



ETF COUNTRY ANALYSIS 2006

# ALBANIA

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## ETF COUNTRY ANALYSIS FOR IPA PROGRAMMING IN THE FIELD OF HUMAN RESOURCES DEVELOPMENT 2006

### Summary

Albania has made a great deal of progress towards accession to the European Union but many further improvements are still necessary. Around one million Albanians have emigrated since the beginning of the transition period. Albania still lacks the necessary vocational education and training (VET) infrastructure and further systematic reforms should be implemented in order to establish a modern, demand-driven VET system. VET reforms are ongoing, but mostly donor-driven. At the moment, VET in Albania is fragmented, with a huge difference in access and quality of delivery across the country. The high degree of specialisation of vocational training has become outdated with respect to labour market needs. Albania still does not have a coherent employment policy. Given the central place of migration in the Albanian labour market, future employment policy documents should give specific attention to considering how Albania could make better use of the skills and experience of its migrants in promoting economic growth and employment.

Therefore the country should be helped in dealing with the following challenges:

- The creation of a sustainable economic growth that can lead to job creation. This will require an integrated approach of economic development, employment and education through effective inter-ministerial cooperation and a stronger involvement of social partners and civil society
- Enhancing the education and skills of the population through better education and training opportunities for young people and adults. This will involve improving the national education system focussing on regional disparities (rural – urban), gender issues, infrastructure (improvement of educational hardware), counselling and guidance. It will also mean improving the quality of the education system in order to attract more young people to education and training.
- Supporting to the most vulnerable groups in society (the long-term unemployed, young people, disabled people, etc). The national education strategy should cover the design, implementation and evaluation of active labour market measures specifically targeted at those most in need.



## Analysis of human resources and labour market developments in Albania

The 2001 census registered 3 069 275 Albanians, a decrease of 3.6% in terms of natural growth compared to the 1989 census. This decline can be attributed to falling fertility rates but mainly to large scale emigration. Around one million Albanians have emigrated for economic reasons since the beginning of the transition period, mostly moving to the neighbouring Greece and Italy. Internal migration from rural to urban areas - mainly to Tirana and Durrës - has also been significant over the last 10 years and is still continuing. The Albanian population can be considered as very homogeneous with a percentage of minorities of between 2 and 3%. The Greek, Macedonian and Montenegrin minorities are recognised as national minorities, while Roma people and Aromunians are seen as ethno-linguistic minorities.

While economic growth has been quite rapid in recent years, and macroeconomic policy has generally been sound, Albania remains relatively poor and undeveloped (2 080 US\$ GNI per capita). Poverty levels are very high for a European country: A total of 25.4% of Albanians (or 780 000 people) live below the national absolute poverty line and 4.7% fall below the nutritional poverty line. Inequality in the nationwide distribution of incomes is not unusually high in Albania. The GINI coefficient<sup>1</sup>, which is used to measure such inequalities, is about 0.28. This is similar to 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.

With regard to the economic infrastructure of the country, the privatisation process led to much of the industrial capacity that was already obsolete falling into disuse. Privatisation in agriculture involved breaking up state farms and co-ops and allocating land in small parcels to individual families, however land ownership is still an open issue since there is no cadastre. Other privatisations have been subject to delay and, as a result, nearly all surviving large firms in the telecommunications and energy sectors are still in public ownership. Foreign direct investment remains at a low level: between 3-5% of GDP. All in all, Albania is mainly an agrarian subsistence economy, characterised by a large percentage (94%) of micro and small enterprises and high degree of informality. Raising employment and improving living standards closer to the levels of even low-income EU25 countries will require sustained and rapid economic growth for many years ahead. Sustained growth will depend in part on exploiting opportunities for development in sectors such as agriculture, tourism, and areas of manufacturing. This will require the preparation and implementation of sectoral policies for these areas of the economy that will identify and address barriers to development.

The lack of labour demand has led people to start their own activity for income generation, which is often low skilled, low value added and low paid. Formal sector labour demand is very limited and largely restricted to the public sector and selected private economic sectors such as banking and, to a certain degree, tourism and construction. This makes it clear that there is a need for broad adult education programmes in the country.

Activity rates of the population are very close to the EU25 level (63.3% in 2004) due to the high employment rate in rural areas in subsistence farming activities. In the cities, the female employment rate is particularly low due to the limited labour demand. Young people looking for their first job are particularly hard-hit by unemployment. Also, women migrating from rural areas have low levels of skills for the limited number of formal jobs usually offered in the public and banking sectors. In addition, the gender gap in terms of participation is extremely pronounced (74% for men as opposed to 52% for women) across all age groups and this has persisted over time. This can be explained by several factors including cultural reasons, low overall labour market demand and the lower skills of women.

