EUROPEAN SOCIAL POLICY NETWORK (ESPN)

In-work poverty in Albania

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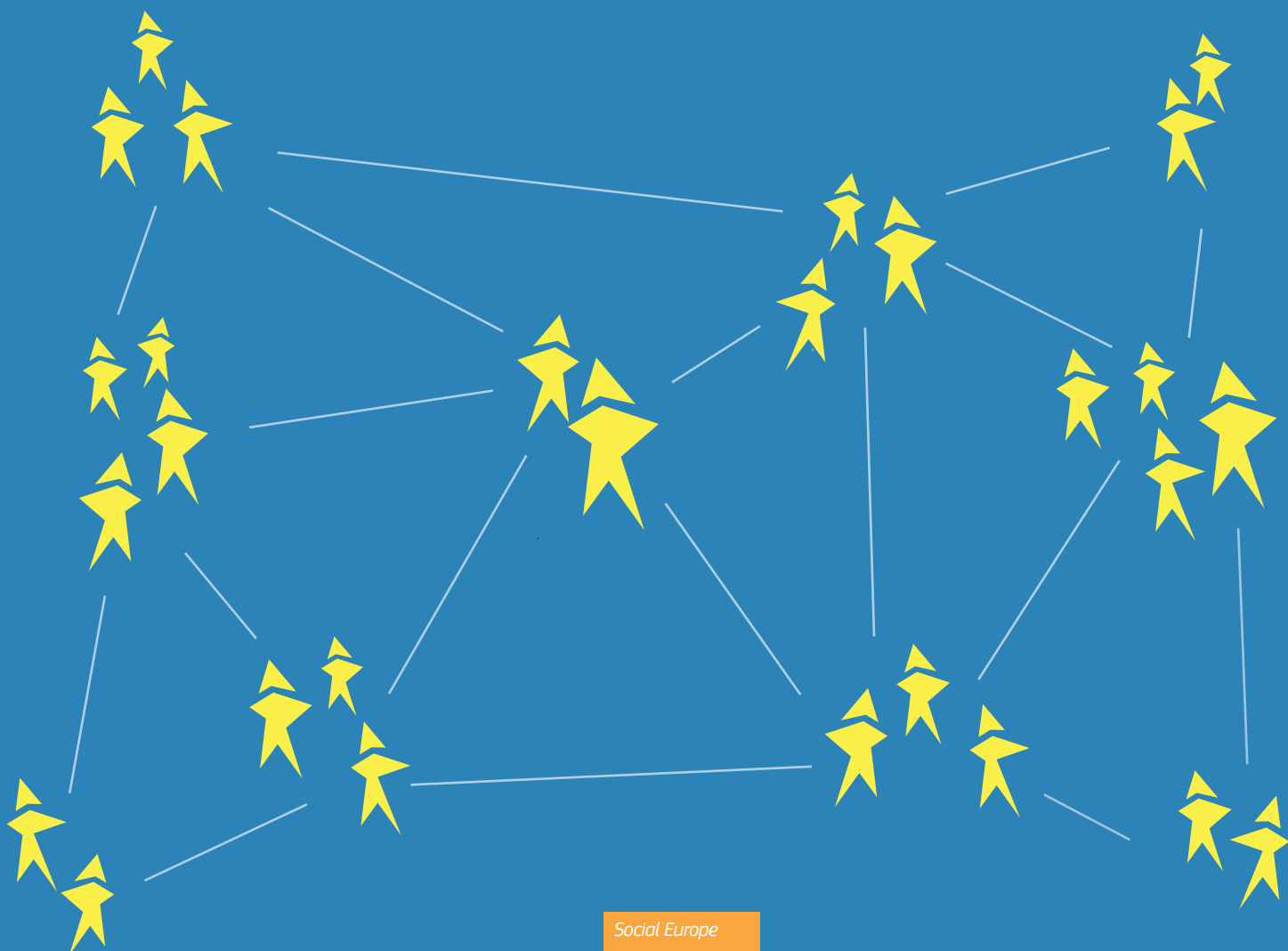
European Social Policy Network (ESPN)

ESPN Thematic Report on In-work poverty

Albania

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Elira Jorgoni

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Summary

This report provides an overview of in-work poverty (IWP)[1] in Albania. Due to the unavailability of EU-SILC data, the report is based on alternative indicators for IWP that differ from the EU definition of IWP (according to the latter, a person is considered at risk of IWP if they are in employment for at least six months during the previous year and live in a household at risk of poverty). IWP is an under-researched topic in Albania and warrants significantly closer attention.

The analysis presented in this report is constrained by the absence of both household income data to specifically measure IWP in Albania, and a nationally recognised income poverty threshold. As a result, this report remains broad in scope, drawing on a wide range of available data and indicators relating to poverty in general rather than IWP in particular.

The available data point to a very uneven wage distribution, with a large share of workers in the low-wage category. Estimates from the most recent World Bank living standards measurement survey (LSMS) set the 2012 level of IWP at 45%. The report found that the strong economic growth and improving labour market conditions that eventually followed the global financial and economic crisis have probably led to reduced poverty levels, with the level of IWP (as estimated using various proxies) declining to 38.7% in 2018. This means that some 487,000 Albanian workers live in households at risk of poverty. Individual, household and occupational characteristics are examined in this report as factors influencing IWP. Data indicate that individuals with low educational attainment, those in informal or part-time employment, those residing in large households with young children, and those in low-wage jobs face a significantly higher risk.

