Insights into Key Challenges of the Albanian Labor Market[1]

May 2015

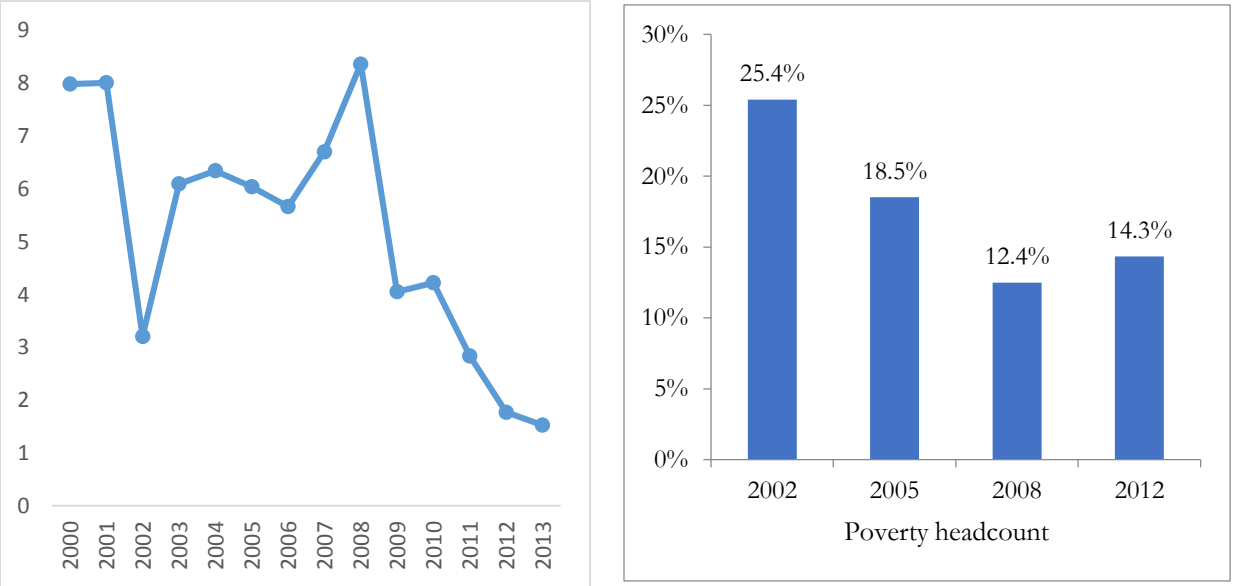
[1] This note was prepared by María E. Dávalos (Senior Economist) and César Cancho (Economist) of the Poverty Global Practice. The note is part of the work under the Programmatic Poverty Assessment for the Western Balkans (P145041), and is largely based in inputs prepared for the Systematic Country Diagnostic of Albania.

Table of Contents

Introduction

Albania was a fast growing economy until the global economic crisis. Per capita gross domestic product (GDP) grew at an average annual rate of 6 percent in real terms, with poverty falling sharply throughout the 2000s (Figure 1) and a good performance on boosting shared prosperity.[2] From being one of the poorest countries in Europe in the early 1990s, Albania reached middle-income status in 2008. After the global economic crisis hit, economic growth slowed down significantly and persistently in Albania, linked to the Eurozone crisis and particularly to the economic performance of Greece and Italy. The shock affected the industry sector in particular, with construction shrinking by 9 percent between 2008 and 2012. The labor market has suffered during the economic downturn and has adjusted mainly through job loss instead of wages. As a result, as an accompanying poverty analysis shows[3], the downward trends in poverty reduction halted, and the loss of jobs was a key factor behind unfavorable poverty trends (Figure A1).

Figure 1. GDP per capita growth (left) and poverty headcount (right)



Source: World Development Indicators, and World Bank estimates using LSMS.

To resume its trend of poverty reduction and shared prosperity, the country needs to accelerate growth and boost job creation. The recent Albania Systematic Country Diagnostic (SCD) shows that the domestic-driven growth model of the 2000s is exhausted and has led to household vulnerability and to macroeconomic imbalances. The SCD posits that accelerating inclusive growth – one that creates jobs - calls for restoring macro-stability, improving the business environment and governance, and improving the functioning of land markets and energy provision.

[2] Albania poverty market note, World Bank 2015.

[3] Albania poverty market note, World Bank 2015.

This proposed growth model needs to translate into quality jobs to improve living standards of households, but also to create a virtuous circle of higher growth prospects.

Beyond accelerating economic growth and creating an environment that promotes job creation, it is key to understand other obstacles that could hinder the match between jobs and workers and that limit employability for some groups in particular. In particular, a good understanding of how incentives to work, labor regulations, informal institutions and other barriers to work limit job creation for firms and economic opportunities for individuals is critical.

This note presents an overview of the Albanian labor market, and initial insights into the challenges for inclusive and better quality jobs. The note does not intend to be comprehensive, but rather aims at compiling – under an integrative jobs umbrella and the regional framework on jobs[4]- some of the available data and evidence on the Albanian jobs challenge, part of which was prepared for the Albania Systematic Country Diagnostic of the World Bank. By employing the regional report's framework, the note can guide the Government, development partners, civil society and other stakeholders in identifying the many knowledge gaps that remain for a comprehensive jobs agenda and the work needed towards completing the picture.

These initial findings show that, although the level of employment needs to increase, quality of employment is worryingly poor in Albania. Informality is high across the board and many people hold low quality jobs. In particularly, the agricultural sector – the main sector of employment – has a very low-skilled workforce and employs many as unpaid family workers. Overall, evidence points to the skills level of the population being low both in educational attainment and in quality of education. In addition, some groups are particularly excluded from economic participation including women and youth. Initial findings point to skills as an important factor that could hinder economic prospects for Albania, in addition to barriers to specific groups such as access to childcare (particularly relevant for women), finance and land. More work needs to be done to explore the role of labor regulations, taxes and social protection in affecting the level and composition of employment. Given these labor market challenges, and that they are more salient for the poor and bottom 40 percent[5], an agenda for reducing poverty and boosting shared prosperity needs to undoubtedly have more and better quality jobs at its center.

The note is organized as follows. Part I presents some of the key challenges of labor markets in Albania, looking into main labor market outcomes and key characteristics of employment in Albania. Part II explores some of the potential factors behind the observed labor market outcomes related to labor market institutions and human capital, particularly to disincentives to (formal) work from taxes and social protection systems, skills and barriers to work affecting some specific groups.

[4] Arias et al (2014).

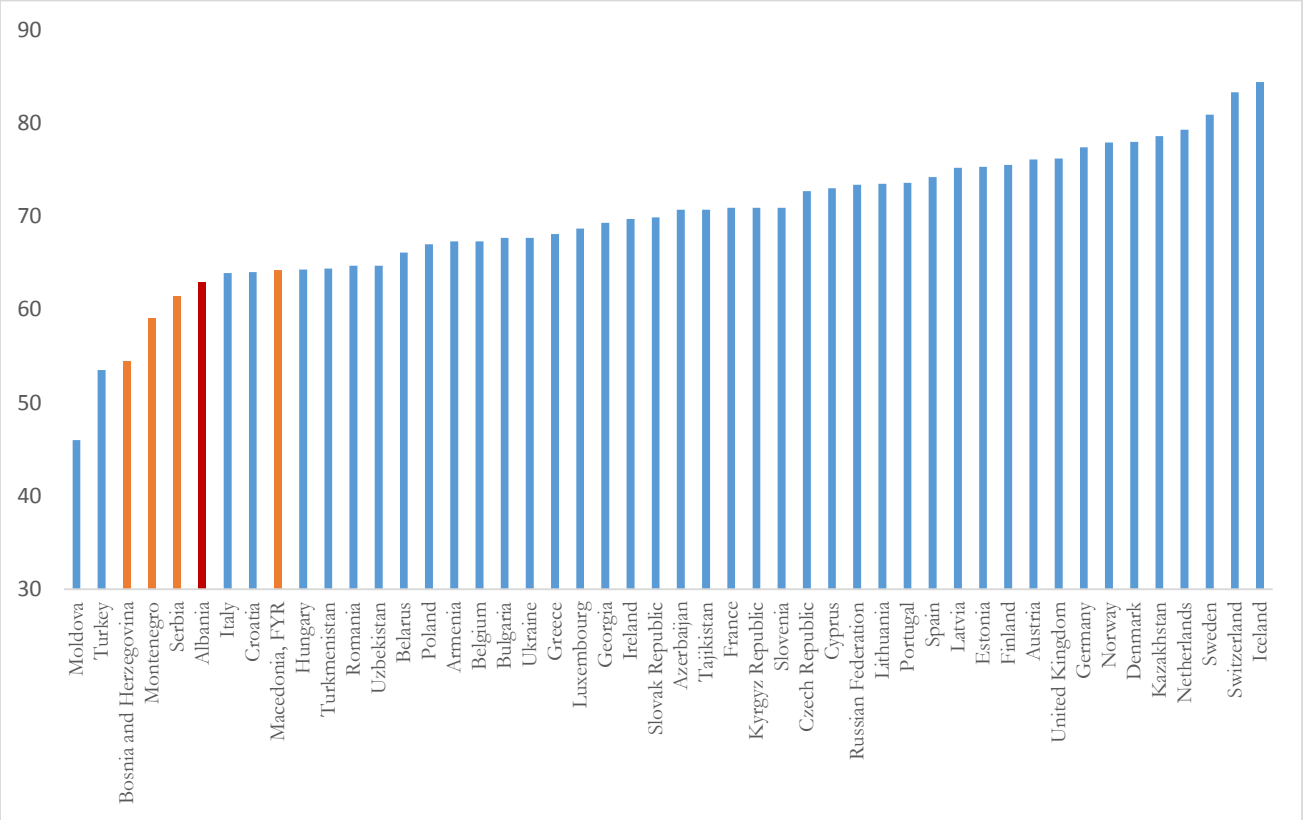
[5] See accompanying note on poverty in Albania (World Bank, 2015).

I. Key labor market outcomes and main challenges in Albania

Labor Force Participation

Labor force participation in Albania is low compared to the region, but higher than most countries neighboring countries. Activity rates are low across the Western Balkans, with the lowest labor force participation rate found in Bosnia and Herzegovina at 54 percent. At a 62 percent labor force participation rate, Albania is on the lower side for the whole region, but only surpassed by FYR Macedonia in the Western Balkans (Figure 2).

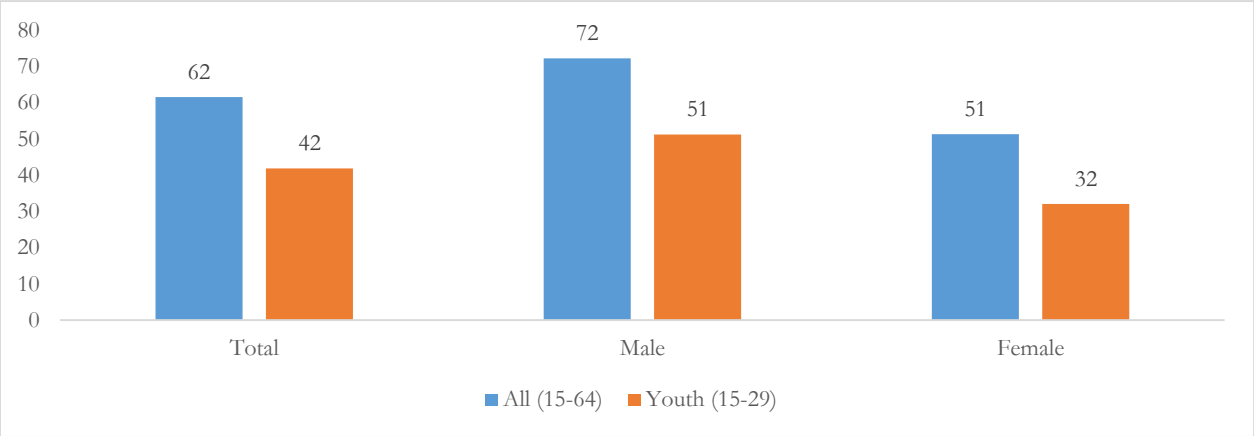
Figure 2. Labor force participation in Europe and Central Asia, 2013



Source: World Development Indicators.

Average labor force participation rates mask disparities by gender and age. Labor force participation is lower among women in Albania, as in most countries around the world. A considerable gap in labor force participation exists between men and women of working-age. While 51 percent of women participate, 72 percent of men do. A similar gaps exists for youth, although both young men and women participate significantly less; around 68 percent of young women are inactive (Figure 3).

Figure 3. Labor force participation in Albania, 2014



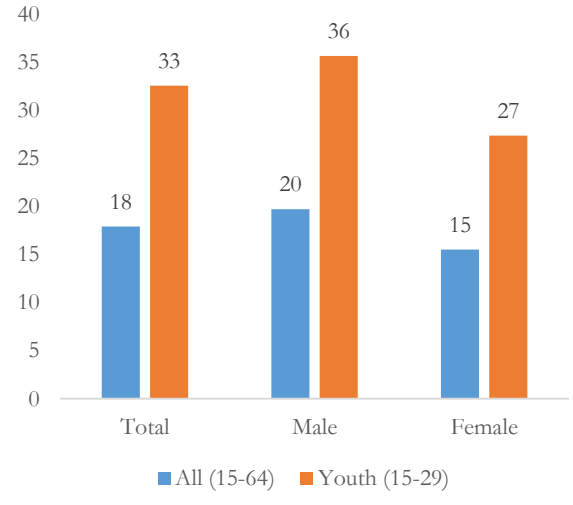
Source: INSTAT.

