

# Employment Policy Review

## Albania

International  
Labour  
Organization



# **Employment Policy Review**

## **Albania**

Prepared by the International Labour Office  
and the Council of Europe  
in 2003 and 2004

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## Foreword

The period of political turbulence and restructuring confronted the countries in South East Europe with important challenges. They needed to restructure their national economies and put them back on a sustainable growth path, renew demand for labour and raise employment, as well as fight unemployment, underemployment and increasing gender inequalities and social exclusion of vulnerable groups.

The South-East European Ministerial Conference on Employment held in Bucharest on 30 and 31 October 2003 acknowledged the serious employment challenges faced by the Stability Pact countries. The Bucharest Declaration adopted at the Conference called for regional co-operation in addressing these challenges so as to achieve major improvements in national employment policies. The International Labour Organization and the Council of Europe were requested to give guidance and support to this effort by reviewing national employment policies, in close co-operation with the social partners and labour market institutions, providing policy recommendations and assisting in their implementation. This joint mandate is carried out under the auspices of the Initiative for Social Cohesion of the Stability Pact for South East Europe. The Ministers of Labour of the Stability Pact countries approve and update the objectives of this co-operation and the activities are designed and supervised by a Permanent High-Level Committee composed of the General Directors of Employment and representatives of National Employment Services.

Meanwhile, the “Bucharest Process” has become a significant reference point for employment policy development in South East Europe. The Sofia Conclusions, adopted at the 2nd Ministerial Conference held in Sofia on 21 October 2005, endorsed the process and placed even more focus on policy coherence and social dialogue.

This series of Country Reviews of Employment Policy (CREP) is the major outcome of this process. Each review is based on a national report produced by the relevant Ministry of Labour in co-operation with the National Employment Service. They are adopted at National Tripartite Conferences organised by the ILO, the promotion of social dialogue being a key component of the process

These country reviews can be used for strengthening labour market institutions and making their employment and labour market policies more coherent and effective within the framework of an integrated policy approach. Particular emphasis is placed on gender equality issues, especially in developing strategies aimed at mainstreaming gender in employment policies and promoting gender equality in follow-up activities.

The review process intends to contribute towards promoting decent and productive employment for women and men in the Stability Pact countries while converging towards the guidelines of the European Employment Strategy and strengthening stability and social cohesion in the region.

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## Introduction

### Objectives

The present Review of the Employment Policy of Albania is intended to serve various purposes:

- To highlight the main challenges facing Albania with regard to the labour market and employment situations, and to provide a set of recommendations for their improvement;
- To aid the implementation in Albania of international labour standards and principles related to employment,<sup>1</sup> and in particular **ILO Convention No. 122 (1964) on Employment Policy**, requiring governments of ratifying countries to formulate and implement, in close collaboration with the social partners, an active policy promoting full, productive and freely chosen employment. The general principles of an active employment policy are elaborated further in **ILO Recommendation No. 122 (1964)**.

Another very important set of standards that should guide Albania's labour market and employment policy is defined by the **Revised European Social Charter**, ratified by Albania in 2002.

The report also aims to make operational the core elements of the **Revised Strategy for Social Cohesion of the Council of Europe (2004)** which states that access to employment for all and the promotion of decent employment are key elements of social cohesion and that "*investment in human resources is one of the most crucial areas of investment for future economic growth*". A number of guidelines and recommendations on improving access to employment, especially for the most vulnerable groups, have also been elaborated by the Council of Europe and could help Albania in furthering access to employment for all.

The same applies to implementing the **ILO's Global Employment Agenda (GEA)** for the pursuit of Decent Work for All. The conviction that employment is fundamental to the fight against poverty and social exclusion was a conclusion both of the World Summit on Social Development in 1995 and of the 24th Special Session of the United Nations General Assembly in 2000 which called upon the ILO to develop a coherent and co-ordinated international strategy for the promotion of freely chosen and productive employment. The Global Employment Agenda is the ILO's response to this request. The Agenda's main aim is to place employment at the heart of economic and social policies. In accordance with the Millennium Development Goals, the GEA seeks, through the creation of productive employment, to better the lives of the millions of people who are either unemployed or whose remuneration from work does not suffice for them and their families to escape poverty. The promotion of gender equality is a key goal of the GEA, and ending discrimination in the labour market is one of its pillars.

- Finally, it aims to help Albania prepare for future integration in the European Union by converging towards the **Guidelines of the European Employment Strategy**. To

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1. See Appendices I and II for a list of international instruments ratified by Albania.



that end, the present report was drafted on the model of the Joint Assessment Papers on Employment Policies (JAP), prepared by the European Commission and the countries preparing for accession. The achievement of gender equality is also a key component of the European Employment Strategy<sup>2</sup> and this goal is also reflected in the JAPs as well as in this review.

## **Background**

Albania and Croatia were the first countries to have their respective employment policies assessed by the Council of Europe and the International Labour Office, in compliance with the Declaration adopted by the Ministers participating in the South-East European Ministerial Conference on Employment held in Bucharest on 30-31 October 2003.<sup>3</sup> The “Bucharest Declaration”<sup>4</sup> mandated the ILO and the Council of Europe to assess the employment situation of the Stability Pact countries involved in the process of regional co-operation on employment, and draw up recommendations in a Country Review of Employment Policy (CREP).

On the basis of an outline for national background reports, prepared jointly by the ILO and the Council of Europe, Albania agreed to draw up a detailed report on its labour market and employment policies. In order to obtain a comprehensive overview of the employment situation in Albania, the ILO and Council of Europe team in charge of preparing the CREP visited Albania twice in 2004. The first visit took place from 15 to 19 March 2004. Its objective was to launch co-operation with the Ministry of Labour and Social Affairs (MOLSA) and the National Employment Service (NES) of Albania for the purpose of drafting the review. MOLSA accordingly set up a working group composed of Ministry and National Employment Service staff. A second visit took place in July 2004, after reception by the Council of Europe and the ILO of the Albanian national background report. The aim was to collect additional information and examine more thoroughly specific labour market issues.

This Review was subsequently submitted for discussion within the Albanian Ministry of Labour and Social Affairs and is therefore the result of joint efforts by the Albanian Government, the ILO and the Council of Europe. It was also the subject of a peer review by other Stability Pact countries, a procedure which complements the in-depth country reviews and forms an integral part of the “Bucharest Process”.

The Review was presented to a National Tripartite Conference organised in Tirana on 8 April 2005. This event provided an opportunity for the social partners to discuss and assess the findings of the CREP and the recommendations proposed. The aim of this discussion process was to promote a shared vision between the government and the social partners on priorities for the employment policy of Albania.

Both the ILO and the Council of Europe are very grateful to the Albanian authorities for their efficient co-operation, and especially to the Ministry of Labour and Social Affairs and the National Employment Service.

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2. See: Integrated Guidelines for Growth and Jobs (2005-2008). Brussels, 12.4.2005. COM (2005) 141 final. [http://europa.eu.int/comm/employment\\_social/employment\\_strategy/prop\\_2005/prop\\_2005\\_en.pdf](http://europa.eu.int/comm/employment_social/employment_strategy/prop_2005/prop_2005_en.pdf).

3. Forthcoming CREP: Croatia, Moldova, Serbia, Montenegro, Bosnia and Herzegovina and “the former Yugoslav Republic of Macedonia”.

4. See Appendix III to this report.

## 1. Economic situation

Following the collapse of the communist regime during the last decade, Albania has undergone a process of major economic and social changes. After a sharp contraction in the early transition years, GDP grew by about 9% per year in real terms between 1993 and 1996 during which inflation declined considerably and both the current account balance and the fiscal deficit improved significantly.<sup>5</sup> Despite the favourable economic trends, the level of GDP was still the lowest in Europe and remained below its pre-transition level: at the end of 1996, GDP stood at only 85% of its 1989 level.<sup>6</sup> With the collapse of the pyramid schemes in 1997, economic growth fell dramatically, registering negative growth of 10% in 1997, inflation reached levels of 42% and the budget deficit was 12% of GDP.<sup>7</sup>

A recovery program initiated by the government in the aftermath of the crisis restored macroeconomic equilibrium. During 1998 a 13% GDP growth rate was achieved and the consumer price index was brought down to 8.7%. In 1999, the massive inflow of Kosovo refugees put a heavy strain on Albania's economy, administrative capacity and security situation. Despite this situation, by the end of the 1990s, Albania had roughly regained its 1990 GDP level, inflation had been brought under control and the current account and the fiscal deficit had improved significantly. This was a result of tight monetary and fiscal policies, both being designed to bring inflation under control.

The strong macroeconomic performance continued in 2000 and GDP registered a 7.7% growth rate. GDP growth declined in 2001-2002 mainly due to the slowdown in the world economy, the energy crises and the lack of foreign direct investment (FDI) linked to the failure to conclude sales of major state assets. In 2004, GDP registered a 5.9% growth and inflation was contained between 2% and 4%. This low level of inflation was due to the favourable macroeconomic developments during 2004.<sup>8</sup>

**Table 1: Main economic indicators**

	1996	1997	1998	1999	2000	2001	2002	2003
<b>GDP at current prices – million leke</b>	315,835	333,071	425,356	488,611	551,282	590,237	658,062	744,974
<b>GDP annual real growth – constant prices compared to previous year, in percentage</b>	9.1	-10.3	12.7	8.9	7.7	6.5	4.7	6
<b>GDP per head in US\$ (ppp) (*)</b>	756	677	1,636	n.a.	2,468	3,367	3,486	4,542
<b>Domestically Financed Deficit – million leke</b>	28,293	37,726	27,596	27,928	29,959	28,266	n.a.	n.a.
<b>Dom. Reven. Minus Dom. Exp. – million leke</b>	-28,416	-36,611	-34,483	-41,028	-32,459	-31,124	n.a.	n.a.
<b>Overall Balance – million leke</b>	-36,024	-44,085	-48,110	-58,186	-49,984	-50,566	n.a.	n.a.
<b>Internal debt (percentage of GDP)</b>	30.7	36.2	36.2	37.4	42.6	39.5	38.8	38
<b>External debt (percentage of GDP)</b>	29.2	35.6	36.9	32.3	31.8	28.2	24.4	23.3
<b>Inflation Rate</b>	17.4	42.1	8.7	-1.0	4.2	3.5	2.1	3.3
<b>Foreign Exchange Rate, leke / US\$</b>	104.5	148.9	150.6	137.7	143.7	143.48	140.15	n.a.
<b>Interest rates, end of period, in percentage</b>								
Window rate	24	32	22.9	17.8	10.8	n.a.	n.a.	n.a.
Deposits rate	19.1	27.8	16.5	9.1	8	7.8	n.a.	n.a.
Lending rate	28.8	43	25	25.8	24	11.9	n.a.	n.a.

Source: INSTAT and (\*) Estimates EIU, different reports.

5. World Bank: Albania Poverty Assessment, 5 November 2003.

6. Vaughan Whitehead, D.: "Albania in Crisis: The predictable fall of the shining star", Central and Eastern European Team, ILO, Budapest, 1999.

7. The collapse of the pyramid schemes is the explanation most often given for the Albanian crisis, however, D. Vaughan Whitehead argues in his book "The Albanian Crisis" that this thesis is far from exhaustive and even misleading.

8. Bank of Albania.

Regarding the structure of GDP by economic activity, as shown in table 2, agriculture accounts for the largest share. However, its importance has been declining since the mid 1990s. The share of industry in GDP has also substantially declined while that of transport, construction and other services has increased. If we look at the annual real growth of GDP by category of economic activity, we can see that construction and transport have recently recorded growth rates of 11%, almost four times higher than agriculture and industry.

**Table 2: GDP by economic activity**

	1996	1997	1998	1999	2000	2001	2002	2003
<b>Structure of GDP by economic activities at current prices, percentage</b>	100	100	100	100	100	100	100	100
Agriculture, hunting and fishing.	31	31	31	29	28	34	25	25
Industry	16	14	11	11	12	13	11	10
Construction	5	4	4	5	6	10	9	9
Trade, hotel and restaurants.	24	21	21	23	21	n.a.	n.a.	n.a.
Transport	5	6	9	9	8	10	10	10
Post and telecommunications	1	2	1	2	2	n.a.	n.a.	n.a.
Other services	21	26	28	26	27	32	46	46
Financial intermediation services measured indirectly	-3	-4	-6	-5	-4	n.a.	n.a.	n.a.
<b>Annual real growth of GDP by economic activity compared with previous year prices, percentage</b>								
Agriculture, hunting and fishing	n.a.	-10	6	0	5	1	2	3
Industry	n.a.	-26	26	30	1	7	2	3
– Extracting industry	n.a.	-32	0	34	12	n.a.	n.a.	n.a.
– Manufacturing industry	n.a.	-25	30	30	1	n.a.	n.a.	n.a.
Construction	n.a.	-11	18	18	27	14	9	11
Trade, hotels and restaurants	n.a.	-5	11	8	6	n.a.	n.a.	n.a.
Transport	n.a.	-27	28	27	6	13	10	11
Post and telecommunications	n.a.	12	29	43	29	n.a.	n.a.	n.a.

Source: INSTAT

Since the second half of the 1990s, fiscal discipline has been at the centre of Albania's economic policy. As a result, the fiscal deficit has been reduced and there has been an important decline in the level of domestic financing of the budget deficit, resulting from increases in revenues and certain limits on government expenditure (see section 3.4.2 on tax policy). However, a number of fiscal challenges remain. Total revenues as a share of GDP are lower in Albania than in most other transition countries, despite comparable tax rates. Improvements are to be made in the tax and customs system through an expansion of the tax base and greater effort to counter tax evasion and improve tax administration. However, receipts from privatisation, an important source of deficit financing, have not been as high as expected.<sup>9</sup>

Privatisation has been considered a key element in the successful transition towards a free market economy. It was considered essential to reduce the burden placed by subsidised state companies on the state budget as well as to improve their competitiveness. Between 1991 and 1993, while agriculture and small and medium sized enterprises (SMEs) were rapidly privatised, the process gave rise to a number of deficiencies regarding ownership distribution and corporate governance. In 1995 the government began a programme of voucher

9. For a detailed analysis see World Bank: "Albania; Public Expenditure and Institutional Review"; Briefing Note prepared for the Consultative Group Meeting by the Europe & Central Asia Region; March 2001 and "Albania Poverty Assessment", op. cit.

privatisation, where citizens were given vouchers with which to buy equity stakes in the state assets being sold.<sup>10</sup> Although it was intended to make it possible for citizens to participate in the distribution of public capital, this did not happen. The price of the distributed vouchers fell to a mere 1% of face value. The privatisation process was also marked by examples of corruption and of compromised corporate governance in newly privatised companies. By the end of 1996, the government was obliged to halt the process of mass privatisation and a new Ministry of Privatisation was set up. The new Ministry was also subject to delays, and by 1997, privatisation had still not included the banking sector and the large utility sector (which includes large enterprises in the mechanical industry, electrical power, mines, chromium, copper processing and telecommunications).

Recently, some progress has been made. Privatisation of SMEs has been completed.<sup>11</sup> The process of privatisation of the Albanian Electro-Energy Corporation (KESH) is progressing according to the requirements of the National Strategy on Energy and the Document on Policies in the Electrical Energy Sector, approved by the Albanian Government and agreed with the donors in April 2002. Important progress has been made regarding the privatisation of ARMO (oil industry) and Altelecom (fixed telephone company) and the tendering process is almost completed. The privatisation of the banking system, which started in 2000, has been completed and some important foreign investors such as the Raiffeisen Bank, some Greek Banks and the Albanian American Bank started operating in Albania. Meanwhile the World Bank, the European Bank for Reconstruction and Development and the European Investment Bank have provided credits from €10 to €2000 million for the construction of the Thermo-Electric Production Station of Vlora, the rehabilitation of the electrical energy sector and the construction of high-tension lines and stations.

Increasing the competitiveness of SMEs is crucial for the Albanian economy. SMEs already make up the vast majority of private businesses operating in Albania<sup>12</sup> and because of their size and adaptability are likely to be one of the key sources of employment generation in the future. There are, however, important gender differences in the management and/or ownership of these businesses. The data recording method does not make it possible to determine whether women are in charge of a business or own it. Despite these constraints, the data below show that the proportion of enterprises owned or managed by women is low, and that the structure of women's entrepreneurship tends to change little over time, as it is concentrated in the service, trade and industry/agribusiness sectors (see table 3).

**Table 3: Number of private business managers by sex**

Year	Number		
	Total	Female	%
1994	32,968	6,868	20.8
1997	58,626	10,772	18.3
1998	56,453	9,800	17.4

10. A number of mistakes were made in the course of implementation. The enormous delays in publishing the lists of enterprises to be privatised despite the fact that vouchers had already been distributed in early 1995 did not give the holders of the vouchers a real investment opportunity. For a detailed analysis of the failure of Albania's mass privatisation process, see chapter 8 of Vaughan Whitehead, D. op. cit.

11. See European Commission Staff Working Papers: Albania Stabilisation and Association Reports of March 2004, March 2003 and April 2002. [http://europa.eu.int/comm/external\\_relations/see/albania/index.htm](http://europa.eu.int/comm/external_relations/see/albania/index.htm)

12. 95.8% of enterprises consist of 1-5 employees. Only 0.5% of Albanian enterprises have more than 80 employees. "Facts and Figures, 2003" Albania Small and Medium Enterprise Agency (SMEA).

**Table 4: Women’s business participation by type**

	1996			1998		
	Total	Female	% Female	Total	Female	% Female
Agriculture	1,466	31	2.11	1,241	32	2.57
Industry-Agribusiness	5,231	560	10.7	5,674	606	10.7
Construction	1,417	93	6.56	1,905	124	6.5
Trade	30,750	6,501	21.14	29,370	6,415	21.8
Transport	9,117	150	1.64	8,199	157	1.9
Service	9,732	2,342	24	10,042	2,564	25.5
Total	57,712	9,677	16.7	56,453	9,902	17.5

Source: “Development of Labour Market 1990-1999”— INSTAT, pp. 21, 30.