Preventing IWP falls within the government's overall efforts to reduce poverty in the country. A wide range of strategies and policy documents, either explicitly or indirectly, identify IWP as an issue and envisage measures that have the potential to prevent or address IWP. Most of the Albanian government's efforts are set within the broad framework of getting more Albanians into jobs, through improving the range and scope of active labour market programmes (ALMPs) and strengthening the system of vocational education and training. The report points to increases in the minimum wage as a key measure for preventing IWP and ensuring that work pays, recognising at the same time that such increases by themselves might not be sufficient to address IWP. In addition, it highlights the reforms of the social assistance scheme and efforts to support individuals in making the transition from passive recipients of social assistance to active participants in the labour market. In-work benefits in the form of work-contingent tax credits, tax allowances or equivalent work-contingent benefit schemes are currently not provided; however, interventions are anticipated to create incentives for remaining in work or for taking up a low-paid job (such as transportation allowances). Indirect measures such as the provision of childcare services, inclusive workplaces, and social housing are prominent in policy documents: but there is limited evidence of tangible progress.

The report discusses policy measures that the government of Albania might undertake in the context of limited fiscal room for manoeuvre. It recognises that the country has yet to develop a comprehensive approach to the issue of IWP, and recommends a review of labour taxation policies for low-wage earners; diversification of measures that assist people to make the transition to employment; and a greater emphasis on improving the skills of those at risk of IWP, in particular vulnerable groups and low-wage earners.

Lastly, the report addresses measurement and monitoring challenges related to IWP, pointing to the need for co-ordination between EU-SILC (EU Statistics on Income and

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[1] For ease of reading, we will refer to the notion 'at risk of in-work poverty', and to the indicator that measures it, using the generic term of 'in-work poverty' (IWP).

Living Conditions), Household Budget Survey (HBS), Labour Force Survey (LFS) and administrative data.

1   Analysis of the country's population at risk of in-work poverty

Albania is an upper-middle income country[2], ranked 68th among 189 countries in the United Nations human development index for 2017 (UNDP, 2018). After a period of fast economic growth up to 2008, the global financial and economic crisis brought the Albanian economy to a gradual halt, with GDP growth slowing to 1.1% in 2013 (largely as a ripple effect of the economic challenges facing its two largest trading partners, Italy and Greece). GDP growth managed to rebound steadily after 2014, reaching 3.84% in 2017 and 4.48% in the third quarter of 2018 (INSTAT, 2018). Despite Albania being considered a transition economy success story and its strong macro-economic performance, the country is still among the poorest in Europe.

Poverty in Albania is closely linked to a series of factors, including employment status, age structure, gender, geography, ethnicity and levels of educational attainment. Groups that are reportedly at higher risk of poverty are the unemployed, those with lower educational attainment, people living in rural areas, the elderly, vulnerable women, people with disabilities, and people from the Roma and Egyptian communities.

During 2002-2012, the World Bank's living standard measurement survey (LSMS) was the only source of data on poverty in Albania, measuring the living conditions, poverty, and wellbeing of Albanian households on the basis of consumption expenditures. The latest LSMS poverty figures are from 2012, when the share of the population (headcount ratio) that lived below the national poverty line (per capita monthly consumption of ALL 4,891 in 2002 prices, or around EUR 40) was estimated at 14.3%, an increase from 12.5% in 2008. Similarly, the share of the population living in extreme poverty (i.e. having difficulty in meeting basic nutritional needs) increased from 1.2% in 2008 to 2.3% in 2012, as did the depth and severity of poverty. The 2012 LSMS also pointed to considerable variation in poverty across regions, with the highest poverty rate (20.6%) observed in the north-eastern part of the country, and Tirana showing the lowest level (11.7%) (INSTAT, WB, 2015). Between 2008 and 2012, poverty declined in rural areas and increased in urban areas, largely reflecting internal migration from rural to urban areas (*ibid*). Using LSMS 2012 data, the World Bank estimated the percentage of the population living on less than $5.5 per day (the poverty threshold for upper-middle income countries) at 39.1% (World Bank, 2015).

LSMS data were used in the national employment and skills strategy (NESS) for 2014-2020 to make comparisons between the working poor and working non-poor based on the labour market characteristics of the two groups[3]. The analysis showed that 59% of the poor were working, compared with 78% of the non-poor. In addition, 76% of the poor that were working were in paid employment compared to 85% of the non-poor. Furthermore, it highlighted the level of educational attainment as a determinant of IWP, with the working poor having on average 9.6 years of education compared with 11.5 years for the working non-poor (*Table 1*). Household composition was found to be another determinant of IWP, with individuals from households with more dependants being at a higher risk of poverty. The working poor lived in larger households (on average over 6 people) and had more children aged 0-5 compared with the working non-poor. Furthermore, the working poor had lower average monthly wages, earning about 14% less than the working non-poor. A striking difference existed in terms of social security entitlements, with only 44% of the working poor accessing such entitlements

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[2] Gross national income per capita amounted to $12,120 PPP (current international $) (approx. EUR 10,570) in 2017, an increase of nearly 16% compared with $10,450 in 2012: https://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD?locations=AL.

[3] It is important to note that the NESS 2014-2020 makes no reference to the EU definition of IWP, and thus estimates cannot be compared with those for other countries.

compared with 72% of the working non-poor. From a geographical perspective, IWP was marginally more persistent in urban areas and the coastal regions of the country[4].

