 866	4 107	2 821	2 579	2 723

Source: INSTAT, 2004; Ministry of Labour, Social Affairs and Equal Opportunities

Regional dimensions of unemployment

The northern part of Albania has a higher level of unemployment because of the very limited development of the private sector and the predominantly mountainous terrain, which also limits agricultural activities. Moreover, this was an area of heavy concentration of industry, which was closed down after the end of the communist period. The most problematic regions are Shkodra, with 27.4% unemployment in 2004, and Kukës with 27.8%. The districts with highest level of unemployment are: Has in Kukës region with 39%, Kurbin in Lezhë region with 38.5%, and Pukë in Shkodra region with 32.5%.

2.4 QUALIFICATION OF THE WORKFORCE AND SKILL MISMATCHES

The quality of the labour force in terms of education and skills seems to be one of the major challenges for Albania. According to data from the 2001 census, the educational attainment levels of the population aged 25 to 64 years are low, not only in relation to the EU average but also compared with other countries in the region of South-East Europe (see Table 4). A large proportion of the population has only achieved a low level of education. Women are particularly disadvantaged.

Given the current state of development of the Albanian economy – which is based mainly on agriculture and micro and small businesses involved in trade, small (low-value-added) production or construction using elementary tools and technology – the lack of medium- and higher-level education and skills in the population does not seem to create major skill gaps at the moment. However, there are signals that can be used to detect future skill deficiencies, if not bottlenecks, for economic development. For example, evidence from a survey of 621 firms undertaken by the CARDS VET programme demonstrates that in general, except in regions of economic stagnation, (small) enterprises are gradually requiring medium- and higher-level skills which, they report, are scarce. Furthermore, data on imports demonstrate a large amount of imported technology, which suggests that the economy will increasingly need better qualified people (Government of Albania, 2003). Finally, interviews with a number of stakeholders in Tirana have demonstrated the lack of a skilled workforce in the construction and services sectors.

But apart from the current and medium-term labour market requirements and skill gaps, the lack of a skilled labour force creates a risk that the country will become trapped in subsistence and low-value-added economic activities, thus impeding its long-term development.

Table 4: Educational attainment levels, as a percentage of the population aged 25-64 years, 2001/02⁷

	Lower	Medium	Higher
Albania – Total	59	33	8
• Males	54	36	10
• Females	64	30	6
EU-15	35	43	22
New member states	19	66	15

Source: Census of Population 2001; World Bank, 2004

⁷ 'Lower' corresponds to completion of primary and lower secondary education or less (ISCED 0-2); 'medium' corresponds to completion of secondary education (ISCED 3); 'higher' corresponds to completion of higher education (ISCED 5 or 6).

Skill formation for young people: initial education and training

The initial education and training system at all levels faces a number of problems that put young people in Albania at a learning disadvantage compared with young people in the EU and other countries of the region. Participation rates in basic and secondary education fell drastically at the beginning of the 1990s. Although they have started to increase during the past couple of years, they still remain low by EU standards. In 2002/03 the participation rate – as measured by the net enrolment ratio – in basic education was 94% and in secondary education only 42%. Although the country seems to have reached higher levels of participation in lower primary education (net enrolment ratio 96%), participation rates in upper primary education remain far below the EU average (93%). Drop-out rates in the final years of basic education seem to be high, while the passage to secondary education is a turning point, as a large percentage of children leave the school system without receiving any

qualifications (71% of the pupils who accomplish primary education enrol in secondary education (Government of Albania, 2003)). Finally, the enrolment rate in secondary education is as low as 42%. Hidden drop-outs within basic education, i.e. children who are promoted from one class to the next one without having actually developed their knowledge, do exist, but this is not formally recognised or monitored (HDPC, 2004). Girls are particularly disadvantaged at secondary level as their participation rates lag significantly behind those of boys.

Regional disparities, particularly those between urban and rural areas, are extremely significant in Albania (Table 5). In fact it is mainly the rural areas that bring participation rates down at all levels of education, especially at secondary level, where the net enrolment rate is only 22%.

Low participation rates are the result of a combination of factors relating to both the poor economic condition of families and the quality of the education system. According to evidence from a number of studies,

Box 2: Description of the education system in Albania

The pre-university education system in Albania consists of three levels: five years of basic education, four years of lower secondary education and three years of upper secondary education. Free and compulsory education lasts nine years (up to grade nine). The early levels (five years and four years) concentrate on basic literacy and numeracy along with civic education and healthy living skills, providing the basis for developing knowledge and skills for a democratic society and a knowledge society. At the end students receive a Leaving Certificate (*Dëftesë Lirimë*).

Secondary education consists of grades 10 to 12, which are taught in middle schools (*skollë e mesme*) and end with exams leading to the receipt of a Maturity Certificate (*Dëftesë Pjekurie*). Around 83% of the students who enrol in secondary level attend general education.

Vocational secondary education lasts for either three years for qualified workers or five years for technicians. Five-year VET provides access to higher education. Those students who complete three-year VET have an opportunity to follow an extra cycle of two more years to reach the level of a technician. VET secondary public education is now provided in 38 VET schools (under the responsibility of the MoES), of which 25 are three-year vocational schools and 13 are five-year technical schools (11 of which are designated national schools funded directly by the MoES rather than through district councils).

Access to higher education requires students to pass an entrance examination.

Table 5: Participation in education – net enrolment rate 2002/03 (%)

	Total			Urban			Rural		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Basic education	94	94	94	98	98	98	92	92	92
Lower primary	96	95	96	100	100	100	94	92	93
Upper primary	93	93	93	95	97	96	91	91	91
Secondary education	47	37	42	83	66	75	25	19	22

Source: Ministry of Education and Science, 2003

parents in rural areas claim they are unable to meet the costs of education for their children (e.g. books and other materials, and transportation). Moreover, children from poor families often work in agriculture or are involved in other economic activities in order to help their families to make ends meet. The issue of the security of children when they need to travel long distances to school is also reported as a disincentive for parents to send their children to school.

One of the issues relating to the quality of the education system concerns the inadequacy of the school infrastructure. During the 1990s the number of secondary education schools fell dramatically (from 513 in 1990 to 366 in 2002), with the largest reduction among vocational schools (from 308 before 1990 to 38 in 2002). In some areas there are no vocational schools; even where they do exist, the range of occupational fields they cover is often very limited. Applications are high for enrolment in vocational schools that cover occupations with good labour market prospects (such as economics or mechanics).

The reduction in the number of basic education schools has been less dramatic, and there is greater access to this type of education. Despite the fact that school closures might be partially justified by the desire for a rationalisation of the school network, the lack of available funds to refurbish and maintain schools is also a reason. Despite the construction of new schools and the refurbishing of existing ones, some of the school infrastructure (at both basic and secondary levels) is considered poor. Moreover, population

migration from rural areas to cities has increased the number of children per class in lower primary education in urban areas – for example to 35.9 in Fier or 45.3 in Dibra (compared with a national average of 22.5). At the same time, the small number of children per class in rural areas has led to classes being combined⁸, a situation that creates problems for teachers in properly monitoring the pupils, particularly when they are not specifically trained. Some 10.5% of all children enrolled in primary education attend combined classes, the vast majority in rural areas.

A second issue is the quality of the curricula and the teaching processes in the classroom in both primary and secondary education; this has a direct impact on what pupils learn. In fact, according to the Programme for International Student Assessment (PISA) 2003, 70.3% of pupils at the age of 15 have low reading literacy (i.e. level 1 and below). The modernisation of curricula and teacher training has been addressed only marginally at national level.

Alongside the low levels of participation in basic and secondary education and training, there has been an increase in demand for higher education. An increasing number of young people who manage to get through the education system enrol in the universities. According to data from the MoES, the total number of university students increased from 22 705 in 1991/92 to 30 132 in 2002/03, an increase of 32.7%. Most of this was accounted for by the increase in the number of part-time students, which rose by 154%. The introduction of part-time

⁸ In combined classes students of more than one grade are grouped.

courses and of fees for students who want to enter higher education but do not fulfil the entry requirements are seen as a means to accommodate the higher demand for higher education. However, the increase in the number of participants in higher education has reduced the quality of the services provided.