As in mature market economies, a vibrant SME sector will eventually become not only a provider of employment, but also a key source of innovation, entrepreneurship and productivity growth. The Albanian authorities are increasing the support given to the SME sector, in recognition of the growing importance of SMEs to the national economy. The recently established SME Agency is an important step in this direction. Albania is experiencing significant rural-urban migration and a shift from an industry to service based economy. Therefore, it is important to provide training for the new entrepreneurs who have to adjust to new activities mainly in the service sector. In this context, it is important to address the greater difficulties that women face in starting an enterprise. These difficulties are associated with a combination of factors, such as women having fewer opportunities to obtain relevant information, contacts and experience, more limited capital assets, less freedom to travel and lack of self-confidence.<sup>13</sup> Furthermore, it is crucial to improve the regulatory framework and legislative environment as well as to reduce the administrative costs of business start-up. Further efforts are necessary for steering informal enterprises towards the formal sector.<sup>14</sup>

Regarding foreign trade, Albania was a highly self-sufficient economy before the transition. Exports were limited to small volumes of raw materials that would generate sufficient foreign exchange to cover essential imports.<sup>15</sup> Current account convertibility and the abolition of import quotas have increased the level of imports to the extent that Albania presents a chronic trade deficit, as shown in table 5. The deterioration of the current account balance has been partly cushioned by the exceptionally high private remittances stimulated by the inflow of cash in euro held by the large number of Albanians working in the EU.

13. See: Bezhani, M.: *Women Entrepreneurs in Albania*, SEED Working No. 21, ILO, Geneva, 2001.

14. See: *Albania Enterprise Policy Performance Assessment*; Stability Pact; South East Europe Compact for Reform, Investment, Integrity, and Growth; OECD, June 2003.

<http://www.investmentcompact.org/pdf/EPPAs/EPPAAlbania2003.pdf>.

15. See EIU: *Albania Country Profile 2003*.

**Table 5: Balance of payment (in million US\$)**

	1996	1997	1998	1999	2000	2001
<b>Current Account</b>	-62.4	-253.7	-65	-132.9	-163.1	-218.2
<b>Current Account as a percentage of GDP</b>	2.1	11.3	2.3	3.7	4.25	5.3
Merchandise: Export, fob	243.7	158.6	208	275.1	255.4	304.6
Merchandise: Import, fob	-922	-693.5	-811.7	-937.9	-1,076.40	-1,331.50
<b>Trade balance</b>	-678.3	-534.9	-603.6	-662.8	-821	-1,026.90
<b>Trade balance as a percentage of GDP</b>	22.4	23.9	21.4	18.7	21.4	25
Services:						
– Credit	127.3	67.9	86.6	266.7	448.1	533.5
– Debit	-142.3	-101.1	-129.3	-165.4	-430	-444.6
Income:						
– Credit	83.5	61.6	86.1	85.6	115.9	162.5
– Debit	-12	-11.9	-8.7	-10.3	-9.1	-13.4
Private Unrequired Transfers	476	235.7	421.3	188.4	438.5	542.6
Official Unrequired Transfers	83.4	29	82.6	165	94.4	28.1
Capital Account	4.9	2.1	31.1	67.5	78.2	108.3
Financial Account	49.6	140.7	16	36.8	182.5	122.2
Direct Investment	90.1	47.5	45	41.2	143	214.3
Portfolio Investment	0	0	0	0	-25	-23.4
Other Capital, nie	-40.5	-93.2	-29	-4.4	64.5	-80.6
Net Errors and omissions	54.8	142.5	69.4	131.2	15	132.7
Overall Balance	47	43.8	59.4	123.5	131.9	145

Source: INSTAT

As table 6 shows, textiles and footwear are Albania's main exports accounting for almost 67% of all exports. Construction material and food, beverages and tobacco account for the second and third largest categories – but they only represent 10% and 7%, respectively, of total exports. Machinery and food account for most of the imports (about 20% each) followed by textiles (15%). The high proportion of food imports shows that, paradoxically, Albania's large agricultural sector is unable to satisfy domestic demand. A poor transport system, together with inefficient product collection and marketing, mean that the production cannot be transported to major cities. Albanian farmers also find it hard to compete with the subsidised products from Greece.<sup>16</sup>

Albania has a number of promising industrial activities which can be a potential pillar of the economy. However, entrepreneurial activity largely depends on the overall business climate. It is important to develop a transparent legal framework that guarantees safe investment and the full exercise of property rights as well as a tax system that does not discourage investors or force enterprises into tax evasion.

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16. See EIU: Albania Country Profile, 2004.

**Table 6: Exports (fob) and imports (cif) – in million leke**

	1996		1997		1998		1999		2000		2001		2002	
	X	M	X	M	X	M	X	M	X	M	X	M	X	M
Total	22001	98060	21044	9522	31104	126271	48430	159465	37547	157219	43771	190696	46188	210431
Food, beverages, tobacco	3733	33930	4209	26162	4981	34684	4184	44259	4014	34969	3953	37360	3153	42894
Minerals, fuels, electricity	2138	5224	1213	7567	3496	10948	2432	11125	1067	20777	841	26194	1275	26985
Chemical & plastics	344	6956	216	8474	292	13573	331	14132	348	13461	571	15663	323	18407
Leather goods	870	2064	1152	2148	995	2846	1034	2998	1206	2734	1552	3948	2067	5168
Wood	896	2209	1367	2843	1269	4061	1586	4796	1435	3981	1497	4699	1612	6448
Textile & footwear	10814	14978	9009	15079	16467	22011	32320	32839	24134	22614	28696	26630	30735	30885
Construction material	2465	7117	2191	9439	1665	12671	2337	13975	3199	18495	3774	23606	4577	26955
Machinery	369	21788	1197	19829	878	20330	2780	27632	724	33216	1390	45067	1308	45095
Others	372	3795	491	3480	1061	5147	4126	7710	1421	6972	1497	7529	1140	7594

Source: INSTAT

Albania's trade liberalisation in terms of movement of goods has been significant. Albania has accepted ambitious tariff cuts during its WTO accession negotiations<sup>17</sup> and is now proceeding to further trade liberalisation following the entry into force of several bilateral free trade agreements.<sup>18</sup> Albania's WTO membership has been accompanied by an important reduction of custom duties; from 45% to 20%. Nevertheless, it has not been possible to fulfil all the commitments relative to the entire range of tariff lines. The government has announced the postponement of commitments in some tariff lines for a 3 year period with a concurrent gradual reduction of tariffs over this period. This has already been approved by the WTO General Council on trade in commodities. Trade liberalisation has also been progressively extended to services, including key areas such as the telecommunication services. In the telecommunication sector, Albania also issued a notification, which has been approved by the WTO Secretariat, that there would be temporary postponement of commitments and liberalisation of this sector as of 1 January 2005.

The liberalisation of important service sectors such as the financial sector, telecommunication sector and professional services sector is being carried out with the aim of harmonising Albania's legislation with the *acquis communautaire*.

Regarding regional integration, since December 2004, Albania is implementing eight Free Trade Agreements. It is expected that these Agreements will have a positive impact on the Albanian economy, as exports to other countries of the region will increase and the import/export ratio will improve. Within the framework of the Stabilisation / Association process, Albania is currently concluding the negotiations for a Free Trade Agreement with European Union, which is Albania's main trading partner.

Compared with some other Eastern European countries, FDI flows have not been significant in Albania. A poor legal framework, bureaucratic procedures and underdeveloped infrastructure represented the most important deterrents for foreign investors. The collapse of the pyramid schemes in 1997 caused FDI inflow to drop by half in 1997-99, as shown in table 3. The unfavourable trend started to reverse in 2000 as institutional capacity

17. Albania has been a member of WTO since 8 September 2000.

18. See detailed description of Albania's internal market and trade liberalisation process in Commission Staff Working Paper "Albania: Stabilization and Association Report" March 2004.

strengthened and privatisation opportunities were offered by the government. In 2001 FDI flows amounted to US\$214 million. However, in 2002 FDI fell to US\$135 million,<sup>19</sup> reflecting the government's failure to conclude major privatisations. The development of sound financial and technical infrastructure is crucial for attracting FDI. Investment in infrastructure can be promoted by allocating public resources or by granting concessions to private investors. FDI has an important potential but it may also have some negative effects since, for instance, it often supports outward processing, based on the use of cheap labour for low skilled jobs. In order to maximise the profit for FDI it is important to develop a clear FDI policy framework in order to stimulate investment flows into technologically advanced production.

Albania remains the poorest transition economy outside the Commonwealth of Independent States. As shown in table 1, in 2003, the country had an estimated GDP per capita (at purchasing power parity) of about US\$4500.<sup>20</sup> This is below the per capita GDP of Serbia and Montenegro, Bosnia and Herzegovina and "the former Yugoslav Republic of Macedonia", and only 43% of Croatia's. A Living Condition Survey (LCS) carried out in 1998, showed that 29.6% of Albanians were poor, whereas more than half of them lived in extreme poverty. This means that almost one out of every three Albanians or some 917,000 people were poor, with over 500,000 individuals falling within the extremely poor category. In absolute terms, 46.6% of the Albanians were below the poverty line of US\$2 per capita per day, while 17.4% were below the poverty line of US\$1 per capita per day. According to the Albania Growth and Poverty Reduction Strategy (GRSP), the probability of living in poverty increases with size of family because the dependence coefficient is higher, the correlation of poverty with family size being more evident in rural areas. There is also a clear correlation between being unemployed and being poor: according to the LCS, more than half of the families whose head is unemployed fall below the poverty line. Furthermore, the incidence of poverty is much higher among households headed by women- whether with or without children – than those headed by men (see table below).

**Table 7: Poverty according to family category**

	<b>Total</b>	<b>Males</b>	<b>Females</b>
Single person	12.0	8.5	14.4
Couple with three or more children	39.4	39.4	29.6
Big family	26.7	26.7	29.2
One parent as household head	25.2	17.0	26.9
Others	28.0	20.6	36.2
<b>Total</b>	<b>24.9</b>	<b>24.9</b>	<b>25.2</b>

Source: National strategy for socio-economic development: GPRS 2002-2004

Inequality in the nationwide distribution of incomes is also very high in Albania. The Gini coefficient, which is used to measure such inequalities, is 0.43 without significant differences between rural and urban areas. It is one of the highest inequality levels for countries in the region.<sup>21</sup>

19. 2001 data are from INSTAT and 2002 data from EIU: Albania Country Profile, 2004.

20. According to EIU estimates.

21. INSTAT: Results of Household Living Condition Survey October 1998, Tirana, July 2001 and UNDP: "The Albanian Response to the Millennium Development Goals" prepared for the United Nation System in Albania by the Human Development Promotion Center, Tirana, May 2002. <http://www.undp.org.al/download/alresmdg.pdf>.



**Table 8: Incidence of poverty by urban and rural areas, in percentage**

Incidence	Urban		Rural		Total	
	Extreme poor	Poor	Extreme poor	Poor	Extreme poor	Poor
Relative poverty lines	9.7	17.2	20.1	36.8	16.2	29.6
Absolute poverty lines	10.4	30.3	21.5	56.3	17.4	46.6

Source: LCS, 1998

Note: The LCS analysis of income poverty is based on two levels of **relative poverty**, whereby 60% of the median income is used to identify “the poor” and 40% to identify “the very poor”. The survey’s **absolute poverty** definition is based on the World Bank’s poverty lines of US\$1 and US\$2 per day per person. According to this definition, “the poor” are people with income of less than US\$2 per day and “the very poor” are considered people with income of less than US\$1 per day.

An important shortcoming in Albania is the deficient capacity of the statistical system to produce official statistics on a sustainable basis and up to international standards. The statistical system consists of the Institute of Statistics (INSTAT) as the central producer and leader, the Bank of Albania, and other producers whose exact number is difficult to determine precisely. The budget of INSTAT is financed by the government<sup>22</sup> as well as by funds received from international donors. INSTAT’s regular staff amounts to 145, of whom 75 are located in 36 regional offices spread over the country. The overall resource situation of INSTAT is quite inadequate.<sup>23</sup> The statistical system has not been able to build up a stable system of data collection. Surveys have been set up on an ad hoc basis when international funds were available, with an ad hoc organisation on each occasion. The creation and maintenance of a sustainable national system of producing and disseminating official statistics on a regular basis is crucial. Regarding labour market information, it is crucial that labour force surveys become part of the national statistical system since they are the most comprehensive sources of statistics on the economically active population, employment and unemployment.

## 2. Labour market situation

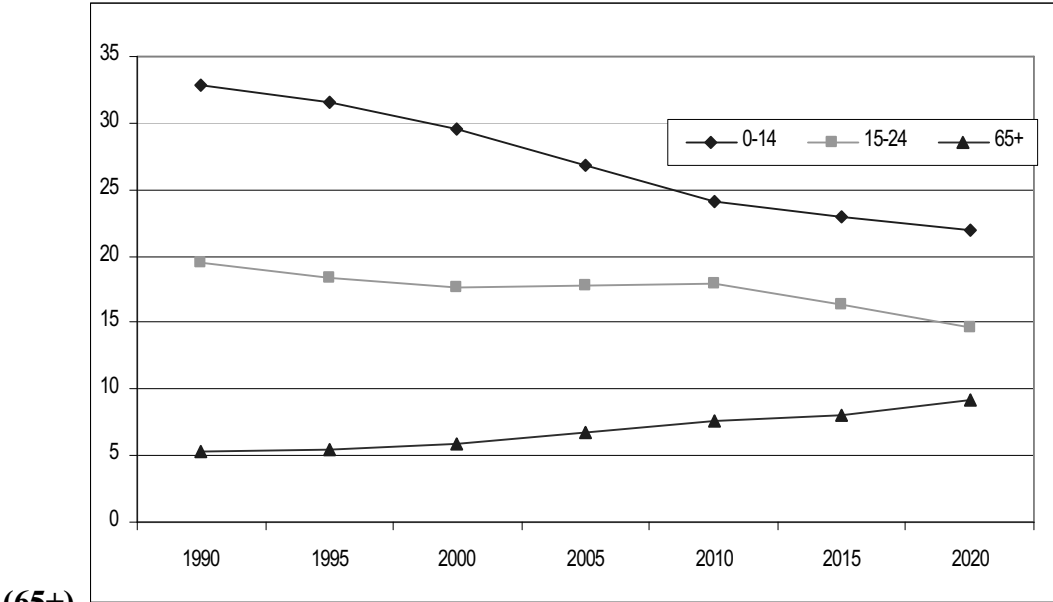
### 2.1. Population and labour force participation

Despite falling birth rates, Albania has a young age structure. Almost half of the population is under 25 years of age. The 0-14 year old population represents 29% of the total population, while the 15-24 year olds represent almost 18%. The elderly population, 65 years and over, is still a minority but, as we can see in the next figure, is growing rapidly while the proportion of younger age groups is declining.

22. It amounted to 0.04% of the total government budget in 1999.

23. See: *Global Assessment of the statistical system of the Republic of Albania*; Global Assessment Seminar, June 2002; EFTA/EUROSTAT.

**Figure 1: Proportion of children (0-14), young population (15-24) and elderly population**



Source: UN population prospects, 2002 [www.un.org/popin](http://www.un.org/popin)

Since the collapse of communism, the population of Albania has decreased substantially. The 2001 census recorded a resident population 3% lower than in the previous census of 1989. The decline in the resident population reflects large-scale emigration as well as falling birth rates. Some 600,000-800,000 Albanians (mostly young men) are estimated to be working abroad, most of them in Greece and Italy.<sup>24</sup>

The first section of table 9, where the 15-39 age group is related to the 40-64 age group, highlights the presence of young people in Albania and especially in rural areas. If we compare both censuses, we can see that the ratios decreased everywhere showing a rapid ageing process. Part of this decrease can be attributed to emigration.

Ageing is more accentuated in the urban areas, and for men, especially in Tirana city, compared to rural areas.<sup>25</sup> This may be due to the economic transformation and industrial restructuring, which considerably exacerbated migration of the youngest and more productive segments of the population. The cohort turnover in the second part of the table shows that in 1989 there were 4 persons aged 15-19 for each person aged 60-64. In 2001 this ratio decreased to 2.6 due to the reduction of both entering cohorts and improvements in longevity. The reduction has been stronger in rural areas. Despite the large deficits produced by a decade of emigration of the youngest cohorts and the ongoing ageing of the labour force, Albania still has a large and young demographic potential.

24. EIU Albania Country Profile, 2004.

25. See maps on population structure in INSTAT: Albania Census Atlas, 2001.

**Table 9: Age structure of working age population by age and residence: 1989 and 2001 Census**

Sex/Area	Internal structure: 15-39yr/40-64yr		Cohort turnover: 15-19yr/60-64yr	
	1998 Census	2001 Census	1998 Census	2000 Census
<b>Men</b>				
Tirana urban	1.8	1.2	2	1.9
Other urban	2.1	1.2	3.4	2.2
Rural	2.4	1.7	5.4	2.9
Country	2.3	1.5	4.3	2.5
<b>Women</b>				
Tirana urban	1.8	1.3	1.9	1.9
Other urban	2.3	1.4	3	2.4
Rural	2.4	1.8	4.4	3.2
Country	2.3	1.6	3.7	2.7
<b>Total</b>				
Tirana urban	1.8	1.3	2	1.9
Other urban	2.2	1.3	3.2	2.3
Rural	2.4	1.8	4.8	3
Country	2.3	1.5	4	2.6

Source: 1989 and 2001 Census, People and Work in Albania, 2001, INSTAT

After the restructuring of the early 1990s, Albania, like many other transition economies, experienced a substantial decline in labour force participation rates of roughly 18 percentage points for the period 1991-2002. According to official statistics, since 2000 less than two-thirds of the working age population<sup>26</sup> is active in the labour market. As we can see in the next table, this decline has been more pronounced for women – less than 50% of the working age female population participate in the labour market. In 1998, the aftermath of the pyramid scheme crisis, the male participation rate was 85% compared to 55% for women.