Table 1: Differences between working poor and working non-poor (Albania, 2012)			
Variables	**Working poor**	**Working non-poor**	**Total**
Individual characteristics			
Monthly wage (ALL)	28,592	33,368	32,874
Social security entitlement (access rate)	43.90%	71.74%	68.90%
Work experience (years)	24.41	24.62	24.6
Education (years)	9.62	11.52	11.33
Household composition (number of individuals)			
Household size	6.10	4.68	4.83
Household male labour	1.58	1.44	1.45
Household female labour	1.35	1.30	1.31
Children 0-5 years	0.65	0.32	0.36
Regions (IWP rate)			
Coastal	43.22%	30.86%	32.12%
Central	29.73%	40.65%	39.54%
Mountain	3.72%	5.49%	5.31%
Tirana	23.32%	22.99%	23.03%
Urban	61.32%	60.60%	60.67%
Rural	38.68%	39.40%	39.33%

Source: INSTAT, LSMS data 2012, taken from NESS 2014-2020.

The working poor are also mainly concentrated in low-skill occupations that provide less job security. Compared with the working non-poor, most of the working poor are employed in agriculture, in elementary occupations, and as craft/trade workers (*Table 2*).

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[4] NESS 2014-2020 (p. 17): http://financa.gov.al/wp-content/uploads/2018/09/NESS-ENG-8-1-15_final-version.pdf.

Table 2: Distribution of working poor and working non-poor by occupation (Albania, 2012)

Variables	Working poor	Working non-poor	Total
Legislators	0.56%	2.78%	2.55%
Professionals	3.80%	16.29%	15.01%
Technicians	4.76%	6.99%	6.76%
Clerks	1.17%	2.41%	2.28%
Service workers	18.33%	17.55%	17.63%
Agriculture	21.61%	16.84%	17.33%
Craft/trade workers	18.72%	18.12%	18.18%
Plant/machinery operators	10.70%	9.32%	9.46%

Source: INSTAT, LSMS data 2012, taken from NESS 2014-2020.

With the recovery in economic growth after 2013, the employment rate in Albania has also increased, including among women and young people. Job creation recovered from a dip in 2013 and, unlike in previous years, growth and employment have been moving together. Arguably, the employment growth witnessed since 2014 is helping to reduce poverty. The poverty rate (on the World Bank definition – see above) is estimated to have fallen in 2016 to 33.9%, compared with 35.4% in 2015[5]. In 2018, the World Bank estimates that the poverty rate fell to 31%[6]. Whereas declining overall poverty rates, coupled with an improving labour market and rising wages, have probably had a positive impact on IWP, particularly after 2014, a key challenge for Albania is the fact that poorly paid and informal jobs remain widespread. The average gross remuneration rate of Albanian workers was EUR 774 per month in 2016 (PPP adjusted) – the lowest among all western Balkan countries[7]. Considerably fewer Albanians were in informal jobs in 2017 compared with 2014: nonetheless, in 2017 more than 35% of jobs in the agricultural and non-agricultural sectors combined remain informal (INSTAT, 2017), preventing workers benefiting from the protection of labour regulation.

Although work in the informal economy represents an opportunity to earn a living for many young people, both in rural and urban areas, it is associated with low earnings, poverty and vulnerability. In addition, in 2017, 17.0% of men (approximately 115,400 in total) and 25.5% of women (approximately 131,600) were engaged in part-time employment; and 35.8% of people (approximately 427,800 – 42.6% of men and 26.8% of women) were self-employed[8]. Part-time employment and self-employment in Albania are highest among those with lower levels of educational attainment, probably signalling a lack of full-time regular employment rather than a preference for flexible or self-directed work arrangements. These results are also backed up by the International Labour Organization (ILO), which estimates that 11% of the working-age population (15-64) were subject to time-related under-employment in 2017, with young people (15-24) disproportionately affected (14.9%)[9]. Lastly, contributing family workers accounted for about one-fifth of total employment (21%) in 2017, a significant decline compared with 2013, when they accounted for one-third. Females were 1.8 times more likely than males

[5] WB: Migration and Mobility, 2017 (pg. 60)
http://documents.worldbank.org/curated/en/445651508415857577/pdf/120539-replacement-PUBLIC.pdf

[6] WB: Poverty and Equity Brief, Albania 2018
https://databank.worldbank.org/data/download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Global_POVEQ_ALB.pdf

[7] WB: Western Balkans Labour Market Trends 2018, (pg. 81)
http://documents.worldbank.org/curated/en/565231521435487923/pdf/124354-WP-P158508-PUBLIC-16-3-2018-10-13-39-WBLabormarkettrends.pdf)

[8] INSAT, Labour Market 2017.

[9] ILO data 2017,
http://www.ilo.org/ilostat/faces/oracle/webcenter/portalapp/pagehierarchy/Page3.jspx?MBI_ID=18

to work as contributing family workers. Labour Force Survey (LFS) 2017 data show that 26.8% of employed females and 15.1% of employed males were contributing family workers.

The poor are more disadvantaged in the labour market due to their lower levels of educational attainment, limited skills relevant to the labour market, and mobility constraints. They have lower labour force participation rates, higher unemployment and inactivity rates, and worse labour market outcomes, as they are generally engaged in unpaid jobs or low-productivity (and low-paid) jobs in the informal sector. More specifically, those with only primary education have the highest level of engagement in self-employment, whereas university graduates have the lowest level.