Skill formation for adults

The economic and labour market changes of recent years and the high levels of unemployment have focused increased attention on the issue of upgrading the skills of the labour force. Efforts have been made to organise training provision for adults through the establishment of nine training centres to accommodate the training needs of the different regions in the country through the development and delivery of training courses for the local labour market. These centres are supported by donors in terms of know-how, but also partly financially. The training centres are under the MoLSAEO; their main target clients are unemployed people, but they can also provide their services to other clients (see also Chapter 3).

Much of the skill acquisition or skill upgrading for adults takes place informally, particularly through on-the-job training while working abroad. After returning to Albania, these workers are able to apply the skills they have acquired abroad. On-the-job training in the form of informal apprenticeships in local enterprises (even informal ones) also takes place.

The number of enterprises that provide training to their employees is estimated to be around 11%, which is considered to be a quite low percentage even for the region (Eurochambres, 2004). However, this is not surprising. According to international experience the volume of training is directly related to the size of the firms. As the vast majority of enterprises in Albania are micro and small enterprises, it can be expected that the training opportunities they offer to their staff are limited.

2.5 MAIN CHALLENGES

While economic growth has been quite rapid in recent years, and macroeconomic policy has generally been sound, Albania remains relatively poor and undeveloped. Albania has a mainly agrarian subsistence economy, characterised by a large percentage (94%) of micro and small enterprises and high degree of informality. Increasing the level of employment 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.

In these circumstances it is difficult to analyse the labour market in Albania in the same way as labour markets are analysed 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 leads people to start their own income-generation activities, which are often low skilled, low value added and low paid. Demand for labour in the formal sector is very limited and is largely restricted to the public sector and selected private economic sectors such as banking and, to a certain extent, tourism and construction.

Increasing the adaptability of enterprises and workers

In order to increase job creation, sustained growth is necessary, and this will depend in part on exploiting opportunities for development in sectors such as agriculture, tourism and some areas of manufacturing. This will require sectoral policies to be prepared and implemented in order to identify and address barriers to development for these parts of the economy. These barriers will vary by sector, but may include:

- the impact of taxation structures (for example the different treatment in terms of VAT of processed and unprocessed agricultural products, thus discouraging processing);
- inadequate advisory services for small agricultural producers;

- the impact of inadequate property registration in discouraging the consolidation of holdings in agriculture as well discouraging investment in tourism facilities.

The development of most productive sectors is also hampered by weaknesses in the transport, communications and utilities infrastructure. Albania still suffers from a poor infrastructure; the road system and electrical supply are inadequate. In addition to the physical difficulties, bureaucratic procedures, corruption and an inefficient judicial system present difficulties for attracting investment (both local and foreign) and promoting enterprise growth.

Up to now the Albanian people have been sufficiently adaptable and flexible, as demonstrated by the high mobility both within the country and through emigration in search of (better) job opportunities. This has helped labour reallocation from less productive activities in dying public enterprises to more productive sectors such as construction and services. However, there is still scope for further reallocation, as demonstrated by the underutilised human resources in subsistence agriculture in rural areas and in low-productivity informal activity, mainly in urban areas.

Attracting more people to enter and remain in the labour market: making work a real option for all

Labour force participation is satisfactory in Albania, at least among the male population. Women are at a clear disadvantage, particularly in urban areas. However, the quality of jobs is inadequate. The extent of informal employment (in agriculture or in other sectors) suggests a high level of precariousness, limited access to social rights such as pensions, and low wages, as demonstrated by the large

number of people in poverty. Although informality is linked to the (lack of) demand for labour, it also affects the supply side, since informality becomes a lifestyle to which people become accustomed. Increasing labour market flexibility is not an issue, since self-employment and part-time work are already widespread. Accordingly the main challenge for Albania is to enhance the labour force participation of women and transform informal jobs into formal employment.

Investing more and more effectively in human capital and lifelong learning

The enhancement of the education and skills of the population and the labour force is one of the major challenges for Albania; this will enable the country to develop its economy and enhance its production capacities for higher-value-added products. Unfortunately the country appears to be trapped in low-skill, low-value-added activities, a situation that is reinforced by a weak education system. Although the current state of development in the Albanian economy does not create skill bottlenecks, technical skill gaps are gradually appearing, in particular in urban areas where economic activity is more vibrant. These can be addressed through better training provision for young people (through more and diversified VET) and adults (for example through the enhanced provision of training centres or private providers, whose quality must be regularly evaluated). However, most of the efforts need to be put into the empowerment of rural populations and into the education of young people.

Participation rates of young people at both primary and secondary level must be further increased, and the quality of the learning processes needs to be substantially improved through modernised curricula and motivated and well-trained teachers.

3. REVIEW OF POLICIES, AND LEGISLATIVE AND INSTITUTIONAL FRAMEWORKS FOR ADDRESSING LABOUR MARKET CHALLENGES

3

As noted in Chapter 2, a wide range of appropriate economic policies – fiscal, monetary and infrastructural, as well as policies to promote the development of individual sectors – will need to be pursued if labour market challenges are to be overcome. These broader questions of economic policy have been discussed in a number of commentaries on Albania by the EU and other international bodies. This chapter sets out to complement those commentaries by considering more specifically how aspects of employment and labour market policies could contribute to economic and social development in Albania.

3.1 EMPLOYMENT POLICIES AS PART OF THE OVERALL POLICY AGENDA

The experience of the EU shows that the labour market is affected by a wide range of government actions, not only in the field of employment policy, but also in education, social welfare, business regulation and taxation. Therefore, one of the goals of both the EU and the member states in implementing the European Employment Strategy over recent years has been to ensure that impacts on employment are fully taken into account in the formulation of policy in these other fields. It is also particularly important that employment policies are consistent with, and coordinated with, the overall economic policy priorities of governments.

Overall planning

The overarching process of economic and social policy in Albania is contained in the National Strategy for Socio-Economic Development (NSSED). The policy planning cycle of the NSSED began in 2001 with the publication of the Growth and Poverty Reduction Strategy 2002-04. Since then, a number of further reports on the strategy have been published. While described as 'progress reports', these documents in fact go further than simply reporting on implementation. They also refine the strategy on an ongoing basis in response to events, and set out revised objectives and policies for the forthcoming period. Following the start of negotiations with the EU on the Stabilisation and Association Agreement in 2003, the NSSED became a core document in the process of European integration. The most recent report, 'Progress Report 2003', was published in mid 2004; it describes developments up to the end of 2003 and outlines the broad policy objectives up to 2007.

The NSSED sets a number of principal top-level objectives for economic and social policy:

- achieving an average GDP growth of 6% per annum in the medium term, while containing inflation below 3% and the government deficit at or below 5% of GDP;
- reducing the incidence of poverty from 25% in 2002 to below 10% in 2015;
- reducing unemployment from 16% in 2001 to 12% in 2006;
- reducing infant and maternal mortality by up to 50% by 2015;
- increasing the average number of years' schooling from 9.5 years in 2001 to 13.5 by 2015, by achieving 100% completion in compulsory schooling and bringing the secondary enrolment rate up to 90%, while also increasing the vocational component in secondary schooling;
- achieving significant increases in the quality of governance as measured by international indices such as the rule of law, citizens' access to government and control of corruption.

These objectives, in turn, are translated into specific planned actions for each government ministry and agency across a range of policy fields. These include public order, justice and anti-corruption; decentralisation of public administration; reform of the financial sector and of the regulation of private business; infrastructure development; human resources development including education, health, and employment and social policies; and the environment, including rural and urban development policies. Where possible, it is the practice in the NSSED for each planned action to have an associated quantitative indicator that can be used to monitor actual achievement as compared with the targets set.