**Table 10: Demographic and labour force indicators by sex, 1991-2002**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>Total population</b>	<b>3260</b>	<b>3190</b>	<b>3167</b>	<b>3202</b>	<b>3249</b>	<b>3283</b>	<b>3324</b>	<b>3354</b>	<b>3373</b>	<b>3401</b>	<b>3069</b>	<b>3069</b>
– Male	1654	1590	1566	1586	1608	1624	1629	1650	1662	1677	1530	1530
– Female	1606	1600	1601	1616	1641	1659	1695	1704	1711	1724	1539	1539
<b>Working age population</b>	<b>1925</b>	<b>1849</b>	<b>1763</b>	<b>1786</b>	<b>1820</b>	<b>1850</b>	<b>1861</b>	<b>1888</b>	<b>1911</b>	<b>1939</b>	<b>1767</b>	<b>1767</b>
– Male	980	912	885	900	916	931	928	945	957	971	903	903
– Female	945	937	878	886	904	919	933	943	954	968	864	864
<b>Total labour force</b>	<b>1544</b>	<b>1489</b>	<b>1347</b>	<b>1423</b>	<b>1309</b>	<b>1274</b>	<b>1301</b>	<b>1320</b>	<b>1305</b>	<b>1283</b>	<b>1101</b>	<b>1092</b>
– Male	829	782	760	814	775	764	794	803	791	754	674	668
– Female	715	707	587	609	534	510	507	517	514	529	427	424
<b>Labour force participation rates</b>	<b>80.2</b>	<b>80.5</b>	<b>76.4</b>	<b>79.7</b>	<b>71.9</b>	<b>68.9</b>	<b>70</b>	<b>70</b>	<b>68.3</b>	<b>66.2</b>	<b>62.3</b>	<b>61.8</b>
– Male	84.6	85.7	85.9	90.4	84.6	82.1	85.6	85	82.6	77.6	74.6	74
– Female	75.6	75.4	66.8	68.7	59.1	55.5	54	55	54	55	49	49

Source: INSTAT

This decline in participation may have different causes. For example, a considerable number of people are engaged in the informal sector, and may declare themselves as economically inactive, others may be discouraged and drop out of the labour force.<sup>27</sup> In the case of women, their large withdrawal from the labour market is also due to the lack of reliable childcare facilities. Since the collapse of the communist regime, childcare has been borne to a large

26. Regarding the age brackets for the population at working age, INSTAT currently uses ages 15 to 59 for men and 15 to 54 for women. See INSTAT: 1993-2001 Statistical Yearbook.

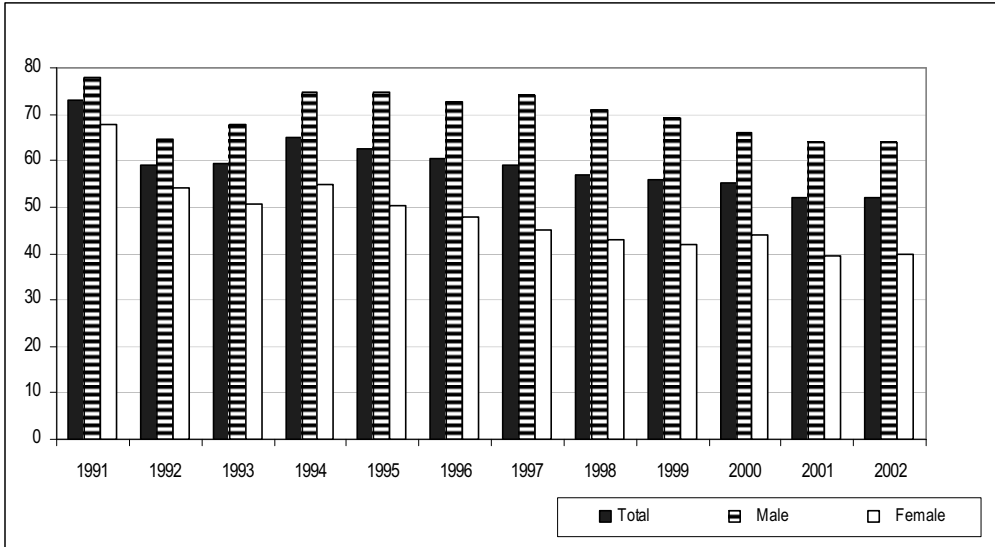
27. Hobdari, B.: “Labour Market and Regional Differences in Unemployment in Albania”. East European Series, No. 53. Institute for Advanced Studies, Vienna, 1998.

extent by families, and by women in particular, thus making it more difficult for mothers and intending mothers to participate in the labour market on equal terms with men. In 2003, the number of kindergartens declined by 60% in urban areas and 49% in rural regions.<sup>28</sup> The number of children undergoing pre-school education has dropped dramatically both because of the lack of physical infrastructure and experienced teachers and because of women’s job losses. The increase in male emigration has also deterred women from seeking remunerated work; this is due to migration remittances and to the difficulty of reconciling paid work with family responsibilities. The allegedly higher cost of recruiting women, and their being perceived as secondary income earners, might also influence their decision not to engage in formal gainful activity.<sup>29</sup>

**2.2. Employment developments**

Macroeconomic reforms and restructuring in the early 1990s led to a sharp fall in employment rates, and though male employment slightly recovered by the end of 1990s to pre-transition levels, female employment remained very low. During the 1990s men’s employment rate has been consistently higher than women’s and, in more recent years, trends show that the gap in employment between men and women has been increasing.

**Figure 2: Employment rates by sex, 1991-2002**



Source: INSTAT

Reduced employment rates in the 1990s were a result of declining public sector employment. As shown in table 8, the number of jobs in the public sector decreased dramatically from 850,000 in 1991 to 186,000 in 2002. This drop in public sector employment was mainly due to mass privatisation of state-owned enterprises. The industrial sector (particularly extraction of minerals, metallurgy, equipment, chemicals, paper and textiles) was the hardest hit. Only the service sector experienced a slightly higher number of workers, but only men, since women engaged in this sector, remained almost constant in absolute numbers but doubled their percentage.

28. INSTAT: *Albania in figures 2004*.

29. Cazes, S. and Nesporova, A.: “Labour markets in transition: balancing flexibility and security in Central and Eastern Europe”; ILO, Geneva, 2003.

Employment in the private sector, however, increased significantly, with the number of jobs in the non-agricultural private sector increasing almost sevenfold. In the year 2002, almost 80% of total employment was provided by the private sector. All transition countries have experienced a big increase in private sector activity during the 1990s. Albania, which had no private sector in 1990, had by 1994 a higher percentage of employment in this sector than other transition countries.<sup>30</sup> Much of this is due to the rapid privatisation of the agricultural sector, a process virtually completed by the end of 1993.

**Table 11: Total employment by sectors, 1991-2002**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>Total</b>	1,404,091	1,094,821	1,045,918	1,161,546	1,137,829	1,115,760	1,107,677	1,085,104	1,065,104	1,068,190	920,569	920,144
<b>Public sector</b>	850,091	614,607	375,338	308,080	275,887	238,850	226,295	212,750	201,429	191,166	188,965	186,065
<i>Budgetary</i>	-	-	182,299	164,736	159,619	144,607	145,319	133,584	128,452	122,298	120,114	118,162
<i>Non budgetary</i>	-	-	193,039	143,344	116,268	94,243	80,976	79,166	72,977	68,868	68,851	67,903
<b>Non agriculture private sector</b>	30,000	60,000	80,277	103,466	111,942	115,910	120,382	111,354	102,675	116,024	205,267	207,742
<b>Agriculture private sector</b>	524,000	420,214	590,303	750,000	750,000	761,000	761,000	761,000	761,000	761,000	526,337	526,337

Source: INSTAT Note: End of period

**Table 12: Persons employed in the public sector by occupational groups, 1993-2002 (figures)**

<b>Occupations groups</b>	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	375,338	308,080	275,887	238,850	226,295	212,750	201,429	191,166	18,8965	186,065
Legislators, senior officials & managers	24,432	21,142	20,093	17,878	16,637	16,173	15,552	15,484	15,569	15,598
Professionals	63,053	55,701	53,140	51,711	51,749	51,223	47,888	46,835	49,517	50,070
Technicians & associate professionals	71,393	64,079	69,589	53,968	61,640	60,491	57,208	54,658	52,186	49,548
Clerks	18,459	16,196	17,420	16,052	14,235	13,515	14,173	15,484	13,763	14,919
Workers	198,001	150,962	115,645	99,241	82,034	71,348	66,608	58,705	57,930	55,930

Source: INSTAT

As shown in table 13, the share of employment in agriculture is very high in Albania, amounting to almost two thirds of all employees by 2002. Private agricultural employment is the largest across sectors: about 60% of total employment in Albania.

30. A comparison based on estimates from the European Bank for Reconstruction and Development, 1995 in: Cuka, E. et al: "Labor Market Developments in Albania: An Analytical Overview" Review of Development Economics, Volume 7, Issue 2, May 2003.

**Table 13: Employment by economic activity, 1994-2002 (in thousands)**

Economic activity	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	1,161	1,138	1,116	1,107	1,085	1,065	1,068	920	920
Agriculture, forestry, fishery	780	778	784	771	768	768	767	531	531
Extracting industry	20	21	18	16	16	16	9	8	7
Manufacturing industry	81	65	57	58	54	53	34	47	47
Electric power, water industry	9	9	10	14	14	13	15	16	16
Construction	18	21	22	15	11	11	13	56	56
Trade	32	51	58	47	21	29	49	67	67
Hotels, restaurants	10	11	20	11	13	14	19	16	16
Transport, communication	28	30	27	27	33	32	26	32	32
Education	55	53	46	49	49	48	47	50	49
Health	32	26	23	25	28	26	23	26	26
Others	96	73	51	74	78	55		71	71

Note: End of period; classification of the economic activities of the enterprises based on the Nomenclature of Economic Activities (NACE). Source: INSTAT

According to INSTAT 2001 census data, about 90% of those employed in rural areas are “own account workers” or “contributing family workers” (mainly women), confirming the backward organisation of the Albanian agricultural sector. In the urban areas, especially Tirana, the employment structure by status is almost “modern”: 10% reported to be employers and about two thirds employees. Probably, some of those identified as employers were in fact own account workers. The proportion of own account workers in Tirana seems very low for a burgeoning economy lacking large productive or service units.<sup>31</sup>

As we can see in table 14, individuals with post-secondary education had a much higher employment rate (70%) than those with less education. 62% of the employed had full-time jobs and 39% had part-time jobs, and a much larger share of men (70%) than women (51%) had full-time employment. More individuals with post-secondary education (75%) had full-time jobs, compared with 73% of workers with secondary education and 55% of workers with sub-secondary education. Furthermore, the share of women holding full-time jobs is much lower than for men, and only 23% of women report working full time compared to 45% men who report working full time.

**Table 14: Employment by sex and education (per cent of working age population, age 15-64)**

	Gender		Education			Total
	Male	Female	Sub-secondary	Secondary	Beyond secondary	
<b>Working full time</b>	44.6	22.8	27.7	41.9	52.6	33.1
<i>Per cent of total employed</i>	69.6	51.0	54.5	73.3	75.1	61.5
<b>Working part time</b>	19.5	22.0	23.1	15.3	17.5	20.8
<i>Per cent of total employed</i>	30.4	49.0	45.5	26.7	24.9	38.5
<b>Total employment rate</b>	64.1	44.8	50.9	57.1	70.1	53.9

Source: Albania LSMS, 2002

Note: The Living Standards Measurement Survey (LSMS) 2002 provides valuable information on a variety of issues related to living conditions of the people of Albania, including details on income and non-income dimensions of poverty in the country. For further information see: [www.instat.gov.al](http://www.instat.gov.al).

31. INSTAT: People and work in Albania, Research Publication, 2004.

In Albania, both rural and urban informal sector employment is very large. Nevertheless, sparseness of data makes it difficult to quantify.<sup>32</sup> According to a December 1996 Survey conducted in several regions by the Albanian Ministry of Labour, about 65-70% of all persons working in the private non agricultural sector were not officially recorded.<sup>33</sup> Street vending (mostly of common consumables such as fruit, cigarettes and soft drinks) has been one of the most visible activities in the Albanian urban informal sector. Also in 1996, the Albanian Centre for Economic Research surveyed 373 street vendors of Tirana in 1996. The survey covered about 7% of the total number of vendors in the city and the results are presented in the following box.

**Box 1: Tirana street vendors. Survey Results**

- 80% of respondents declared that they possessed no official license or registration for their activity. The main reason was the heavy bureaucracy partly inherited from the communist period, and the often costly process because officials wanted to be bribed to process the license application.
- 49% of the vendors interviewed claimed to have lost their previous job and only some of them were receiving unemployment benefit. A further 26% had changed occupations to increase family income. A few (5%) were school-age children not attending school. Being a street vendor was not the only informal activity for 61% of respondents.
- The results indicate a very high level of education among vendors. 68% of have completed secondary education, 20% had finished university and only 12% had only completed elementary schooling.
- Despite these high levels of education, previous work experiences of vendors varied widely. Most of them (60%) had worked as blue-collar workers, 14% used to be military officers and 16% used to be government officials.
- 90% of those interviewed did not pay any state or municipal taxes. A few claimed that they paid only the compulsory social security payments in respect of their formal employment.

Source: K. Gërshani: Politico Economic Institutions and the informal sector in Albania – AIAS Research Report 03/12 May 2003; Amsterdam Institute for Advanced Labour Studies, Universiteit van Amsterdam

**2.3. Unemployment trends**

The statistical data concerning the unemployment rate pertain to registered unemployed since Albania does not conduct labour force surveys. As already mentioned, this is an important shortcoming regarding Albanian statistics. It is often argued that registered unemployment in Albania is not an appropriate measure of real unemployment and does not reflect the real tensions in the labour market. Some of the reasons for this relate to the large informal economy, the importance of emigration, the high rate of hidden unemployment in agriculture and the significant number of jobless people who failed to register.<sup>34</sup>

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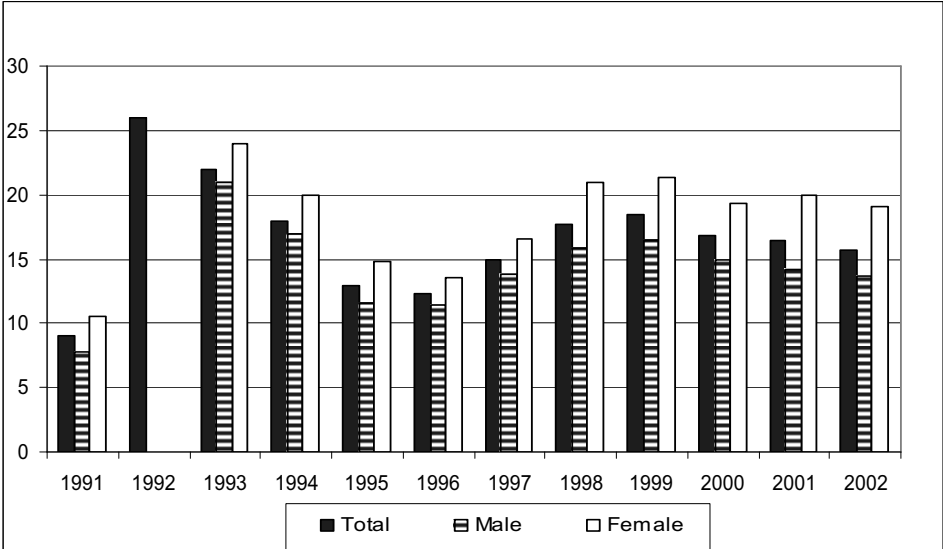
32. The Albanian Ministry of Economy has made a request to the OECD Investment Compact to conduct a detailed study of the Informal Economy in Albania including a set of policy recommendations, the purpose of which is to provide inputs for the elaboration of a medium term strategy for the formalisation of the informal economy by the Albanian government. The Final Report, scheduled for September 2004, will contain a set of initial policy recommendations. Those recommendations will need to go through a process of review and detailed discussion with the Albanian Government, the Albanian business community, the representatives of employees and the international and bi-lateral organisations operating in Albania in support of reforms in the fiscal, social and economic areas.

33. See Vaughan Whitehead, D., op. cit.

34. See Chapter 5 in Vaughan Whitehead, D., op. cit.

The economic and social changes of the early 1990s caused a significant rise in the unemployment rate. The unemployment rate was 26% at the end of 1992, meaning that it was almost multiplied by three compared to the previous year. The unemployment rate declined significantly to around 12% in 1996. This decline, however, was not matched by an increase in formal employment. After the 1997 crisis unemployment was again on the increase. In 2002 the unemployment rate was about 16%. Unemployment rates in Albania have been considerably and consistently higher for women than for men (about 5 percentage points higher from 1998 onwards). Furthermore, a large number of women are underemployed in farming activities and working in the informal economy. This may reflect the difficulties that women face in obtaining gainful employment in a context where jobs are scarce.

**Figure 3: Unemployment rates by sex, 1993-2002**



Source: INSTAT

Youth and long-term unemployment rates in Albania are relatively high. Youth unemployment could be attributed to the rapid population growth in previous decades and the fact that severe contraction and lack of new opportunities in the public sector prevent many young people from finding jobs.<sup>35</sup>

Regarding long-term unemployment, in western economies this is often associated with high unemployment benefits of indefinite duration. However, this is not the case in Albania where benefit level is low (as will be discussed in section 3.3.1) and benefit eligibility has been tightened in the last few years to a maximum of one year. As we can see in table 15, the percentage of recipients of unemployment benefits has decreased dramatically, to only 6.5% in 2002. This also means that once the period of unemployment benefit has expired, registering as unemployed ceases to matter unless there are other incentives for registration such as social assistance, access to health and social insurance covered by the government, active labour market policies, etc. As a result, a large number of long-term unemployed may have not been counted as part of registered unemployment. Furthermore, it should be noted that some long-term unemployed may include temporary emigrants and (as in other transition countries) many of those who are registered as unemployed are allowed to take jobs, provided that the income derived from this does not exceed certain levels.

35. See Elida Cuka: op. cit.



If we look at unemployment rates by educational level, as shown in table 15, we can see that unemployment declines with the educational level. Those with university education are more likely to escape unemployment. In 2002 there were just 1.6% of individuals with higher education among the registered unemployed.