One way to estimate the number of working poor in a country is to deduct the number of those who do not participate in the labour market (for any reason) from the overall figure of those in poverty. Using this method (refer to Annex 1 for details)[10], and based on the World Bank poverty definition, the IWP rate in Albania in 2012 stood at 45%, falling to 40% in 2016 and 38.7% in 2018.

An additional, internationally comparable, poverty estimate is the multidimensional poverty index (MPI), which calculates severe multidimensional poverty based on the international poverty line of $1.90, and vulnerability to multidimensional poverty on the higher international poverty line of $3.10 (both in PPP). The MPI for 2017 indicates that 0.2% of the population in Albania were in severe multidimensional poverty and 7.3% were vulnerable to multidimensional poverty[11].

An additional tool that sheds some complementary light into the issues of poverty in Albania is the Household Budget Survey (HBS), carried out each year since 2014. The HBS provides an overview of the socio-economic situation of the country, as well as allowing for regional and urban/rural disaggregation. Data from the 2017 HBS point to significant differences in consumption expenditures between the different income deciles. The top 10% of households spent on average ALL 152,079 (EUR 1,220) per month (i.e. 20.7% of total consumption), which was 2.4 times more than the average of ALL 64,659 (EUR 520) per month for the other 90%. Even more striking was the low level of expenditures for the bottom 10%, of which 90% spent on average ALL 18,311 (EUR 150) per month[12]. A recent United Nations Development Programme (UNDP) study using 2014 HBS data also indicated that poor and vulnerable households manifest low access to means that would increase their resilience to falling into poverty, such as educational attainment, occupational opportunities and social protection measures. Furthermore, poor households have low levels of educational attainment as measured by the highest level attained by the head of the household, and engage mainly in unstable and low-paid employment, such as occasional jobs or temporary jobs without a contract[13].

Low pay is a key factor contributing to the incidence of in-work poverty (IWP) in Albanian households, linked to the structure of the Albanian economy. Growth in high-end and better-paid sub-sectors is still limited and the agricultural sector continues to provide a significant share of total employment (38.2%)[14], absorbing excess labour into low-productivity and low-pay employment. This helps explain Albania's relatively high employment rate (particularly among the low-skilled), coupled with low pay and the prevalence of informal, part-time and self-employed work arrangements. Close to

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[10] ILO 2001, Employment paper 16, The size of the working poor population in developing countries
http://ilo.org/wcmsp5/groups/public/---ed_emp/---emp_strat/documents/publication/wcms_079076.pdf
[11] UNDP, Human Development Indices and Indicators: 2018 Statistical Update,
http://hdr.undp.org/sites/default/files/2018_human_development_statistical_update.pdf
[12] INSTAT, Household Budget Survey, 2017. http://instat.gov.al/media/4784/hbs_2017.pdf
[13] UNDP) Albania 2017, Working paper, Out of Poverty and Back to Poverty Transitions
https://www.unece.org/fileadmin/DAM/stats/documents/ece/ces/ge.15/2017/Expert-meeting-Montenegro-2017/Albania_paper_formatted.pdf)

[14] INSTAT, LFS data.

193,000 new jobs[15] were created between 2013 and 2017 – driven by growth in labour-intensive sectors such as textiles, tourism and trade services, and health and administrative services, which took advantage of renewed economic stability and the availability of workers willing to work at a low wage following the crisis. Based on tax authority data on the distribution of employee contributors by average monthly gross wage, the proportion of people receiving a wage below the minimum wage declined from 31.9% in 2016 to 29.6% in 2017. Similarly, the percentage of workers earning a gross monthly wage below 60% of the average gross income in the country similarly declined from 46.5% in 2016 to 44.7% in 2017. Needless to say, it is difficult to extrapolate IPW estimates based on the available tax data, particularly in the context of high informal employment and a high incidence of under-reporting of wages ('envelope wages').

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[15] INSTAT 2017 data

2   Analysis of the policies in place

Poverty reduction and social inclusion have become more central in national development policies in Albania and notably featured in the country's second national strategy for development and integration (NSDI) for 2015-2020. More specifically, the Albanian government has committed to overcoming all social exclusion due to poverty, social status, lack of access to public services, and neglect by public institutions. In addition, the government of Albania has expressed a commitment to the United Nations sustainable development agenda for 2030, aimed at achieving sustainable development in its three dimensions, economic, social and environmental.

The NESS for 2014-2020 is the main strategic document on employment and skills development, and its objectives are to have a significant direct and indirect impact on employment outcomes for all Albanians. The strategy recognises the importance of jobs for ensuring sustainable poverty reduction and shared prosperity. More specifically, the strategy promotes good-quality jobs and skills development opportunities for all Albanian women and men through: (i) fostering decent job opportunities through effective labour market policies; (ii) offering good-quality vocational education and training to young people and adults; (iii) promoting social inclusion and territorial cohesion; and (iv) strengthening the governance of the labour market and qualification systems. The NESS is the only strategic document that recognises the need for preventing and reducing IWP, setting a target for reducing the share of the working poor and low-paid workers from 59.0% in 2012 to 50.0% by 2020.