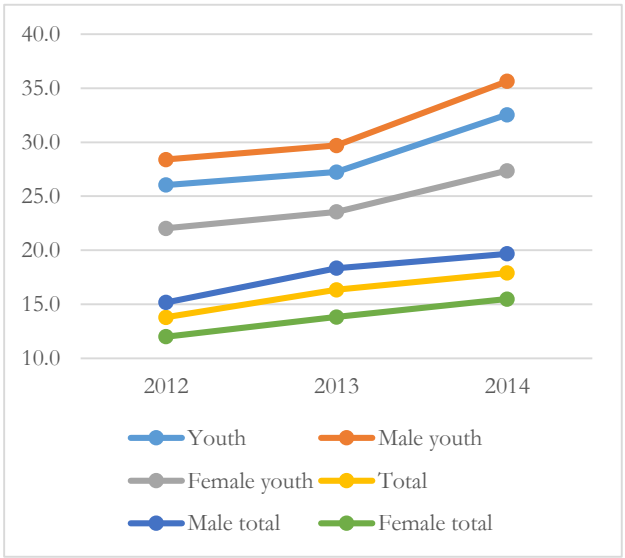
The global economic crisis and the persistent economic slowdown that followed had negative impacts on the Albanian labor market. Labor force participation fell by more than 3 points between 2007 and 2008 only. The shock was tougher on youth, with a decline of around 6 percentage points during the crisis (2007-2010). Data for recent years shows that labor force participation continued declining in 2012 and 2013, with some signs of recovery in 2014.

Unemployment

Unemployment started to increase following the global economic crisis, but more sharply in recent years. From an unemployment rate of around 14 percent in 2012, unemployment reached 18 percent in 2014 (Figure 4). The rise has been steeper for youth, with unemployment rate for young men reaching 36 percent in 2014, compared to 28 percent two years before.

Figure 4. Unemployment rate in Albania, 2014 and youth unemployment rate 2012-2014





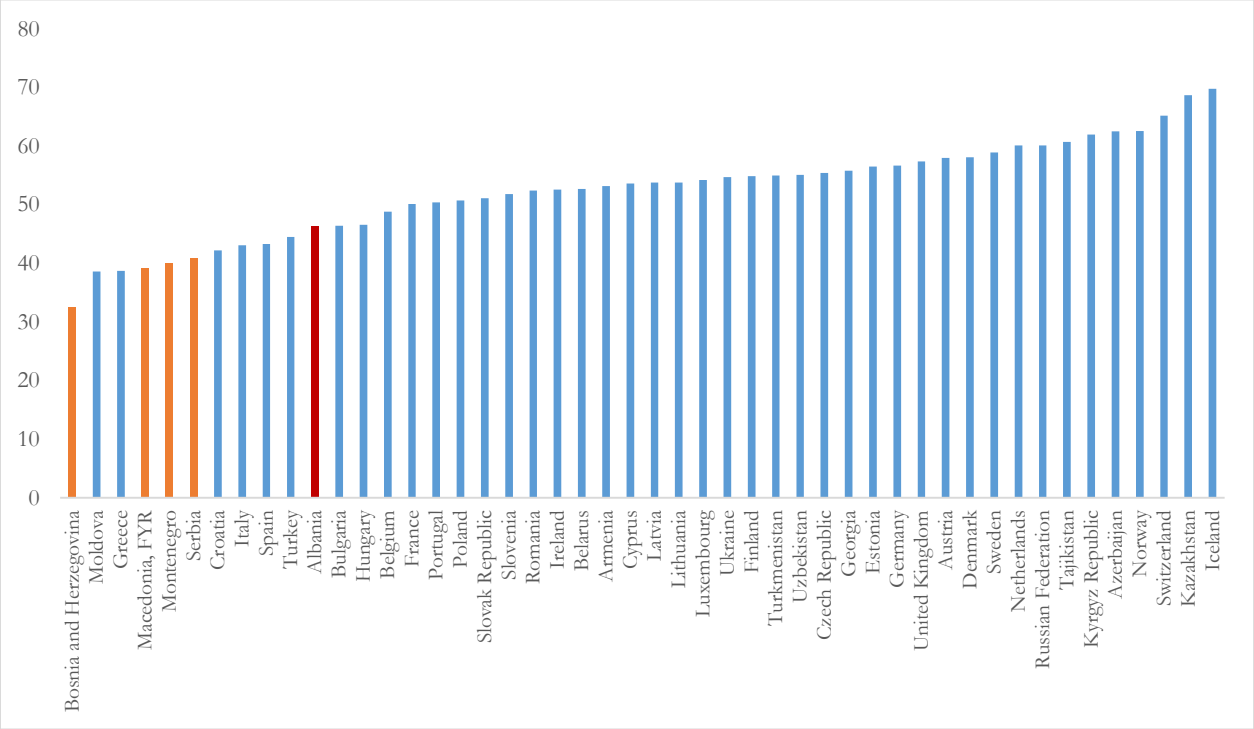
Source: INSTAT.

Employment

Employment rates in Albania are low compared to the region, but the highest among the Western Balkans. 51 percent of the working age population in Albania is employed; of those without jobs, more than three quarters are due to inactivity (78 percent), and the rest from unemployment. As presented in Figure 5, employment rates in Albania are relatively low compared to countries in Europe and Central Asia. Nevertheless, employment is higher than that of neighboring countries such as FYR Macedonia (39 percent), and the outstandingly low employment in Kosovo at 28 percent.

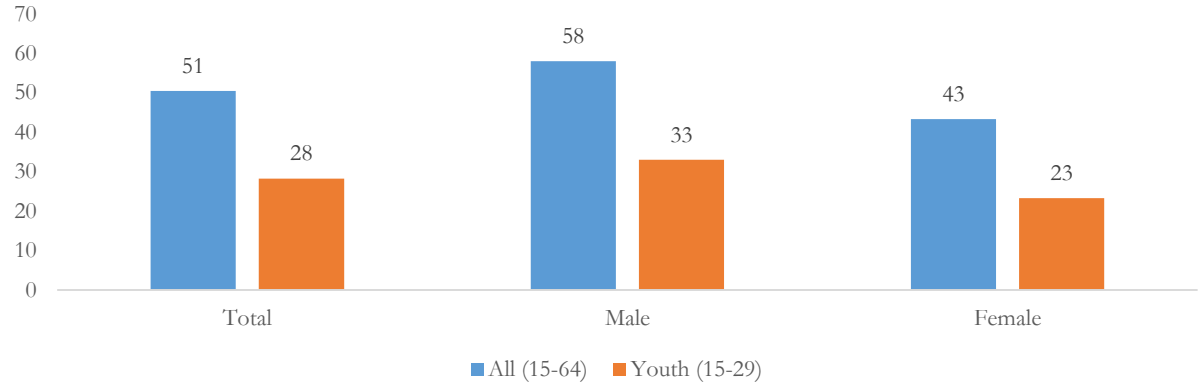
The employment rate among women is lower than for men, particularly from lower labor force participation. The average employment rate masks large inequalities in the gender dimension, with a 15 percentage point gender gap in employment rates in 2014 (Figure 6). This gap is entirely driven by differences in labor force participation. Accounting for differences in education, experience and others, being a woman is associated with a 15 percentage point lower probability of participating in the labor market (See Table A2). Across the lifecycle, fewer women than men work. The gender employment gap widens during women's childbearing years (25-34 years) and is the largest for the older groups in the workforce (55-64 years) (Figure A2).

Figure 5. Employment rate in Europe and Central Asia, 2013.



Source: World Development Indicators. Note: Latest data available (2013), for employment to population ratio 15+.

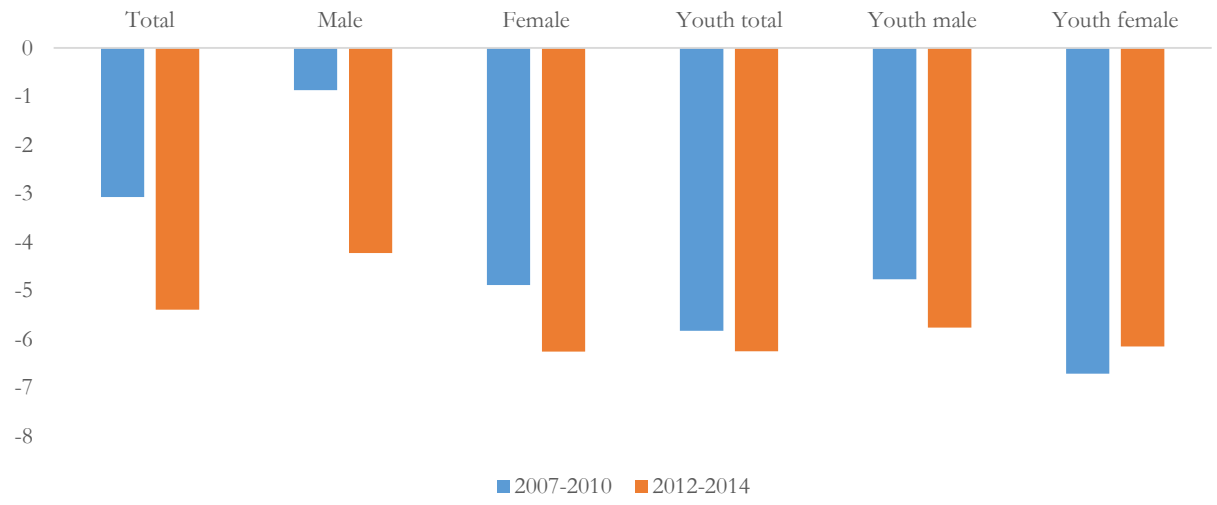
Figure 6. Employment rate, by gender, 2014



Source: INSTAT.

Employment declined during the global economic crisis, and has continued its downward trend. The labor market adjustment during the crisis took place in quantity (job loss), rather than in prices (wages). While employment rates declined, the distribution of hourly wages did not change dramatically in the crisis period (Figure A3). Employment continued to decline in 2012 and sharply in 2013 (6 percentage points in one year, going from 56 percent to 50 percent), slightly recovering in 2014 to 51 percent (Figure 7).

Figure 7. Changes in employment rates in two periods, by gender, 2007-2010 and 2012-2014

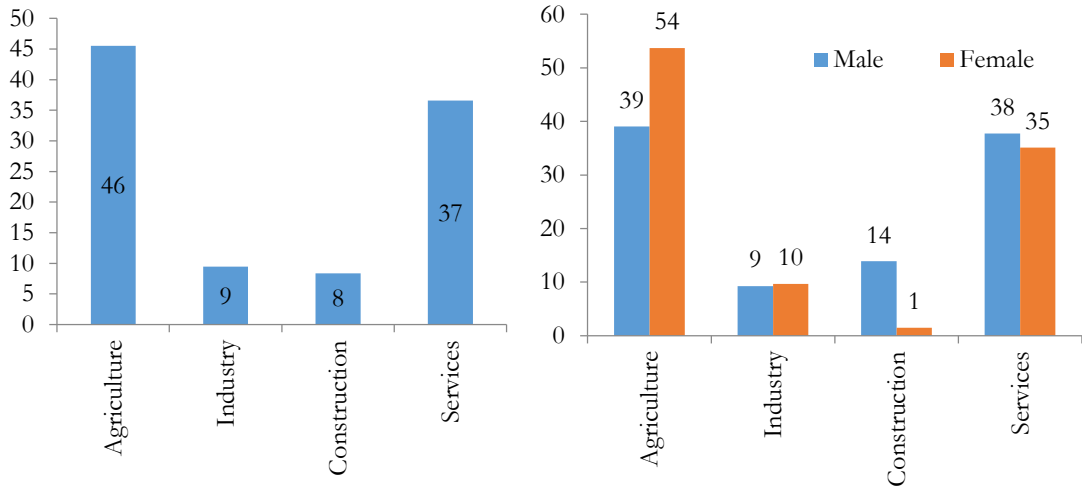


Source: Based on INSTAT.

The agricultural sector is the main employer in Albania. Close to half of the employed (46 percent in 2011) work in agriculture (a sector which represents around 22 percent of Gross Domestic Product), and employment rates for women in this sector are higher than for men (Figure 8). The services sector, in turn, accounts for over one-third of employment (37 percent), for both men and women. Industry and construction employ relatively fewer workers. Nevertheless, the distribution of employment has

shifted slightly away from the agricultural to the services sector. Data between 2007 and 2010 shows that the composition of employment by sectors changed, adding a few percentages points to the Services sector mainly in detriment of the Agriculture sector (Figure A4). Given the decline in value added of the construction sector due to the crisis, it is likely that employment in this sector further declined in more recent data.

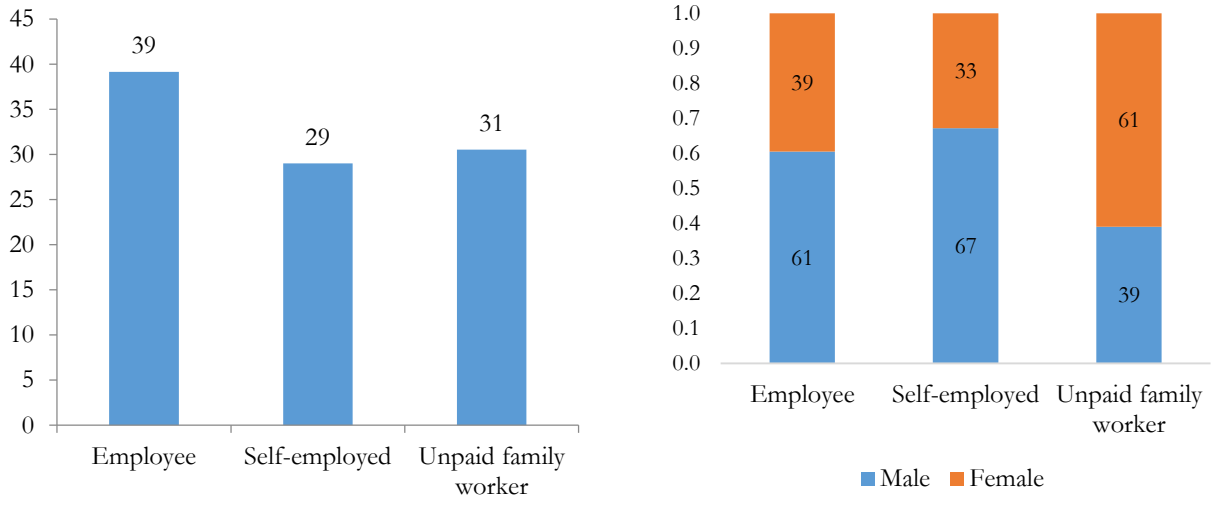
Figure 8. Share of total employment by sector, and by sectors and gender



Source: World Bank calculations based on 2011 LFS.