**Table 15: Total registered unemployment (TRU) by sex, status and education, 1993-2002 (in numbers)**

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>TRU</b>	301,289	261,850	171,001	158,155	193,526	235,037	239,794	215,085	180,513	172,385
Male	160,288	140,913	91,425	88,025	108,962	127,066	129,723	113,166	95,093	91,059
Female	141,001	120,937	79,576	70,130	84,564	107,971	110,071	101,919	85,420	81,326
<i>From TRU</i>										
15-19 years old	44,820	42,661	20,701	17,859	23,565	32,227	30,932	26,737	12,868	13,410
21-34 years old	147,190	119,272	78,069	71,923	88,961	104,879	109,268	97,724	84,802	78,353
35 years old and over	109,279	99,917	72,231	68,373	81,000	97,931	99,594	90,624	82,843	80,622
<i>From TRU</i>										
Total unemployment with unemployment benefit	106,783	50,776	46,132	37,654	30,937	24,625	22,486	21,894	14,322	11,184
Total long-term unemployment	194,506	211,074	124,353	120,252	162,589	209,327	216,302	192,724	165,656	160,466
<b>In percentage, TRU</b>	100	100	100	100	100	100	100	100	100	100
Total unemployment with unemployment benefit	35.4	19.4	27.0	23.8	16.0	10.5	9.4	10.2	7.9	6.5
Total long-term unemployment	64.6	80.6	72.7	76.0	84.0	89.0	90.2	89.6	91.8	93.1
<i>From TRU</i>										
With primary education	156,892	126,884	82,717	78,069	94,664	111,997	114,834	104,604	89,309	87,297
With secondary education	136,685	127,771	84,584	76,957	93,702	117,086	117,973	104,615	87,097	82,267
With university education	7,712	7,195	3,700	3,129	5,160	5,954	6,987	5,866	4,107	2,821

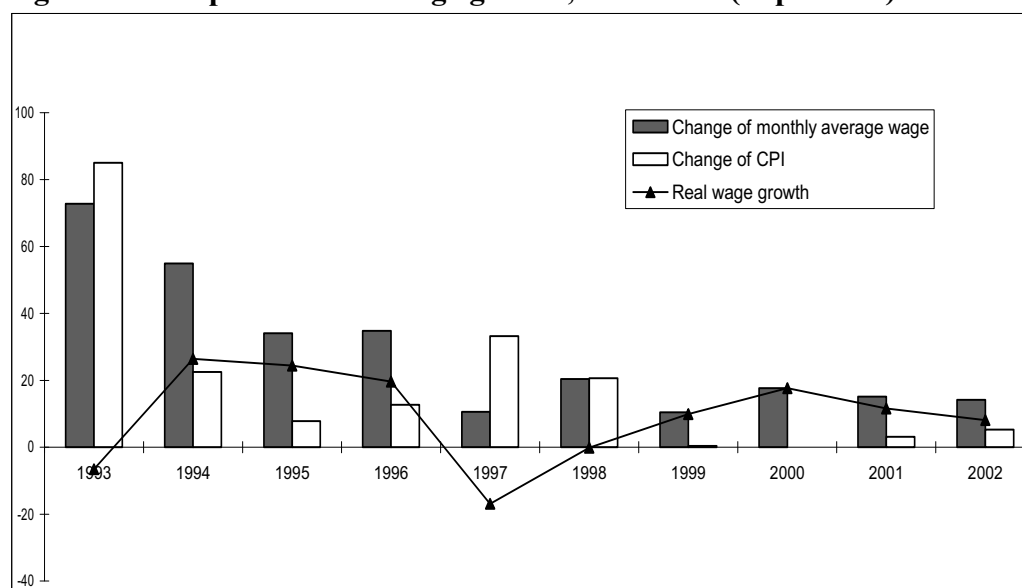
Source: INSTAT

## 2.4. Wages

Before the transition, wage levels in Albania were the lowest in Europe. The economic crises of the early 90s further aggravated this situation. Radical market reforms were implemented in the hope of stimulating economic growth. Restrictive income policy was an important part of this programme, with the aim of limiting inflation. Real wages fell by almost 50% between 1991 and 1994. The crisis of 1997 also helped curb wage increases, but it was not the only reason. The most profitable enterprises were prevented from paying higher wages by the strict wage controls.<sup>36</sup>

36. A range of instruments were used to control wage growth: direct limits on average wages, wage tariffs, control of the minimum wage, and wage compensation for inflation instead of an indexation system. For a detailed explanation of these wage control instruments, see Chapter 6 in Vaughan Whitehead, D., op. cit.

**Figure 4: Real public sector wage growth, 1993-2002 (in per cent)**



Source: INSTAT

As shown in table 16, between 1997 and 2001 transport and communications had the highest nominal wage increases across industries. In the years 1999-2001 the average monthly wage in transport and communication was the highest. The wage increase in the service sector was the second highest across industries.

**Table 16: Average monthly wage and salary per employee (public & private sector) – in leke**

Economic activity	1997	1998	1999	2000	2001
Industry	9,411	10,792	12,203	13,230	14,839
Construction	8,340	10,617	10,936	12,489	13,416
Transport & communication	9,350	11,744	14,503	16,225	18,124
Trade	8,819	9,653	10,901	10,889	12,856
Services	7,814	11,856	10,718	13,012	13,140
Total	9,063	10,894	12,118	13,355	14,820

Source: Annual Business Structural Survey 1997-2001, INSTAT

Information on wages in the private sector is almost non-existent. However, according to the results of the INSTAT Household Living Conditions Survey (HLCS) of 1998, the average wage of someone employed in the state sector was 10,735 leke (US\$92.5), in private non-agricultural business it was 13,285 leke (US\$114.5), and in the private agriculture sector it was 4,755 leke (US\$41). The figures reveal a big difference in wages between sectors.

The most highly paid professions in both the private and the public sector are managers. However, according to the Survey, the average wage of a university-trained specialist in the private sector is twice as large as the wage of the same specialist working in the state sector. Health workers (doctors and dentists) have the highest earnings level in the private sector and double that of their counterparts in the public sector.

According to the HLCS (1998) and LSMS (2002) surveys, men earn higher wages than women in a number of occupations. According to HLCS the average monthly wage for a woman is 6685 leke, compared to 9697 leke for a man. This means that women earn on

average less than 70% of what men earn, but the gap widens considerably for particular occupations, such as that of plant and machinery operators, where women earn 59% of men's wages. Wage differentials between men and women exist both in the public and private sectors, although they are wider in the private sector. On the other hand, female and male earnings in state owned enterprises were mostly equal<sup>37</sup>.

Education does not appear to be a key factor in explaining gender disparities in earnings, as men and women have similar educational attainments (see following chapter). Horizontal and vertical occupational segregation by sex appears to be a more plausible explanation. Employed women are concentrated in the agricultural private sector (66%), where they are more likely than men to work on private family plots than in large co-operatives, as "helping family members", and in the public sector (21%). A much smaller proportion of women work in the non-agricultural private sector (12%). Also, a significant though much smaller proportion of men work in the agricultural private sector (53%), but they are more evenly distributed between the public (20%) and non-agricultural private sectors (26%), where pay and working conditions are better.<sup>38</sup>

Furthermore women are under-represented in the better-paid and decision-making positions. In the public sector, for instance, women outnumber men in lower level white collar positions, e.g. professionals and clerks, but are under-represented in the highest white collar occupational category. In 2002, for example, only 26% of the managers were women (see table 18). The average monthly wages of managers were the highest between 1993-2002 and have been increasing at a higher rate than the average monthly wages of the other occupations.

Furthermore, in the early 1990s a new wage system, comprising 22 different occupational categories, was introduced in the public sector. This new system marked the beginning of the process of wage differentiation between skilled and unskilled workers. According to the Committee on the Elimination of Discrimination against Women (CEDAW),<sup>39</sup> The occupational categories were established on the basis of a job evaluation method that assessed the nature of jobs and their related responsibilities and difficulties. Although the national legislation recognises the principle of equal pay for work of equal value, the Public Service Act No. 8095 of 1996, which stipulates civil service employees' rights, does not provide for such rights in their case.<sup>40</sup> Job evaluation methods, if not based on objective and gender-neutral criteria, may lead to an unfair assessment of jobs prevalently performed by either men or women, thus leading to gender inequalities in remuneration.

**Table 17: Average monthly wage by occupations in public sector, 1993-2002 (in leke)**

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Managers	4,595	703	10,105	14,067	16,129	19,450	22,750	24,437	29,043	34,477
Professionals	3,447	5,334	7,747	10,158	11,554	13,877	15,913	18,159	20,217	23,118
Technicians	3,044	4,756	6,286	8,237	8,440	9,411	11,951	13,482	16,310	18,265
Clerks	2,905	4,674	6,116	7,645	8,483	9,603	12,829	14,415	15,637	16,991
Workers	2,833	4,215	5,701	7,242	7,974	9,119	8,605	12,394	13,846	14,495

Source: INSTAT

37. See Albania Poverty Assessment, op. cit.

38. INSTAT, *Women and Men in Albania*, 1998, p. 18.

39. CEDAW/C/ALBI/1-2, UN 23 May 2002, p. 42.

40. Comments of the Committee of Experts on the application of Convention No. 100, (CEACR) 1977, 70th Session, see: <http://webfusion.ilo.org/public/db/standards/normes/appl/index.cfm?lang=EN>.

**Table 18: Public sector employment by main groups of occupations and sex in%**

	1994		1997		1999		2002	
	F	M	F	M	F	M	F	M
Total employment	36.3	63.7	38.2	61.8	41.8	58.2	42.5	57.5
Managers	19.8	80.2	24.2	75.8	24.4	75.6	26.0	74.0
Professionals	46.2	53.8	46.3	53.7	45.9	54.1	51.4	48.6
Technicians	45.4	54.6	45.4	54.6	45.2	54.8	46.3	53.7
Clerks	47.1	52.9	49.9	50.9	50.3	49.7	53.6	46.4
Workers	29.9	70.1	28.4	71.6	38.3	61.7	32.9	67.1

Source: "Social Indicators Yearbook 2001" – INSTAT, p. 33 and "Labour Market 2002 – INSTAT", p. 14.

In Albania there are no regular negotiations between government, trade unions and employers' representatives on the minimum wage, and its level has only been adjusted intermittently by government decision. As a result, the minimum wage has fallen dramatically in real terms. In 1993, the year of high inflation, it has been estimated that it fell by more than 65% in real terms.<sup>41</sup> Compared with the average wage, the minimum wage has also lost ground, falling from 93% in 1991 to 44% in 2001. As we can see (table 19), the minimum wage in the early 1990s was extremely high. After that, it fell to a percentage similar to the level in other transition countries. It is important to question, however, whether this level of minimum wages has the desired economic and social value.

**Table 19: Average monthly wage in public sector and official minimum wage (1991-2002) – in leke**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Average monthly wage	727	783	3084	4778	6406	8638	9559	11509	12708	14963	17218
Official minimum wage	675	840	1200	2440	3400	4400	4400	5800	6380	7000	7580
Minimum wage / Average wage (in percentage)	93	47	39	51	53	51	46	50	50	47	44

Source: INSTAT and own calculation.

### 3. Identification of main priorities for employment policy

#### 3.1. Human resources development and active labour market policies

##### 3.1.1. Education and training

One of the major accomplishments of the education system in Albania during the communist era was the almost complete eradication of illiteracy. By international standards, literacy levels in Albania are high, particularly among the younger urban population. Today, more than 90% of the population older than 14 can read and write without any difficulty. However, there are twice as many illiterates among the poor than among the non-poor and also twice as many illiterate women as there are illiterate men. While only 4% of urban dwellers are illiterate, about 6% of people in rural areas are illiterate. The next box presents the main features of Albania's education system.

41. See Vaughan Whitehead, D., op. cit.

## Box 2: Albania's education system

- **Age at which compulsory education starts:** 6
- **Age at which compulsory education ends:** 14. If a pupil fails, he/she is obliged to remain at school until age 16.
- **Structure of the primary and secondary education system:** Education is free at all levels. General education consists of:  
Lower Primary (4 years); Upper Primary (4 years); (Non-compulsory); Secondary General (4 years); Secondary Vocational (after primary, 3 and 5-year vocational and technical secondary, 5-year programmes lead to Maturita exams)
- **Higher education:** 4-, 5- and 6-year university courses in 11 institutions (39 faculties/schools); non-university courses (avg.) 3.5 years, in 3 institutions. Total enrolment 1999/00: 40 000, 15% of 18-23 age group. Growth mostly in part-time students: from 20% of total in 1990/91 to 45% in 1999/00.
- **Schooling expectancy for average Albanian 6-year old child (excluding pre-school):** 9.5 years (1998), 2 years less than in 1989 and 6 years less than the average for OECD countries.
- **Education attainment rates:** 8 years (compulsory basic education) for 59% of the population; secondary education for 33% of the population (20-59 year olds, 1999).

Since the transition, gross enrolment rates<sup>42</sup> have declined at all levels of education, except for higher education where full-time participation rates have remained relatively level.<sup>43</sup> Researchers foresee that unless it is reversed, the severe decline in upper secondary enrolments will also hinder the economic and social development of Albania.<sup>44</sup>

There are large variations in enrolment rates at all levels of education across regions and income brackets. As table 20 shows, gross enrolment rates for basic education dropped from over 100% in 1989 to 90% in 1998. A LSMS carried out in 1996 showed that more than 35% of Albanian children who did not attend school at that time gave “lack of financial resources” as the main reason while nearly 20% said they were “not satisfied with the quality of education”. At secondary level, declines have been more dramatic, but not for all types of secondary education. Overall, the decline was from 78.6% of the cohort in 1989 to 41% in 1998. However, general (academic) secondary enrolments increased from 24.4% in 1989 to 34.9% in 1998, while those for secondary vocational education dropped from 54.1% to 6.1%. The fall of rural vocational school enrolments from 49% in 1990 to 2% in 1998 was mainly due to the closure of many rural vocational schools and enterprises. Enrolments at tertiary level have risen overall, but part-time enrolment almost wholly accounts for the increase.<sup>45</sup> As we can see, there are no significant gender differences in enrolment rates at either primary or

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42. According to the OECD, the gross enrolment rate is the ratio between the total number of students enrolled in a given educational level and the size of the population which, according to its age, “should” be enrolled in the course. The net enrolment rate is defined in an analogous manner but counting only those students who belong to the relevant age group. Hence, older students (typically repeaters) are excluded in this second case.

43. In 1989 school expectancy was 11.6 years. By 1998 it dropped to 9.5 years – an average loss of two years of schooling in about a decade. By 1998 the average Albanian child could expect to complete 6 years less schooling than the average OECD child. See Chapter 1: Participation, Equity, and Quality in Berryman, S.: Albania's Education Sector: Problems and Promise Human Development Sector Unit Europe and Central Asia Region; World Bank, March 2000.

44. See Berryman, op. cit.

45. OECD: “Thematic Review of National Policies for Education – Albania”; Stability Pact for South Eastern Europe; 15 July 2002.

secondary level. But at university, women's enrolment rates are higher than men's, corresponding to a higher number of women graduates (see table 23 and figure 5). Moreover, while women predominate in education, humanities and art and health and welfare, they also predominate in mathematics, science and computing and are equally, or nearly equally, represented in social sciences, business and law and in agriculture and veterinary medicine.

**Table 20: Gross enrolment rates by level of education, 1989-98**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Preschool</b>	56.7	57.9	48.9	36.8	36.1	36.8	39.2	38.9	36	35.8
<b>Primary</b>										
Total	100.9	102.1	99.3	97.3	99.4	100.4	100.3	99.5	97.1	93.9
Male	100.3	101.5	98.2	95.3	99.1	100.8	100.5	100.4	97.7	94
Female	101.4	102.9	100.5	99.6	99.7	100	100	98.6	96.5	93.7
<b>Lower Secondary</b>										
Total	103.4	102.5	96.2	90.8	90.7	92.5	91.4	91.5	91.1	90.1
Male	104.8	103.7	95.4	88.9	89	91.5	90.3	91.7	89.3	88.4
Female	101.9	101.1	97	92.8	92.4	93.7	92.6	92	92.1	92
<b>Upper Secondary</b>										
Total	78.6	78	57.3	47	42.4	38.1	36.6	38.5	40.3	41
general	24.41	25.9	28.3	29.6	30.1	29.7	29.1	31.6	33.9	34.9
vocational	54.14	53.1	30	17.4	12.3	8.4	7.5	6.9	6.4	6.1
<b>Tertiary</b>										
Total	8.2	9	9.3	11.9	11.7	11.1	11.8	13.1	13.6	13.3
Full-time	6.6*	7	7.6	8.3	7.8	6.9	6.7	6.6	7	6.9*

**Note:** \* For 1989 and 1998 the number of full-time students in tertiary education has been estimated from the number of students, using proportions from the closest year.

**Source:** Statistical Office of Albania in Palomba and Vodopivec: Financing, Efficiency and Equity in Albanian Education, WTP 512, 2001.