The unemployment rate in Albania is no higher than 15.4% (compared to 8.7% in 2005 in EU25), if we include discouraged and seasonal workers. Unemployment is about 7% in rural areas, 25% in Tirana and 32% in the remainder of the urban areas. The northern part of Albania has a higher level of unemployment due to the very limited development of the private sector and the predominantly mountainous terrain (which also limits agricultural activities). In addition, this was an area of heavy concentration of industry, which after the end of the communist period, was closed down.

Albania still lags behind EU Member States and other countries of the region in terms of participation in education. In the school year 2002/03 the participation rate in basic education was 94% and secondary

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<sup>1</sup> UNDP, National Human Development Report 2005, Gini coefficient is a measure of income inequality measured between 0 (perfect equality) and 1 (perfect inequality).

education only 42%. Particular problems are faced in rural areas. At secondary level there is a significant gap between the participation of girls and boys (37% against 47%), particularly in rural areas where only 19% of girls are enrolled in schools. Regional disparities and in particular the divide between urban and rural areas are extremely significant in Albania. In fact it is mainly the rural areas that drag the participation rate down at all levels of education and in particular at secondary level, where the net enrolment ratio is only 22%.

Despite some improvements in education provision supported by donors and piloting activities, the quality of the education system remains very low in terms of physical infrastructure as well as curricula, teaching and learning processes and the capacity of teachers to meet students needs. At secondary level especially there is a big gap in the provision of vocational education and training as the number of vocational schools decreased from 308 in 1990 to 40 today, due to the rapidly declining demand for profiles linked to the old centralised economy. The majority of vocational schools were taken into the general education system, while many of the buildings in the countryside were abandoned. Today 20% of children enrolled in secondary education attend a VET programme.

Together with the low participation in basic and secondary education, there is an upward trend in participation in higher education, which is offered solely at universities. Most of the increase concerns part-time students (the number of part-time students increased by 154%). The introduction of part-time courses and fees for students who want to follow higher education but have not fulfilled the entry requirements are seen as a means of accommodating the higher demand for higher education. However, the increase in participants in higher education has reduced the quality of the services provided.

## Summary

The Albanian economy is mainly an agrarian economy characterised by a high level of informality and poverty in particular in rural and peri-urban areas. The sound economic performance of the country during the last years has not yet been translated into a significant rise in employment. Labour demand is very limited and it is restricted to the public and banking sectors. Most of the labour supply is self-employment in the informal sector due to the lack of other employment opportunities. At the same time there is a wide gap between educational attainment and skill levels in Albania and its other South Eastern European neighbours and the EU Member States. This characteristic is maintained in the younger generations as participation levels in primary and especially secondary education is low in comparison to EU standards.

## Analysis of relevant policies and identification of challenges in relation with the main priorities of the employment guidelines

Through the National Strategy for Socio-Economic Development (NSSD), Albania has started the process of putting in place a strategic approach to government 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 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;
- inadequate resources available to the public authorities due to the weakness of taxation revenues.

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 Ministry of Labour in 2003<sup>2</sup>.

Apart from these implementation issues, severe difficulties arise in the initial process of formulating employment policies as a result of the lack of adequate data on employment and the labour market in Albania. Employment estimates continue to rely on administrative sources that have proved to be

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<sup>2</sup> The MoLSAEO (Ministry of Labour, Social Affairs and Equal Opportunities) is currently working to a revised strategy.

inaccurate in the past. There can thus be no guarantee that even the *aggregate* employment data will not be subject to major revision again when new reliable data become available either from a census or from a large-scale sample survey of the population. To an even greater extent, there is a 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 of these information gaps, the strategy, even when taken together with the relevant sections of the NSSD, does not represent a coherent and comprehensive approach to employment policy for Albania.

Albanian people have shown great adaptability in the face of major economic and social shocks over the last decade and a half. Evidence of this can be seen in large-scale migration in search of work, and in major transfers of resources and people from declining to growth sectors of the economy. This flexibility and adaptability of workers and their families has been one of the main sources of Albania's vigorous economic growth during the transition to date. However, 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 about one 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 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.

While services and programmes to support an active labour market are relatively under-developed in Albania, this must be seen in the context of the size of the formal labour market, with only 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 well targeted to the groups most in need of assistance. In addition, the training provided, with a 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.

Looking forward, until there is a significant switch of activity and employment from the informal to the formal sector, there can be little justification for increased staff resourcing of the National Employment Service. Rather the immediate focus should be kept on improving service delivery and making better use of the human resources available.