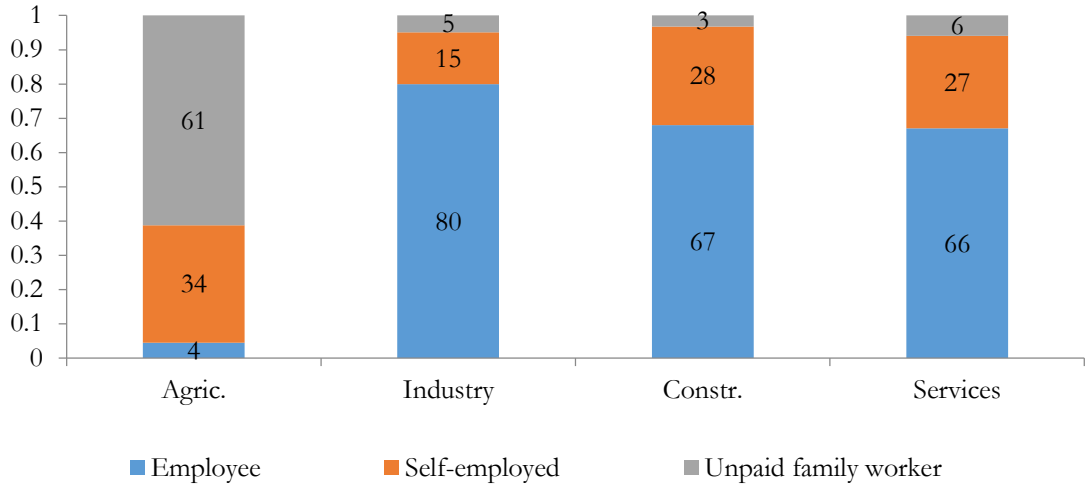
Quality of employment is very low in the agricultural sector. Among the overall employed population in Albania, a large share corresponds to either unpaid family workers (31 percent) or to the self-employed (29 percent) (Figure 9), with women are overrepresented among unpaid family workers (61 percent). In fact, of all employed women, 42 percent are unpaid family workers, compared to 21 percent of men. Conversely, the majority of wage employees are men (61 percent). The vast majority of unpaid family workers are in the agricultural sector. Around 91 percent of unpaid family workers are in agriculture, representing 61 percent of total employment in agriculture (Figure 10). Furthermore, given that more than half of the self-employed (54 percent) work in agriculture signals that self-employment is likely capturing, in its majority, farming activities in the country as opposed to non-farm entrepreneurial undertakings.

Figure 9. Share of workers by type of employment (left) and by gender (right)



Source: World Bank calculations based on 2011 LFS.

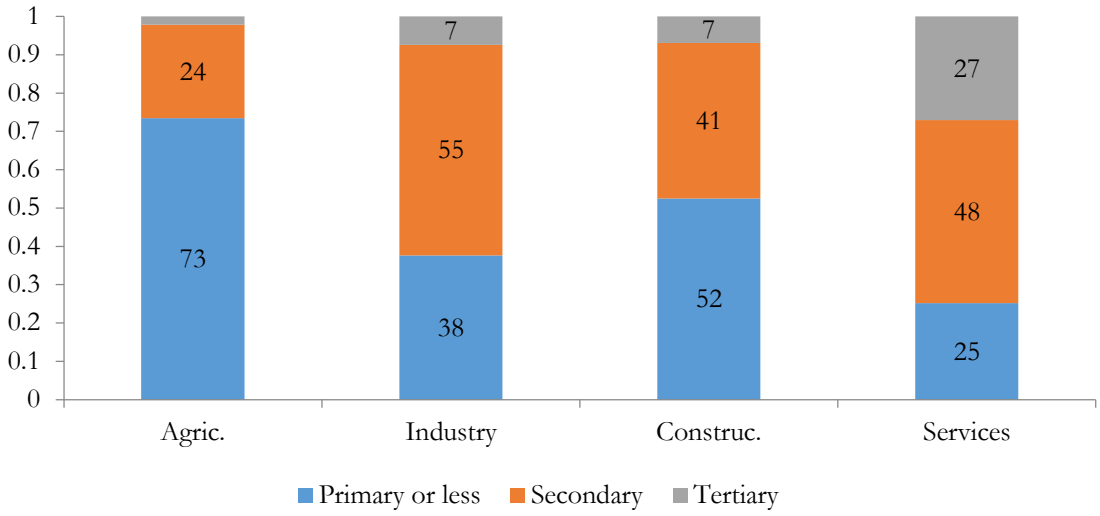
Figure 10. Share of workers by sectors and type of employment



Source: World Bank calculations based on 2011 LFS.

Agricultural workers are largely unskilled. The agricultural workforce is largely unskilled, with almost three quarters of workers having primary education or less, and almost all (98 percent) having secondary education or less (Figure 11). Of the unpaid family workers, mostly concentrated in agriculture, the majority have primary education or less (72 percent).

Figure 11. Share of workers with education level by sector

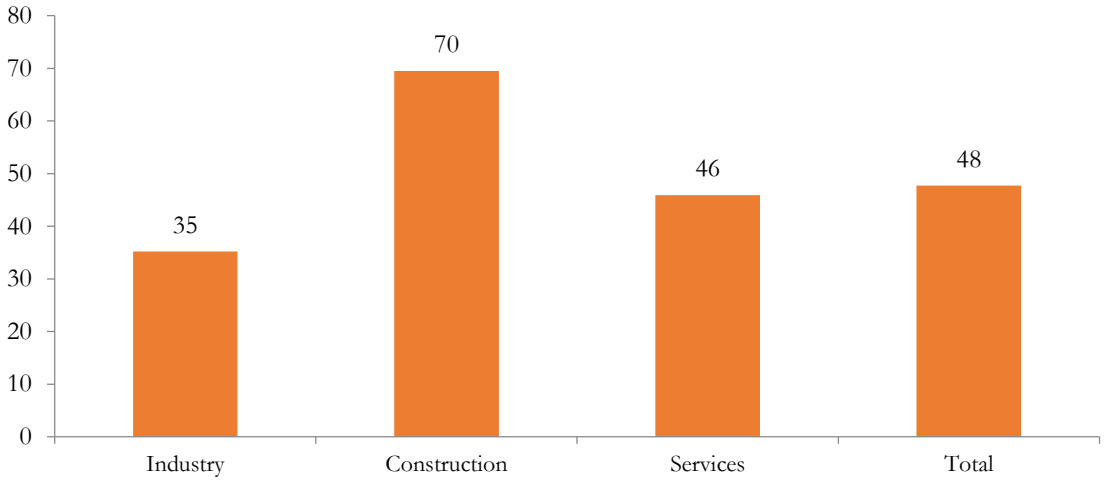


Source: World Bank calculations based on 2011 LFS.

Even beyond the agricultural sector, where over half of the employed are concentrated, quality of employment is low in Albania. First, informality is widespread in the Albanian labor market. Labor Force Survey estimates suggest that close to half of total employment outside agriculture corresponds to informal employment, and nearly three-quarters of the labor in construction is informal (Figure 12).[6] Second, the education level of workers outside of agricultural is also low, particularly in some sectors. The construction sector absorbs many unskilled workers, with more than half of construction jobs taken by people with primary education or less (Figure 11). The services sector, in turn, captures the majority (82 percent) of higher-educated workers, but still the majority of people have secondary education or less.

[6] World Bank calculations show 47 percent in 2010 and 2011; informality is defined there as all self-employed and unpaid family workers in nonagricultural sectors, plus employees not covered by social security. This is in line with the 43 percent in 2013 reported by INSTAT.

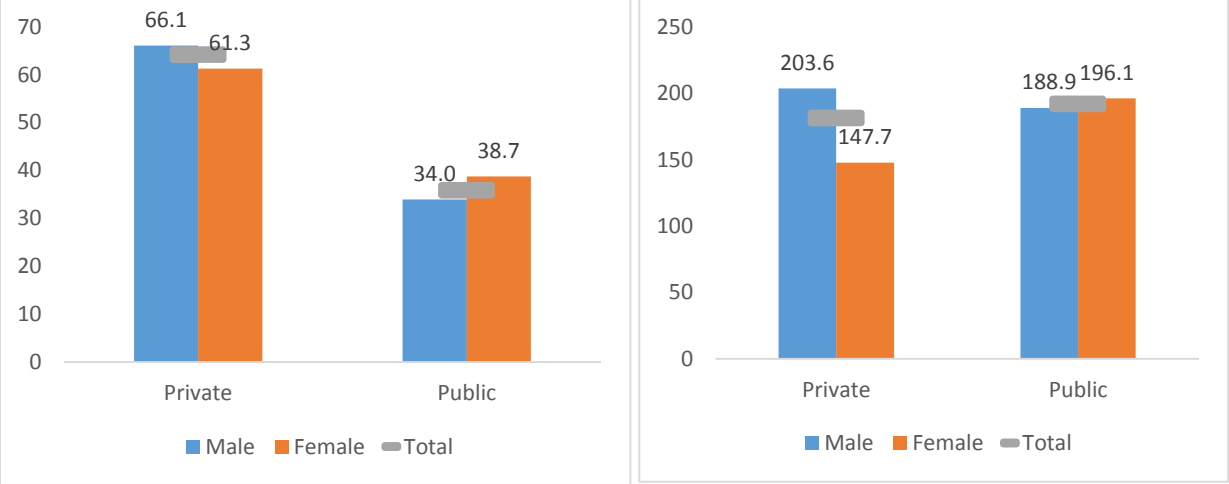
Figure 12. Informality in the nonagricultural sectors



Source: World Bank calculations based on LFS 2011.

Of those in wage employment, which represent around 40 percent of the total, private sector employment captures around two thirds of jobs. Employment distribution for salaried workers shows that the public sector employs more than a third of them (and around 15 percent of total employment in Albania). The share is slightly higher for women. Average wages per hour are slightly higher in the public sector, but aggregate comparison hides important differences across genders. Public sector wages show an egalitarian distribution, while the gender wage gap in the private sector represents more than 25% of the wage of a male worker.

Figure XX. Share of employment and wages by public/private sector and gender



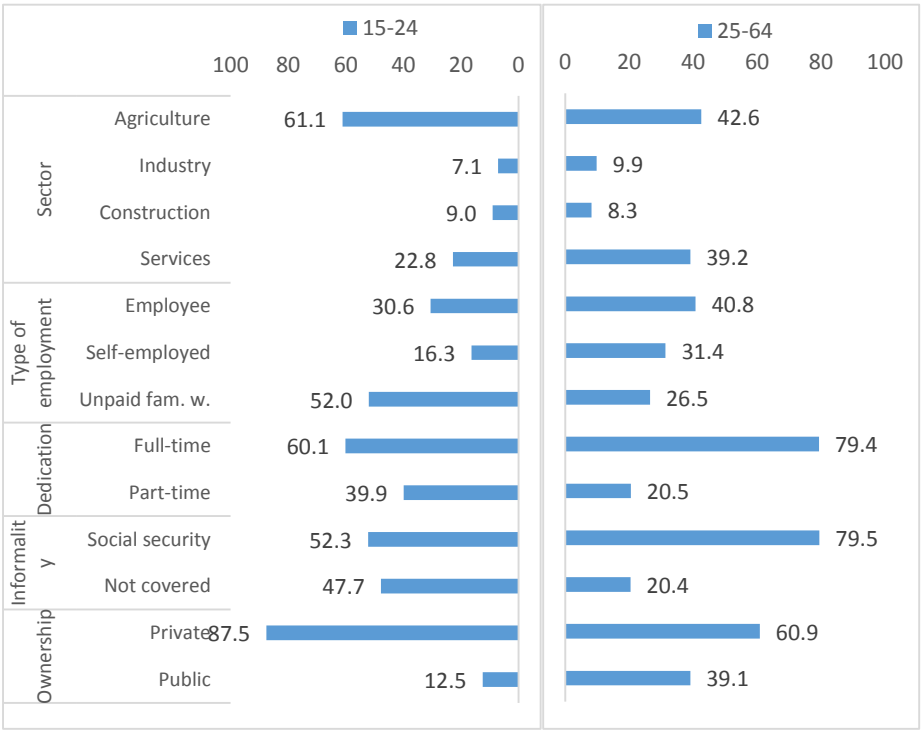
Source: World Bank calculations based on 2011 LFS.

In sum, levels of employment are higher in Albania than in neighboring countries, but quality of employment is very low. The agricultural sector employs a large share of the workforce, most low-skilled and many as unpaid family workers or self-employed. Outside of agriculture, informality is high and many are in low-skilled jobs. Youth and women face poorer labor market outcomes than the average (Box 1) and, as shown in recent poverty analysis, the poor and bottom 40 percent of the consumption distribution as well.[7]

Box 1: Youth Employment

The youth in Albania faces particular challenges in the labor market. Labor force participation is lower than for the national average (Figure 3), unemployment rates have increased considerably in the 2012-2014 period (Figure 4), and 15 percent of the youth were NEET (not in employment, education or training) in 2011. Challenges, unfortunately, do not stop there. For the employed youth, the quality of their employment is also different than for the rest of the employed population. Although the initial insertion to the labor market tends to be of lower quality than average in many other countries, the low quality youth employment sends a warning signal on the opportunities youth have to access good employment opportunities.

Figure B1. Employment Characteristics (15-24 and 25-64 workers)



Source: World Bank calculations based on LFS 2011. Notes: indicators on informality, part-time/full-time work and public vs. private work are only for salaried workers.

[7] Albania poverty market note, World Bank 2015.

Young workers (15-24) are more concentrated in the agricultural sector, and they more often an unpaid family worker, compared with the rest of the employed workers. Part-time work is also higher than for the rest; this is not surprising since this arrangement tends to be compatible with studies, but it can be an issue if it reveals unfilled preferences. The coverage of social security is lower than for the older workers, but still covers at least half of them. Finally, the share of youth workers hired by the public sector is considerably lower than the rest of the workers.