**Table 21: Number of pupils: Pre-university education (public)**

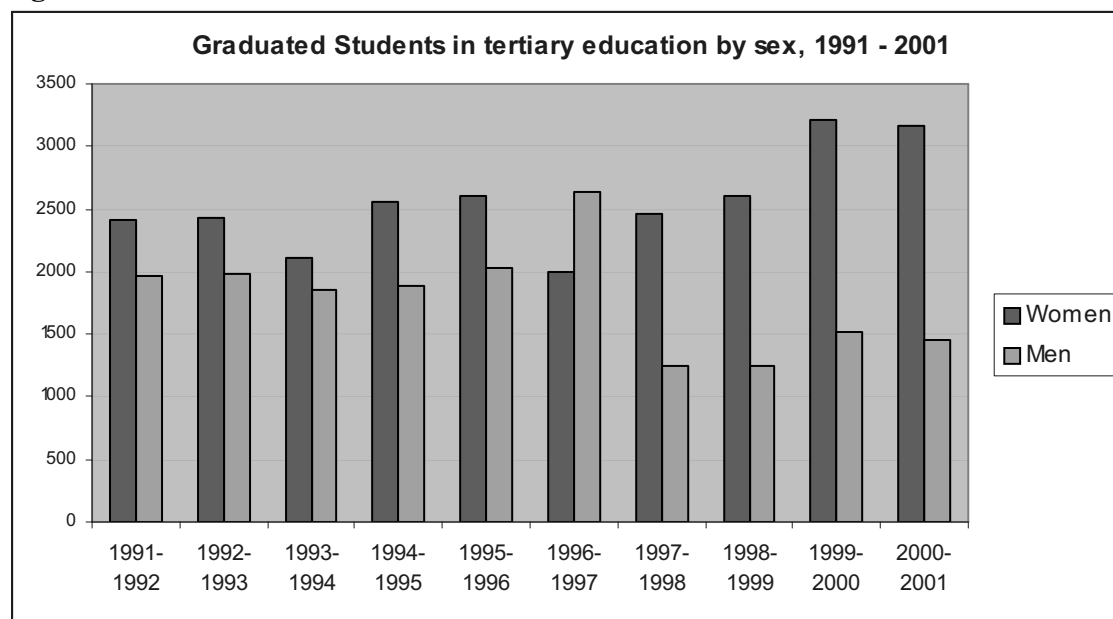
	1997-98	1998-99	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
<b>No. of pupils</b>	695,418	695,558	688,446	684,096	683,043	674,244	679,498	674,714
<b>Basic education</b>	559,324	553,411	543,967	535,238	523,253	503,992	491,541	473,558
<b>High school</b>	98,721	102,161	102,971	107,478	117,630	126,652	134,702	140,891
<b>Professional education</b>	15,560	15,133	14,501	16,475	18,617	20,291	21,909	23,423

Source: Ministry of Education, Albania

**Table 22: Number of students: University studies**

<i>Schooling year</i>	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
<b>No. of students</b>	41,380	42,160	43,600	53,255	61,210

Source: Ministry of Education, Albania

**Figure 5**

Source: INSTAT

**Table 23: Students' enrolment by field of study and sex, 2001-2002**

Field of Education	Total	Men	Women	Women %
Total student enrolment	42,160	16,036	26,124	62
Education	10,561	2,240	8,321	78.8
Humanities and Art	7,193	1,780	5,413	75.2
Social Sciences, Business and Law	12,719	6,183	6,536	51.4
Sciences, Mathematics, Computing	1,680	626	1,054	62.7
Engineering, Manufacturing, Constructions	2,947	2,279	668	22.7
Agriculture, Veterinary	2,639	1,451	1,188	45
Health and Welfare	3,456	875	2,581	74.7
Services	965	602	363	37.6

Source: "Social Indicators Yearbook 1993 – 2001" – INSTAT, p. 170 and "Education Statistics and Indicators 1991-2002 – INSTAT", p. 43.

Financing of education in Albania is derived from government revenue or private funds. State educational establishments at all levels, from pre-school to university and post-university education, are financed from government revenue, while private schools are financed from private funds. Government resources for education have fallen from well over 5% of GDP in the early 1990s to 3.4% in 2002. Real spending per student also fell, despite a decline in the number of students. Public expenditure in education is not only low when compared to the previous decade but also when compared to several other countries in the region. Spending on education has been reduced to bare essentials, at the expense of important needs that generate no immediate return such as maintenance and teacher training. The lack of resources has weakened the system and the quality of education has suffered.<sup>46</sup>

In Albania, private education was re-established after 1996. The Law on Pre-University Education allows the opening of private schools in all levels of pre-university education. The

46. Palomba, G. and Vodopivec, M.: "Financing, Efficiency, and Equity in Albanian Education". World Bank Technical Paper No. 512, June 2001.

education plans and curricula of these institutions are approved by the Ministry of Education and Science. According to the law, every private education institute should comply with national education standards. These private establishments have organisational and functional autonomy (setting of fees, recruitment of teachers etc). The setting of fees and financing is the affair of each school. However, the state indirectly finances the private education system.<sup>47</sup> Considering the small number of pupils and students involved in private schooling, the total financial resources are small in comparison to the overall financial resources for education.<sup>48</sup> There is no substantial information about the quality of the private education system in Albania, and evaluation studies are not available.

**Box 3: Private schools in Albania**

**In Albania, for 1997-98, there were:**

- 6 private pre-schools (5 in cities and one in a village) with 408 children and 25 teachers;
- 9 primary schools with 1575 pupils (20 foreign pupils), 89 Albanian teachers, 11 foreign teachers;
- 3 denominational primary schools with 288 pupils and 41 teachers;
- 6 secondary schools with 626 Albanian students, 18 foreign students and 29 Albanian teachers, 27 foreign teachers;
- 5 denominational secondary schools with 523 students and 71 Albanian teachers and 2 foreign teachers.

Source: Ministry of Education, Albania.

**Table 24: Number of pupils: Non-public education**

	1997-1998	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
<b>No. of pupils</b>	916	8,758	11,707	14,579	21,705	24,647
<b>Basic education</b>	288	5,935	7,729	9,649	13,600	14,608
<b>High school</b>	628	2,823	3,978	4,830	7,700	9,231

Source: Ministry of Education, Albania

**Recommendations:**

- *Accessibility, quality and effectiveness of the educational system need to be improved. Enrolment rates need to be increased with the goal of achieving truly universal education in primary and lower secondary schools and reversing the trend of decreasing secondary enrolment especially in rural areas.*
- *The quality of education also needs to be improved by furthering human resources policies in such areas as teacher development programmes and investment in adequate physical infrastructure.*
- *Public investment spending on education should increase. This might involve some reprioritisation of allocation of funds (for example, reducing relative spending on tertiary education by increasing the share of private spending).*

47. Schoolbooks are subsidised by the state; private schools use state curricula and educational plans of the state schools; the teachers are trained in state schools, etc.

48. There is not a great deal of critical analysis on the private education system in Albania. A description of the system can be found in: Ministry of Education and Science; “Education in the Republic of Albania”. [http://www.see-educoop.net/education\\_in/pdf/system\\_of\\_education-alb-enl-t05.pdf](http://www.see-educoop.net/education_in/pdf/system_of_education-alb-enl-t05.pdf).



- *Closer links need to be fostered between education and work. The educational curricula should be modernised in order to reflect the requirements of the labour market.*

Deterioration in the vocational education and training (VET) system in Albania has been particularly dramatic. Furthermore, as mentioned earlier, the labour market context is difficult. People leaving school, even with a diploma, have many difficulties in finding a job in the formal economy. Moreover, the democratic system of social dialogue is quite new and in the early stages of development. Therefore, involvement of the social partners in the VET system is negligible.

The situation of vocational education in Albania is not very positive. After the transition, many VET schools lost prestige and gradually closed. So far only 38 VET schools remain, of which 25 are 3-year vocational schools and 13 are 5-year technical schools. The percentage of attendance has fallen to 18% of the total number of students in secondary education. Secondary VET starts at the end of 8 years of elementary education at age 15.<sup>49</sup> Curricula are mostly outdated, prepared at central level and not responsive to the evolution of the labour market. There is a lack of a national qualification framework. Moreover, there are serious gaps in the training of teachers and the availability of teaching material. Finally, there is insufficient co-operation between the Ministry of Education and Science and the Ministry of Labour and Social Affairs in the implementation of recently enacted law on the reform of the VET system (March 2002, see below).

The vocational training system in Albania consists of eight public training centres located in the main cities (Tirana, Durrës, Elbasan, Vlora, Shkodra, Kavaje and Tepelene). They provide short-term courses (from 6 weeks up to 4 months) in, *inter alia*, foreign languages, computer skills, tailoring, hairdressing, plumbing and secretarial tasks. The most sought-after courses are foreign languages and computer skills, and this reflects the new labour market demands. The trainees are generally registered jobseekers but also workers at risk of becoming unemployed and seeking to improve their employment prospects. They are mainly young and female. In the VET system, there is some evidence of gender stereotyping, which encourages young women to train in traditional female activities which may not help improve their future employability and earnings.

The Ministry of Labour provides the licensing and accreditation of private centres (150 private centres and this figure is rising due to the quality of services delivered) and of those established by NGOs. The VET system in Albania is characterised by the presence of a multitude of different, largely donor-led development and innovation projects. In 2001, the new EU CARDS<sup>50</sup> programme provided funds worth €37.5 million.

Albania started a reform of its VET system in 1993 but the process lost momentum due to financial problems, social unrest and the Kosovo crisis. In March 2002, the Albanian parliament finally approved a new VET law (No. 8872) designed specifically to address the

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49. European Training Foundation: Albania's Vocational Education and Training Reform Policy, Peer Review, February 2003.

50. The CARDS (Community Assistance for Reconstruction, Development and Stabilisation) programme was adopted with the Council Regulation (EC) No. 2666/2000 of 5 December 2000. The programme's wider objective is to support the participation of the countries of the Western Balkans (Albania, Bosnia and Herzegovina, Croatia, Serbia, Montenegro and "the former Yugoslav Republic of Macedonia") in the Stabilisation and Association Process. See: [http://europa.eu.int/comm/europeaid/projects/cards/foreword\\_en.htm](http://europa.eu.int/comm/europeaid/projects/cards/foreword_en.htm).

development of a modern employment-oriented VET system, which brings together all parties including the social partners. One of the innovative aspects of the new law is its provision for the establishment of a National VET Council to act as an advisory body to the government in the field of VET. Enterprises are seen as the setting where training courses are organised and where students can put their theoretical knowledge into practice. The public institutions involved are responsible for the governance of the system and, for the first time, there is a role for the social partners. The law also issues guidelines for the adoption of modern and labour market oriented occupational standards and curricula.<sup>51</sup>

This reform will be crucial for the proper functioning of the VET system in Albania. Until now the needs of the labour market have been poorly represented and there is no recognised methodology for curriculum development. Without a national qualification framework, training centres operate in complete freedom. There is also a lack of continuity between initial VET and further (adult) training. The concept of lifelong learning is unknown in the curriculum environment. Theory still outweighs practical training, which is a serious constraint on the acquisition of marketable skills.

### **Recommendations:**

- *Efforts should be made to ensure that education and training keep pace with changing qualification requirements in the labour market in an environment of rapid technological innovation, economic restructuring and keener competition.*
- *A lifelong learning approach to VET which reflects and responds to labour market needs should be developed.*
- *VET should be made more attractive and more accessible for jobseekers. A few incentives exist, i.e. extension of the possibility to receive the minimum income for up to 18 months if undertaking training, but more active measures of this kind should be put in place.*
- *Labour market training should be oriented towards skills which are in demand in the labour market. Gender stereotyping, which encourages young women to train in household related work and prevents them from taking part in training programmes that could lead to higher long-term earnings, should be avoided.*
- *More training on setting-up of small business should be provided for jobseekers, especially in areas where employment offers are very scarce. It could encourage a move towards the formal economy for many self-employed, family businesses or aspiring entrepreneurs. The existing – mainly private – offer for business training should be made better known to potential entrepreneurs and subsidised by the National Employment Service.*
- *In view of the increasing multiplicity of service providers, public and private, efforts should be made, particularly on behalf of the Employment Service, to provide jobseekers with a clear and comprehensive offer for VET. Increased co-ordination of*

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51. European Training Foundation: Albania's Vocational Education and Training Reform Policy, Peer Review, February 2003.

*the numerous service providers could also help combine existing training resources more effectively.*

- *The development of a national accreditation system would be an important step in order to enhance public confidence in academic standards and enable employers to understand the achievements and attributes of jobseekers.*
- *Institutional partnership in VET should be strengthened through the involvement of social partners in VET at all levels. It is crucial to involve workers' and employers' organisations in the design and implementation of the VET reform. They are in an excellent position to help identify the most appropriate forms of training for the job opportunities available. Their involvement means that these organisations are stakeholders in the whole process and committed to its success.*
- *During the process of curriculum reform and development, establish closer co-operation between the Ministry of Education and Ministry of Labour as well as between representatives of the VET sector and social partners. This will ensure that curriculum development meets the labour market needs.*

### **3.1.2. Active labour market policies (ALMPs)**

To a large extent, Albania's employment problems have been due to the fact that employment has been viewed as a derivative of macroeconomic policies rather than as the central concern of all economic and social policies. This is slowly changing, and Albania's "National Strategy on Socio Economic Development" (NSSED)<sup>52</sup> is an important step towards integration of economic and social policies. As a response to the NSSED, a Strategy on Employment and Vocational Training has been drafted with the aim of defining the framework for the design and implementation of ALMPs. This strategy has been drafted in collaboration with the Ministry of Economy, the Bank of Albania and other relevant stakeholders. The Strategy focuses on four main areas: labour market services, vocational training, entrepreneurship development and employment financing. The participation of the Ministry of Economy in the drafting of the Strategy shows the commitment of different stakeholders to employment promotion.

Both strategies are an excellent initiative on the part of the Albanian government and reflect the conviction that employment is fundamental to the fight against poverty. In this context, women's low economic activity rates are a matter of concern that warrants attention. Women's withdrawal from the labour market means income losses that may expose a family to poverty. As mentioned earlier, families with a working husband and economically inactive wife raising young children, as well as households headed by women, are more likely to be poor. This means that two wage earners are the key to lifting and keeping families above the poverty line.

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52. The NSSED, which was completed in November 2001, is a three year period poverty reduction strategy which has been developed by the Albanian government in co-operation of the World Bank and the IMF and is based on a wide process of consultation with different actors. The NSSED rests on two pillars: governance and strong economic growth. It also emphasises policy action to improve education, healthcare and infrastructure, while calling for stronger public accountability and increased public participation in decision-making to empower the poor.

Moreover, another targeted programme, having an employment component, was elaborated in 2003: the National Strategy for the Improvement of the Living Conditions of the Roma Minority. The Strategy highlights the need to tackle long-term unemployment among Roma communities, by a combination of vocational training, active measures and participation in public works. In order to implement the Strategy efficiently there is, again, a need for co-ordination of various policy objectives and for awareness among the staff of the employment offices on policies for specific groups.

### **Recommendations:**

- *It is important that the Albanian government continue working in this direction and strengthen policy integration. In order to promote a fully integrated approach, the Strategy on Employment and Vocational Training should not be restricted to ALMPs but extended to social, educational, tax, enterprise and regional policies.*
- *Furthermore, in order to reduce the gender gaps in activity and employment rates, as well as in earnings, and promote gender equality in the labour market, it is important to develop strategies aimed at mainstreaming gender in employment as well as other policies, such as those on childcare, parental leave and taxation, that have a direct bearing on women's status and gender relations in the family, the economy society at large. A mainstreaming strategy should also envisage targeted interventions to address particularly significant gender gaps in labour market outcomes. An equally important requirement is that employment programmes be directed at disadvantaged and vulnerable groups, such as the Roma or elderly people, and identify and address the different opportunities and risks facing men and women within these groups.*
- *It is important to include measures to support integration and combat discrimination in the labour market for people at a disadvantage as well as measures to facilitate the adaptability of workers and firms to change, taking account of the need for both flexibility and security.*
- *It is crucial to encourage the social partners as well as different ministries, especially the Ministry of Labour, Ministry of Education and Ministry of Economic Affairs, to work together on the implementation of both strategies.*

After the transition period, labour market policies focused on securing minimum living standards to the unemployed, and unemployment benefits and social assistance programmes were launched. However, it has been proven that this passive approach does not solve the unemployment problem. ALMPs can play a key role in combating unemployment,<sup>53</sup> and Albanian labour market institutions have started adopting a more active approach to labour market policies. In the mid 1990s, considerable pressure was put on the Albanian Government to implement more ALMPs, focusing more on training and employment promotion policies. In 1995, the approval of the law on employment promotion represented an important legislative step in relation to ALMPs. The law provides for the implementation of employment promotion programmes as well as the establishment of National Employment Services and of a National Employment Fund. It also contains several clauses that regulate the rights and obligations of employers vis-à-vis these programmes.

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53. See a detailed analysis of the advantages of ALMPs in promoting employment in transition economies in: Nesporova, A.: "Employment and labour market policies in transition economies", ILO, Geneva, 1999.

The next table shows government expenditure on ALMPs (except public works programmes). It can be seen that the funds allocated under the National Employment Fund, as well as the GDP percentage of expenditure on employment promotion and vocational training programmes, have substantially decreased. Therefore, the lack of financial resources is an important problem that ALMPs face in Albania. The National Employment Fund is stretched to pay benefit entitlements: what is left to be spent on ALMPs is very modest.

**Table 25: ALMPs: Employment promotion programmes and vocational training**

	1999	2000	2001	2002	2003 (i)
<b>Employment promotion funds (in million leke)</b>	300	550	400	310	150
<b>Vocational training funds (in million leke)</b>	30	31	38	64	64.8
<b>Number of participants in vocational training programmes (thousands)</b>	4,780	7,277	7,252	8,558	8,097
<b>GDP percentage of employment promotion and vocational training programmes</b>	0.067	0.105	0.074	0.056	0.028

Source: Albanian Ministry of Labour

Note: (i) The state budget funds for 2003 will finance the projects inherited from 2002.

In 1999, four different types of employment promotion programmes (EPPs) were set up to promote training and employment for unemployed jobseekers. The Albanian government devoted 1.71 billion leke to these programmes for the period 1999-2003. 36,000 unemployed persons are enrolled in these programmes. However, there is a lack of monitoring, evaluation and follow-up of these programmes. This is an important shortcoming since it impairs their assessment and future improvement. The following box presents a summary of the EPPs.

**Box 4: Employment Promotion Programmes in Albania**

- *The EPP for unemployed jobseekers:* Employers who engage in temporary employment (3-6 months) of unemployed jobseekers can profit from a monthly financing of their salary up to 100% of the minimum wage as well as of the beneficiaries' compulsory social insurance expenditure. If beneficiaries are employed for a period of up to one year and under regular contracts, the employer is entitled to monthly financing equal to the total of minimum wage and compulsory social insurance contribution for a period of up to 5 months. If the beneficiary does not have the appropriate vocational training for the task that he or she has to perform, and the employer provides it, he can receive a 10-20% increase in financing for each beneficiary.
- *The EPP for unemployed jobseekers through training in the workplace:* It financially supports employers who provide training for beneficiaries and who employ some of the trainees for periods of at least one year. The government financially supports the employer in terms of wages and social security contributions during the nine months of training. After completion of the training courses, the employer has the obligation to employ 40% of the trainees.
- *The EPP through institutional training:* Labour offices select and provide training to beneficiaries from those companies who (i) guarantee employment after training has been completed or (ii) can show through labour market studies or surveys that the training will be beneficial for the participant. Those beneficiaries that refuse to participate in these courses are removed from the lists of unemployed jobseekers and stop receiving unemployment benefits.
- *EPP for unemployed women:* The programme started in 2004. The programme aims to integrate into the labour market marginalised women such as Roma, ex-trafficked women, older women and women with disabilities. It lasts from one to three years. During the first year, the employer can benefit from 75% financing of compulsory social insurance contributions and 4 minimum wages. During the second year, the employers receive 85% of social security contributions and 6 minimum wages, and during the third year they receive 100% of social security contributions and 8 minimum wages.