The efforts by the government and relevant stakeholders to address the needs of vulnerable groups are channelled through the social protection strategy for 2015-2020, which aims to alleviate poverty by enabling social reintegration, improving the well-being of people with disabilities, and developing and ensuring integrated social care services. The *Social Inclusion Policy Document 2016-2020* (SIPD), represents an important document of the Albanian government, designed to ensure a contemporary and accountable system for assessing social inclusion across the policy domains of financial poverty and social protection; employment and skills; health; education; housing and deprivation of basic needs; and social participation and human rights. The SIPD is another policy document that recognises the phenomenon of IWP, particularly among those that receive low pay and/or those in informal employment (MoSWY, SIPD, p. 105).

2.1   Policies with direct influence in IWP

2.1.1 Taxes on low wages

As of 2019 income taxes in Albania are progressive, with three income tax brackets (*Table 3*), and those with a monthly income below ALL 30,000 (EUR 240) paying no income tax. Prior to 2014, all citizens paid a flat income tax rate of 10% on any income above ALL 10,000. It is important to note that income taxation and deductibles do not depend on factors such as family composition. In addition, no tax credits are available to low-income earners and/or households.

Table 3: Income taxation rates and income brackets in Albania[16]				
Nr.	Monthly income (ALL)[17]	Income tax rate	Social contributions[18]	Health contributions
1	Less than ALL 30,000 (EUR 240)	0%	24.5%	1.7%
2	ALL 30,001-150,000 (EUR 240-1,210)	13% of the gross salary beyond ALL 30,000	24.5%	1.7%
3	ALL 150,001+ (EUR 1,050+)	ALL 15,600 plus 23% of the gross salary beyond ALL 130,000	24.5%	1.7%

2.1.2 Minimum wages

The ILO has defined minimum wages as "the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract."19 As part of its decent work agenda, the ILO encourages member states to adopt a minimum wage to reduce working poverty and provide social protection for vulnerable employees. The European Commission has also expressed the view that member states should establish "decent and sustainable wages" and that minimum wages should be set at appropriate levels so to prevent IWP. Since 2012, the monthly minimum wage has been revised three times, increasing from ALL 21,000 (EUR 169) to ALL 22,000 (EUR 177) in 2013, to ALL 24,000 (EUR 193) in 2017, and to ALL 26,000 (EUR 210) at the end of 2018 (effective on 1 January 2019).

Prior to the most recent increase, according to the World Bank, the legal minimum wage stood at 42% of the average wage in the economy (World Bank, 2018). Whereas this is not deemed particularly high for the overall economy, it may be quite high for sectors such as agriculture, trade and the accommodation and food service sectors, where the average wage is significantly lower than the national average. Given that minimum wages are deemed to have a relatively limited impact on poverty or income inequality, it is paramount that the effects of increases in the minimum be assessed. Rising minimum wages can reduce IWP by increasing the disposable income of households; however, they can have a negative impact on private sector companies, which may lay off lower-paid workers.

2.1.3 Social transfers

Supported by the World Bank, a reform of social assistance was rolled out countrywide at the beginning of 2018, with the aim of improving the equity and efficiency of social assistance transfers as well as achieving better targeting of those in need. The reformed social assistance scheme aims to reduce poverty (especially extreme poverty) by providing payments to those in need and, to the extent possible, supporting people to get out of poverty, providing the basis for social and economic reintegration. One key element in the reform was extending social assistance eligibility to people in low-paid employment, receiving a modest income from household agricultural activity in rural areas, or in receipt of other forms of social protection benefits (such as pensions or disability benefits). It is, however, unclear to what extent the working poor have been

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[16] The table reflects the position at 1 January 2019.

[17] The current EUR to ALL exchange rate is EUR 1 = ALL 124.

[18] The income floor for social contributions is set at the minimum wage of ALL 26,000 (EUR 210) per month, and the income ceiling is set at ALL 105,850 (EUR 854), with employers paying 15% and employees 9.5%. Social contributions have to be paid on the minimum wage floor even by part-time workers earning a monthly remuneration below the minimum wage.

[19] https://www.ilo.org/global/topics/wages/minimum-wages/definition/lang--en/index.htm

able to benefit from such changes. Social assistance payments, currently at less than one-third of the minimum wage, remain extremely low.

Individuals and/or households that qualify for special categories of social assistance benefits include children in foster care and orphans outside of institutions, parents of triplets, victims of domestic violence and victims of trafficking. The overwhelming majority of households applying for social assistance, however, are families in need that do not qualify under any of the special categories.

Whereas the new system has improved transparency and addressed corrupt practices and subjectivism, it falls short in terms of effectiveness and targeting poverty alleviation. More specifically, the system has eliminated all discretion to include applicants who fail to pass the proxy means tested (PMT) algorithm but are still found to be in extremely difficult conditions. Furthermore, social benefits fall well below the poverty threshold per individual, and current income levels do not appear to affect the amount of the benefit.

The system also provides for extra payments linked to children's attendance at elementary school, and for families that ensure that their children are immunised. However, households receiving the maximum benefit of ALL 8,000 per month (EUR 64.40) do not receive the extra payment of ALL 300 (EUR 2.40) per month per child attending compulsory education; and in any case the amount involved is too low to act as an incentive. The Ministry of Health and Social Protection is currently drafting a new law on social protection that will address some of the current challenges in the social assistance scheme and increase coverage of households headed by women.