Employment policy within the overall framework

The ministry most directly responsible for employment issues is the Ministry of Labour, Social Affairs and Equal Opportunities (MoLSAEO), which published its Strategy on Employment and Vocational Training in 2003. The strategy paper has a primarily institutional focus, setting out to analyse and plan for:

- the public employment service;
- vocational training – narrowly defined to include only that part of provision that is either financed by or regulated by the MoLSAEO;
- measures to promote SME development;
- specific issues of access to finance for business.

The last two of these are not strictly within the responsibility of the MoLSAEO, and this is reflected in the composition of the expert group that drafted the strategy, which included representatives of the Ministry of Economy and of the Bank of Albania.

In relation to the employment service, the strategy set out a range of clear plans for the structure of the service, the resources to be devoted to it, and the way these were to be distributed between the regions, and between the front-line and back-room staff. These plans were based on a detailed

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analysis of the current levels of staffing and resources on an office-by-office basis, and a comparison of these with service demand levels based on the numbers of registered job seekers and of employers within the area covered by each office.

For vocational training, the strategy set out a three-year (2003-05) programme for the nationwide distribution of the training centre network through the construction of new centres (in Fier, Gjirokastra, Lezha, Peshkopi and Kukës) and refurbishment of existing centres (in Vlora, Shkodra, Elbasan and Durrës). It also proposed the provision of support for private vocational training initiatives for particular regions, or targeted at particular economic and social priorities not adequately covered by the public system of vocational training centres. In this context it was intended that the necessary legal acts and sub-acts relating to registration, licensing and accrediting of private training entities be drafted. Finally, the strategy proposed intensifying the cooperation between the MoLSAEO and the MoES with a view to putting the existing capacities of the VET system to greater use in the field of labour market training.

The chapter of the NSSD 'Progress Report 2003' that deals with the MoLSAEO goes further than the strategy in terms of reporting on performance against specific prior targets and of setting revised and additional targets for the period 2004-07.

Assessment

Through the NSSD, Albania has started the process of putting in place a strategic approach to the government's policies for economic and social development. Of particular note is the extent to which concrete and specific goals are set. As

pointed out by the World Bank, the NSSD thus has the potential to provide a context within which transparent monitoring of actual achievement – for example in the extent of poverty reduction – might proceed (World Bank, 2004). This in turn could provide a framework for organising national consensus around longer-term goals, and for evaluating the performance of government over the medium term.

However, a number of problems concerning the planning process have so far been identified:

- a degree of overlap, confusion and inconsistency between the three broad strands of government target and priority-setting – those related (1) to the NSSD, (2) to the Stabilisation and Association process⁹, and (3) to the Millennium Development Goals¹⁰ – and their respective approaches to the monitoring of progress;
- inadequate integration between the NSSD process and the process of actual budgeting and resource allocation in the public sector under the government's Medium-Term Expenditure Framework;
- partly related to the previous point, but also as a result of the ongoing weakness of government taxation revenues, many of the actions planned in the NSSD either have not happened or have been only partly implemented because of insufficient funding.

The impact of these wider problems can also be seen in the parts of the NSSD updates dealing with employment policy. In particular, many planned actions for 2003 have been implemented only partially (or sometimes not at all) as a result of a lack of funds. Moreover, it appears that this pattern of delayed and partial

⁹ The Stabilisation and Association process represents a long-term commitment to reform on the part of the EU and of Western Balkan countries. It is an entry strategy that introduces European values, principles and standards into the countries of the region, which in due course will gain them entry into the EU. The first phase in this process comprises various steps towards the establishment of a formal contractual relationship between each country and the EU in the form of a Stabilisation and Association Agreement. The conclusion of such an agreement is dependent on the country having made sufficient progress in terms of political and economic reform and having demonstrated sufficient administrative capacity.

¹⁰ The Millennium Development Goals were adopted by world leaders at the Millennium Summit of the United Nations in 2000. They are to: eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; ensure environmental sustainability; and develop a global partnership for development.

implementation has continued in the period since the publication of the revised targets for 2004-07.

Apart from these implementation issues, there are severe difficulties for the initial process of formulating employment policies, caused by a lack of adequate data on employment and the labour market in Albania; these problems have already been discussed in Chapter 2.

These difficulties mean that the analysis of the labour market that underpins the Strategy on Employment and Vocational Training and the related parts of the NSSD is based on administrative data, such as figures on registered unemployment and on the level of vacancies notified to the employment service. For reasons already discussed in Chapter 2, these can give at best a partial picture of the underlying situation, and in particular they are not very useful for identifying groups who should be the subject of targeted programmes or other interventions. Equally, data are not readily available that would show whether and how policies actually affect the level of employment in different sectors and for different groups.

As a result, *inter alia*, of these information gaps, the Strategy on Employment and Vocational Training, even when taken together with the relevant sections of the NSSD, does not represent a coherent and comprehensive approach to employment policy for Albania. In the absence of a coherent overall analysis, there is little linkage between the four areas of policy identified in the strategy, and no framework for relating the contribution that each is expected to make to the achievement of the necessary improvements in employment performance in the country.

3.2 INCREASING THE ADAPTABILITY OF WORKERS AND ENTERPRISES

As already demonstrated in Chapter 2, the Albanian population has been very flexible and adaptable, using the informal sector

and subsistence agriculture as a buffer. This flexibility and adaptability of the workers and their families have been some of the main sources of Albania's vigorous economic growth during the transition process to date.

In the future in Albania, growth in productivity, output and employment will depend more on the performance of individual Albanian firms in terms of their investment in capital equipment, systems and processes, and in the human capital of their employees. Performance on all of these criteria, in turn, tends to be positively related to the size of the firm. Unfortunately the current degree of informality in the Albanian economy represents a positive discouragement for small firms to expand and grow. Facilitating the growth and development of firms within the formal sector has now become a necessary element in ensuring continued adaptability, innovation and growth in Albania.

The government can affect the growth and development of firms in several main ways.

- First, investment decisions may be influenced by taxation policies and the financial costs they impose on firms starting up or continuing in business.
- A second role of the government relates to its responsibility for the regulatory environment (for example, the extent of the 'red tape' associated with necessary business activities such as the establishment of companies, acquisition of property and registration of contracts). This also includes the effectiveness of the judicial system in underpinning both rights and responsibilities in relation to property.
- Finally, the government may provide financial, advisory and other promotional support for productive investment by either new or existing domestic firms, or alternatively in the form of foreign direct investment.

These aspects of government activity have been assessed for Albania in a number of reports from international bodies. The most notable of these are the 'Enterprise Policy Performance Assessment 2004', prepared by the OECD and the EBRD in consultation

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with the European Commission; the output of the World Bank's programme of cross-country benchmarking of business regulations, 'Doing Business'¹¹; and the previously mentioned OECD report 'The Informal Economy in Albania, Analysis and Policy Inputs'. The Albanian government also produces an annual report for the European Commission on progress in meeting the policy objectives of the EU Charter for Small Enterprises. The Commission, in turn, produces a summary commentary on progress in a single report covering all the Western Balkan countries and Moldova¹².

The underlying reasons for the extent of the informal economy are linked to the operation of the tax and social contribution systems. In particular, the tax system distinguishes markedly between small firms – defined as those declaring an annual turnover of less than ALL 8 million¹³ – and larger firms. Below this threshold, businesses are not subject to corporate profits tax, but rather pay a small business tax at a rate of 4% of declared turnover. Above the threshold, companies must pay corporate tax at a rate of 25% of reported profits¹⁴. In addition, below the threshold of ALL 8 million, firms do not have to charge VAT on their sales; above the threshold, firms must charge VAT at a flat rate of 20% on the sale of all goods and services.

The effect of these provisions, according to the study, is to create extremely high marginal taxation rates at around the threshold of ALL 8 million, and to promote a high level of tax evasion. First, a significant proportion of small companies are evading VAT payments by systematically underreporting their real level of turnover so as to remain registered under the Small Business Tax. Second, driven by fierce competition from their smaller tax-avoiding rivals, a significant proportion of VAT-registered companies are also systematically underpaying VAT

by underreporting their real level of turnover. Finally, the two-tier VAT regime makes it harder for tax officers to track the entire VAT chain leading to the final consumer, as the chain may pass through a series of entities, some of which are not VAT-registered.