The 1995 Law on employment promotion also identifies 18 groups of people more at risk of unemployment and in need of specific consideration. Specific measures to put some of these groups on the labour market are part of the four employment promotion programmes described above. Targeting the most vulnerable groups and implementing specific active policies could enhance access to the labour market for these groups. However, having too many target groups (18 are mentioned in the 1995 Law) can diminish the efficiency of the policies concerned.

### **Recommendations:**

- *Apart from seeking additional financial involvement of different stakeholders, it is important to discuss how to reprioritise the use of existing financial resources as well as to use these financial resources more efficiently and effectively. However, this can only be done after monitoring the outcomes of the programmes and analysing the results.*
- *When designing targeted programmes, a limited set of priorities for a limited number of target groups should be defined and related to existing active measures. The definition of target groups should be based on a core set of precise definitions, which would increase efficiency at the time of implementation.*
- *Labour market institutions should target not only unemployed jobseekers, but can also play an important preventive role by targeting those who are employed but at risk of losing their jobs. Considering the high level of women's inactivity rates, and the blurred frontier between "activity" and "inactivity", labour market strategies should develop strategies to reach out to inactive women as well.*
- *ALMPs can be more efficient when they are part of an integrated and targeted package. ALMPs should also be carefully targeted to groups with special needs such as particular categories of women including women of 35 years and over, women heads of household, rural women, and youth. In the case of women, it is important to combine vocational guidance and counselling with training and support services for the care of children and other dependent family members. It is important to develop ALMPs targeted to disadvantaged youth that, for instance, combine training with subsidised (first) employment and vocational guidance and counselling as well as youth business programmes.*
- *There is a need for better access of unemployed people to ALMPs designed to address the special problems that hamper their re-employment. Information on existing ALMPs is an important element of prevention/early action and the National Employment Services should therefore undertake more active promotion of ALMPs to guarantee transparency for individuals and increased awareness of existing opportunities.*
- *There is a need for regular information on participation in ALMPs, spending on these programmes and monitoring of outcomes, for instance through information on placement rates.*

- *The relevance and quality of ALMPs should be regularly assessed. Therefore, it is necessary to establish mechanisms to monitor and evaluate ALMPs with the involvement of the social partners. This can lead to improvements in future programming, clearer instructions to local labour office staff, and financial savings.*
- *In order to adequately assess ALMPs it is important to collect relevant labour market information disaggregated by sex. Labour market information systems in Albania need to be improved, and it is crucial to conduct labour force surveys since they are a very comprehensive source of labour market statistics.*

Public works were the first ALMPs implemented in 1998 after the establishment of the National Employment Services. Between 1998-99, 47,000 unemployed jobseekers were enrolled in temporary employment, of whom 30,000 were beneficiaries of social assistance. 730 projects were implemented and their total cost was 1.5 billion leke. The main objective of the programmes was to engage in temporary employment those who were in greatest need, such as the beneficiaries of economic aid and the long-term unemployed. These programmes offered local government the possibility of disqualifying for unemployment benefit and social assistance programmes those individuals no longer in need. It also offered an opportunity to combat employment in the informal economy. These programmes are no longer operating due to lack of funds.

Some other types of public works pilot programmes are currently under implementation using the funds of the social assistance programme. Although these projects were largely successful, there was some criticism because they did not last very long and had little impact in fighting long-term unemployment.<sup>54</sup> It has also been argued that in some transition countries, public works have in practice served as a vehicle for subsidising jobs, with the danger that they can replace existing jobs, in addition to pushing down wage levels.<sup>55</sup> Furthermore, public works are usually seen as poverty relief and beneficial for the community while not improving the re-employment chances of the unemployed participants. The investment in public works in Albania would have achieved more if it had been channelled into the promotion of longer-term employment programmes and into investing in skill development.

### **Recommendations:**

- *It is important that public works programmes are accompanied by other ALMPs such as skill development, vocational guidance and counselling, which improve the employability of the participants by increasing the chances of finding employment once the public works programme is over.*

### **3.2. Employment services**

The National Employment Service (NES) was established by the 1995 Law on Employment Promotion and its statute was defined in 1998 by a Decision of the Council of Ministers as the institution responsible for implementing labour market policies. In January 2003, the Strategy on Employment and Vocational Training (see section 3.1.2 above) describes the missions of the NES and priority areas for improvement of performance.

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54. Vocational education and training against social exclusion: Albania. European Training Foundation, 2001.

55. Vaughan Whitehead, D., op. cit.

The NES has 12 regional branches (Regional Labour Offices, RLO) and 24 local branches (Local Labour Offices, LLO) in addition to the General Directory operating at central level. The Vocational Training Centres are also under the administration of the NES. The NES is managed by a Tripartite Administrative Council. Local tripartite councils were also established at the level of LLOs. The NES has at present a staff of 373 persons distributed as follows: 45 at the headquarters, 328 in regional and local offices and 106 in vocational training centres. Compared with the number of population to be served, regional and local labour offices are seriously understaffed.

The services provided by the NES include the following: registration of jobseekers, cash payment of unemployment benefit, advising and counselling jobseekers, mediation (matching the offer of and the demand for work), collection of information on the labour market and implementation of the four employment promotion programmes. However, it appears that the work of LLOs is often limited to registration, payment of cash benefits and preparation of certificates for jobseekers. Little capacity is left to implement ALMPs and supply more services to the users – jobseekers and employers. Also, the capacity to fully explore the possibilities of local labour markets and, in particular, to establish and develop working relations with employers, is quite limited at the moment. Employers have an obligation to register with LLOs and report vacant jobs to them, but in practice many employers avoid doing so and using their recruitment services. Consequently, the NES does not yet play a central role in matching offer and demand for labour.

There is no computerised information system, even though pilot experiences have been carried out with the help of the World Bank and the Swedish Employment Services. Services to clients are administered manually.

Staff training has been undertaken over the last few years, especially in partnership with the French National Employment Agency, but mainly for headquarters staff and directors of regional centres. The training standard of staff of local offices is still very poor. Despite spatial reorganisation of a few labour offices, especially at regional level, premises and infrastructure are also very often ill-equipped.

However, it is obvious that local and regional labour offices have a crucial role to play in implementing employment policies, and in particular ALMPs, and in contributing to the improvement of existing programmes by providing information on their implementation and on needs of the local labour market. RLOs and LLOs should be the focal point for all actors involved in employment issues. This could take the form of local partnerships for employment. Local partnerships result from a willingness to jointly tackle a specific employment problem by involving all interested and concerned parties in the process. The advantage is to concentrate all possible forces on one problem or a set of related problems so as to maximise the use of existing scarce resources (human, financial, technical). Partnership working is also about finding new approaches to problems; existing pilot projects have shown its particular relevance for tackling employment problems in Albanian localities, where very often there is a general lack of information on existing possibilities, a feeling of isolation and helplessness and a lack of capacity to mobilise skills and energy. Local partnerships usually require a driving force/initiator and this role can be played by LLOs provided that they are adequately trained and mobilised.

The NES mainly covers urban/peri-urban areas while rural areas are out of its reach, unless jobseekers in the countryside move to urban areas where they can register with the NES and



obtain unemployment benefit.<sup>56</sup> The reason for this is twofold: 1) lack of administrative and financial capacity of the State to cover the whole territory and 2) the privatisation of land: rural households having received more than a certain amount of land are declared self-employed and are not accounted for by the NES. It prevents the NES from apprehending a large sector of the population, for which no data are collected and whose employment situation is unknown. It is in turn very difficult for the government to design policies to improve the employment situation in rural areas, where they are most needed. This gap in the capacity to provide services to rural/mountainous areas can be an aggravating factor for internal migration flows (from countryside/mountains to the cities). The possibility of obtaining unemployment and other benefits with the NES in urban areas is obviously not the main factor for migration (which is mainly due to lack of economic development) but it does nothing to reverse the situation.

There are very few private employment agencies (five for the time being) dealing mainly with placement of workers abroad.

### **Recommendations:**

- *While it is probably unrealistic to recommend now that the NES extend its service delivery capacity to the whole territory of Albania, it could be envisaged to develop local partnerships for employment in rural areas, centred around local authorities and aiming at exploiting existing employment opportunities as much as possible. The NES could provide these areas with outreach facilities to support such initiatives. Local partnerships for employment should in general be encouraged and supported, with the local employment offices as a driving force. The dissemination of existing good practice with respect to local partnerships should be supported by the NES .*
- *There is a need to reform the 1995 law on employment promotion with a view to empowering the NES to evolve further from being a benefit administration towards activating jobseekers, assisting them effectively in re-employment and providing quality services to enterprises.*
- *Between the decisions taken at national level on major employment policy choices and their level of implementation (local), there should be a very fluid transfer of information – top-down and bottom-up. In particular, the staff of local employment offices should be made more aware and better trained for correct implementation of policies and programmes decided at national level. They should also be able to report adequately on implementation. In particular, proper awareness of the measures decided for specific and vulnerable groups should be raised, especially at local level.*
- *The NES, at regional and local level, should intensify and further develop the relationship with employers. Some steps have been taken to attract them towards labour offices and to have a more proactive approach, but these should be strengthened. Prospection of potential employers should be further developed (and the staff of the NES should be adequately trained for it), working relations with chambers of commerce could be developed, more job fairs could be organised.*

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56. See: “The priority of employment – the path to real prosperity”, Lulzim Hana and Ilia Telo, in South East Europe Review for Labour and Social Affairs, Hans Böckler Stiftung, Vol. 7, No. 2/2004.

- *It is fundamental to continue and expand training of the staff of the NES. Lots of efforts have been undertaken over the last few years, particularly in the context of co-operation with foreign partners, such as the French ANPE. There is now a need for the NES to disseminate knowledge – through training and exchange of experience – towards the local level and more remote agencies. Equally important, in order to ensure the effectiveness of targeted programmes aimed at specific and vulnerable groups, is to enhance the awareness of the staff of the NES about the mechanisms of reproduction of discrimination based on gender, ethnicity and age, and their responsibility in preventing and addressing it. The identification and dissemination of cases of good practices and the development of ad-hoc guidelines would be a key requirement.*

*Outstanding training needs:*

- *improvement of the capacity of staff to provide individual counselling, unbiased profiling of needs and competences and follow-up/mentoring for persons registered with a NES. This is especially true for groups at risk of exclusion from the labour market or excluded;<sup>57</sup>*
- *develop capacity to explore needs and opportunities of local labour markets;*
- *improve reporting capacity of LLOs to collect data and to report (short-term studies) to the NES on the labour situation and on the implementation of programmes and measures;*
- *training in approaching employers: interviews, communication skills, etc.;*
- *need for continued and coherent training of trainers of NES;*
- *training of specialised evaluators, especially for evaluation of targeted programmes and for measurement of efficiency of the work of mediation. (length of registration with NES/length of subsequent work contracts for instance).*
- *The NES should pursue its efforts to evolve towards a more user-centred approach. Continuous and tailored individual follow-up for persons registered with the NES should guide active policies and help better react to the local labour market demand.*
- *Preventative action/early action should be clearly part of the mission of the NES. In particular, the possibility should be considered to have the NES more involved in processes of mass redundancies, due to privatisation or closing down of big factories.*
- *Many efforts have been made over the last few years to improve co-operation with social partners. They should be pursued and the social partners should in particular be more involved at all levels of the work of the NES (design, implementation and monitoring of policies and programmes).*

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57. Such as: women, particularly those over 35, young graduates, persons with disabilities, victims of human trafficking, members of ethnic minority groups such as Roma and Egyptians.

### 3.3. Passive labour market policies

#### 3.3.1. Unemployment benefits

Unemployment developed very rapidly in Albania as the economy collapsed, large numbers of state-enterprise jobs were lost, and the introduction of unemployment benefits provided an important component of the social safety net. Nonetheless, unemployment is an important determinant of urban poverty.<sup>58</sup>

Unemployment benefits and the eligibility conditions are defined in a Law on Social Insurance of 1993. All persons meeting the following conditions are eligible: (i) they have contributed to the social security system for a period of at least 12 months; (ii) they have certificates from the labour offices attesting that they are unemployed (iii) they are willing and available for training or retraining and they do not receive any other benefit under this law, with the exception of partial invalidity payments. Under this legislation, the unemployment benefit is a flat rate payable for up to 12 months or for a total of 365 calendar days where there are temporary periods of employment. Those that attend training or retraining but do not receive stipends or wages have the right to draw benefit over the whole training period up to a limit of 18 months.

**Table 26: Monthly unemployment benefit (in leke)**

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1,180	1,237	1,920	2,200	2,500	2,500	2,500	2,500	2,500	3,100	3,600

Source: INSTAT

While the unemployment benefit system is well-established, there are some important issues that need to be addressed. In a country with such high levels of long-term unemployment<sup>59</sup>, the duration of unemployment benefits is too short. This short duration of unemployment benefits, compounded by their low levels, is a serious cause of poverty. Furthermore, the inadequacy of benefits is a stimulus for unemployed persons to look for additional income in the informal sector and avoid turning to the public employment services.

#### Recommendations:

- *Albania needs to design an adequate social protection policy so as to provide a decent income for those who are not able to work or who cannot find work. At the same time, it should not allow people who are able to work to become dependent on welfare. Therefore, ALMPs and social protection measures should be mutually consistent and supportive.*
- *It is crucial to target the long-term unemployed, using a combination of needs assessment with individualised re-employment assistance, ALMPs and income support schemes to guarantee a decent income and promote their re-employment.*

58. World Bank: Albania, Growing out of Poverty, 30 May, 1997.

59. According to the World Bank, 1997, (Ibid) nearly every unemployed member has been out of a job continuously for more than a year.

### 3.3.2. Early retirement benefits

As in other transition countries, the social security system in Albania<sup>60</sup> has been burdened by developments linked to the transition process. These include a drop in employment rates, emigration, the rapid growth of the informal economy, as well as a surge of early retirement related to enterprise restructuring. This contributed to the deterioration of the “ratio of contributors to beneficiaries” which fell from 4.5 in 1992 to 1.6 in 1993 and still further to 0.8 in 1999.<sup>61</sup>

In 1993, the Law on Social Insurance tightened eligibility criteria for retirement, gradually raising the retirement age to 60 for men and 55 for women. In 2002, the government initiated a further gradual increase of five years in retirement ages for both men and women. As from July 2002, the retirement age is to rise in increments of six months until 2012, when men will retire at 65 and women at 60. To induce more people to participate in the scheme, the government is to cut the contribution rate by 4 percentage points from the current level of 42.5% of salary (32.5% paid by the employer and 10% by the employee), which is one of the highest rates in Eastern Europe. This change is necessary in order to secure the financial sustainability of the scheme. The deficit of the pension fund for urban workers has risen fourfold since 1998. On average, pensioners now draw a pension for 15 or 16 years; by 2012, with the retirement age raised, this is expected to fall to 11 years. The government increased pensions by an average of 10% in 2002, taking the minimum monthly urban pension to leke 6,116. The maximum increases to leke 12,232, but most people receive a pension that is close to the minimum.<sup>62</sup> Rural pensions are much lower than urban ones. The minimum rural pension is about 3 times lower than the urban one.

#### Recommendations:

- *Increasing the retirement age is an important measure to ensure the financial sustainability of pension systems.<sup>63</sup> However, the needs and rights of older people should be taken into consideration, especially those who have experienced poor working conditions, contributed for long periods or suffer from health problems.*
- *The increase in the retirement age should be accompanied by other complementary measures that allow older people to remain active longer. In this sense, targeted and gender-sensitive ALMPs related to the promotion of employability of older workers such as training and retraining are crucial.*

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60. One of the legacies of the communist era in transition countries was the state's large role in providing retirement benefits: pensions were a major responsibility of government, and there were almost no private arrangements. Pensions were financed on a pay-as-you-go basis through transfers of funds from state-owned firms to a social security budget within the state budget. Direct contributions from workers were rare. Benefits (old age, disability, survivors) were financed from the same budget and there was little transparency in the collection and allocation of resources. Retirement ages in transition countries were lower than those in OECD. In many transition countries, male workers could retire at age 60 with 25 years of service, while women could often retire at 55 or, in some countries, at an age determined by the number of children raised. See Fultz, E. and Ruck: “Pension reform in Central and Eastern Europe: An Update on the Restructuring of National Pension Schemes in Selected Countries” ILO, Budapest, 2000.

61. See Treichel, V.: “Financial Sustainability and Reform Options for the Albanian Pension Fund”, IMF Working Paper, 01/47, 2001. <http://www.imf.org/external/pubs/ft/wp/2001/wp0147.pdf>.

62. See section on “Pensions and the Retirement Age” in EIU: Albania Country Profile, 2003.

63. In the EU, the Barcelona European Council has also set a target for a progressive increase of about five years in the average exit age by 2010.

- *A substantial improvement of working conditions in many jobs is important for making them more attractive for older workers than remaining on income support.*
- *Giving practical effect to the provisions of the Labour Code forbidding age-based discrimination and considering the enactment of a legislation against age discrimination<sup>64</sup> is also an important step to consider since a large number of older workers and especially older women suffer from ageist stereotypes.*

### **3.4. Income policy**

#### **3.4.1. Wage policy**

As already mentioned, after the transition the Albanian Government, relying on the assumption that any increase in demand could trigger inflationary pressures, opted for a strict supply side policy of wage controls. Wages were kept constant as the main anchor of inflation, leading to their depreciation in real terms while prices were liberalised. Bearing in mind the inflation target, reform of the wage system in Albania was determined by the difficult economic situation of the country, political instability and the lack of a proper legal framework. Any change in wage policy, such as wage determination, wage increases and regulations, was accompanied by introducing a new law. Central wage policy is being implemented through four main instruments: (i) continuation of wage controls for state enterprises; (ii) irregular adjustment of wages and rigid tariff scales in the budgetary sector (iii) irregular adjustment of the national statutory minimum wage; and (iv) absence of indexation mechanisms.<sup>65</sup>

In 1995, the new Albanian Labour Code created the legal background for the institutionalisation of tripartite relations through the establishment of a National Labour Council. In 1996, a tripartite general agreement<sup>66</sup> was concluded for the first time concerning the creation of a tripartite wage committee with the task of reaching agreement on adjustment of the minimum wage. The tripartite wage committee is also responsible for discussing and issuing policy proposals on other, no less crucial, issues such as wages in the budgetary sector; real wage increases in the whole economy; payment systems linked to productivity and economic performance; statistical sources on wages and incomes; and more generally on the relationship between wage negotiations and consultations at the national and lower levels of wage bargaining. This Council also has responsibility for addressing issues of equal remuneration for work of equal value.