2.1.4 Active labour market programmes

Active labour market programmes (ALMPs), if designed adequately, have the potential to play an important role in helping to prevent the experience of low-wage employment through targeting the groups of individuals most at risk of low pay. There are currently eight employment promotion programmes, including measures targeting young people, female lone parents, orphans and other vulnerable groups. The total financing of employment programmes has increased significantly from ALL 90 million in 2013 (approximately EUR 700,000) to ALL 490 million (approximately EUR 3.7 million) for the period 2016-2019: nonetheless it remains low, at only 0.1% of the state budget for 2018 and with an overall coverage of only 5.6% of registered unemployed jobseekers.

In 2015, five employment promotion programmes were revised or developed, including one new programme targeting orphans and two revised programmes targeting female lone parents and recent university graduates. Recognising the added poverty risk that female lone parents face, the programme set wage subsidies above the minimum wage. In addition, substantive changes have been made to the on-the-job training programme, simplifying the financing scheme and allowing for greater participation by the private sector. Lastly, changes in ALMP design removed restrictions related to the duration of unemployment, allowing workers that cycle in and out of employment to benefit as well.

In 2018, the government set the movement of beneficiaries and former beneficiaries of social assistance into work as a priority, by referring those capable of work to ALMPs. By the end of 2018, 2,005 former beneficiaries of social assistance (who were no longer eligible for social assistance as a result of the rollout of the new scoring formula), and an additional 2,747 current beneficiaries, have moved into jobs through the national employment services (intermediation and ALMPs).

To the extent that, in the majority of these programmes, wage subsidy benefits are tied to the minimum wage, it can be argued that unemployed jobseekers are simply pushed into low-wage jobs, doing little to improve their long-term outcomes. This is further supported by the fact that the majority of ALMP beneficiaries are placed in low-paid jobs in the apparel and footwear industry.

2.1.5 Upward transition to decently paid and decent quality jobs

Policies that focus on assisting the unemployed (or existing low-wage workers) to progress into higher-paid jobs have largely focused on the provision of short-term vocational training courses, or assisting them to move into jobs that fully utilise their existing skills. The number of people trained through the regional directorates for public professional training, however, remains relatively small compared with the overall need for skill improvements, with an average of 12,000-19,500 individuals trained annually. In addition, the public vocational training system offers a relatively narrow range of programmes that supply the unemployed with basic vocational skills. Recent tracker studies indicate that on average 41% of trainees find employment after training. The Law on Vocational Education and Training, approved by the government in 2017, supports the extension of short-term training even by providers of vocational education. In addition, the Employment Promotion Law approved by the council of ministers at the end of December 2018 paves the way for contracting out training to private providers as well, as a way to diversify the training offered, increasing responsiveness to labour market needs, and providing more complex training.

2.1.6 In-work benefits

Currently no in-work benefits are provided in Albania, either in the form of permanent work-contingent tax credits, tax allowances or equivalent work-contingent benefit schemes.

2.2   Policies with indirect influence on IWP

2.2.1 Childcare services

Access to affordable and high-quality childcare services is strongly linked to the ability of parents, particularly women, to participate in the labour market. Ensuring the provisioning of high-quality childcare services at the national level in Albania is mandated by the National Agenda for Children 2017-2020. In early childcare services and pre-school education, investments have been limited mainly to infrastructure improvements. Nursery and kindergarten capacities are very limited, particularly in rural areas. Data from the 61 municipalities indicate that in 2016 the total number of kindergartens in the country was 93, and as many as one-third of municipalities did not have nurseries (National Agenda for Children 2017-2020). Apart from limited access and capacity, the national agenda for children identifies additional challenges in this field including the lack of: standards for the care, well-being and early development of children; inspection and monitoring instruments; and good parenting programmes in the community.

2.2.2 Inclusive workplaces

In 2016 Albania approved the National Action Plan on Persons with Disabilities for 2016-2020, indicating the government's commitment to turn the integration and the social inclusion of persons with disabilities into a tangible reality, by considering this category as one of the most vulnerable and excluded groups of our society.

The law on the inclusion of, and accessibility for, persons with disabilities provides for the right to independent living, including access to employment. The labour code prohibits any form of discrimination in the areas of employment and occupation, and amendments in 2015 sought to align its definitions with the law on protection from discrimination, set out relevant restrictions on any differences in treatment (restriction, exclusion or preference), and explicitly stipulated that employers must ensure that there is reasonable accommodation at the workplace for people with disabilities. This involves making necessary modifications and changes to the workplace, provided they do not constitute an undue burden. The Employment Promotion Law of 1995 introduced quotas and levies for the employment of people with disabilities by public and private employers. Every company or public institution with over 24 employees must employ a person with

disabilities for every 25 employees. However, levies envisaged in the law against employers who fail to meet these quotas have never been enforced, largely because the envisaged national employment fund[20] was never established. The enforcement of the law would improve access by people with disabilities to employment opportunities as well as address infrastructure-related shortcomings. At the end of December 2018, the Council of Ministers approved a new Employment Promotion Law that, among other things, sets up an employment fund for the employment and skills development of people with disabilities.