These distortions go beyond their impact on VAT. Firms falsely declaring a turnover below ALL 8 million are clearly evading corporate tax. But underdeclaration of turnover for VAT purposes by larger firms also has consequences for evasion of corporate tax on the profits generated by the unreported portion of the turnover.

There are also repercussions in terms of the behaviour of firms in relation to tax and social contributions for employees. The personal income tax is progressive, with the first ALL 14 000 of monthly earnings being exempt, and a starting tax rate of 5%. Social contributions are payable at a rate of 41.9% on gross earnings, with a minimum assessable wage of just under ALL 12 000 and a ceiling of approximately ALL 59 000 per month. Thus, where an employment relationship is declared, a minimum contribution of ALL 4 800 must be paid – with around three-quarters being paid by the employer and the remainder by the employee.

In practice it appears that most small firms benefiting from the small business tax regime declare no employees. The typical scenario in such family businesses is that the owner pays the minimum social security contributions and the Small Business Tax, but the other workers engaged in the business (usually family members) do not. Employees are willing to collude in non-payment of contributions, according to the study, because they 'prefer immediate direct cash payments to future social benefits'. Both employers and workers also justify non-payment by claiming that the resources raised by

11 Published on the World Bank website at: <http://rru.worldbank.org/DoingBusiness/>

12 The most recent EU report was published in February 2005, and is available at: http://europa.eu.int/comm/enterprise/enterprise_policy/charter/2005_charter_docs/sec_2005_169_en.pdf

13 This is approximately €65 000 at mid-2005 exchange rates.

14 Paying the small business tax also discharges any liability the owner of the business might have to personal income tax. The owner-manager of a larger firm liable for corporate tax would also be liable to pay personal income tax on any wages drawn from the business.

contributions are misallocated and that pensions and unemployment benefit are too low. This last perception persists despite the fact that contributions at current levels and coverage are inadequate to fund pensions at current rates in the medium term and do not in fact fund unemployment benefit at all¹⁵.

While slightly larger firms in the corporate tax net cannot avoid declaring at least some employees, nonetheless an estimated 30% of employees in such formally registered enterprises are not registered and do not pay any social security contributions. Even where firms declare some employees, they generally underdeclare their official wages and pay off-the-books supplements in cash. Indeed, according to the Social Security Institute, 59% of all declared employees receive an income equal to the national minimum wage of ALL 10 080 per month. Given the thresholds involved, this means that these employees avoid paying the personal income tax altogether, and pay only the minimum social contribution. The report concludes that ‘de facto, the personal income tax is paid mostly by public sector employees and only accounted for 0.9% of GDP in 2002’¹⁶.

In the absence of reform, it is impossible to envisage other measures (such as advisory services, incubators and credit guarantees) having a significant positive impact on the willingness of small firms to develop, innovate and increase their employment levels¹⁷.

3.3 ATTRACTING MORE PEOPLE TO ENTER AND REMAIN ON THE LABOUR MARKET: MAKING WORK A REAL OPTION FOR ALL

Section 3.2 concentrated primarily on how the regime of taxation, social contributions and regulation affects firms in their trading behaviour and willingness to grow their business. This has direct implications for the demand side of the labour market and thus for employment. It is clear, however, that the culture of informality and evasion also affects the supply side of the labour market. In many cases workers’ expectations are for wages to be paid informally and not to be subject to taxation and social contributions. This reduces the willingness of workers to accept work in the formal sector, thus further constraining the growth of formal employment. In this sense the adoption of the reform proposals outlined in the previous section could make a real contribution to a policy of activation of unemployed and inactive people in the Albanian labour market.

In principle, the process of activation, as understood in the context of the employment strategy of the EU countries, is seen as being driven by more specifically labour market policies. These include:

- the job-broking, advice, guidance, counselling and job-search support provided by the public employment service, which may be targeted particularly at activating unemployed and inactive people in receipt of welfare benefits, as well as other groups (such as young people and people with disabilities);

¹⁵ This practice is facilitated to some degree by a provision of the social insurance system that allows ‘voluntary’ contributions to be made by persons who declare that they have no income from work. These contributions cover only pensions and maternity benefits, and are paid at a fixed rate of ALL 3 400 per month. Paying these contributions to maintain some rights in the social insurance system may be particularly attractive to undeclared female family members working in profitable small businesses.

¹⁶ It also notes that: ‘This leads to the rather unrealistic scenario where, according to Social Security Institute data, the average monthly wage declared in the private sector (less than ALL 13 000 per month) is significantly below that of the public sector (about ALL 20 000 per month).’

¹⁷ To the effects on firms’ behaviour noted here, of course, can be added the impact of tax evasion on the level of tax revenues and thus on the government’s ability to provide essential public services and implement strategic policies. As previously noted, this has been a major reason for the implementation failure in the NSSD, including its employment policy aspects.

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- the structure of passive policies – the various forms of income maintenance welfare payments that are provided for those who are unemployed and inactive, and how these affect work incentives;
- specific active labour market programmes – usually providing training, temporary public employment, or subsidies to recruitment by private employers (or some combination of these three) for targeted groups of unemployed people.

Responsibility for the delivery of both active and passive labour market policy measures in Albania rests primarily with the National Employment Service (NES).

Current situation

The National Employment Service

The NES was established in the mid 1990s. It is responsible for all aspects of employment service provision – registering those who are unemployed, paying unemployment benefits to those who are entitled to them, guidance and counselling to job seekers, and delivery of active labour market programmes, including the management of a network of vocational training centres.

The NES currently has a staff of 431: 44 work in the central headquarters, while the remainder (387) are based in 12 regional offices and 24 local labour offices. Each of the 12 regional offices also incorporates a local labour office, so that in total there are 36 locations where the NES delivers services to the public. There are 14 counsellors in the NES as a whole. The staff of the NES is well educated: 437 are university graduates and 91 are secondary education graduates.

In 2004 there were approximately 15 000 job seekers registered with the NES. Thus, the service had one member of staff for every 364 registered unemployed person; the ratio of NES staff to the overall labour force of 1.09 million is approximately 1:2 500. Both of these ratios suggest that NES staffing levels are relatively low compared with those of the employment

services in other countries, and that the potential workload of the NES is relatively very high.

As might be expected given the large number of registrants relative to the staffing levels, actual day-to-day engagement with those registered as unemployed is relatively limited. Information supplied during the study visit for this report indicates that unemployed individuals rarely visit the offices other than when they are required to do so for the purposes of registering for benefits or assistance; as noted below, the frequency of such compulsory visits is quite low. There is also relatively little movement on and off the NES register. Based on data from the Tirana office, it is estimated that there are only around 1 000 new registrants across the entire NES office network each month; the flow of people leaving the register is of a broadly similar magnitude.

The flow of vacancies through the NES is also low relative to the overall size of the Albanian labour market. Data for 2004 show that in that year just over 14 000 vacancies were notified, and just under 8 000 of these were filled. Of the total number of vacancies, more than 3 000 represented jobs being subsidised under an employment promotion programme. It seems clear that the vast majority of vacancies that arise in Albania are filled without recourse to the NES. This is partly as a result of the extent of the informal economy: job openings in the informal sector tend to be filled by word of mouth, by relatives of existing employees, or, as in the case of building work in Tirana, by means of casual open-air hiring fairs. But even in the formal sector it seems that jobs are also generally filled either by word of mouth or through advertising in the press. Furthermore, according to information from the NES, some job seekers refuse job vacancies administered by the NES because they are of low quality (for example, with low wages or poor working conditions, or in difficult professions); 33% of the job vacancies administered by the NES have been refused for those reasons.