In this regard, it is hoped that the functioning of the tripartite wage committee will also prompt employer and trade union representatives to organise themselves at the more

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64. An important conclusion that can be drawn from the replies to an ILO survey undertaken in the EU accession countries, the Russian Federation and Ukraine is that attitudes and stereotypes leading to age discrimination are an important barrier that older people face in the labour markets of these countries. See Fortuny M., Nesperova A. and Popova N.: *Employment promotion policies for older workers in the EU accession countries, the Russian Federation and Ukraine. Employment Paper 50/2003*, ILO, Geneva, 2003.

65. See Muço, M.: "Income policy and labour market development in Albania: Some distribution and living standard implications"; Professor, Department of Economics; University of Tirana, Albania (1996). <http://www.nato.int/docu/colloq/1996/96-2-2.htm>.

66. These debates involving the three sides took place within the framework of the technical co-operation project on wage reform that the ILO and the Albanian Ministry of Labour have been jointly carrying out for more than three years with the precise aim of creating and developing a tripartite process for wage policies. See Press Release at: [www.ilo.org/public/english/region/eurpro/budapest/info/bul/96-2/n110\\_51.htm](http://www.ilo.org/public/english/region/eurpro/budapest/info/bul/96-2/n110_51.htm).

decentralised levels of branch, region and enterprise. Early in 1998, the government and the social partners negotiated the first minimum wage increase. Since then, the Albanian government has increased the minimum wage on an annual basis. In May 2003, a bipartite agreement was concluded between the government and the two main trade union confederations, the KSSH and the BSPSH, represented in the National Labour Council, particularly with a view to reducing wage and income differentials *inter alia*.<sup>67</sup>

### **Recommendations:**

- *Wage policy in Albania should continue to support the reduction of inflation and contribute to macroeconomic stability. However, it is important to keep in mind that increased wages and incomes represent an important economic instrument for boosting demand and increasing workers' motivation and productivity. Better wages would also help to shift activities currently in the informal economy to the formal and taxable sector. It would also help curb the worrying brain-drain taking place and motivated by the higher wages abroad.*
- *Positive steps should be taken to promote equal pay for equal work or work of equal value. Therefore, actions to address gender-specific pay gaps in both the public and private sector are necessary, and practical effect should be given to the relevant national legislation. Measures could include: assistance to the government in the development of job evaluation method free from gender biases; guidance to the National Labour Council on how to set a wage policy which is consistent with the principle of equal pay for work of equal value; educating employers and workers' organisations about the causes of wage differentials between men and women; the value from an efficiency and productivity viewpoint of promoting equal remuneration for equal work and work of equal value.*
- *Although tripartite relations in Albania have a short history, it is crucial that the social partners and the government continue developing, in line with overall economic and labour market reforms, wage setting mechanisms which adequately reflect productivity and skills.*

### **3.4.2. Tax policy**

Faced by the significant budget deficit of 1997 and widespread distrust of fiscal governance due to the collapse of the “pyramid” investment schemes, the government had to take stringent measures. Government expenditure could hardly be reduced, given the need for infrastructure and social security and social assistance. Priority had to be given to the revenue side, and a major step was the fight against smuggling and corruption. The government also decided to increase VAT (introduced in 1996) from 12.5% to 22%. Since the VAT increase, revenue from this source has grown significantly and, as we can see in table 19, in 2001 VAT was the most important source of revenue.<sup>68</sup>

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67. See Ghellab Y. and Vylitova, M.: Tripartite social dialogue on employment in the countries of South Eastern Europe. Draft Report prepared for the South East Europe Ministerial Conference on Employment, Bucharest, 30-31 October 2003.

68. See: SIGMA (Support for Improvement in Governance and Management in Central and Eastern European Countries) Balkans Report 2002; Republic of Albania Tax Administration; A joint initiative of the Organisation for Economic Co-operation and Development and the European Community.  
<http://www.sigmaweb.org/PDF/assessments/Balkans2002/AlbIntAudFC1202.pdf>.

**Table 27: Revenues under the consolidated budget 1993-2001**

	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Total Revenue</b>	<b>33,476</b>	<b>44,475</b>	<b>53,716</b>	<b>51,572</b>	<b>56,645</b>	<b>93,519</b>	<b>107,506</b>	<b>120,637</b>	<b>135,484</b>
<b>I. Counterparts funds</b>	<b>4,476</b>	<b>4,261</b>	<b>2,468</b>	<b>266</b>	<b>256</b>	<b>137</b>	<b>155</b>	<b>0</b>	<b>0</b>
<b>II. Tax Revenue</b>	<b>19,594</b>	<b>19,581</b>	<b>30,435</b>	<b>30,174</b>	<b>33,352</b>	<b>56,749</b>	<b>65,401</b>	<b>84,060</b>	<b>91,788</b>
II.1 From Tax office and customs	19,526	29,033	29,604	28,803	32,724	56,027	64,516	82,745	89,750
VAT and Turnover Tax	4,991	4,959	5,587	9,076	15,656	28,769	29,794	38,121	41,149
Profit Tax	3,980	2,745	2,477	3,418	2,393	4,323	6,033	8,115	10,248
Excise Tax	4,348	9,495	10,404	4,947	2,168	4,910	6,961	9,153	9,544
Small business Tax	590	824	870	754	385	910	1,188	1,641	1,974
Personal Income Tax	78	571	633	637	814	1,167	3,138	4,590	6,300
National Taxes and others	1,897	4,179	3,402	2,264	2,349	3,109	4,012	5,783	6,904
Solidarity Tax						224	1,940	1,793	837
Custom Duties	3,642	6,260	6,231	7,708	8,958	12,615	11,450	13,548	12,795
II.2 Revenues from local government	68	548	831	1,370	628	722	885	1,315	2,038
Property Tax	0	332	485	371	293	304	181	190	2
Local Taxes	68	216	346	999	336	417	704	1,126	2,036
<b>III. Social Inst. Contributions</b>	<b>3,853</b>	<b>6,407</b>	<b>9,245</b>	<b>12,666</b>	<b>12,227</b>	<b>15,827</b>	<b>18,165</b>	<b>20,053</b>	<b>22,506</b>
Social Insurance	3,853	6,407	8,638	11,646	11,282	14,566	16,814	18,523	20,710
Health Insurance	0	0	607	1,020	945	1,262	1,351	1,530	1,796
<b>IV. Non-tax Revenue</b>	<b>5,553</b>	<b>4,226</b>	<b>11,568</b>	<b>8,466</b>	<b>10,810</b>	<b>20,805</b>	<b>23,785</b>	<b>16,524</b>	<b>21,190</b>
Profit Transfers from BOA	1,162	400	5,926	3,859	8,030	16,400	17,591	10,225	10,912
Income of budgetary institutions	3,475	2,054	3,965	3,342	1,714	3,324	5,041	4,829	5,569
Other/not allocated	916	1,772	1,677	1,265	1,066	1,081	1,153	1,470	4,709

Source: INSTAT

Tax collection in Albania is very low compared to other countries in the region. One of the explanations for this low government intake is related to the structure of the economy, which depends to a large extent on a strong informal sector producing mainly non-tradable goods and services. On the other hand, direct taxation in general contributes little to government revenue; the bulk of revenue from direct tax sources stems from social security contributions. Nevertheless, despite the high contribution rates (which may push workers into the informal sector), overall revenue from social security is very low compared to other countries in the region.

### Recommendations:

- *Although major fiscal reforms have been recently adopted and the legal framework of modern taxation exists, some review and amendments are still needed. Major shortcomings exist in implementation. This implementation gap and the lack of capacity in the revenue and enforcement services require the serious attention of the Albanian authorities.*

### 3.5. Social dialogue

With the collapse of communism and the establishment of the foundations for developing a free market economy, Albania also started setting up new institutions for social dialogue. In

1991, a legislative framework for collective bargaining<sup>69</sup> was established with the aim of promoting a new industrial relations system. The first attempts to develop social dialogue between the government and the trade unions took place in 1992 in a context of rapid deterioration of living standards and rising unemployment. In 1993 the first agreement between the two main trade unions (CTUA and UTUA) and the government was signed to institutionalise the partnership, soon joined by the newly established employers' organisation, the Business Confederation of Albania, created in 1994.

These first years of reform were characterised by the tendency of the state to over-centralise and the lack of preparation of the social partners. Trade unions had to face the consequences of economic stabilisation reforms with massive lay-off programmes and declining real wages. They also had to develop a stance in relation to the new employment possibilities created by SMEs in the relatively new service sector. Employers' associations also had to contend with the lack of tradition in Albania as well as the attitudes inherited from the past. The role of the state as employer was another obstacle to the emergence of employers' organisations in the public sector. In the private sector, the variety of people in business has made collective action difficult.<sup>70</sup>

Despite these difficulties, the social partners sat down together for the first time in 1996, with the establishment of the National Labour Council (NLC).<sup>71</sup> The permanent members of the NLC comprise 10 representatives each from the trade unions and the employers' organisations, who sit together with government representatives. The operation of the NLC has shown some positive results. In September 1996, a tripartite agreement was concluded for the first time between the government and the social partners, concerning the creation of a tripartite committee on wage issues, which operates within the framework of the NLC. The NLC has enabled the social partners to gain legitimacy and to exert a degree of influence on economic and social policies – particularly in the area of income and wage policies. Nevertheless, it has also shown some administrative weaknesses, such as the irregularity of its meetings. Although the Council's constitution requires at least four meetings per year, often it has been convened much less frequently. Furthermore, the Council has never had financial independence, which would be the real foundation for true independence of the institution. Nor is the fragile political situation of the country (the government has had 11 Labour Ministers in as many years) beneficial for the NLC.<sup>72</sup>

The social partners played an important role during 2003; as already mentioned, a bipartite agreement was signed between the government and the two main trade union confederations, with a view to accelerating revision of the Labour Code, improving social dialogue,

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69. A legislative framework for collective bargaining was put together as follows: Constitution of the Republic of Albania; Law on the Right to Strike, July 1991; Law on Labour Relations, December 1991; Law on Collective Labour Bargaining, February 1993; Law on the Arrangement of Work and Leave Time, June 1993; Law on Trade Unions, October 1993. See Muço, K.: "Tripartism and Social Dialogue in Albania" in "Social Dialogue in Central and Eastern Europe" edited by Casale, G.; Central and Eastern European Team, ILO Budapest, 1991.

70. See Chapter 7: The Avoidance of Social Dialogue and Participation in Vaughan Whitehead, D., op. cit.

71. Article 200 of the new Labour Code of 1995 created the National Labour Council as a tripartite body of the highest level. The NLC seeks to harmonise the interests of the social partners and the government. There are consultations in the NLC on the following sets of issues: questions of the partners, economic policy, government measures on wage policy, fiscal policy, social affairs, the minimum wage, education and vocational training, and the application of ILO standards. The NLC is the forum for negotiating the application and improvement of labour legislation. See Muço, K., op. cit.

72. Topi, A., ILO: "Social Dialogue in Albania: Is it progressing?" in: 2004 ILO/SRO-Budapest Bulletin: Special Issue on South Eastern Europe  
[www.ilo.org/public/english/region/eurpro/budapest/info/bul/actual/2004\\_09.htm](http://www.ilo.org/public/english/region/eurpro/budapest/info/bul/actual/2004_09.htm).



enhancing workers' and pensioners' living standards and reducing wage inequalities. At the beginning of 2004, the Council of Ministers approved two important decisions, namely the decisions on "Rules of wage indexation" and "Extent of wage indexation in 2004". On the basis of these two decisions, the wages of employees in the budgetary and non-budgetary sectors have been indexed at 3.4% as of April 2004.

Albania has undertaken significant steps to institutionalise social dialogue, often in difficult political economic and social circumstances. A framework has been established within which representatives of the government and the social partners can interact in relation to economic and social issues of common interest. However, workers' and employers' organisations have some reservations about their level of participation in decision-making. Furthermore, unionisation is very low, especially in the private sector. The economic crisis and the apparent inability of the trade unions to ameliorate this process may have harmed their reputation.

All in all, despite considerable progress, social dialogue in Albania is weak. Tripartite bodies have been set up, but they are mainly limited to consultative functions and negotiations take place very rarely.

#### **Recommendations:**

- *It is crucial to strengthen the role and functioning of tripartite bodies by adopting and implementing legislation.*
- *It would be appropriate to establish tripartite supervisory structures that formally ensure the involvement of the social partners in employment policy.*
- *It is important to strengthen the position and status of social partners in Albania. In this respect, participation in training and education courses as well as sharing of experiences with social partners from other countries could be relevant to help professionalise the social partners' structure and culture and improve their negotiation skills.*
- *Training on gender issues for trade union representatives (such as training courses on negotiating for equal pay and promoting equality of opportunities within their own structures) is crucial to help combat gender discrimination and promote equality at work. The same applies to other forms of discrimination (on grounds of ethnic origin, disability, age, etc.).*

#### **4. Conclusions**

In the early 1990s Albania embarked on a political, economic and social transformation towards a market economy. Albania turned to international financial institutions and Western governments for advice and funding, and its reforms were soon regarded as an example for others in the Balkans to follow. They were characterised by a combination of rapid privatisation, the growth of small businesses and cutbacks affecting state enterprises. Rapid real GDP growth rates seemed to confirm the success of the reforms.

However, the much-vaunted successful macroeconomic indicators did not reflect the real economic and social situation. The development of the service sector was not able to

compensate the fall in industrial output, the financial sector remained underdeveloped, and the apparent rise in living standards largely depended on remittances from Albanians living and working abroad and large-scale smuggling and money-laundering. At the enterprise level, significant adjustments took place in terms of restructuring which led to a large number of dismissals. At the same time, the strict income policy and wage controls led to a rapid fall in real wages and exacerbated poverty. The collapse of the “pyramid” schemes was a catalytic event which led to further popular discontent and subsequent social unrest.

The effects of these changes on the labour market have been extremely serious. Unemployment rates are high and it takes on average more than a year to find a job if at all. Much of the working population is self-employed or working without pay in a household enterprise. Most self-employment is in agriculture, where only a few of the employed earn wages. The informal economy is large and there is evidence of long-term employment in the informal sector. The lack of decent jobs has induced mass emigration, while an internal urbanisation process is taking place with the hope of getting better chances of employment in towns than elsewhere in the country.

The political, economic and financial transformations introduced in the early 1990s have also widened the inequalities in labour market outcomes between men and women. Women’s activity rates are very low and much lower than men’s, unemployment is rampant and the wage gap is significant. Poverty is associated with lack of employment and underemployment and the incidence of poverty is higher among households headed by women and families with a working husband and an economically inactive wife raising young children. This means that two wage earners are the key to lifting and keeping families above the poverty line, and improving women’s employment opportunities is crucial to the attainment of this goal.

The importance of promoting productive and decent employment is vital to successful economic and social transformation in Albania. The ILO Global Employment Agenda is a response to this need. In accordance with the Millennium Development Goals, it promotes the quantitative objective of increasing freely chosen productive employment and the qualitative dimension of employment, both central to poverty eradication.

Within this framework, this paper has identified a number of priority areas where progress is needed and where monitoring should be carried out:

***A call for policy integration: co-ordination of macroeconomic policies with employment and social policies***

To a large extent, Albania’s employment problems have been due to the fact that employment has been viewed as a derivative of macroeconomic policies rather than as the central concern of all economic and social policies. This is changing, and Albania’s NSSD is an important step towards integration of economic and social policies.

It is important that the Albanian government should continue working in this direction and further strengthen policy integration. In this sense, it is crucial to involve the social partners as well as to encourage different ministries, especially the Ministries of Labour, Education and Economic Affairs, to work together on the implementation of the NSSD. Furthermore, in order to promote gender equality in the labour market it is important to develop strategies to encourage gender mainstreaming in all policies which have an impact on the place of women in the economy as a whole.

### ***Investing in human resource development***

Albania is facing serious skill mismatches in the labour market which threaten to become worse due to deficiencies in national education and training systems. It is crucial to improve the access, quality and effectiveness of the education system. In order to achieve this, increasing public investment in education is necessary.

A lifelong learning approach to vocational education and training which responds to labour market needs should be developed. Efforts should be made to ensure that education and training keep pace with changing qualification requirements in the labour market. Gender stereotyping, which encourages young women to train in household-related work and prevents them from taking part in training programmes that could lead to higher long-term earnings, should be avoided. The involvement of employers and trade union representatives in VET at all levels is crucial for the successful implementation of VET policies.

### ***Activating labour market policies***

After the transition and under the pressure of unemployment and limited budgets, most funds have been allocated to passive policies. However, steps have been taken to activate labour market policies. ALMPs can play an important role in shortening unemployment and increasing the employability of jobseekers. Labour market institutions should continue making every effort to throw training and retraining open to the maximum number of persons whose skills are inadequate. They should not only target unemployed jobseekers but can also play an important preventive role by targeting those who are employed but at risk of losing their jobs. ALMPs should also seek to reach out to “inactive” women, as “inactivity” is often the consequence of discouragement and lack of an enabling environment, including support services for children and other dependent family members.

ALMPs should be carefully targeted to specific groups. There is evidence that if policies are targeted to the specific needs of participants they tend to be more effective. In Albania, young people are highly vulnerable to unemployment and many emigrate. It is important to develop ALMPs targeted to disadvantaged youth and other groups exposed to unemployment or inactivity and less targeted by ALMPs such as women with children, people with disabilities, long-term jobseekers and older persons.

The relevance and quality of ALMPs should be regularly assessed. Therefore, it is necessary to establish mechanisms to monitor and evaluate ALMPs with the involvement of the social partners. This can lead to improvements in future programming, clearer instructions to local labour office staff, and financial savings.

### ***Employment services***

The National Employment Service is a key institution in employment policies, and it is therefore essential to continue the process of transformation of the NES into a modern, efficient and user-centred administration. Training of the staff of the employment offices, especially at local level, should be an ongoing priority. Programmes of co-operation and exchange with foreign employment services seem to be a very efficient way of impelling new working methods for a better response to the needs of the labour market.