2.2.3 Social housing

Recognising the importance of housing as a fundamental right that guarantees integration and social cohesion, the government of Albania approved the national strategy on social housing for 2016-2025. The main goal of the strategy is: "To provide low and middle-income households who cannot afford a house in the open market, and in particular, to households with vulnerability indicators resulting in housing exclusion, with available, accessible, affordable and quality housing solutions". Among other things, the strategy highlighted the interconnections between employment, income poverty and the need for social housing; the limited number of affordable financial instruments available to the poor; and the way housing programmes are often not accessible to those most in need. In 2018, the Albanian parliament adopted a new Law No 22/2018 on social housing, which is aimed at creating opportunities for adequate and affordable housing for a safe, dignified and peaceful life, based on the solvency of individuals and families in need of housing and those in need of state assistance. The law further expands the range of available housing programmes. Between 2014 and 2017 the funding for social housing rose, as did the number of families benefiting (from 313 in 2014 to 715 in 2017).

2.2.4 Life-long learning and skills improvement opportunities

Equipping people of all ages with the necessary skills for the jobs of today and tomorrow, as well as helping them to secure better employment opportunities, are at the centre of the NESS for 2014-2020. Efforts to enhance the image of vocational education and training as a viable pathway to decent employment have been maintained over the past five years, leading to significant enrolments in secondary vocational education and training (from under 13% of all secondary students in 2013 to over 20% in the 2018-2019 academic year). From 2014, students from rural areas and families receiving social assistance were given monthly stipends of ALL 7,000. Despite increased attention and budgetary allocations in support of vocational education and training, many challenges remain such as skills mismatches, poor-quality or irrelevant training, unequal access, and weak linkages to the private sector.

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[20] The Employment Promotion Law No. 7995 Dated 20.9.1995, envisaged the establishment of an Employment Fund which would combine state budget funding with employers' contributions, donor funding, etc., in a single Fund which would serve to finance a wide range of measures addressing employment and training of unemployed jobseekers. Levies envisaged with regards to the employment of people with disabilities would be accumulated in this Fund.

3 Policy debates, proposals and reforms on in-work poverty and recommendations

As the previous section indicated, Albania has introduced policy measures aimed at poverty reduction; however, the country has yet to develop a comprehensive approach to the issue of IWP. Reforms since 2012 have largely focused on improving access to employment and skills development services, changes to labour taxation, increases in the minimum wage, improved targeting of social transfers, and measures that may indirectly reduce IWP. Whereas selected strategies, such as the NESS for 2014-2020 and the SIPD for 2016-2020, recognise IWP as an issue and set specific targets, the country's Economic Reform Programme, (ERP) does not explicitly address IWP or set priorities beyond poverty reduction in general.

Narrowing the discrepancies between poor and non-poor households in the areas of access to social protection, educational attainment and labour market outcomes remains a challenge for policy-makers. In the context of the challenges described in Section 1 and the policy measures initiated as described in Section 2, Albania needs to further the implementation of structural reform in order to create more and better jobs. This section provides several policy recommendations to tackle and/or prevent IWP, including changes to labour taxation, changes to unemployment insurance, the development of activation measures to address low work intensity, and measures that facilitate the transition to better jobs. All recommendations take into account the fact that, given high levels of public debt in the country and the need for continued fiscal consolidation, the possibilities for greater public spending are very limited.

Changes to labour taxation

Albania remains burdened by high public debt and limited fiscal room for manoeuvre, and before additional payroll tax reductions are considered, the government needs to take measures to sustainably strengthen tax compliance and expenditure efficiency[21]. Potential measures that the country can, however, consider include: a) setting a social contribution floor below the minimum wage, particularly for the self-employed and those working in agriculture; b) reducing social insurance contributions for part-time workers instead of a flat rate tied to the minimum wage; c) reducing taxes by setting a higher tax-free income threshold for low-income earners and for women who are secondary earners in households; and d) introducing tax credit schemes for larger households with more dependants.

To provide a degree of income maintenance during joblessness and facilitate effective job-search, Albania could introduce an unemployment insurance system that aligns unemployment benefits to previous earnings.

Many countries in Europe have unemployment insurance systems that link unemployment benefits to previous earning levels. In Albania, *unemployment benefit* is a flat-rate benefit unrelated to previous earnings, currently set by a decision of the council of ministers at 50% of the gross minimum wage and granted for a limited duration (varying between three and 12 months) to those who have paid social contributions for at least the previous 12 months. The coverage of unemployment benefits in the country is very low compared with other middle-income countries[22], with the number of unemployed jobseekers receiving unemployment benefits steadily declining from a high of over 10,000 (7% of registered unemployed jobseekers) in 2012 to fewer than 2,000

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[21] WB: A series of summary policy notes : Towards more, better and sustainable jobs for Albania, June 2018 http://documents.worldbank.org/curated/en/325471530535980136/Towards-more-better-and-sustainable-jobs-for-Albania

[22] ILO, http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_604882.pdf

(2.5%) in 2018[23]. Beneficiaries who are under 25 and either studying or unable to work, and who have custody of a child, benefit from an additional family income for each child (5% of the unemployment benefit, but not more than 30%). The ILO Convention No 168 recommends periodic payments of at least 50% of the reference wage, or that total benefits guarantee the beneficiary healthy and reasonable living conditions.

Policies aimed at tackling low work intensity at individual and/or household levels should be enacted, including activation measures, childcare, flexible working arrangements, and affordable transport.

In order to tackle low work intensity in Albanian households, and particularly the low labour force participation of women, the country needs to guarantee access to affordable and high-quality childcare services through various means including: a) increasing public investment in new childcare facilities (both nurseries and kindergartens); b) giving priority to low-income families in existing public childcare facilities; c) leveraging private sector provision of childcare, and considering subsidising the cost for low-income families; and d) building a case for private sector investment (particularly in labour-intensive sectors) in childcare facilities.