The rate of utilisation of the NES by employers is low, despite a high level of

legally mandated contact between the service and private-sector firms. The NES reports that in 2004 its staff made a total of more than 28 000 visits to enterprises across the country. In fact around 70% of the job vacancies notified to the NES are as a result of visits to enterprises. But the low level of vacancy notification demonstrates that employers do not see NES as a valid instrument for finding employees. Firms are obliged by law to register with the NES¹⁸ and to deliver to the NES a full list of all employees every three months. They are also required to notify all vacancies to the service, and to inform the service subsequently of whether and how the vacancy was filled. In reality, and despite the frequency of visits to employers, these various requirements are not enforced. In the Tirana area, for example, it is estimated that there are a total of around 20 000 firms with employees; 17 000 of these are registered with the tax office, 15 000 with the social insurance institute, but only 5 000 with the NES. Nevertheless, the NES does not use any legal instrument to enforce legal provisions, and reporting firms to the inspectorate does not seem to have any consequences.

The use of modern technology in the NES is extremely limited. While some offices have computers, these are not usually networked across offices. Nor are they used in the actual delivery of services to customers, for example by computerised matching of vacancies with the skills and other characteristics of job seekers. Rather, they are used on a limited scale for the collation and analysis of data on the operations of the service – producing statistical reports on registrants and vacancies. It is hoped that the ICT infrastructure of the NES can be upgraded under a project aided by the Swedish International Development Cooperation Agency (SIDA) and the Swedish employment service (AMS). The project, announced in mid 2004, provides a total of €1.4 million for staff training and computerisation. Of this, some €140 000 will be used for the computerisation of employment offices in Tirana and Korçë, in the south-east of the country. Part of the

project envisages creating an on-line information system for better labour market servicing and a self-service system for employers and job seekers.

Apart from the staff training element in the SIDA project, the NES has also received training support for management staff through cooperation with the French employment service (Agence nationale pour l'emploi ou ANPE) over the past few years.

Passive measures

Unemployment benefit is payable for 12 months to insured workers who lose their jobs. Only a minority of those who are registered as unemployed receive unemployment benefits: there are currently around 11 000 recipients (or 7% of all those registered as unemployed). There is also a system of social assistance – called *Ndihme Ekonomike* (NE) or economic aid – which provides means-tested cash benefit for eligible families with little or no earned income. While these payments are managed by municipalities, one condition for their payment is that working-age adults in the family must be registered with the NES. Approximately 120 000 (or 76%) of those registered with the NES are in receipt of these payments. Finally, there are around 23 000 registrants who have no entitlement to either unemployment benefit or social assistance, but who register simply to use the job-broking facilities of the NES or to establish entitlement to participate in training or other labour-market programmes.

Benefit and welfare payment levels are relatively low. The average monthly payment of unemployment benefit is ALL 6 500, while for NE the average monthly amount is ALL 4 500. Average unemployment benefit thus represents around 65% of the legal minimum wage, or 25% of average public sector earnings. Average NE represents 45% of the legal minimum wage, or 16% of average public sector earnings. However, those in receipt of benefit or welfare payments are expected to visit the NES office relatively infrequently – monthly in the case of

¹⁸ They must also register with a range of other government bodies such as the tax office, the Social Security Institute and the labour inspectorate.

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unemployment benefit recipients, but only every three months in the case of those receiving NE.

Active measures

There are several types of active labour market intervention in place, in the fields of training, subsidised private sector employment, and temporary employment on public works.

The MoLSAEO has responsibility for managing a network of vocational training centres; the intention is to make these centres more independent in the future, raising part of their budget on their own. These centres employ 106 staff, and in 2004 they provided training to just over 8 300 people. Few of the courses provided relate to manual or technical skills. Indeed, almost 80% of those trained were on a narrow range of courses, either language

training (English, Italian) or training in computer applications for office work. The remaining minority were undertaking training in manual skills, mainly in sewing and hairdressing. Trainees were mainly young, with over 60% being under 25 years, and mainly female (58%). Training provision was not particularly well targeted at unemployed people; these accounted for 40% of trainees, and most of this group were not benefit recipients. Close to 40% of trainees were school or college students, and over 20% were working. These last two groups, clearly, were attending the vocational centres on a part-time basis.

Under the Employment Promotion Programme, subsidies can be paid by the NES to private sector employers to support the recruitment of unemployed people. Box 3 contains a detailed description of the various programmes of employment promotion in Albania.

Box 3: Programmes for employment promotion in Albania

For unemployed job seekers. Employers who employ unemployed job seekers on a temporary basis (three to six months) can receive a monthly amount of up to 100% of the minimum wage, as well as the cost of social insurance for these employees. If these temporary employees are employed for a longer period – up to a year – through regular contracts, the employer receives a monthly amount equal to the minimum wage and the social insurance contribution, which is compulsory for a period of five months. If the temporary employee does not have the appropriate skills, and the employer offers training, the employer can receive an increase of 10% to 20% of the amount received for each such employee.

Workplace training for unemployed job seekers. This programme gives financial support to employers who provide training and employ some of the trainees for at least a year. The government pays the employer the wage and the social insurance contribution during the nine months of training. After the training course has been completed, the employer is obliged to employ 40% of the trainees.

Institutional training. The employment office provides training for beneficiaries from those companies that (i) guarantee employment after completion of the training and (ii) can demonstrate that the training would be useful for the participants. Those beneficiaries who refuse to participate in these courses are deleted from the unemployment register and no longer receive unemployment compensation.

For unemployed women. This programme, started in 2004, aims to integrate into the labour market marginalised women such as Roma women, women previously subject to trafficking, and old and disabled women. The scheme lasts from one to three years: during the first year the employer can receive 75% of the social insurance contribution and four minimum wages. In the second year the employer receives 85% of the social insurance contribution and six minimum wages, and in the third year, 100% of the social insurance contribution and eight minimum wages.

The annual budget for these programmes was gradually cut back from ALL 540 million in 2000 to ALL 150 million in 2003, but was increased again to ALL 200 million in 2004 (Table 6). This provided sufficient funds for the recruitment of over 3 000 people under the Employment Promotion Programme in 2004. According to data supplied in the NSSD 'Progress Report 2003', less than a third of those recruited had been receiving unemployment payments (either unemployment benefit or NE) prior to being recruited under the programme.

Albania has also implemented programmes of temporary job creation in public works, although the scale of these interventions has varied greatly over the years. Approximately 11 000 unemployed job seekers were involved in temporary jobs through these programmes each year over a four-year period beginning in 1999. These jobs typically lasted between three and six months, and were provided by local government entities using funds channelled through the NES. The programmes were scaled back dramatically from 2003 onwards; the Strategy on Employment and Vocational Training indicated only that 2 000 to 3 000 jobs were planned for each year in the future, depending on the financial means available. In fact, no funds were made available for 2004 or 2005, so that temporary public employment administered through the NES has effectively come to an end.

However, a new pilot programme of funding minor public works programmes from the social assistance funds of local authorities has been running for the year 2004 in 11 local government areas. This involves introducing a requirement for certain recipients of NE that they must be available for work for the local community on a number of specific days each month designated by the programme administrators. This was intended to encourage some families who were concealing employment to cease claiming NE. Furthermore, the incomes of those who accepted community work were increased. Finally, funds released as some families lost their eligibility could be used to increase payments to those remaining on NE¹⁹. While there is some anecdotal evidence that these pilots have been at least partially successful, no formal report on outcomes is available as yet.

Assessment

The available information indicates that services and programmes to support an active labour market are relatively underdeveloped in Albania. The NES has limited resources in terms of staffing, office network and ICT relative to the potential scale of demand, given the size of the labour force and the level of unemployment in the country. The budget and level of activity devoted to active labour market programmes are also low, and have been extremely uncertain from year to year because of the state of the overall public finances.

Table 6: Budget and actual annual expenditure, 2002-04 (in ALL thousand)

	2002		2003		2004	
	Plan	Actual	Plan	Actual	Plan	Actual
Administration	229 251	216 532	254 374	245 961	236 540	226 613
Passive measures (unemployment compensation)	1 460 342	1 115 259	1 440 000	1 019 919	1 036 520	1 020 842
Active measures (employment promotion)	310 000	300 080	150 000	148 392	200 000	198 746
Active measures (vocational training)	69 307	63 964	70 026	64 764	79 000	75 788
Total active measures	379 307	364 044	220 026	213 156	279 000	274 534

Source: National Employment Service

¹⁹ In some areas, because of the lack of funds, families entitled to NE were not receiving the full amount to which they were entitled under the national guidelines.