This profile raises concerns about the future employability of the youth. Having large share of unpaid family workers in the agricultural sector indicates that the youth are not accumulating the qualifications that can later move them to sectors with higher productivity.

II. Potential obstacles for inclusive and better quality jobs in Albania

Evidence suggests that there are constraints to a more vibrant and inclusive labor market in Albania. Although weak economic growth in the past years has limited job creation in Albania, labor market institutions and human capital are also key to better understanding labor market outcomes and prospects. Therefore, alongside efforts to accelerate growth, exploring obstacles to improving the quality of jobs is critical.

This section focuses on these aspects by providing an overview of available evidence on: (i) potential disincentives to work and to hire workers – from labor regulations, taxes and social protection systems; (ii) education and skills of the workforce and (iii) barriers to work or to being hired that affect some population groups in particular. These aspects can affect not only the level of employment in Albania, but also the composition and quality of that employment.

This section draws from the findings and framework of the Europe and Central Asia jobs report (Arias et al. 2014) to explore some of the obstacles towards a more inclusive and better quality labor market in Albania. Although the evidence is scarce in several of these buckets and little can be said, it is still a useful exercise to develop this framework for Albania to start filling it in with the evidence available and reveal the areas in which less is known. Therefore, the initial evidence presented in this section can guide a more comprehensive labor market analysis in Albania from the demand and supply sides.

1. Disincentives to (formal) work

Firms and workers may face disincentives to hire and work, respectively, that keep people out of the labor market or out of formal employment. Disincentives related to labor regulations, taxes

and social protection systems keep many from having a (formal) job.[8] The following paragraphs explore briefly potential sources of disincentives in Albania.

Regulations and institutions

Labor regulations influence the cost firms face in hiring and firing workers and can also affect employment decisions regarding the type of labor market engagement individuals and firms pursue. The impact of labor regulations on aggregate employment or unemployment is not fully established, but work across countries shows that it is likely to be limited if regulations fall within a certain range of flexibility or rigidity.[9] Nonetheless, some groups, particularly outsiders such as youth and women might be more affected by stringent labor market regulations.

The impact of labor regulations on labor market outcomes is ambiguous in Albania, and requires further evidence. The country fares differently across various available indicators, so a comprehensive assessment is needed. For instance, in terms of flexibility in setting wages, the country ranks particularly poorly at 123rd in 148 countries (the worst position among Southeast European countries).[10] Similarly, cross-country regional data for 2010 placed Albania as one of the countries with the highest minimum wage (as a percentage of the average wage)[11], with a potential impact on incentives to hire low-wage earners. Conversely, the country ranks well worldwide in the flexibility in hiring and firing workers (position 29 in 148 countries) and few firms report labor regulations as an obstacle to operations.[12] Relevant for women in particular, Albania has a relatively long paid maternity leave, higher than all Western Balkan countries with the exception of Bosnia and Herzegovina; the literature establishes a link between relatively long maternity leave and women's labor force participation, with potential effects on women remaining in inactivity or having more limited career advancement.

Other regulations are also key to promoting job creation and an environment in which firms can thrive. For instance, improving the business environment is among the priorities for higher growth in Albania, and certainly for higher job creation. The Albania SCD discusses that firms cite institutional and governance barriers as negative factors affecting sales and employment growth. The 2015 Doing Business Survey shows that despite recent progress, institutional and regulatory barriers remain for firms, particularly in registering the property, obtaining construction permits, and trade logistics.[13]

Taxes and social protection systems

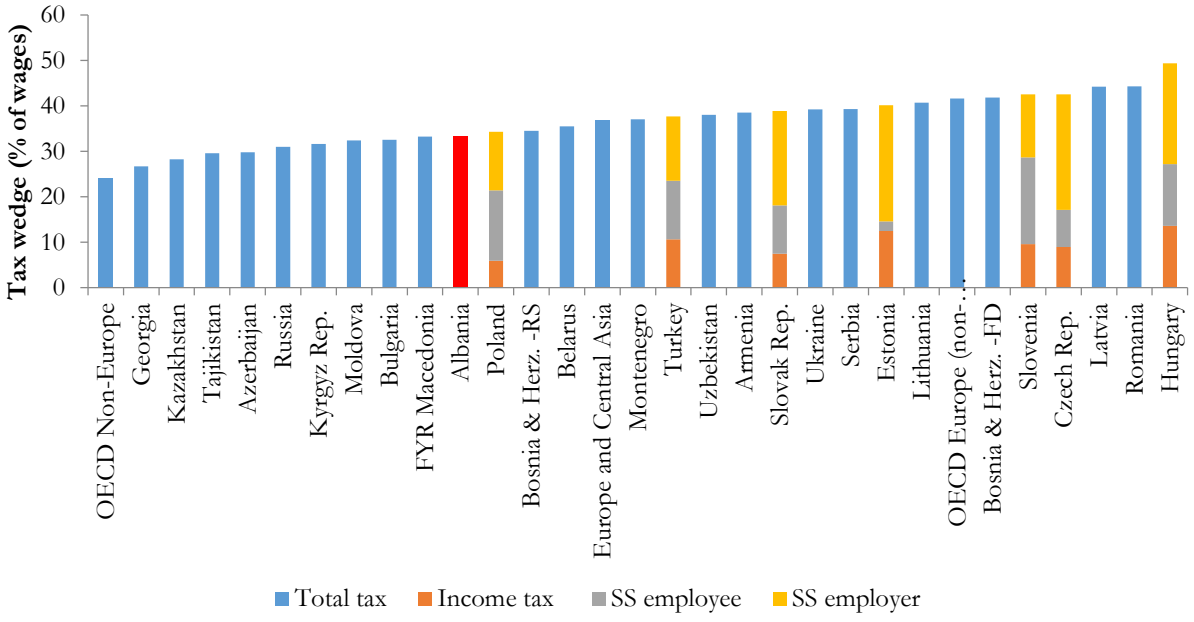
Labor taxes and social protection systems can also influence decisions to work and hire.[14] Evidence on work disincentives from taxes and social protection systems is, however, scarce for

[8] Arias et al. (2014).
[9] At a plateau, in the language of the World Bank's *World Development Report 2013* on jobs. See also Arias et al. (2014).
[10] Schwab, K. ed. 2013. Insight Report: The Global Competitiveness Report 2013–2014. Geneva: World Economic Forum.
[11] Arias et al. (2014).
[12] BEEPS (Business Environment and Enterprise Performance Survey) (database), European Bank for Reconstruction and Development and World Bank, London, http://ebrd-beeps.com/data/.
[13] Albania SCD.
[14] See Arias et al. (2014).

Albania. The recent ECA jobs report showed that the level of labor taxation in Albania is slightly lower than the regional average (Figure 13), with the whole ECA region having taxation rates higher than in non-European OECD countries. Furthermore, data from the World Competitiveness Report suggests that Albania actually performs better than many other countries in the extent to which labor taxation gives rise to work disincentives (Figure 14).

Beyond the taxation level, the structure of labor taxation also matters. Low progressivity can potentially discourage low-wage earners to work (formally). Most countries in Europe have taxation systems that are progressive, including in the countries in emerging Europe, although the gap in the tax wedge between wages of average and low earners increases less sharply with earnings in emerging Europe than in Western Europe. Personal income tax in Albania was set at 10 percent of earnings for all workers, a flat personal income tax thus with zero progressivity. In January 2014, the progressivity of labor taxation improved in Albania: the government introduced a progressive income tax system on salaries with rates of 0 percent, 13 percent and 23 percent corresponding to monthly salaries up to Lek 30 thousand, 130 thousand, and in excess of 130 thousand, respectively. Evidence on the potential impact of this measure on employment is not yet available.

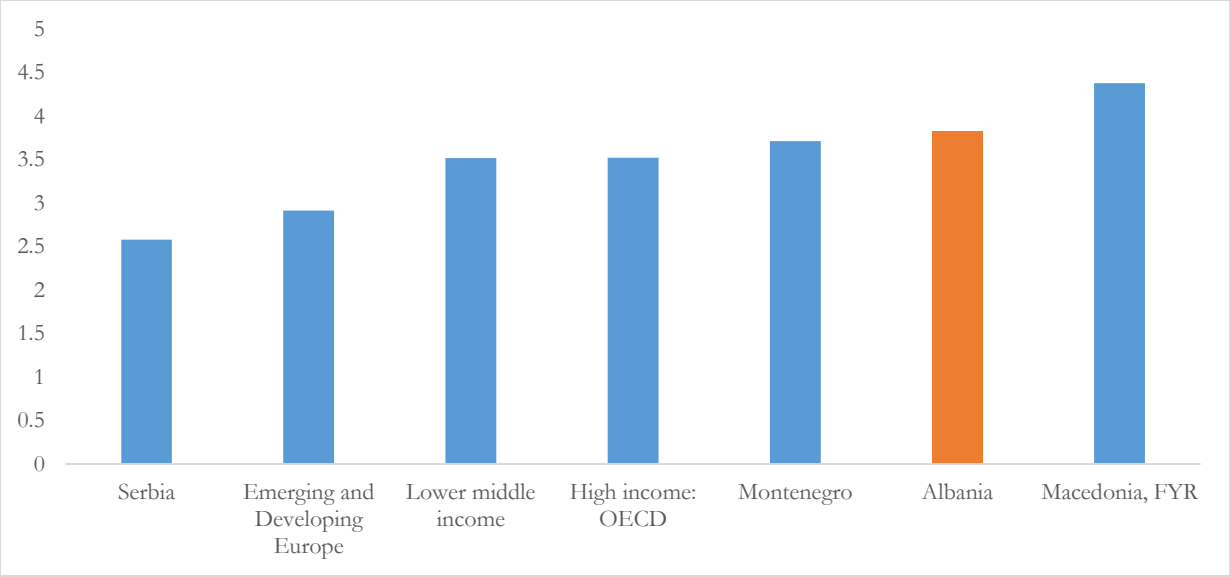
Figure 13. Labor Taxation in Albania, 2009–11 (Level of labor tax wedge, % of wages)



Source: Arias et al. (2014).

Note: The tax wedge is calculated for a single person, without children, at the average wage. Data for Bosnia and Herzegovina, FYR Macedonia, and Serbia are for 2009; for Bulgaria, Latvia, Lithuania and Romania, data are for 2010; for other countries, data are for 2011. SS = social security.

Figure 14. Effect of taxation on incentives to work (scores 1 through 7)



Source: The Global Competitiveness Report 2014–2015. World Economic Forum, Geneva**.** Note: Scores from 1 through 7, with lower scores signaling more disincentives to work from taxation.

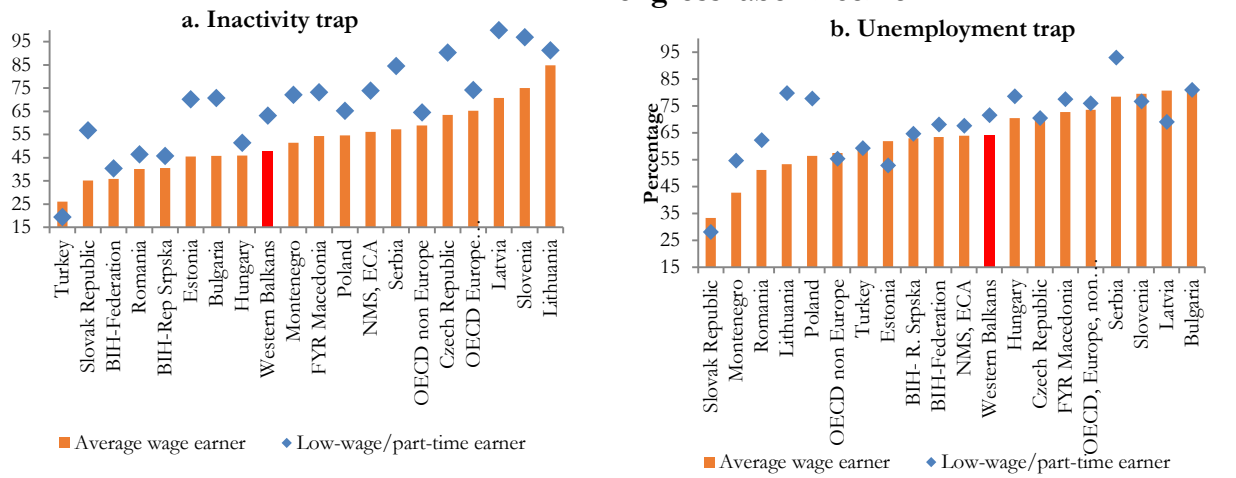
Beyond labor taxation, social protection systems have the potential to discourage (formal) work.[15] The disincentives can arise through various mechanisms including overly high generosity – which would discourage people from seeking work if potential labor income is more than compensated by public transfers – and design or structure of the program. Albania's social safety net program includes the Solidarity Albania Program and the disability assistance program. The former is the main poverty-targeted benefit, while the disability assistance is a categorical benefit provided irrespective of the economic status or degree of disability. Coverage and generosity of the Solidarity Albania Program is low. The share of the poor the program covers is at around 24 percent and benefits represent 16 percent of the total post-transfer consumption of the poorest beneficiaries (2012). Nevertheless, the program has built-in work disincentives from exclusionary filters discouraging employment, including related to ownership of assets and labor market status.

Targeting of Solidarity Albania is currently being reformed, with ongoing pilot projects in three regions which cover 50 percent of the population, toward a proxy means-tested targeting system. Nevertheless, given the low coverage and generosity of the program, it is likely to have limited impact in explaining aggregate labor market outcomes in Albania. The disability assistance benefit, in turn, has a large number of beneficiaries, it represents 46 percent of the total post-transfer consumption of the poorest beneficiaries and around 11 percent of all disability benefits go to beneficiaries who report no functional disability.[16] The role of this program as well as the role of pensions in creating disincentives could be further explored; pensions, in particular, represent a large share of household income (at 14 percent of total household income in 2008 and 27 percent in 2012) and, as previously discussed, employment and labor force participation are low among older workers.