The NES staff should be able to provide jobseekers with more and more tailored services, related to ALMPs and targeted programmes. The involvement of the social partners in the work of the NES should also be further enhanced, at central and at regional and local levels.

Finally, the NES could envisage ways of extending its activity to rural and mountain areas, for instance by means of local partnerships for employment, so as to contribute to a decrease in internal migration to urban areas.

### ***Business climate conducive to enterprise development and FDI***

Entrepreneurial activity largely depends on the overall business climate. It is important to develop a transparent legal framework that guarantees safe investment and the exercise of property rights as well as a tax system that does not discourage investors or force enterprises into tax evasion.

The development of sound financial and technical infrastructure is crucial to attract FDI. Investment in infrastructure can be promoted by allocating public resources or by providing concessions for private investors. In order to maximise the profit for FDI, a clear FDI policy framework needs to be developed.

Increasing the competitiveness of SMEs is crucial for the economy. The SME Agency is an important step in this direction. It is important to provide training for the new entrepreneurs who have to adjust to new activities chiefly in the service sector. It is important as well to provide more training on setting-up small business or self-business, in the framework of VET in particular. This should help generate employment, especially in sectors such as tourism and agriculture and could contribute to tackling the informal economy. Furthermore, it is crucial to improve the regulatory framework and legislative environment as well as to reduce the administrative costs for business start-up. Further efforts are necessary for transferring informal enterprises to the formal sector.

### ***Strengthening social dialogue: the key to a healthy labour market***

Despite some progress, social dialogue in Albania is weak. This is one of the major obstacles to a healthy labour market in Albania. Tripartite bodies have been set up, but they are mainly limited to consultative functions and negotiations take place very rarely.

It is crucial to strengthen the role and functioning of tripartite bodies by adopting and implementing legislation. Assistance is needed for employers' and workers' organisations to further develop and strengthen their capacity in collective bargaining, especially regarding wages, also with a view to ensuring equal remuneration for work of equal value, and regarding working conditions in order to promote equality of treatment and opportunities between men and women.

### ***Adequate social protection system***

Albania needs to design an adequate social protection policy so as to secure a decent income to those who are not able to work or who cannot find work. At the same time, it should not allow people who are able to work to become dependent on welfare. ALMPs and social protection measures should be mutually consistent and supportive.

In Albania, the level of unemployment benefits and social assistance are so low that it is not a disincentive to work, and unemployment is a cause of poverty. The inadequacy of benefits is a stimulus for unemployed persons to seek additional income in the informal sector and avoid turning to the public employment services. The social protection system needs to ensure that all members of society are provided with a minimum decent income, health care and social services and to permit the accrual of entitlements which will maintain a decent standard of living in the event of unemployment, sickness, maternity, old age and invalidity. The reforms have to ensure that the system is financially sustainable in the long run.

### *Improving data collection*

The overall capacity of the system to produce official statistics on a sustainable basis is seriously deficient. Surveys have been set up on an ad hoc basis when international funds were available, with ad hoc organisation on each occasion. The creation and maintenance of a sustainable national system for producing and disseminating official statistics on a regular basis is crucial. It is, in particular, important to set up and maintain a comprehensive database on labour market issues, disaggregated by sex, covering passive and active labour market programmes, their rates of participation, funding, monitoring of outcomes and assessment of their impact on the labour market.

Labour force surveys should become part of the national statistical system since they are the most comprehensive sources of statistics on the economically active population, employment and unemployment and earning levels. All labour market data should be disaggregated by sex to permit a more accurate analysis of labour market structures and dynamics and better-informed and more effective employment policies and targeted programmes.

Finally, Albania should consider the scope to modify the existing categorisation of the labour force into employed/unemployed and self-employed, as the latter category tends to hide the reality of the employment – and poverty – situation in rural areas.

## APPENDIX I

### List of relevant Council of Europe instruments ratified by Albania

Convention	Ratification date	Status
European Social Charter	14.11.2002	Ratified
Revised European Social Charter	14.11.2002	Ratified
Framework Convention for the Protection of National Minorities	28.09.1999	Ratified

#### **Declaration contained in the instrument of ratification of the Charter deposited on 14 November 2002:**

The Republic of Albania, in accordance with Part III, Article A of the Charter, considers itself bound by the following Articles of the Charter:

- Article 1: The right to work;
- Article 2: The right to just conditions of work;
- Article 3: The right to safe and healthy working conditions;
- Article 4: The right to a fair remuneration;
- Article 5: The right to organise;
- Article 6: The right to bargain collectively;
- Article 7: The right of children and young persons to protection;
- Article 8: The right of employed women to protection of maternity;
- Article 11: The right to protection of health;
- Article 19: The right of migrants workers and their families to protection and assistance;
- Article 20: The right to equal opportunities and equal treatment in matters of employment and occupation without discrimination on the grounds of sex;
- Article 21: The right to information and consultation;
- Article 22: The right to take part in the determination and improvement of the working conditions and working environment;
- Article 24: The right to protection in cases of termination of employment;
- Article 25: The right of workers to the protection of their claims in the event of insolvency of their employer;
- Article 26: The right to dignity at work;
- Article 28: The right of workers' representatives to protection in the undertaking and facilities to be accorded to them;
- Article 29: The right to information and consultation in collective redundancy procedures.



## APPENDIX II

### List of ILO conventions ratified by Albania

Convention	Ratification date	Status
C4 Night Work (Women) Convention, 1919	17.03.1932	denounced on 11.08.1964
C5 Minimum Age (Industry) Convention, 1919	17.03.1932	denounced on 16.02.1998
C6 Night Work of Young Persons (Industry) Convention, 1919	17.03.1932	ratified
C10 Minimum Age (Agriculture) Convention, 1921	03.06.1957	denounced on 16.02.1998
C11 Right of Association (Agriculture) Convention, 1921	03.06.1957	ratified
C16 Medical Examination of Young Persons (Sea) Convention, 1921	03.06.1957	ratified
C21 Inspection of Emigrants Convention, 1926	17.03.1932	denounced on 30.06.1999
C26 Minimum Wage-Fixing Machinery Convention, 1928	02.08.2001	ratified
C29 Forced Labour Convention, 1930	25.06.1957	ratified
C52 Holidays with Pay Convention, 1936	03.06.1957	ratified
C58 Minimum Age (Sea) Convention (Revised), 1936	03.06.1957	denounced on 16.02.1998
C59 Minimum Age (Industry) Convention (Revised), 1937	03.06.1957	denounced on 16.02.1998
C77 Medical Examination of Young Persons (Industry) Convention, 1946	03.06.1957	ratified
C78 Medical Examination of Young Persons (Non-Industrial Occupations) Convention, 1946	03.06.1957	ratified
C81 Labour Inspection Convention, 1947	18.08.2004	ratified
C87 Freedom of Association and Protection of the Right to Organise Convention, 1948	03.06.1957	ratified
C95 Protection of Wages Convention, 1949	02.08.2001	ratified
C97 Migration for Employment Convention (Revised), 1949	02.03.2005	ratified
C98 Right to Organise and Collective Bargaining Convention, 1949	03.06.1957	ratified
C100 Equal Remuneration Convention, 1951	03.06.1957	ratified
C105 Abolition of Forced Labour Convention, 1957	27.02.1997	ratified
C111 Discrimination (Employment and Occupation) Convention, 1958	27.02.1997	ratified



C112 Minimum Age (Fishermen) Convention, 1959	11.08.1964	denounced on 16.02.1998
C131 Minimum Wage Fixing Convention, 1970	18.08.2004	ratified
C135 Workers' Representatives Convention, 1971	18.08.2004	ratified
C138 Minimum Age Convention, 1973	16.02.1998	ratified
C141 Rural Workers' Organisations Convention, 1975	18.08.2004	ratified
C144 Tripartite Consultation (International Labour Standards) Convention, 1976	30.06.1999	ratified
C150 Labour Administration Convention, 1978	24.07.2002	ratified
C151 Labour Relations (Public Service) Convention, 1978	30.06.1999	ratified
C154 Collective Bargaining Convention, 1981	24.07.2002	ratified
C155 Occupational Safety and Health Convention, 1981	09.02.2004	ratified
C171 Night Work Convention, 1990	28.06.2004	ratified
C173 Protection of Workers' Claims (Employer's Insolvency) Convention, 1992	03.02.2005	ratified
C174 Prevention of Major Industrial Accidents Convention, 1993	03.03.2003	ratified
C175 Part-Time Work Convention, 1994	03.03.2003	ratified
C176 Safety and Health in Mines Convention, 1995	03.03.2003	ratified
C177 Home Work Convention, 1996	24.07.2002	ratified
C178 Labour Inspection (Seafarers) Convention, 1996	24.07.2002	ratified
C181 Private Employment Agencies Convention, 1997	30.06.1999	ratified
C182 Worst Forms of Child Labour Convention, 1999	02.08.2001	ratified
C183 Maternity Protection Convention, 2000	24.07.2004	ratified
P155 Protocol of 2002 to the Occupational Safety and Health Convention, 1981	09.02.2004	ratified

Source: ILOLEX; 18.1.2006 <http://www.ilo.org/ilolex/>

## **APPENDIX III**

### **The Bucharest Declaration**

**South East Europe Conference on Employment (SEE-EC)  
Bucharest, 30-31 October 2003**

#### **Improving Employment in South Eastern Europe**

The Delegates to the Conference of Bucharest, meeting under the chairmanship of Mrs Elena Dumitru, Minister of Labour, Social Solidarity and Family of Romania, at her invitation and at the invitation of the Council of Europe and of the Belgian Federal Public Service Employment, Labour and Social Dialogue, under the auspices of the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe,

Bearing in mind the expectations with regard to further co-operation with the EU and within the region,

Recalling the Thessaloniki Declaration adopted on the occasion of the EU-Western Balkans Summit on 21 June 2003,

Considering the important preparatory work leading to this Conference,

**approved unanimously the following declaration:**

**We, the Ministers responsible for Employment of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Romania, Serbia and Montenegro and “the former Yugoslav Republic of Macedonia”, as well as the Head of the Economic Administration of UNMIK,<sup>73</sup> recognise the common problems we face in the area of employment as a result of the restructuring linked to the transition to market economies, insufficient levels of investment as well as the damaging effects of the conflicts in the region in the 1990s.**

We acknowledge:

- the substantial reduction in employment and, despite the reforms and restructuring already under way, the consistently high unemployment and relatively slow pace of job creation, the wide skill mismatches and regional disparities, and their adverse consequences for poverty and social cohesion;
- the need to improve employment policies and employment services, including training;
- the need to further develop specific measures and programmes to improve access to employment of vulnerable groups;

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73. Associated to this process according to Security Council Resolution 1244 on Kosovo.

- the need to promote labour mobility and to remove obstacles preventing it;
- the need to improve social dialogue.

**Together and in partnership with relevant national and international institutions, we are convinced that we can better address these common problems, through improvements of our policies, reinforcement of our institutional capacities, pooling of our expertise in employment matters, and improved co-ordination of available international assistance.**

**We commit ourselves to a process of regional co-operation in the areas of employment, labour markets and training, as described in detail in the Appendix to the present Declaration. The process, intended to better addressing the above-listed problems, is aimed at:**

- **preparing our future integration into the European Union** by converging towards the objectives and guidelines of the European Employment Strategy;
- **implementing the Council of Europe standards in employment matters** – the European Social Charter and the Revised Social Charter – and creating a situation conducive to the application of Council of Europe Recommendations concerning the promotion of employment; and
- **making operational the core elements of the International Labour Office’s Global Employment Agenda in our countries.**

**We are aware that the success of our effort will depend on the creation of a favourable investment climate based on macro-economic stability, full co-operation with social partners, sound legal and regulatory frameworks and governance standards as well as on the development of small and medium enterprises. In this context, we commit ourselves to concentrate our efforts on the following areas:**

- promotion of entrepreneurship;
- greater mobility, by:
  - fostering a more flexible labour market but balanced with reasonable employment and income security for workers;
  - examining the possibility of promoting the free movement of workers in the region by means of bilateral agreements;
- incentives for employment creation and training;
- improvement of the performance of the national employment services;
- non-discrimination in access to employment, in remuneration and in working conditions, with particular attention to gender equality;
- handling of the social consequences of privatisations and restructurings;

- improvement of the quality of employment (contracts, remuneration, skills and qualifications, health and safety at work, employment related social protection, etc.);
- specific programmes for vulnerable groups (including access to credit);
- improvement of social dialogue and enhanced involvement of social partners in the formulation and implementation of social and economic policies;
- the transformation of undeclared work into regular work;
- adequate and comprehensive labour market information.

**We issue a plea for assistance from international stakeholders to achieve the goals of this Declaration.** We acknowledge the important support we have been receiving from international and bilateral institutions. In particular, we acknowledge the important analytical and policy development work of the International Labour Organization, the Council of Europe and the World Bank.

**Under the auspices of the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe, we look particularly to the Council of Europe and the International Labour Organization for strategic guidance and support in ensuring an efficient follow-up to our meeting along the lines described in the Appendix.**

**We commit ourselves to meet again in the Spring of 2005 to assess progress achieved over the next 18 months in implementing the goals set out in this declaration.**

**Done in Bucharest on 31 October 2003**

**Valentina LESKAJ**  
Minister of Labour and Social Affairs  
Albania

**Safet HALILOVIĆ**  
Minister of Civil Affairs  
Bosnia and Herzegovina

**Rumen SIMEONOV**  
Deputy Minister of Labour and Social Policy  
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**Davoriko VIDOVIĆ**  
Minister of Labour and Social Welfare  
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**Valerian REVENCO**  
Minister of Labour and Social Protection  
Moldova

**Elena DUMITRU**  
Minister of Labour and Social Solidarity  
Romania

**Dragan MILOVANOVIC**  
**Minister of Labour and Employment**  
**Serbia and Montenegro**

**Jovan MANASIJEVSKI**  
**Minister of Labour and Social Policy**  
**“The former Yugoslav Republic of**  
**Macedonia**

**as well as**    **Jürgen VOSS**  
**Associate Head for Economic Reconstruction**  
**United Nations Interim Administration**  
**Mission in Kosovo**

**We, the representatives of the Stability Pact for South Eastern Europe, the Council of Europe and the International Labour Organization, commit ourselves to ensure the follow-up to this Conference.**

**Miet SMET**  
**Chair, Initiative for Social Cohesion**  
**Stability Pact for South Eastern Europe**

**Gabriella BATTAINI-DRAGONI**  
**Director General of Social Cohesion**  
**Council of Europe**

**Bernard SNOY**  
**Director, Working Table II**  
**Stability Pact for South Eastern Europe**

**Göran HULTIN**  
**Executive Director – Employment Sector**  
**International Labour Organization**

## Appendix

### Operation of the process of co-operation on employment in South Eastern Europe

1. **The Council of Europe** is in charge of co-ordinating the process of co-operation, in close relation with the **International Labour Office**, under the auspices of the **Social Cohesion Initiative of the Stability Pact for South Eastern Europe**.

2. **The Ministers responsible for employment of the beneficiary countries of the Stability Pact for South Eastern Europe** will approve and regularly update the objectives of the co-operation on employment as well as the programme of activities. They will meet every 18 months. The next meeting will take place in the Spring 2005.

3. **An assessment process of national employment policies will be launched for each country:**

- 3.1. This assessment process will take into account the key elements of the Global Agenda for Employment of the International Labour Organization, the European Employment Strategy and the relevant Articles of the European Social Charter and of the Revised Charter and relevant Recommendations of the Committee of Ministers of the Council of Europe;
- 3.2. In the case of Bulgaria and Romania, the assessment process will rely on the Joint Assessment Papers (JAPs), prepared with the European Commission;
- 3.3. The national social partners will be fully associated in the process;
- 3.4. The assessment process will be inspired by the methodology applied between the European Commission and candidate countries in their co-operation on employment within the framework of the EU enlargement;
- 3.5. Employment experts from Belgium and other EU member states will be invited to contribute with their experience in implementing the European Employment Strategy.

4. **A Permanent High-Level Committee (PHLC) composed of the General Directors of Employment** of the beneficiary countries of the Stability Pact for South Eastern Europe will design the programme of activities; set up working groups; mobilise human and financial resources in support of the programme of activities; supervise its implementation and prepare the ministerial meetings.

- 4.1. The following partners will be able to participate in the meetings of the Permanent High Level Committee, as observers:
  - 4.1.1. the social partners of the countries concerned by the review of national reports;
  - 4.1.2. representatives of international organisations of social partners (IOE, ETUC);

- 4.1.3. representatives of interested international organisations (UNDP, UNECE, OSCE, OECD,...) and international financial institutions (World Bank, CEB, EBRD, EIB,...);
- 4.1.4. representatives of interested donor countries.
- 4.2. The technical contribution of the European Commission will help the process of co-operation.
- 4.3. The Permanent High-Level Committee will meet at least twice in between ministerial meetings. It will meet in Working Groups with experts to examine, in particular, the following questions:
  - 4.3.1. **Review of national employment policies (Working Group I).** The Working Group I will meet under the leadership of the **ILO**;
  - 4.3.2. **Capacity-building, quality of service delivery in employment services and improvement of programmes specifically designed for vulnerable groups (Working Group II).** The Working Group II will meet under the leadership of the **Council of Europe**;
  - 4.3.3. Each Working Group will meet at least once in between ministerial meetings.
- 4.4. The Working Groups will pay particular attention to the identification of projects to be funded by international stakeholders and donors. **The collection and co-ordination of demands and offers for assistance will be monitored by the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe.**

5. **The terms of reference and rules of procedure** of the Working Groups will be set up at the first meeting of the Permanent High-Level Committee, to take place in Brussels on 9 and 10 December 2003, at the invitation of the Belgian Federal Public Service for Employment, Labour and Social Dialogue.

#### 6. **Financing the co-operation process:**

The above-mentioned international organisations and international financial institutions are invited to provide long-term assistance to our process of co-operation on employment.

In particular, we ask for support from the stakeholders of the ISC of the Stability Pact for South Eastern Europe.

#### 7. **Entry into force of the process of co-operation:**

The process of co-operation, as described above, will enter into force on **9 and 10 December 2003**, at the occasion of the first meeting of the Permanent High-Level Committee.