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However, any assessment of the appropriate scale and structure of the NES at present must take account of the Albanian labour market and the extent of informality. As noted in Section 3.2 above, most small firms declare no employees, and even in larger firms up to 30% of employees are undeclared. Given that the NES, as a government agency, can only deal with vacancies for formal jobs, this essentially cuts the NES off from a large proportion of the jobs that are filled in the Albanian economy each year. In these circumstances, unless there is a sharp switch of activity from the informal to the formal sector, there is little justification for increased staffing in the NES in relation to its job-broking functions. Rather the focus should remain on improving service delivery in this aspect of the NES work through computerisation and other quality measures that are currently underway in cooperation with SIDA. However, this assessment of staffing resources will need to be reviewed in the light of the success or otherwise of the government's Action Plan for the Reduction of the Informal Economy.

In the context of limited resources, one aspect of the NES operations that can be debated is the compulsory registration of enterprises and the obligation on firms to notify not only vacancies but also details of their employees at regular intervals. These processes appear to duplicate obligations on firms to register with other state agencies, thus imposing unnecessary administrative burdens on companies. The information gained by the NES through these contacts is mainly used to produce statistics, a process which appears to absorb significant staff resources. Finally, as already mentioned, actual levels of registration are at best partial. This casts great doubt on the reliability of any statistics from this source as a guide to overall developments in the labour market. Register-based data appear to have been wildly misleading as a guide to employment trends in the private sector in the period leading up to the 2001 census, and there is no reason to believe that the accuracy of these data has improved in more recent years.

In relation to passive policies, Albania's social safety net for unemployed people is relatively well developed, in the sense that the vast majority of registered job seekers are in receipt of some form of payment, either unemployment benefit or NE. At the same time, the payment levels involved, when compared to minimum and typical wage levels, could not be said to create disincentives for recipients to take up paid employment. However, the extent of contact between the NES and those receiving unemployment payments could be considered not frequent enough for a realistic assessment of registrants' job-search activity and continued availability for work. The pilot minor public works projects in relation to NE in a number of local government areas can be seen as the beginning of a response to this problem.

Official provision of labour market training through the vocational training centres is limited in scale. The nature of the training provided is not readily distinguishable from that delivered by a wide range of other providers²⁰ in Tirana and the other urban centres, with a very heavy concentration on language courses and computer applications. Only a small minority of those trained were drawn from the ranks of unemployment benefit recipients. It is thus unlikely that the training centres, as currently operated, are making a significant contribution either to meeting the requirement for technical skills or to the process of re-integrating unemployed people into the labour market.

Current wage subsidies (primarily Employment Promotion Programme) also seem ill-designed for the particular circumstances of the Albanian labour market. Because of the extent of informal employment even within registered firms, it is likely that subsidies under the Employment Promotion Programme are paid largely for the translation of informal jobs to formal, implying a high degree of deadweight²¹ in these programmes. High deadweight might be acceptable in a programme whose prime objective is to promote the selection of certain categories

²⁰ These may be private training providers, NGOs or providers within the education system.

²¹ In other words, subsidisation of jobs that would have existed even without the subsidy.

of job seeker for employment, rather than explicitly seeking to support the creation of new jobs. However, the Employment Promotion Programme fails even to meet the criterion of being selective in favour of a particular target group: as noted above, only a minority of the jobs subsidised under the programme in recent years have gone to unemployed welfare recipients. By comparison, all of the positions created under the pilot public works programmes are by definition targeted at the most needy group; however, these programmes are currently limited in scope.

In conclusion, all aspects of the normal day-to-day work of the NES are affected by the scale of informal employment in Albania. The large informal sector reduces the potential number of vacancies that can be notified to the NES, and this in turn limits the opportunities for the NES to engage actively with its unemployed clients in order to promote job searching and monitor their availability for work. These limitations of the NES capacity for activation are further heightened by the failure to target its training and employment promotion interventions on those who are registered unemployed, particularly welfare recipients.

3.4 INVESTING MORE AND MORE EFFECTIVELY IN HUMAN CAPITAL AND LIFELONG LEARNING

Current situation

The education of the Albanian population is a clearly formulated priority within the NSSD, with clear targets for increased participation of young people in primary, secondary and VET by 2015. The MoES, with the assistance of the World Bank, developed the National Education Strategy 2004-15, which was reviewed in 2005, at which time a chapter on vocational training was added. The strategy sets out the objectives of the educational reform. In particular, the strategy recognises the need for:

- a decentralised educational management system in which

responsibilities are devolved to the Regional Education Departments and District Educational Offices, as well as to the communes, while providing more school autonomy (without, however, specifying which responsibilities and functions will be decentralised);

- the development of a quality assurance system;
- the reform of the organisation of the education system, with the extension of primary education from eight to nine years;
- the development of a national curriculum framework based on an outcome-based curriculum model ensuring vertical and horizontal integration of the education system and addressing students' choices and needs;
- a teacher-development system including pre-service and in-service training, a performance appraisal system and merit-based incentives schemes;
- the improvement of textbook development modalities;
- examinations and student monitoring;
- new financing mechanisms for increasing efficiency and better use of resources.

In order to support the implementation of the strategy, the Institute for Pedagogical Studies has been split into two new agencies: the National Institute for Curricula and Standards and the National Centre for Training and Qualification of Teaching Staff. In addition, two other agencies were created: the National Centre for Evaluation and Examinations, and the Agency for Accreditation. The establishment of the Education Inspectorate, 12 Regional Education Directorates and 24 District Education Directorates is also intended to contribute to the decentralisation of decision making and quality assurance. However, the human capacities of those institutions (in both quantitative and qualitative terms) are still weak.

The Albanian parliament passed a law on VET in 2002 which aims to support the development of a single initial and continuing VET system in the country,

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based on the cooperation of all stakeholders (including social partners) and ensuring the continuum from initial to continuing training in a lifelong learning context. However, the law has only been partially implemented, as a large number of by-laws need to be developed and enacted.

The VET law defines the competences of the public institutions involved (such as the MoES and MoLSAEO), but also provides for the establishment of a National VET Council as an advisory body chaired by the Ministers of Education and Science, and Labour and Equal Opportunities, and having 14 members (nine from state institutions, one from the non-profit organisation that undertakes activities in the VET field, two from the employers' organisations, and two from the employees' organisations). The council has four committees, covering the main VET issues: standards, curricula, teacher training and VET reform. However, the council is only partially functional and has had difficulties meeting on a regular basis, since it lacks the necessary technical competences to provide relevant advice for VET reform. In addition, there are no financial resources to support the secretariat of the council, which further complicates its functioning.

Finally, in 2004 the MoES re-established the VET Department (with three staff members) within the ministry; this department had been closed in 2002. The ministry has also committed itself to establishing a National VET Agency to facilitate the modernisation of the VET system.

There has been considerable donor involvement in education, and in VET in particular. The World Bank has supported education reform through projects costing USD 12 million, in the area of basic education. The project, completed in July 2004, focused on the planning and management of the delivery of educational services and strengthening accountability to stakeholders. A new loan is in the pipeline for USD 15 million, aimed at supporting the implementation of the first phase of the National Education Strategy

2004-15. The Soros Foundation and other bilateral sources have also provided funds for school refurbishment, the training of teachers and piloting modern curricula.

The European Union is assisting the reform of the VET system through the CARDS VET 2002 programme, which is focused on the improvement of VET school delivery. The key objectives are to:

1. support the VET reform process at national level;
2. develop a system of labour market needs analysis at local level;
3. start work on a national qualification framework, in line with EU standards, and modular-based/competency-based curricula;
4. support the work of four pilot regional VET training centres of the MoLSAEO, which offer a range of VET programmes.