[15] Arias et al. 2014.
[16] Albania SCD.

While the impact is arguably limited in Albania, the joint effect on formal employment of labor taxation and social protection systems should be explored, particularly for some groups. Evidence from neighboring countries in Southeast Europe suggests that combined disincentives from labor taxation and social protection systems have the potential to keep individuals out of formal employment, either in inactivity or unemployment. These disincentives arise from high implicit tax rates that capture both labor taxation and forgone social benefits in the take-up of formal employment.[17] Together, labor taxation and social protection can make the cost of moving out of inactivity or unemployment high for countries in the Western Balkans, particularly among low-wage earners (Figure 15). For instance, on average in the Western Balkans that have available information, the move out of unemployment can be particularly onerous, with around 64 percent of the new earnings lost between forgone unemployment benefits and labor taxes. This type of data is not available for Albania.

Figure 15. Average effective tax rate, 2010: Income tax, plus lost benefits from social assistance (Panel a, "inactivity trap") or unemployment (Panel b, "unemployment trap") as a percentage of gross labor income



Source: Arias et al. 2014.

Note: Calculations based on one-earner couples with two children. They measure the share of gross income of the accepted formal job—including in-work benefits—that is taxed away through the personal income tax, social security contributions, and lost benefits (social assistance for the inactivity trap or unemployment for the unemployment trap, plus family, and housing benefits). Children are assumed to be 4–6 years old. The data for Bosnia and Herzegovina, FYR Macedonia, and Serbia from 2009; for Montenegro from 2011.

More research is needed to understand the underlying factors behind disincentives to (formal) jobs in Albania. In particular, the high levels of informality raise questions on the factors – which are likely multiple and mutually reinforcing – that contribute to informality. Recent work by the International Labour Organization (ILO 2011) indeed suggests a combination of factors possibly affecting labor demand and supply, related to "complex legal and administrative regulations, high overall taxes and social security contributions, a lack of trust in the institutions and administrative procedures, a lack of access to formal property, a long-term decline in the tax-paying ethic, and a

[17] Arias et al. (2014) using the OECD tax and benefit model.

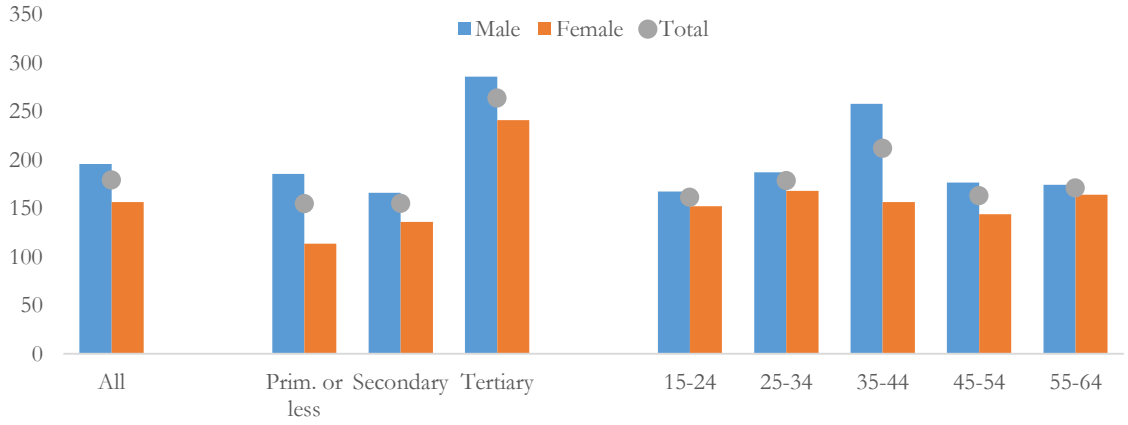
broad acceptance by the wider public of illicit work."[18] Importantly, the Albania SCD points to weaknesses in governance and perceptions of corruption that could affect the willingness of Albanians to formalize even if regulations, taxes and social protection systems do not give rise to disincentives on their own.

Finally, for women, receiving lower wages compared to their male counterparts could be an additional source of discouragement. After accounting by differences in age, education, industry and occupation between men and women, a woman earns 85 percent of what a man does. A multivariate analysis (Table A1) shows that accounting only for socio-demographic characteristics the differences between men and women increase (75 percent of a man's wage). Adding up to the control variables occupation, industry and type of ownership reduces the gap – potentially signaling gender segregation in occupation and industry - but still shows significant at 85 percent. Box 1 provides additional insights, such as a larger gap among low-educated workers and prime age workers.

Box 1. More on the gender wage gap in Albania

Across different socio-demographic characteristics, women receive lower wages than men. Considering only the salaried population, women receive on average only 80% of the hourly wage men do (156 against 196 Leks/hour). Dividing the employed population by level of education shows the same pattern for the different levels, becoming the differences even more accentuated for the workers with Primary or less education (61% of a man's hourly wage). Across different groups of age, is for prime worker for whom the difference is the largest: a woman earns only 60% of a man's hourly wage. The narrowest gap is observed for the 55-64 group. In this age group, a woman earns 94% what a man does.

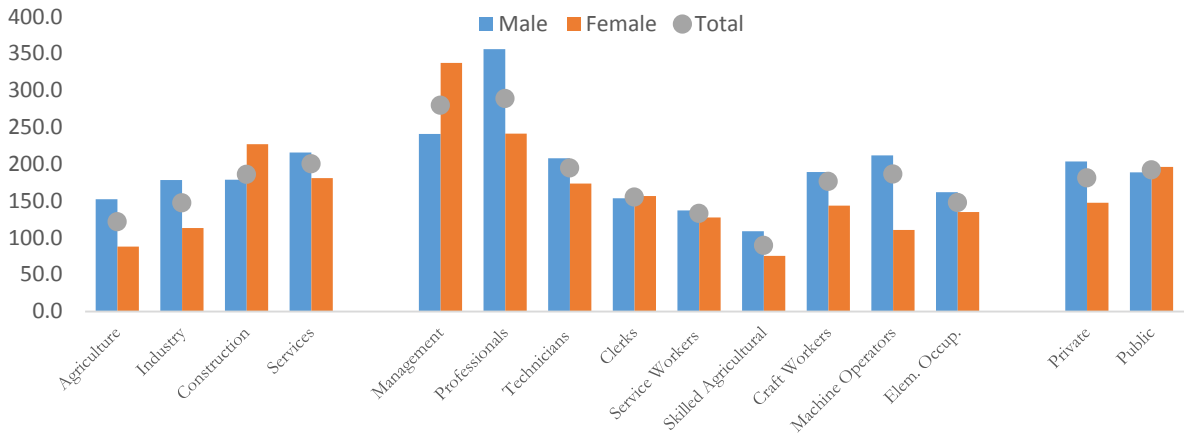
Figure B1: Average hourly wage by gender, level of education and age group



Across industries, occupations, and different firm ownership type, the inequality against women is also persistent, but there are some exceptions. Across sectors, is on agriculture where the largest imbalance is observed, with women earning only 57% a man does. Construction, on the contrary, presents a bias in favor of women, most likely driven by female professionals working in the construction sector. Across different types of occupation, women perceive less than men, with the only exception of Management. In this category, women actually earn 140% of what a man earns. The largest difference against women is observed among Machinery Operators. A woman in this occupation earns only 53% of what a man earns. Across different types of ownership, there is virtual gender parity for workers in the public sector. However, in the private sector, women make on average only 72% of what a man does.

[18] Page 41, ILO (International Labour Organization). 2011. "A Comparative Overview of Informal Employment in Albania, Bosnia and Herzegovina, Moldova, and Montenegro." Geneva.

Figure B2: Average hourly wage by industry, occupation and firm type of ownership



2. Education and skills

The education level of the workforce is low in Albania, limiting economic prospects of the country and access to quality jobs particularly for the low-skilled. Around 51 percent of those of working-age in Albania have primary education or less, while only 12 percent have tertiary education (Figure 16). Employment rates in Albania are significantly higher for the better-educated, at 68 percent compared to 56 percent for those with primary education or less (Table 1). The gap between the less and the more educated increases for labor force participation, with a gap of as high as 19 percentage points for women in favor of the tertiary educated. Although the differences in unemployment are significantly smaller across education levels, this masks much larger gaps when looking at the long-term unemployed. Regression analysis also shows that being tertiary educated increases the likelihood of participating in the labor market by 14 percent compared to those with primary education or less, and only by 2.5 percent for those with secondary education.

Figure 16. Education level of the workforce, 15-64 years

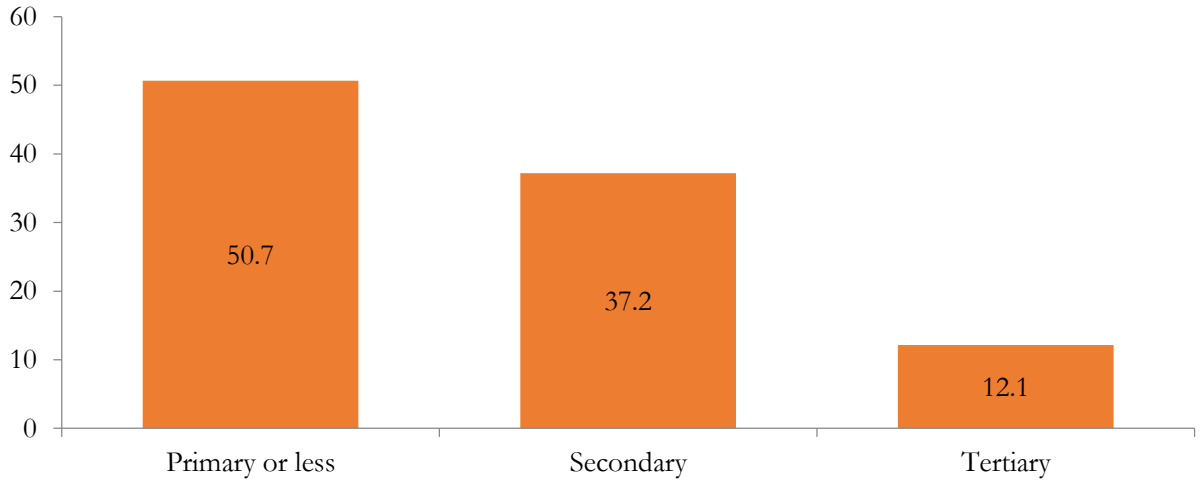


Table 1. Labor market outcomes by education level

	Employment			Labor Force Participation			Unemployment			Long-term unemployment		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
Primary/less	61	52	56	72	58	65	15	11	13	75	78	76
Secondary	70	48	60	80	60	71	13	19	15	74	80	77
Tertiary	74	63	68	85	77	81	13	18	16	58	56	57
Total	66	52	59	76	61	69	14	15	14	73	75	74

Source: World Bank calculations based on 2011 LFS.

Beyond increasing access to education, there is room to improve the quality and relevance of education in Albania. More than one half of 15-year olds in Albania remain functionally illiterate and score at level 1 or below in the most recent OECD international PISA reading test (Figure A5). In addition, more than one in three employers in Albania report that the lack of skills is a major or severe obstacle in their business activities.[19] The lack of skills often refers not only to gaps in the technical skills that education systems aim at providing, but also to socio-emotional skills – such as leadership, team work, responsibility and others - that today's ever-changing labor markets increasingly value and seek. Evidence on the relevance of education systems is needed; in neighboring countries, including in FYR Macedonia, Kosovo and Serbia, a comprehensive skills surveys has been or is being carried out to shed light on this issue.[20]

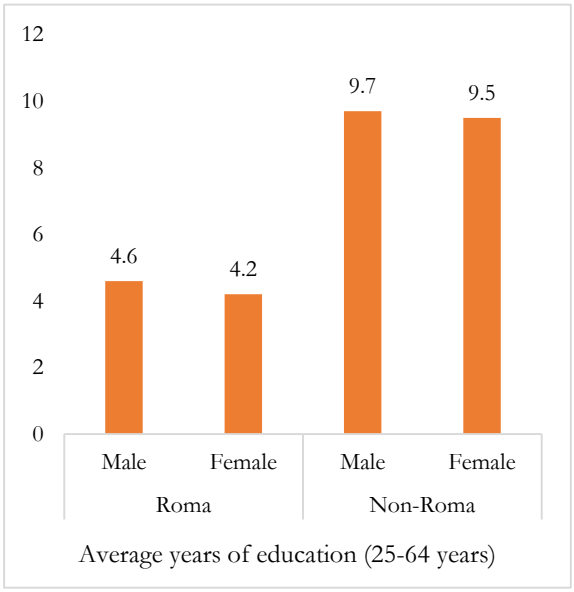
Average educational achievements mask inequalities in outcomes that across some population groups. The share of adults with only primary education in the bottom 20 percent of the consumption distribution is 20-percentage point higher than those in the top 60 percent (Figure A6). Conversely, the tertiary education are mostly concentrated in the top 60 percent. Poverty rates among the low-educated are significantly higher than the rest of the population: while 15 of those with incomplete primary are poor, 11 percent and 3.1 percent of those with general secondary and tertiary, respectively, are.[21] In addition, the Roma population in Albania is particularly deprived from access to education (Figure 17). While the average years of education for Roma women are 4.2, they are 9.5 for neighboring non-Roma. Similarly, literacy rates are at 93 percent for the non-Roma, while less than two thirds of Roma women are literate.