The quality of the education system in Albania needs to be enhanced at all levels so as to meet the needs of both children/young people and adults. The Ministry of Education and Science (MoES) has developed the National Education Strategy 2004-15 addressing different aspects of education governance and delivery. In 2005 the strategy was reviewed and a more prominent role was given to the development of vocational education and training (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 there has been action to establish a sound institutional infrastructure for the implementation of reforms. However, major improvements at the school level, e.g. curriculum improvement, introduction of new teaching and learning methods, new books and teaching materials - have not yet been recorded on a large scale<sup>3</sup>.

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

- Improve the Ministry of Education and Science's policy and financial planning in order to permit the implementation of the ambitious National Education Strategy;
- Make better use of donor funds including better targeting the needs of the education system and replicating positive experience from donor funded projects to the system level<sup>4</sup>;

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<sup>3</sup> A draft VET Strategy has been drafted in January 06 and an action plan designed for the implementation of the strategy for the period 2006-2009

<sup>4</sup> CARDS VET II foresees the establishment of a donor contact group

- 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 to increase participation in secondary VET; this strategy should be seen as an integral part of the education development strategy of the country<sup>5</sup>.
- Co-ordinate developments in initial and continuing training so as to pool resources and permit cross-fertilisation. This can be done through sharing training infrastructures for practical training (e.g. training centres can be used more than is done now); exchanging curricula, and teaching and learning materials etc. The work on occupational standards can be a first step towards closer links between initial and continuing training but this can eventually be ensured through the future development of a National Qualification System<sup>6</sup>;
- Strengthen the institutional infrastructure for VET policy development and implementation by enhancing the capacity of the National VET Council and the functioning of the VET Agency<sup>7</sup>;
- Dedicate sufficient financial resources for school rehabilitation, equipment and teaching materials so as to enhance the quality of education provision<sup>8</sup>.

## Summary

National authorities recognise the urgent need for a substantial increase in the participation rates in basic and secondary education as well as in the improvement of the quality of education provision. The government sees increasing access to vocational education and training as one of the main means towards the achievement of this objective. The Ministry of Education has developed the National Education Strategy 2005-2014 (including VET). The refinement and implementation of the National Education Strategy require the strong political will of all actors involved and further capacity building of newly established institutions. Also the Ministry of Labour has worked on the improvement of training provision through the establishment of training centres and the implementation of active labour market measures (ALMM). But these efforts need to be continued in the coming years.

## Analysis of EU and other donor support instruments in the field of employment and human resources development

The European Commission in the European Partnership for Albania states that its purpose is “to identify priorities for action in order to support efforts to move closer to the European Union within a coherent framework”, and among those priorities is the promotion of employment and social cohesion.

According to Albania’s Country Strategy Paper (CSP) 2002-6, with regard to education objectives, the Commission recommends “*streamlining the vocational education to meet the labour market demand.*”

For the period 2002-2004, the CARDS Programme allocated €149.9 million to Albania, of which €42.4 million was for economic and social development. As such, the Commission has been investing in the creation of a highly-skilled and competent Albanian labour force, which will allow the country to progress towards close association with the EU through the Stabilisation and Association Process (SAP).

EU assistance in the field of higher education will be provided through the Tempus Programme and is targeted at socio-economic development and strengthening the civic society in Albania, to improve higher education teaching and learning in line with changing political, economic and social needs and to continue the reforms that Albania has committed itself to when signing the Bologna Declaration in Berlin. In 2006, the Tempus priorities for curriculum development are to unify the curricula for the

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<sup>5</sup> CARDS VET II is working in this direction as well.

<sup>6</sup> CARDS VET II will set up the frame for NQF and will complete a draft version for VET

<sup>7</sup> This need will be tackled by the Twinning project launched under CARDS 04

<sup>8</sup> Even if other donors, like Swisscontact, are going to work on the Regional VET Centres, there will be still a need for the EU to work at the delivery level in the IPA programme

faculties of education and nursing, develop lifelong learning for different professions and to develop technological education, particularly in agricultural and engineering courses<sup>9</sup>.

Even though Albania has received quite substantial donor assistance, this is almost totally based on a "piloting philosophy" and has not led to the establishment of a strong and sustainable system. The adoption of the Education Strategy by the MoES, the creation of a matrix of donor assistance to Albania, hosted on the website of the EC Delegation since December 2003, and the adoption of a Sector Wide Approach by some donors (including the World Bank) is now helping the Albanian Government to coordinate donor support in the field. Since mid 2005, the MoES and the main donors have established a group called Partners in Education that aims to promote donor co-ordination and assist the MoES to implement its National Education Strategy. The World Bank has recently finalised its support programme to education reform in Albania (Education, Excellence and Equity Program – EEEP). The financial envelope will contain of a soft loan of USD \$15 million.