In respect to curriculum modernisation, 13 occupational standards have been created. The process of the development of occupational standards can feed into the development of a national qualification framework. Other donor assistance in the field of VET includes:

1. assistance to adult education by PARSH, which provides equipment, capacity building, curriculum and training support to the MoLSAEO training centres;
2. support from Swisscontact for the Durrës professional three-year VET school in the automotive engineering, electrical installation and plumbing sectors (14-17 age group);
3. modular short courses offered by ISDO for a variety of target audiences, and trainer-training course to support delivery;
4. support from KulturKontakt Austria to five five-year VET schools in the tourism (two schools) and business (three schools) sectors (14-19 age group), and the establishment of a school/SME agricultural resource.

Albania has also received donor assistance for VET, in particular for adult training, and

specifically for the establishment and functioning of the training centres under the MoLSAEO. This assistance has been directed towards capacity building of trainers and the design of training courses, as well as to physical infrastructure.

Assessment

Despite the recognition of the governments of Albania during recent years that education is a priority for the future social and economic development of the country, progress in modernisation of education provision at all levels has been extremely modest.

Education budgets as a percentage of GDP have been decreasing, from 3.3% in 2003 to 2.8% in 2004, while the planned budget for 2006 is again 3.3%. Moreover, around 80% of the education budget is for recurrent expenditure (mainly teacher salaries), which, despite the fact that it corresponds to the EU and OECD average, does not leave much money for actual modernisation of education provision. Donor funds have provided important support to the upgrading of the education infrastructure through the building of new schools and the refurbishing of old ones. However, national funds for upgrading the educational processes within schools are also necessary.

Most efforts to date have been directed towards the development of strategic documents and the establishment of an adequate institutional infrastructure. However, as it has been recognised elsewhere, including within the National Education Strategy 2004-15 itself, there is a need for strategic decisions to be taken at operational level in order to achieve the objectives set by the strategy. For example, these include decisions on the sharing of responsibilities among the different actors to achieve an efficient decentralised management system, and the design of the quality assurance system, the national framework curriculum and the teacher development processes. These are complex issues, and it will take time for

final decisions to be taken and, in particular, to be implemented. Moreover, the recent and forthcoming establishment of new institutions, with occasionally overlapping areas of work²², needs to be supported with capacity building of their human resources so that they are fully operational and deliver the services for which they have been established.

In the meantime the quality of education provision needs to be improved for the benefit of school-age children. However, during recent years improvement of education provision has been marginal: the vast majority of curricula date from 1985 (see National Education Strategy), in-service teacher training has been meagre, and text books and other teaching materials have not been updated.

The question arises as to how Albania can achieve a double objective, namely to proceed with the large-scale reform of the education system on which it has embarked, and which is a long-term process, and to address the urgent need for modernisation of education provision (so as to care better for the children who are currently in the education system) under important budget constraints.

Specific issues arise in the area of VET. The first is the planned increase in the enrolment in VET at secondary level. VET was practically dismantled in the years after the fall of the communist regime, for the simple reason that it was unable to provide any useful knowledge to children, and was designed to prepare them for jobs no longer existent. In that context some of the children opted for general education while others dropped out of the education system altogether, and only a small percentage (17% of all enrolment in secondary education in 2003) continued into VET. However, this picture seems to be changing, and a growing number of students are expressing an interest in VET (at least for professions in specific sectors such as tourism and economics). Government decisions are intended to

²² For example, at a national level it is still unclear which institution will take responsibility for VET teacher training since the National VET Agency is supposed to be responsible for it. Yet, at the same time, the Centre for Training and Qualification was recently created to oversee, among other areas, teacher training.

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promote an increase in the number of children in VET up to 40% of the total enrolment in secondary education by 2015, while the new government, which has been in office since September 2005, wants to achieve this increase even faster within the next four years. This is a well-justified but extremely ambitious target, since the existing infrastructure is weak in terms of areas such as the quality of school buildings, dormitories for children who live far away from the school they wish to attend (for example, children from rural areas), and the availability of qualified teachers, textbooks and curricula for new professions. If this target is to be achieved, there is a need for an action plan to address existing barriers and a significant level of investment for its implementation. However, the MoES has not yet developed any strategy, policy or action plan on the future directions of VET, nor has it prepared any financial planning for the implementation of these ideas.

The second issue concerns the link between secondary VET and the rest of the education system. The processes for curriculum development in VET and other parts of the education system have been running in parallel. This could be partially justified by the fact that VET delivers more applied knowledge than general education, but in order to achieve unity of the education system and vertical and horizontal integration (objectives of the strategy), it is necessary to have harmonisation of the curriculum concepts among the different parts of the education system. More generally, it is necessary to create a better link between VET and other parts of the education system, particularly if the percentage of enrolment in VET is to be expanded substantially as planned.

The third issue concerns the link between secondary VET and continuing training. Despite the VET law, which is designed to encourage a single system of VET, the MoES and the MoLSAEO do not cooperate sufficiently towards this goal. Currently there are practically two parallel systems,

the secondary VET (under the MoES) and the adult training system (under the MoLSAEO). This approach is against the principles of lifelong learning, since it does not facilitate the continuum of education and training over time, and is not necessarily efficient. This situation could be improved by the establishment of a National VET Agency.

The lack of VET infrastructure, coupled with the different approaches to VET amongst donor interventions, has resulted in a failure to tackle adequately the systematic reforms that are required for the implementation of a modern, demand-driven VET system.

The quality, organisation, selection and retention of teachers are some of the greatest challenges for the VET teacher-training system in Albania. Not only are teachers' terms and conditions poor, as is the case in most public services, but there are also disparities between general education and VET teachers in areas such as teaching hours and pay scales (including differentials between VET practical and theoretical teaching); this situation needs to be addressed in order to raise the esteem of VET teachers in the system. The root cause of this problem is that no system of pre-service VET teacher training exists. Teacher training is crucial for providing a teaching workforce able to adapt to the needs of modern VET.

Up to now, curricula development has been a rather challenging task, since teachers have been reluctant to participate in the process. They see it as an additional workload for which they should be remunerated. Furthermore, private businesses have not been actively involved in designing the VET curricula. Some research and analyses have been conducted, and methodology developed for skill needs analysis. This has been a positive first step, though efforts in this direction need to be continued.

4. CONCLUSIONS AND RECOMMENDATIONS

4

EMPLOYMENT POLICIES AS PART OF THE OVERALL POLICY AGENDA

Through the NSSD, Albania has begun to put in place a strategic approach to the government's policies for economic and social development. Of particular note is the extent to which concrete and specific goals are set. However, there continue to be problems of 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;
- the inadequacy of the resources available to public authorities because of low levels of taxation revenue.

These general implementation issues apply equally to the employment policy aspects of the NSSD and to the Strategy on Employment and Vocational Training, published by the MoLSAEO in 2003.

Aside from these implementation issues, severe difficulties are also created for the initial process of formulating employment policies by the lack of adequate data on employment and the labour market in Albania. Employment estimates continue to rely on administrative sources that have proved inaccurate in the past. There can thus be no guarantee that even the aggregate employment data will not once again be subject to major revision when new reliable data become available, either from a census or from a large-scale sample survey of the population. There is an even greater dearth of reliable trend data on structural aspects of the labour market, for example on the patterns of employment, unemployment and participation by age, gender and region.

As a result, *inter alia*, of these information gaps, the Strategy on Employment and Vocational Training, even when taken together with the relevant sections of the NSSD, does not represent a coherent and comprehensive approach to employment policy for Albania. In the

absence of a coherent overall analysis, there is little linkage between the four areas of policy identified in the strategy, and no framework for relating the contribution each is expected to make to the achievement of the necessary improvements in employment performance.

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

- The development and refinement of the strategic policy formulation process through the NSSD must continue, with a particular focus on the government capacity to raise tax revenues in order to fund the implementation of the NSSD. Improving donor coordination will also have a role to play. These general implementation issues apply equally to the employment policy aspects of the NSSD and to the Strategy on Employment and Vocational Training.
- Reliable and comprehensive data on the labour market must be developed, as a basis for setting coherent overall goals for employment policy and monitoring progress. These data needs should be met by introducing, as soon as is feasible, an annual labour force survey similar to that carried out in all EU countries.
- More consideration should be given in employment policy documents to the linkage between employment performance and other areas of government policy, including in particular the structure of the social safety net, the level and structure of taxation and social contributions, and the migration policy.