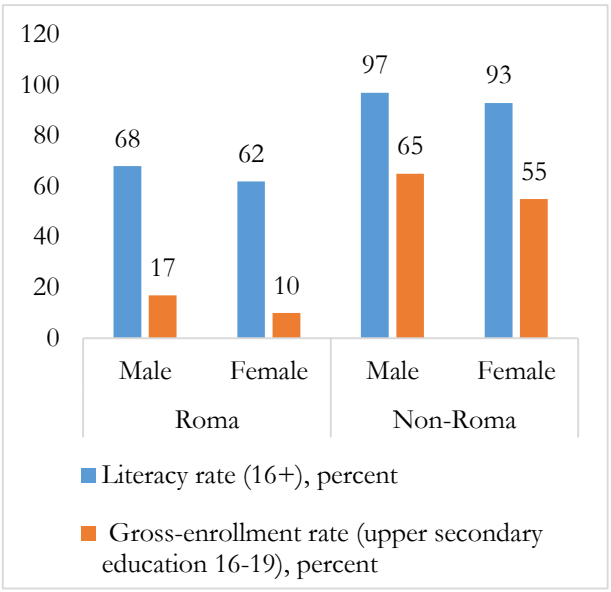
[19] Albania SCD.

[20] The World Bank's STEP Skills Measurement Program (STEP).

[21] World Bank, Albania poverty note.

Figure 17. Educational outcomes for the Roma and non-Roma population





Source: Gender at a Glance 2015 for Albania (World Bank), based on the UNDP/WB/EC Roma survey for Albania (2011).

Low level and quality of education in Albania reflect in returns to education: the wage premia is high for tertiary education in Albania, but secondary education doesn't seem to pay. Having a tertiary education is rewarded in the labor market: among the wage employed, those with higher education earn 50 percent more in terms of hourly wage than the primary educated. Conversely, having secondary education does not carry any premium with respect to primary education (Table A1). These results persist after the introduction of additional controls, such as industry and occupation, although they decrease in magnitude (24 percent). This difference in returns may be associated with higher migration abroad among those with secondary education [22], with work being they key reason for moving among migrants (89 percent among returned male migrants[23]).

3. Barriers to work

Beyond disincentives and skills, barriers to jobs also exist potentially more binding among some groups, such as youth, women, and the less well off. These barriers may relate to inflexible work arrangements, access to information/networks and productive inputs, and attitudes and social norms.[24] The following paragraphs present initial and brief evidence on potential barriers to jobs in Albania, particularly among some population groups, which should be further explored.

[22] Golla (2015), a World Bank gender assessment for Albania.

[23] For women, only 39 percent worked while abroad with only a quarter of those having arranged a job before they left. They are, in turn, more likely to migrate to follow the spouse and family.

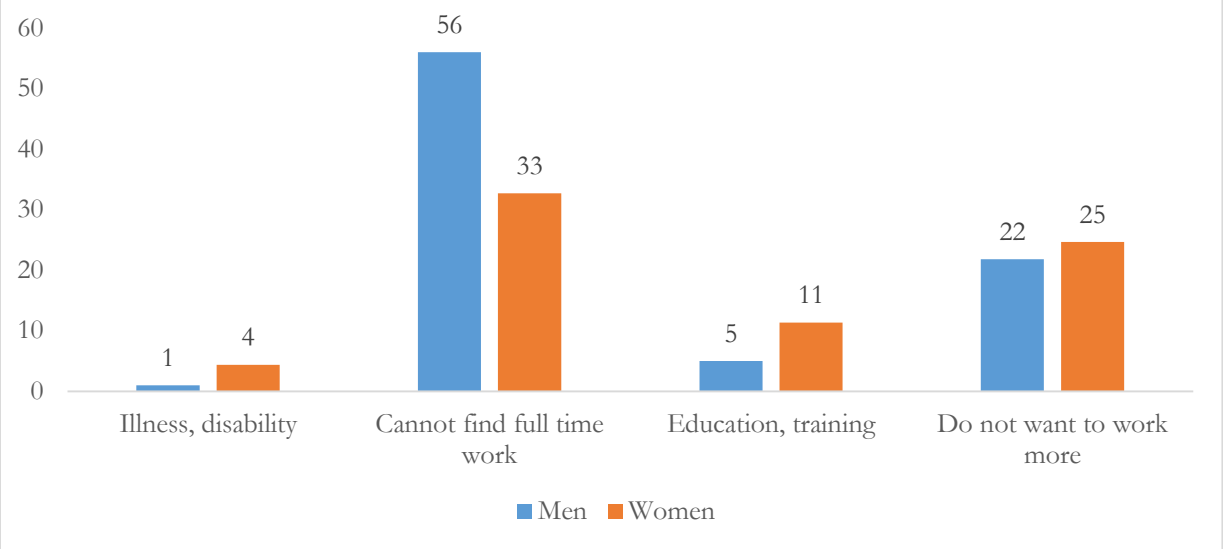
[24] Arias et al. (2014).

Flexible work arrangements

More people work part-time in Albania than in neighboring countries. Around 24 percent of the employed work part time, and, among these people, women are overrepresented (61 percent). Generally, having access to flexible work arrangements is positive particularly for women and youth, as they often need to balance studies or family responsibilities with work.

Evidence suggests, however, that use of part-time work does not capture flexibility in work arrangements in Albania, but rather the limited options for job seekers. Data from the LSMS shows that around 33 percent of part-time female workers and 56 percent of male part-time workers did not work more because they could not find a full-time job (Figure 18). Although other reasons for part-time work show preferences and ability to combine work with studies, the low quality of jobs in Albania is further revealed in this particular feature of its labor market.

Figure 18. Reasons for working part-time, 2012



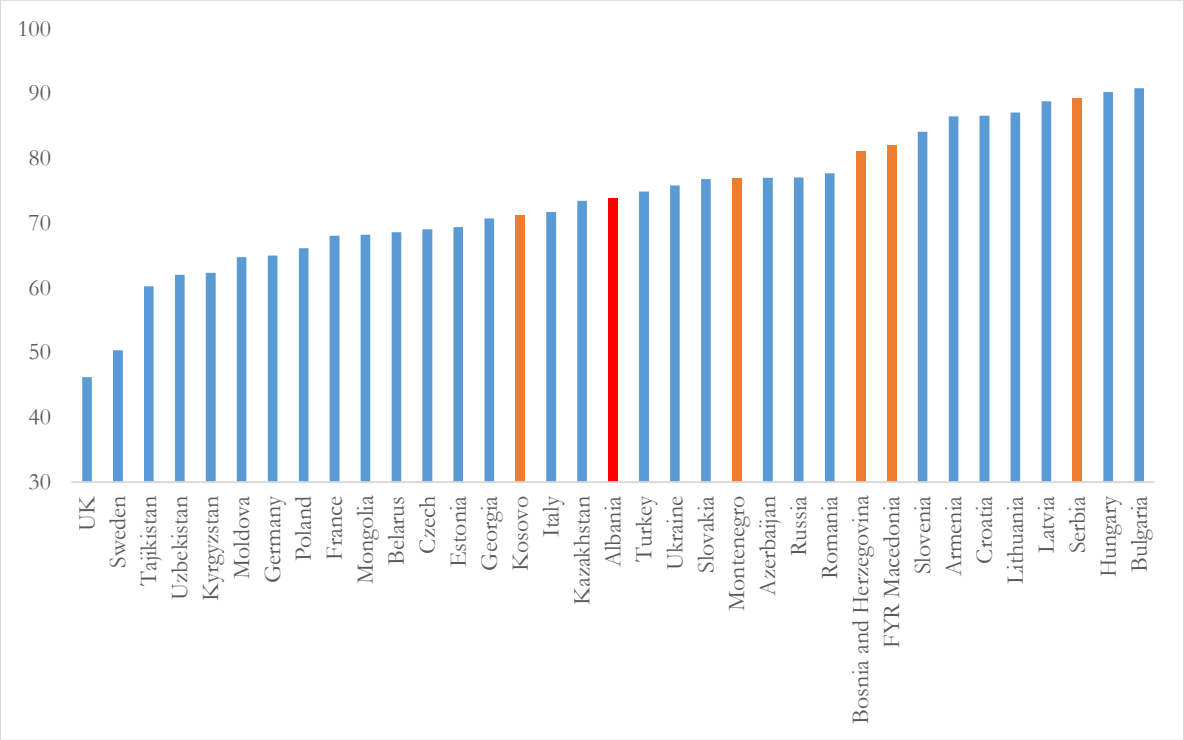
Source: Gola (2015) using LSMS 2012.

Access to information, networks and productive inputs

Lack of access to information and networks can be a barrier for accessing more and better jobs. Many people across the region put high value in having connections to get a public or private job. In Albania, around 67 percent of Albanians consider that having connections is moderately important, very important, or essential in obtaining a good public or private job (Figure 19). The less well-off, women and youth, in particular, tend to have less access to labor market information and networks, limiting their opportunities to get a job. For women in Albania, for example, the large share currently working as unpaid family workers or in inactivity are likely to have less linkages to labor markets. The same is likely for youth, as they are new entrants to the labor market. The less well-off, including ethnic minorities, also count on less social capital to leverage for getting a job and, in Albania,

are mostly concentrated in the agricultural sector; as such, they are likely excluded from accessing the relevant information and networks for improving the quality of their labor market engagement.

Figure 19. Share of people (30+ years) reporting that it is important to have connections to get a job, average for getting a public and private job, 2010)



Source: World Bank staff, based on LiTs (2010). Notes: the question is codified as one if the person reports that connections are moderately important, very important or essential in getting a good public or private job.

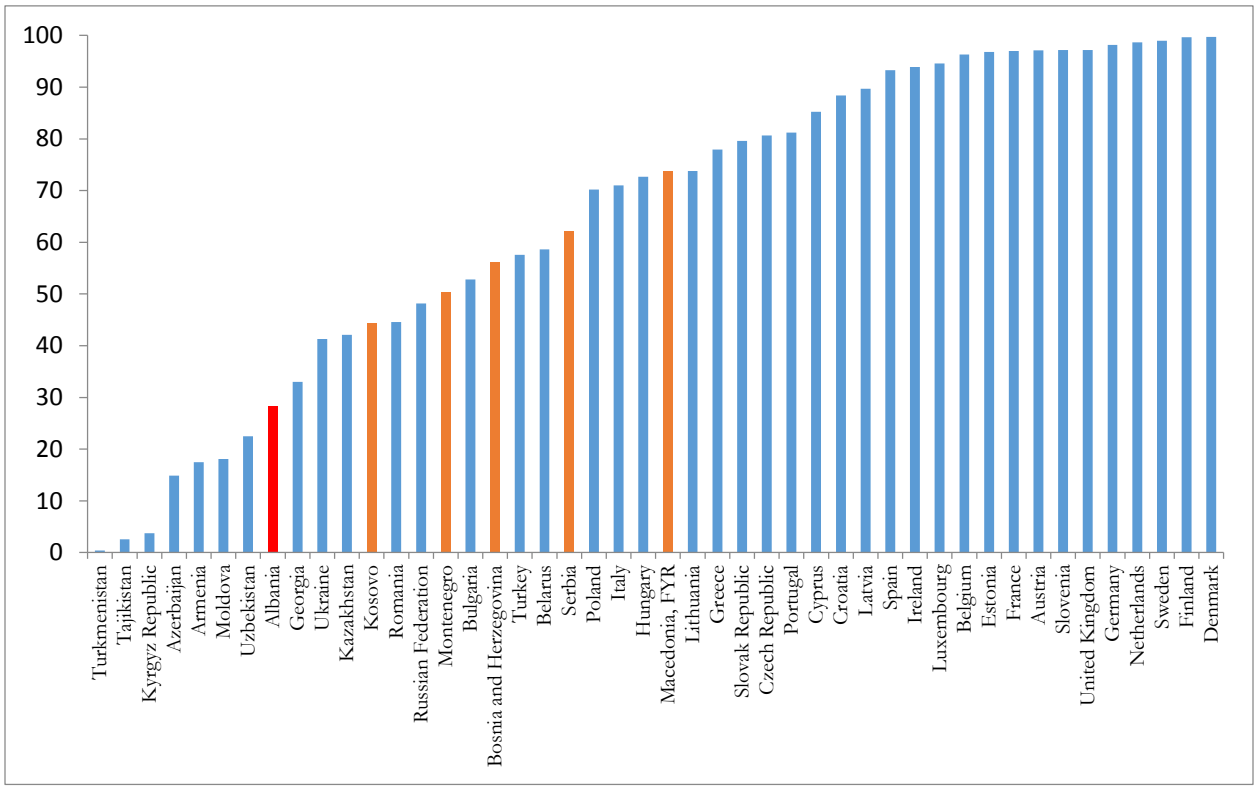
Access to and use of productive inputs such as land and financial services can also present and obstacle to job creation. A poorly functioning land market in Albania, described in more detail in the Albania SCD, limits the use of land as a productive input, particularly for some groups. Women and the less well off, for example, are usually excluded from landownership: there are almost twice as many men landowners than women landowners in Albania, and most women landowners have a property share of less than 25 percent.[25] Similarly, financial markets in Albania are not well developed.[26] For instance, Albania is at the lower end of the distribution in Europe and Central Asia, and in comparison to countries in the Western Balkans, in terms of the share of individuals with an account at a Bank (Figure 20), signaling the limited financial services available to individuals across the country.[27] Limited access to productive inputs – including land and credit - may curtail the entrepreneurial potential of the country, restricting job creation and innovation.

[25] Albania SCD.

[26] Albania SCD.

[27] See also the SCD for a more detailed description of the financial market in Albania.

Figure 20. Percentage of individuals with an account at a formal financial institution, 15+ years



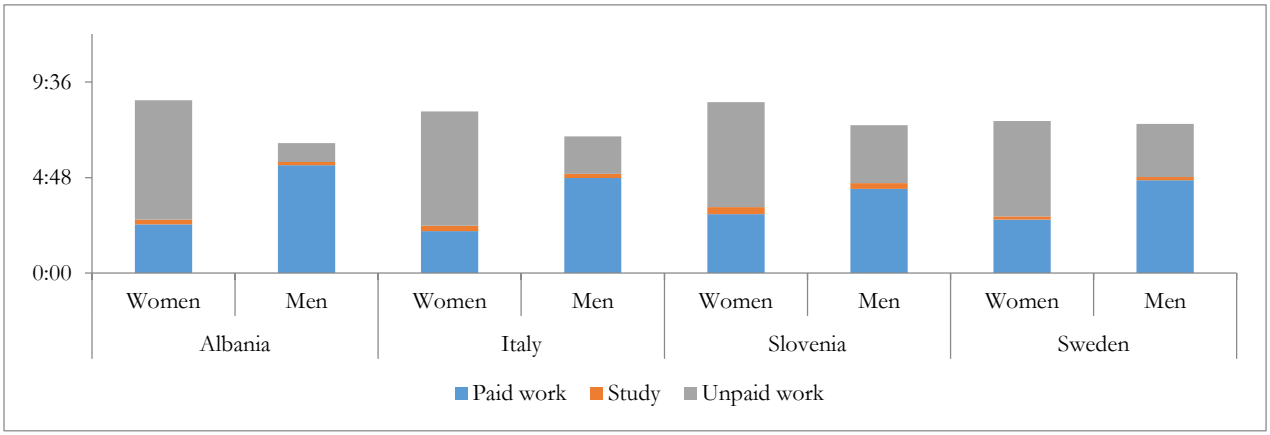
Source: World Bank Findex database.