The intervention will be based upon a sector-wide approach (SWAP), which was chosen because it strengthens government ownership, facilitates cooperation and coordination among partners, strengthens sectoral management capacities, enables the government to address strategic issues, and reduces the transaction costs of multiple reporting and procedures.

The European Investment Bank (EIB) has agreed to co-finance the EEEP through pool financing, and the Council of Europe Development Bank is currently exploring the possibility of pool financing (if not, they will provide parallel financing for pre-defined inputs such as school buildings and equipment). Other donors are supposed to use the same approach supporting the education strategy in parts not covered by the EEEP. This opens up an interesting opportunity for the European Commission to allocate funds for VET and adult learning, based on commonly agreed needs.

Other donors, active in the field of VET, are Project Adult Education in Albania "PARSh", Swisscontact, ISDO and Kultur Kontakt.

## **Summary**

The EC has been working for the last 13 years in Albania to assist the country to overcome the difficult transition period to a market economy and democracy. In this effort, the Commission has been investing into the creation of a highly-skilled and competent Albanian labour force, which will allow the country to progress towards close association with the EU through the Stabilisation and Association Process.

Many donors are supporting education reform in Albania, and their coordination is improving through the establishment of a group called Partners in Education. The adoption of the Education Strategy 2004-2015 by the MoES, the creation of a matrix of donor assistance in Albania, hosted on the website of the EC Delegation, and the adoption of a Sector Wide Approach by some donors (including the World Bank) can help the Albanian government to coordinate donor support in the field.

## **Analysis of governance and challenges for administrative capacity related to human resources development, employment policy and inclusion**

The culture of informality and evasion affects the supply side of the labour market. In many cases workers expect 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, adoption of the reform proposals can make a real contribution to a policy of activation of the unemployed and inactive in the Albanian labour market.

Government economic policy should give priority to job creation through adapting the necessary business regulatory framework which will allow more companies to operate in the formal sector. In addition, the existence of an enabling business environment will encourage foreign and local investment.

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<sup>9</sup> The German government will provide an additional € 750,000 for a "Fachhochschule" in Durrës (2007 – 2008)

**The first challenge** is the creation of sustainable economic growth that can lead to job creation. This will require an integrated approach among Economic Development, Employment and Education through effective inter-ministerial cooperation and a stronger involvement of the social partners and civil society

The enhancement of the education and skills of the population and labour force is one of the major challenges for Albania to develop its economy and enhance its production capacities for higher added value products. Unfortunately, it seems that the country is in a trap of low skill, low added value activities that is also reinforced by a weak education system. Participation rates of young people at both primary and secondary level need to be further increased and the quality of the learning process needs to be substantially improved through modernised curricula and motivated and well-trained teachers. At the moment, there is no formal initial teacher training (pre-service) system for the VET sector in Albania. However, considering the difficulties for establishing such a system and the fact that the number of teachers in this sector is relatively low (less than 1000), one option is to design the first level of in-service VET teacher training with the intention of applying it as a pre-service qualification mechanism (an obligatory entrance level<sup>10</sup>).

Labour force participation is satisfactory in Albania - at least among the male population. Women are clearly disadvantaged in particular in urban areas. However, the quality of jobs is inadequate. The large extent of informal employment (in agriculture or in other sectors) suggests a high degree of precariousness, limited access to social rights (e.g. pensions) and low incomes from labour (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 as informality becomes a lifestyle and people simply get used to being employed informally. There is not an issue of increasing labour market flexibility, as self-employment and part-time work are already widespread.

The adoption of some reform proposals can make a real contribution to activating the unemployed and inactive in the Albanian labour market. These include:

- the job-brokering, advice, guidance, counselling and job-search support provided by the public employment service, which may be particularly targeted at “activating” unemployed and inactive people on welfare as well as other groups (young people, disabled people, etc)
- the structure of “passive policies” – the various forms of income maintenance welfare payments that are provided for the 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 a combination of these) for targeted unemployed

**The second challenge** is to enhance the education and skills of the population through better education and training opportunities for young people and adults.

This encompasses increasing the national educational structure with a focus on regional disparity (rural – urban), gender issues, building educational infrastructure (improvement of educational hardware), counselling and guidance.

This also implies increasing the quality of the education system in order to attract more young people to education and training.