With regards to flexible working arrangements, measures that facilitate the return of women to work after maternity leave need to be considered, including options for shared parental leave, and allowing women to keep a portion of maternity leave benefits after returning to work[24].

Lastly, the provision of affordable transport, or subsidised transport, for those residing in geographical locations with limited employment opportunities, could be an important factor in helping people (particularly women) to enter work. The provision of transport services is even more relevant to the integration of people with disabilities in the labour market.

To facilitate the transition to more productive employment of social assistance beneficiaries, targeted activation measures are needed.

Low-income groups, including social assistance beneficiaries, need targeted activation policies to facilitate their transition to (more productive) employment. Due to lower educational attainment, lack of mobility, and other constraints on participation in the labour market, this group is particularly disadvantaged and suffers worse labour market outcomes. Although social assistance beneficiaries represent one-third of the registered unemployed jobseekers at the national employment service, only one programme was introduced in 2018 specifically targeting current and former beneficiaries of cash assistance. Nonetheless, participation in existing employment-promotion and vocational training programmes by cash assistance beneficiaries is low, at less than 15%.

Create opportunities for low-income earners to acquire skills needed by the private sector today and in the future, by fostering and diversifying life-long learning opportunities.

Given that low-income earners have lower levels of educational attainment and lack the necessary skills to allow them to progress in the labour market, it is crucial that the vocational education and training offered is diversified, that its quality and relevance to the labour market improves, and that training becomes more accessible, particularly to those residing in rural areas. The current adult training on offer is limited in scale and scope and does not respond to the needs of the labour market. Although beneficiaries of social assistance and other vulnerable groups have free access to the 10 public vocational training centres, because of their sparse geographical location and poor quality it is important that measures are taken to: a) strengthen the capacity of existing training providers; b) establish effective partnerships with the private sector; c) leverage

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[23] Administrative data of the national employment service, available at INSTAT.

[24] WB: A series of summary policy notes : Towards more, better and sustainable jobs for Albania, June 2018 http://documents.worldbank.org/curated/en/325471530535980136/Towards-more-better-and-sustainable-jobs-for-Albania

investments already made in vocational schools by enabling them to offer adult training, alongside longer-term diploma programmes; and d) introduce performance-based contracting of private providers of short-term training courses.

4   Assessing data and indicators

Improving the ability to monitor poverty, and particularly IWP, more frequently is key for Albania. The absence of nationwide, comprehensive household data renders poverty analysis in general, and of IWP in particular, very difficult. Currently, IWP is not monitored in the country and no research has been carried out on the topic.

In September 2016, following an initial pilot survey on income and living standards, the Albanian Institute of Statistics (INSTAT) started to conduct the Income and Living Conditions Survey (SILC). Three waves of the survey have been implemented, in 2016, 2017 and 2018, with the results from these three years expected to be published only in the autumn of 2019. Once available, the data will provide a better picture of the changes in levels of IWP (as defined in the EU methodology) over time and across individuals and households. However, given the significant time lag between the collection and processing of SILC data, it is important that other indicators be developed to monitor the numbers of those at risk of IWP.

Information on net wages is important for estimating the standard of living of the working population. Albania relies on administrative tax data on wages; however, it is not possible to gauge how representative the average published wage is of the overall employment income of households, particularly in the light of significant labour market segmentation.

Whereas the LFS does contain questions on wages, INSTAT does not publish any wage data based on the LFS, and neither does it make them widely available except for empirical research. Similarly, it is possible to derive wage data from the HBS, but they are only made available for scientific use.

5   Annex 1: Estimating the scale of in-work poverty

If a head count of all those in poverty is known, one way to estimate the size of the working poor in a country is to use demographic and labour force data to exclude those who do not participate in the labour market for any reason.

The first adjustment is to eliminate those who are not of working age (the demographic factor). The second adjustment is to eliminate those who are of working age but not in the labour force (the labour force participation rate). We can then approximate the size of the working poor in a country in the following way.

$P_t = Total\ population$

$P'_t = Total\ population\ of\ the\ poor$

$P_w = Working\ age\ population$

$P'_W = Working\ age\ population\ of\ the\ poor$

$L_w = Labour\ force\ of\ working\ age$

$E_w = Employed\ labour\ force$

$L'_W = Labour\ force\ of\ working\ age\ in\ the\ poor$

$P'_r = \frac{P'_t}{P_t} = Poverty\ headcount\ rate\ of\ the\ population$ As argued, the population of the poor P'_t first needs to be adjusted by the demographic factor, which is:

$$D' = \frac{P'_w}{P'_t}$$

and then by the labour force participation rate, which is $LPR' = \frac{L'_w}{P'_w}$.

This gives an estimate for the working poor: $WP = P'_t \times D' \times LPR'$.

If, however, we do not have estimates for D' and LPR', we need to assume these are the same for the poor as they are for the population as a whole, where the demographic factor for the total population is $D = \frac{P_w}{P_t}$, and the labour force participation rate for the total population is $LPR = \frac{L_w}{P_w}$. Assuming, $D = D'$ and $LPR = LPR'$, gives us: $WP = P'_t \times D \times LPR$.

Similarly, the rate of poverty in employment, or the working poverty rate, can be estimated as the ratio of the working poor to the employed population $WP_r = W_p \div E_w$.

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