Attitudes and social norms

Attitudes and social norms can represent a barrier to labor market participation or to accessing certain jobs. Attitudes and social norms – with outright discrimination being the extreme - can have a strong impact on labor market decisions and opportunities. For instance, for women, social norms across the region dictate that they are the main providers of child and elder care and household work. In Albania, similar to other countries in the region, women spend less time in paid work compared with unpaid work (Figure 21) and as previously described, they are also overrepresented in unpaid family work. Lack of access to affordable and quality alternative child care options is often associated to women's limited labor force participation; ongoing research in neighboring countries of the Western Balkans shows that this is often the case, pointing to issues of accessibility, quality and affordability of child care facilities.[28] Finally, for women, discriminatory practices may be partly captured in the observed adjusted gender wage gap.

[28] Ongoing quantitative and qualitative analysis by the World Bank of child and elder care in Bosnia and Herzegovina, Kosovo, FYR Macedonia and Serbia can shed light on key issues that might be common across countries and provide insights for Albania.

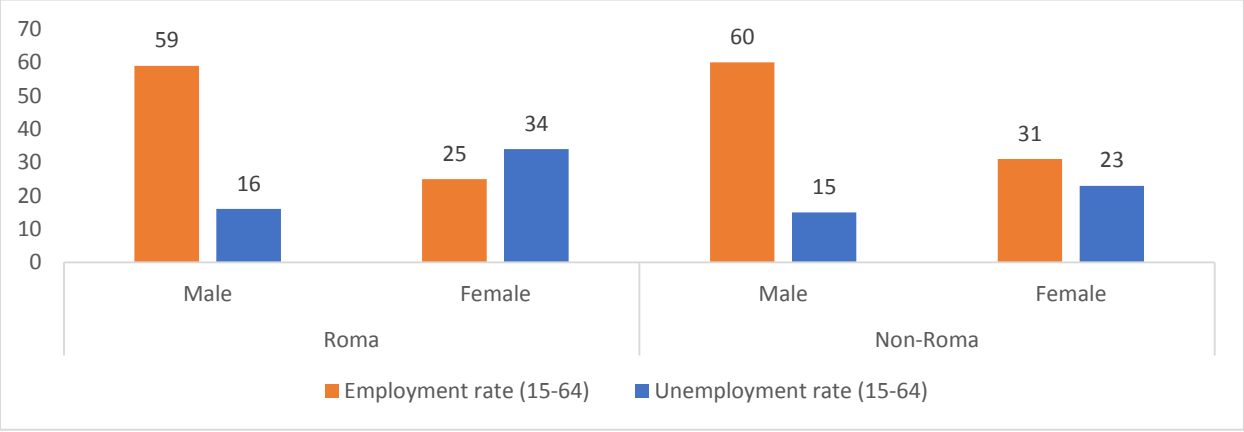
Figure 21. Average time spent on work and studies according to gender and country, population 20-74 years (hours, all day)



Source: INSTAT, Albania Time Use Survey 2010–2011.

For ethnic minorities, attitudes and norms can be particularly important to getting a job. 43 percent of Roma men and women in Albania feel discriminated against because of ethnicity. For Roma women, discrimination or perceptions of discrimination can combine, as 19 percent of them feel discriminated against because of gender as well. Together with the large gaps in skills that these groups face, and possibly other barriers, it is not surprising that these groups have very weak labor market engagement in Albania (Figure 22). While employment rates for Roma women are at 25 percent, they are at 31 percent for neighboring non-Roma population; unemployment rates are also higher for Roma women, at 34 percent compared to 23 percent for non-Roma women. The quality of employment is likely low among the Roma.

Figure 22. Employment and unemployment rates, Roma vs. Non-Roma



Source: Gender at a Glance 2015 for Albania (World Bank), based on the UNDP/WB/EC Roma survey for Albania (2011).

In sum, this section provides initial evidence that obstacles to well-functioning labor markets exist in Albania. Providing people with better and more job-relevant skills seems to be a clear avenue for improvement, but a more comprehensive and in-depth analysis is needed. Obstacles to jobs are

undoubtedly more salient for some groups who might face reinforcing barriers or disincentives to work. For instance, **c**omplementary analysis[29] classifies of out of work individuals in Albania in homogenous groups based on key characteristics, as they potentially face similar labor market challenges. Using latent class analysis and the 2012 LSMS, findings support, for instance, the critical gender dimensions of labor market exclusion in Albania. Specifically, prime-aged low-educated inactive wives represent the largest out of work group (at 33 percent), alongside single individuals who are neither employed, nor in education or training (NEETs) (Figure A7).

[29] World Bank (2014) *Activation and Smart Safety Nets in Albania: Constraints in Beneficiary Profile, and Institutional Capacity*. Social Protection and Labor Global Practice. The World Bank.

Conclusions

Albania faces multiple labor market challenges, with the low quality of jobs being a particularly salient challenge. The agricultural sector employs a large share of the workforce, most low-skilled and many as unpaid family workers or self-employed. Outside of agriculture, informality is high and many are in low-skilled jobs. In addition, average figures mask poor labor market outcomes for youth and women, and, as an accompanying poverty note shows, the poor.

The relevance of jobs to reducing poverty and boosting shared prosperity is unquestionable. As such, a policy agenda for a more prosperous Albania, in which opportunities are accessible to all, needs to have jobs at its center alongside efforts to accelerate economic growth. Although this note presents initial evidence of some of the issues, further work is need to establish priorities and design policy options that account for the intrinsic barriers to employment that various population groups face. In other words, the analysis presented here can guide a full-fledge analysis that looks deeper into policy options for Albania, and that looks at a labor market agenda from a comprehensive point of view.

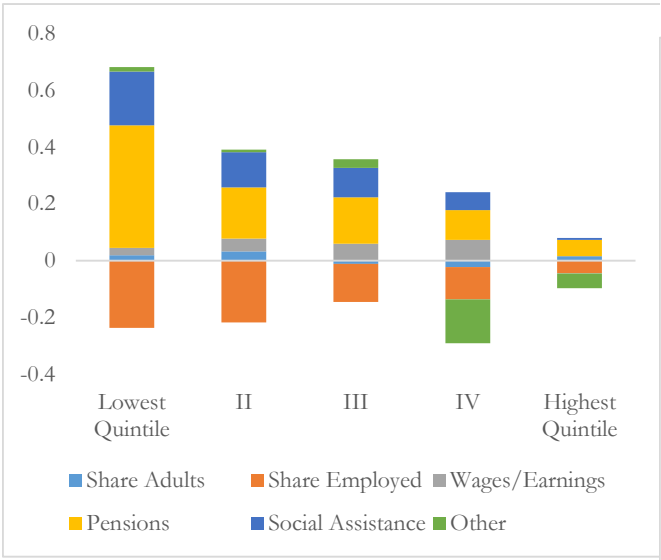
The Albania SCD presents a policy agenda for reducing poverty and boosting shared prosperity, centered on rekindling economic growth and promoting an environment in which firms and people can contribute to and benefit from growth. This will happen mostly through more and better jobs. As such, alongside policies that can boost labor demand through macroeconomic stability, improved business environment, better access to land and energy, and enhanced governance, other policies are needed to improve the quality and inclusiveness of labor market engagement.

The ECA regional jobs report, and initial findings in this note, already point to some policy areas that could be relevant for Albania. Generally, on skills, it is key to improve the quality, equity and relevance of the Albanian educational system. For women, policies that provide access to childcare and promote gender equality in access to jobs – including jobs for women in non-traditional sectors - may be required. For youth, policies could be linked to providing access to apprenticeships, considering minimum wages for youth, and improving access to productive inputs and labor market information, so as to improve school-to-work transition.

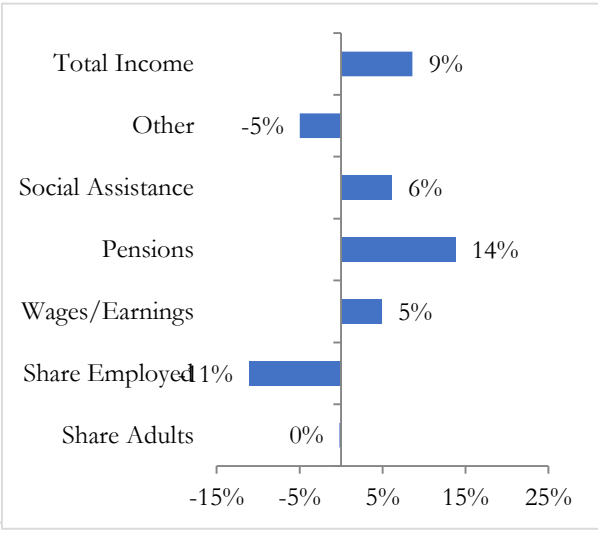
Annex.

Figure A1. Income growth by source, by quintile and average, 2008-2012

a. Income growth by quintile, percent

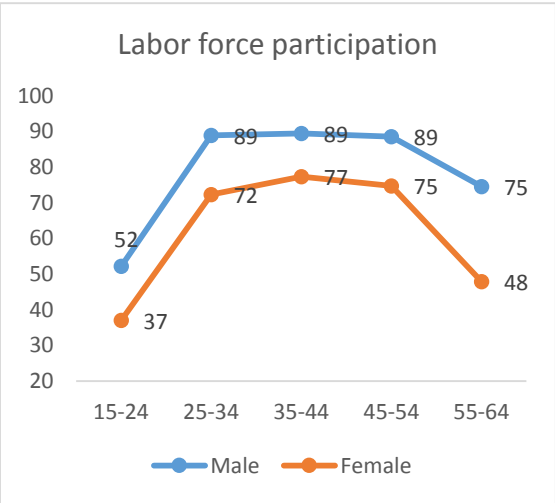


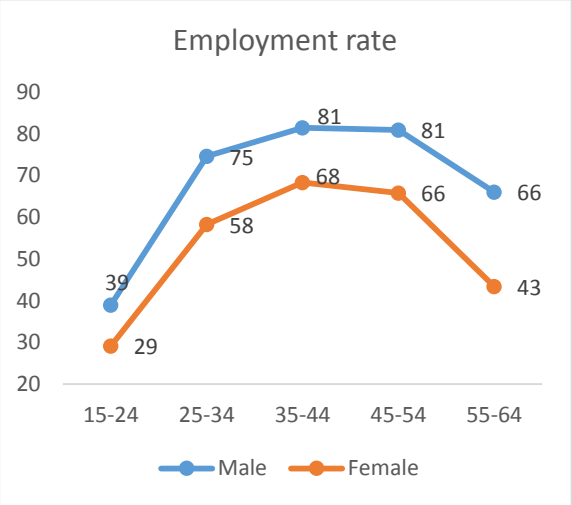
b. Average income growth, percent



Source: World Bank (2015). An Update on Poverty and Inequality in Albania: 9 Stylized Facts. Poverty Global Practice.
Note: Labor income is captured by wages/earnings, shared of adults (demographic effect) and share of employed. "Other" includes mainly remittances, as well as property and other income.

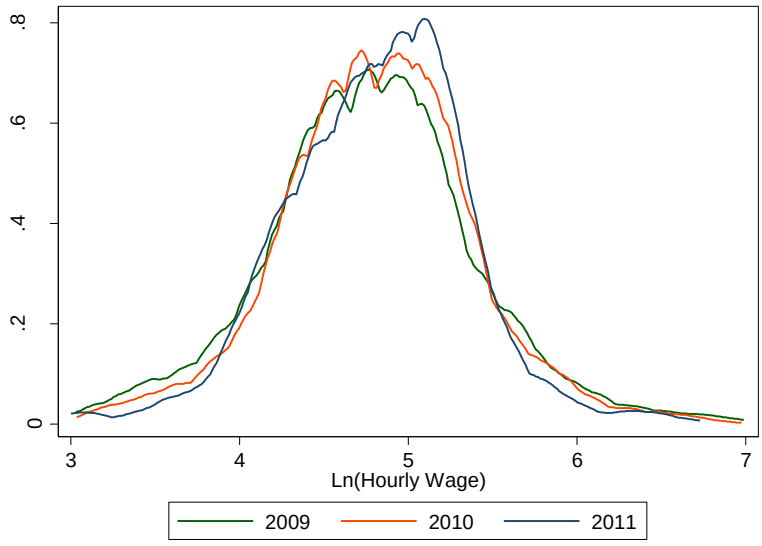
Figure A2. Employment and labor force participation in Albania 2011





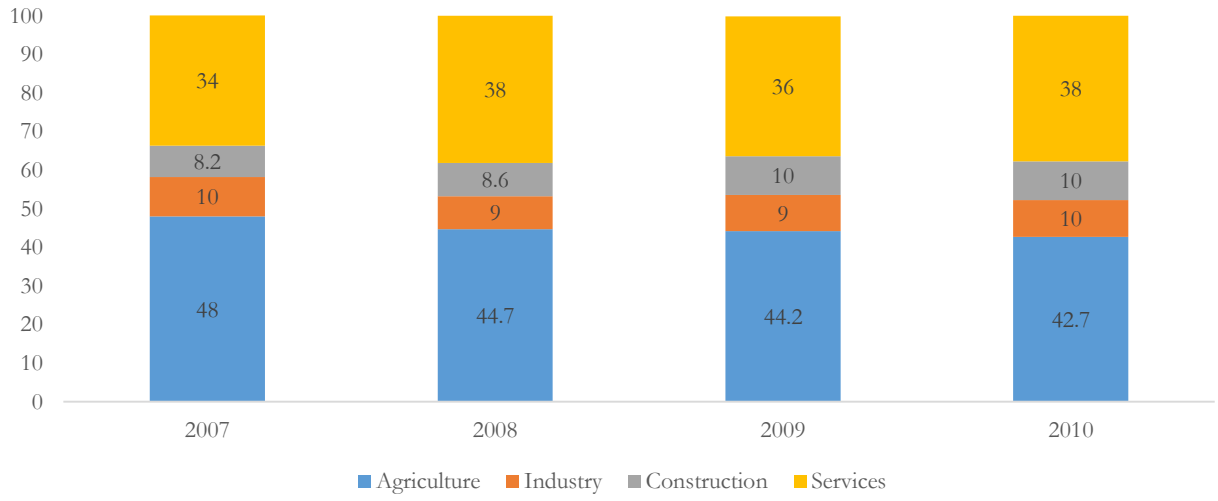
Source: World Bank calculations based on 2011 LFS.