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 available information indicates that services and programmes to support an active labour market are relatively under-developed in Albania. The NES has limited resources in terms of staffing, office network and ICT infrastructure 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 on ALMMs is also low, and has been extremely uncertain from year to year because of the state of the overall public finances. Therefore it is recommended that the current efforts to enhance the quality of the service delivery of the NES, through investments in ICT, staff training, and renovating local employment offices, should be continued as quickly as possible.

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<sup>10</sup> Cards VET II will start working on this issue

Consideration should be given to a more expanded programme, particularly in smaller towns and villages outside the main urban areas. The measures have not been well targeted and vulnerable groups have been left out.

**The third challenge** is to support to the most vulnerable groups of society (such as long-term unemployed people, young people, disabled people, etc). The NES should design, implement and evaluate Active Labour Market Measures, which are specifically targeted at those most in need.

## **Suggested priorities for action and EU support**

In the perspective of achieving the objectives of full employment, quality and productivity at work, social cohesion and social inclusion we recommend the adoption of EU Social Fund-type projects aimed at:

- Supporting efforts to expand and improve investment in human capital, in particular by improving education and training systems;
- Action aimed at developing institutional capacity and the efficiency of public administration, at national, regional and local levels. Special attention should be paid to the improved capacity of the National Employment Service (NES);
- Reinforcing the partnerships between the different partners to prepare, implement and monitor the strategy, and programme the interventions supported by the projects;
- Supporting public institutions to target expenditure by coordinating donors and concentrating the scarce resources on the main priorities. The Sector Wide Approach should be encouraged.
- Encouraging social partners to actively participate in capacity building actions and undertake joint activities in the policy areas where they play a decisive role (e.g. lifelong learning, modernisation of work organisation and tackling the consequences of restructuring);
- Adopting governmental measures for the most vulnerable groups of society (such as long-term unemployed people, young people, disabled people, etc);
- Adopting governmental measures to increase women's participation in the labour market and ensure equal opportunities as part of a mainstreaming approach.

In order to address the first challenge, there is need to enhance the capacity of the institutional setting of the country to implement the National Economic Development, Education and Employment Strategies. This includes:

- The operationalisation of strategic decisions with respect to governance as formulated in the strategies and in particular the expressed political will for decentralisation. The clear sharing of responsibilities between the different actors is essential;
- Adoption of a strategy aimed at reducing the area of informality in the economy and employment;
- Adoption of appropriate strategies for addressing the regional mismatch in employment;
- The budget and level of activity on ALMMs should be improved;
- The strengthening of the capacity of the social partners<sup>11</sup>.

Concerning economic growth, it is necessary to support of the adaptability and competitiveness of enterprises and support businesses and enterprises by implementing the European Charter for Small Enterprises.

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<sup>11</sup> CARDS VET II will start working on this issue

In the field of vocational education and training, there is a need to:

1. Strengthen the capacity of already established institutions, namely the National Council for VET and the National VET Agency, so as to enable them to undertake their duties successfully;
2. Ensure the compatibility of vocational curricula at secondary level with the curricula to be developed in general secondary education so as to increase the flexibility of the education system through possibilities for horizontal and vertical mobility;
3. Coordinate developments in initial and continuing VET so as to pool resources and permit cross-fertilisation. This can be done by sharing training infrastructure for practical training (better use can be made of the training centres of the Ministry of Labour for this purpose); exchanging curricula and teaching and learning materials etc. The work on the occupational standards already launched through piloting activities in VET can be a first step towards a closer link between initial and continuing training but this will eventually be ensured through the development of a National Qualification system;
4. Strengthen the capacity of vocational schools to deliver better quality services through the implementation of modernised curricula. Teacher training and investment in infrastructure (for both school rehabilitation and equipment) are essential in this respect;
5. Transfer the best results of many pilot donor-driven initiatives, that characterise the education system, to the systemic level and adopt a country-driven approach, for example through a Sector Wide approach;
6. Empower the newly established VET Agency, in the perspective of becoming involved in the lifelong learning programme, so that it can deal with EU funded projects under the programme;
7. Extend the offer of postsecondary VET programmes in order to meet the increased demands of higher education;
8. Strengthen the pre-service and in-service vocational teacher training system.

*This paper is based upon the following ETF documents:*

- *Labour Market Review of Albania, 2005*
- *Analysis of the Informal Economy in the Greater Tirana area*
- *Access the education, training and employment of ethnic minorities in Albania, 2005*
- *NQF report 2005*
- *Copenhagen dissemination report 2005*

## HOW TO CONTACT US

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For any additional information, please contact:

External Communication Unit  
European Training Foundation  
viale Settimio Severo 65  
I - 10133 Torino  
E: [info@etf.europa.eu](mailto:info@etf.europa.eu)  
T: +39 011 630 2222  
F: +39 011 630 2200