INCREASING THE ADAPTABILITY OF WORKERS AND ENTERPRISES

Albania's people and society have shown great adaptability in response to the major economic and social shocks of the past 15 years. Evidence of this can be seen in their large-scale migration in search of work, and in major transfers of resources and people from declining to growing sectors of activity. This flexibility and

adaptability of workers and their families have been some of the main sources of Albania's vigorous economic growth during the transition period to date.

However, this flexibility has been associated with informality, and despite considerable efforts to develop a modern tax regime and regulatory environment, even now it is estimated that over half of all output in the non-agricultural private sector, or around a quarter of overall GDP, is informal. Unfortunately this degree of informality now represents a positive discouragement for small firms to expand and grow. Facilitating the growth and development of firms within the formal sector has thus become a necessary element in ensuring continued adaptability, innovation and growth in Albania.

The growth of the enterprise sector should be further supported by improvements in relation to land registration in urban areas, and in the processes of business registration, business closure and the enforcement of contracts through the judicial system.

Specifically, in line with the work of other international organisations, the following actions are recommended:

- implement the restitution law, which will allow for proper land registration in urban areas, the absence of which is a deterrent to both domestic investment and foreign direct investment;
- address issues of bureaucracy and corruption in the processes of business registration, business closure and the enforcement of contracts through the judicial system;
- establish a tax and regulatory regime that will allow adaptable and flexible firms to grow.

ATTRACTING MORE PEOPLE TO ENTER AND REMAIN ON THE LABOUR MARKET: MAKING WORK A REAL OPTION FOR ALL

While services and programmes to support an active labour market are relatively

4. CONCLUSIONS AND RECOMMENDATIONS

underdeveloped in Albania, this must be seen in the context of the size of the formal labour market, with less than 10% of the working-age population being engaged in waged employment in the private sector.

The main labour market programmes – wage subsidies and the provision of vocational training – do not appear to be well targeted on the groups most needing assistance. In addition, the training that is provided, with its very heavy concentration on language courses and computer applications, is not readily distinguishable from that delivered by a wide range of other (private and public) providers.

Until there is a significant switch of activity and employment from the informal to the formal sector, there can be little justification for increased staffing of the NES. Rather, the immediate focus should remain on improving service delivery and the better use of available human resources.

Specifically, the following steps are recommended.

- The quality of the NES service delivery should be enhanced through investments in ICT, staff training and upgrading of the condition of local employment offices.
- NES resources must be better used: some of the pressure on NES staffing resources could be eased by ending the requirement on firms to register with the NES and to provide regular details of their employment levels.
- In the light of the assessment of the limited contribution of the nine public VET training centres, consideration should be given to how these resources might better be integrated into the initial VET system, whose development should be an urgent priority. The NES should remain involved in the role of supplier of labour market intelligence to the VET system rather than as a supplier of training provision.
- In the longer term, employment subsidy programmes should be eliminated or at least scaled down substantially. In the shorter term, however, these subsidies might be used explicitly to support firms that are trying to become part of the

formal economy as a result of the government's Action Plan for the Reduction of the Informal Economy.

- Consideration should be given to a more expanded programme providing jobs for welfare recipients on minor public works projects, particularly in smaller towns and villages outside the main urban areas.
- A register of the skills of Albanian emigrants wishing to return should be developed, and emigrants should be kept regularly informed of opportunities arising in Albania, including in the context of the drive to transform the informal sector. Developments along these lines should be given priority in the context of the ongoing investment in computerisation in the NES.

INVESTING MORE AND MORE EFFECTIVELY IN HUMAN CAPITAL AND LIFELONG LEARNING

The quality of the education system in Albania needs to be enhanced at all educational levels so as to address both the needs of children and young people and the needs of adults. The MoES has developed the National Education Strategy 2004-15, which addresses various aspects of education governance and delivery. In 2005 the strategy was reviewed and a more prominent role was given to the development of VET at secondary level. The target of the government is to increase participation in secondary VET from 17% to 40% of overall enrolment in the coming years. At the same time there has been action to establish a sound institutional infrastructure for the implementation of reforms. However, major improvements at the school level, such as curriculum improvement, and the introduction of new teaching and learning methods, new books and teaching materials, have not yet been recorded on a large scale.

In order to achieve a better balance between the long-term objectives of system development and the short- to medium-term needs for improved delivery of education, the following actions are recommended.

- The policy and financial planning of the MoES must be improved, in order to allow the implementation of the ambitious National Education Strategy.
- Better use should be made of donor funds, including targeting better the needs of the education system and replicating positive experiences from donor-funded projects to system level.
- There is a need to develop a mid-term strategy for VET and an implementation plan with clear objectives and budgets in order to enable the government to achieve its objective of increasing participation at secondary VET. This strategy should be seen as an integral part of the education development strategy of the country.
- Developments in initial and continuing VET should be coordinated in order to pool resources and permit cross-fertilisation. This can be achieved through sharing the training infrastructure for practical training (the training centres could be used for this purpose more than is the case currently), and exchanging information on curricula and teaching and learning materials. The work on occupational standards can be a first step towards a closer link between initial and continuing VET, but this can eventually be ensured through the future development of a national qualification system.
- The institutional infrastructure for VET policy development and implementation should be strengthened by enhancing the capacity of the National VET Council and the functioning of the National VET Agency.
- Sufficient financial resources must be allocated for school rehabilitation, equipment and teaching materials in order to enhance the quality of education provision.

ANNEX: OFFICIAL DATA ON EMPLOYMENT

Employment estimates 1998-2004 (ALL thousand)

	1998	1999	2000	2001	2002	2003	2004
Public sector	213	201	191	189	186	181	176
Private non-agricultural	111	103	116	205	208	211	213
Agricultural	761	761	761	526	526	534	542
Total	1 085	1 065	1 068	920	920	926	931

Source: INSTAT, table on employment by sector – on INSTAT website at:
<http://www.instat.gov.al/graphics/doc/tabelat/Treguesit%20Sociale/Punesimi/PUN%202004/Tab2.xls>

Employment by economic activity (%)

	2001	2002	2003	2004
Agriculture, forestry, fishery	57.8	57.8	58.2	58.6
Extraction industry	0.8	0.8	0.7	0.6
Manufacturing industry	5.1	5.1	5.0	6.0
Electricity and water industry	1.8	1.8	1.6	1.4
Construction	6.1	6.1	6.1	5.6
Trade	7.3	7.3	7.3	6.9
Hotels and restaurants	1.7	1.7	1.7	1.8
Transport and communication	3.5	3.5	3.5	2.1
Education	5.5	5.4	5.3	5.2
Health	2.9	2.9	2.9	3.0
Others	7.7	7.8	7.8	8.8

Source: INSTAT, Labour Market Assessment 2002, 2003 and 2004

Note: The classification of economic activities of enterprises is based on the Nomenclature of Economic Activities (NACE).

ACRONYMS

ALL	Albanian lek
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
EBRD	European Bank for Reconstruction and Development
ETF	European Training Foundation
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
ICT	information and communication technology
ILO	International Labour Organisation
IMF	International Monetary Fund
INSTAT	Albanian Institute of Statistics
IPEC	International Programme on the Elimination of Child Labour
ISDO	Increase Skills Development Opportunities project
LSMS	Living Standards Measurement Survey
MDG	Millennium Development Goals
MoES	Ministry of Education and Science
MoLSAEO	Ministry of Labour, Social Affairs and Equal Opportunities
NE	Ndihme Ekonomike (economic aid)
NES	National Employment Service
NGO	non-governmental organisation
NSSED	National Strategy for Socio-Economic Development
OECD	Organisation for Economic Cooperation and Development
SIDA	Swedish International Development Cooperation Agency
SME	small and medium-sized enterprise
UNDP	United Nations Development Programme
VAT	value added tax
VET	vocational education and training

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