Figure A3. Distribution of hourly wages, 2009-2011



Source: World Bank calculations based on LFS.
Note: 2005 Leks.

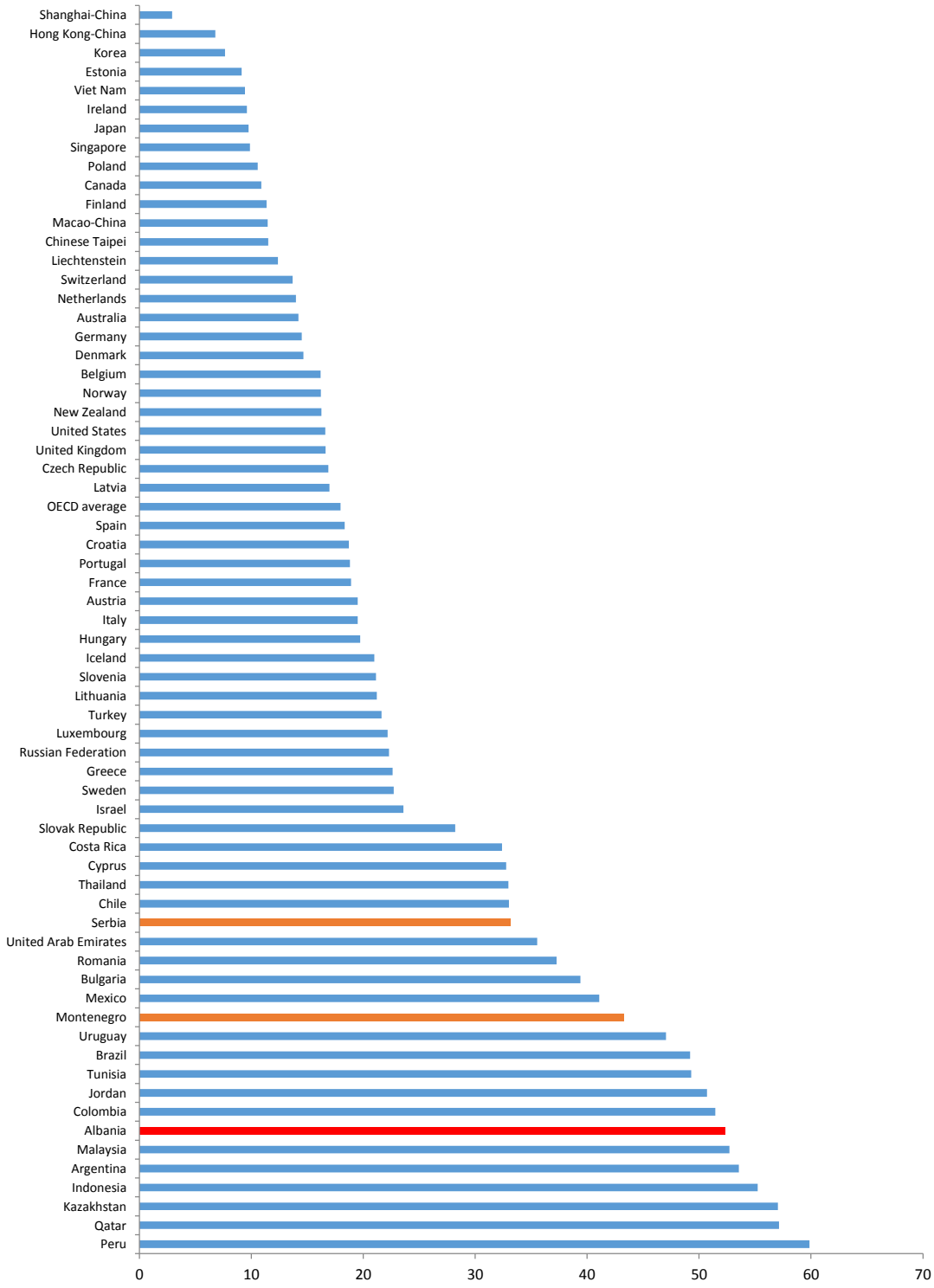
Figure A4. Distribution of Employment by Sectors 2007-2010



Source: World Bank calculations based on LFS.

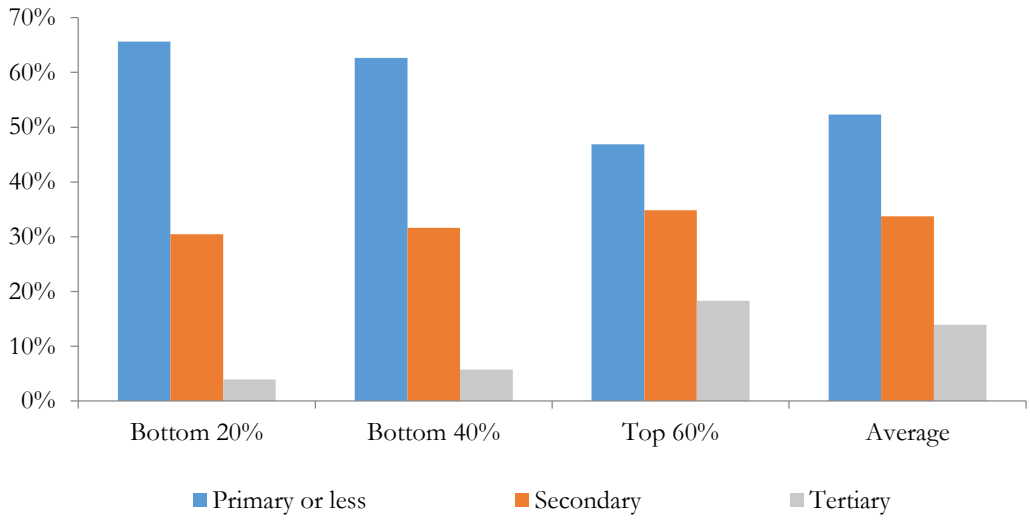
Figure A5. More than half of 15-Year-Olds in Albania Remain Functionally Illiterate

(Share of students scoring at Level 1 or below on the reading section of PISA, 2012)



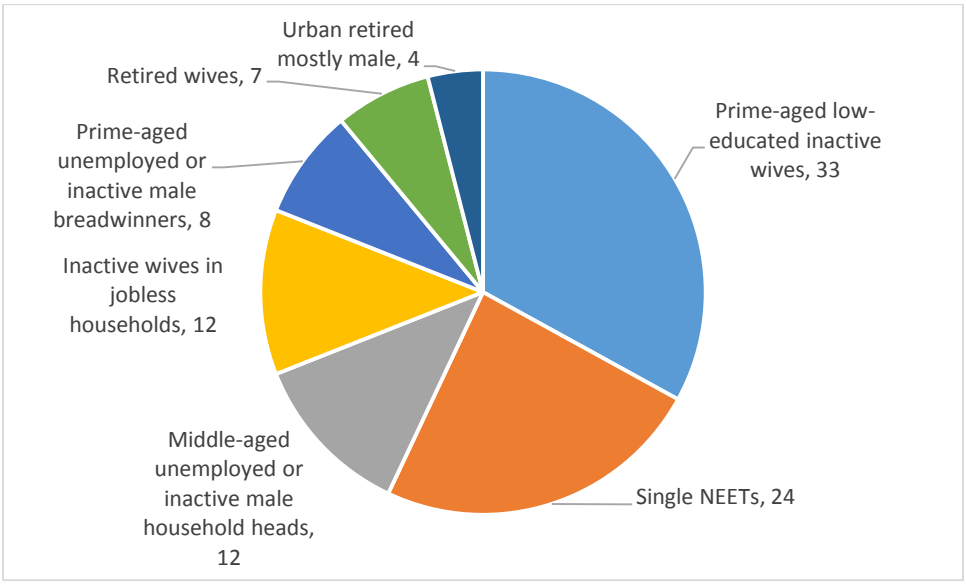
Source: World Bank staff, based on OECD data.

Figure A6. Educational attainment by socio-economic status (25+)



Source: Authors' calculations using LSMS 2012.

Figure A7. Size Distribution of Activable Out-of-work Classes in Albania, 2012



Source: Albania Activation Note, using 2012 LSMS data.

Table A1. Wage regressions, wage employed

	All			15-44		45-64	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Female	**-0.200*** **	**-0.240*** **	**-0.154*** **	**-0.297*** **	**-0.185** **	**-0.154** **	**-0.095**
	(0.051)	(0.051)	(0.053)	(0.075)	(0.075)	(0.062)	(0.066)
15-24 (Base)							
25-34		0.06	0.041	0.057	0.042		
		(0.097)	(0.100)	(0.097)	(0.100)		
35-44		0.190**	0.168*	0.198**	0.185**		
		(0.089)	(0.089)	(0.089)	(0.089)		
45-54		0.063	0.066				
		(0.095)	(0.092)				
55-64		0.121	0.027			0.077	-0.041
		(0.098)	(0.096)			(0.063)	(0.054)
Primary or less (Base)							
Secondary		0.069	-0.025	-0.004	-0.088	0.176**	0.037
		(0.063)	(0.066)	(0.087)	(0.103)	(0.081)	(0.071)
Tertiary		**0.559*** **	**0.238*** **	**0.566*** **	**0.277** **	**0.546*** **	**0.220** **
		(0.065)	(0.084)	(0.081)	(0.130)	(0.095)	(0.092)
Agriculture (Base, wage employed only)							
Industry			-0.440***		-0.503***		-0.293***
			(0.081)		(0.116)		(0.099)
Construction			-0.193**		-0.198		-0.147
			(0.096)		(0.133)		(0.133)
Services			-0.165**		-0.16		-0.09
			(0.081)		(0.134)		(0.078)
Management (Base)							
Professionals			-0.083		0		-0.285
			(0.142)		(0.190)		(0.199)
Technicians			-0.237		-0.295		-0.271
			(0.166)		(0.264)		(0.188)
Clerks			-0.233*		-0.1		-0.449**
			(0.141)		(0.197)		(0.195)
Service Workers			-0.533***		-0.398**		-0.754***
			(0.145)		(0.188)		(0.203)
Skilled Agricultural			-0.433**		-0.257		-0.709***
			(0.175)		(0.249)		(0.221)

Craft Workers			-0.2		-0.066		-0.416**
			(0.150)		(0.200)		(0.203)
Machine Operators			-0.201		-0.096		-0.344*
			(0.146)		(0.196)		(0.207)
Elem. Occup.			-0.355**		-0.148		-0.693***
			(0.155)		(0.199)		(0.219)
Private (Base)							
Public			0.073		0.05		0.093
			(0.053)		(0.075)		(0.059)
Constant	5.009***	4.781***	5.379***	4.832***	5.307***	4.754***	5.508***
	(0.031)	(0.091)	(0.185)	(0.098)	(0.247)	(0.086)	(0.215)
N	1672	1672	1406	856	724	816	682
R^2	0.015	0.0925	0.1307	0.1061	0.1377	0.0777	0.1529

* p<0.10, ** p<0.05, *** p<0.01
Source: Authors' calculations using LFS 2011.

Table A2. Labor Force participation regressions, marginal effects

	All - Basic	Men - Basic	Women - Basic	All - Enhanced	Men - Enhanced	Women - Enhanced
15-24						
25-34	0.349***	0.357***	0.337***	0.276***	0.218***	0.300***
	(0.019)	(0.023)	(0.029)	(0.022)	(0.027)	(0.034)
35-44	0.384***	0.361***	0.407***	0.280***	0.149***	0.362***
	(0.018)	(0.022)	(0.025)	(0.025)	(0.039)	(0.032)
45-54	0.370***	0.352***	0.390***	0.257***	0.104**	0.344***
	(0.017)	(0.021)	(0.024)	(0.025)	(0.042)	(0.032)
55-64	0.165***	0.210***	0.119***	0.039	-0.072	0.075**
	(0.020)	(0.024)	(0.029)	(0.029)	(0.048)	(0.037)
Primary or less						
Secondary	0.024*	0.055***	-0.016	0.025*	0.056***	-0.013
	(0.014)	(0.016)	(0.020)	(0.014)	(0.016)	(0.020)
Tertiary	**0.135*** **	**0.087*** **	**0.175*** **	**0.137*** **	**0.094*** **	**0.181*** **
	(0.019)	(0.023)	(0.027)	(0.019)	(0.023)	(0.027)
Male						
Female	**-0.164*** **			**-0.146*** **		
	(0.011)			(0.015)		
married=0						
married=1				0.092***	0.133***	0.061**
				(0.019)	(0.033)	(0.026)
head=0						
head=1				0.060***	0.098***	0.015
				(0.017)	(0.029)	(0.042)
N	11082	5203	5879	11082	5203	5879

* p<0.10, ** p<0.05, *** p<0.01
Source: Authors' calculations using LFS 2011.