

An illustration in a flat, modern style. In the foreground, a person with dark hair and a white face is shown in profile, pointing their right index finger towards a group of stylized human figures in the background. The figures are in shades of blue and teal. To the right, a large document or screen displays a grid with a person icon in one of the cells. The background is a solid orange color.

FROM LOW WAGES TO LABOUR PRODUCTIVITY

INVESTMENT COUNCIL MEETING
Tirana, 18 April 2023

- I. OBJECTIVE AND METHODOLOGY
- II. MAIN FINDINGS
- III. RECOMMENDATIONS

CONTEXT

For 2021, 99.8% of enterprises are SMEs, similar to the EU
In the EU, SMEs employ 64.4% of the total workforce, while in Albania, they employ 81.6% of the workforce
The value added by SMEs in the EU is 51.8%, in contrast to Albania, where SMEs contribute a higher percentage of 76.1% to the economy.

Value added per employee has increased across all enterprise sizes starting in 2020.
Small companies with 10 to 49 employees experienced a significant increase in value added per employee, while large companies experienced a relatively modest increase.

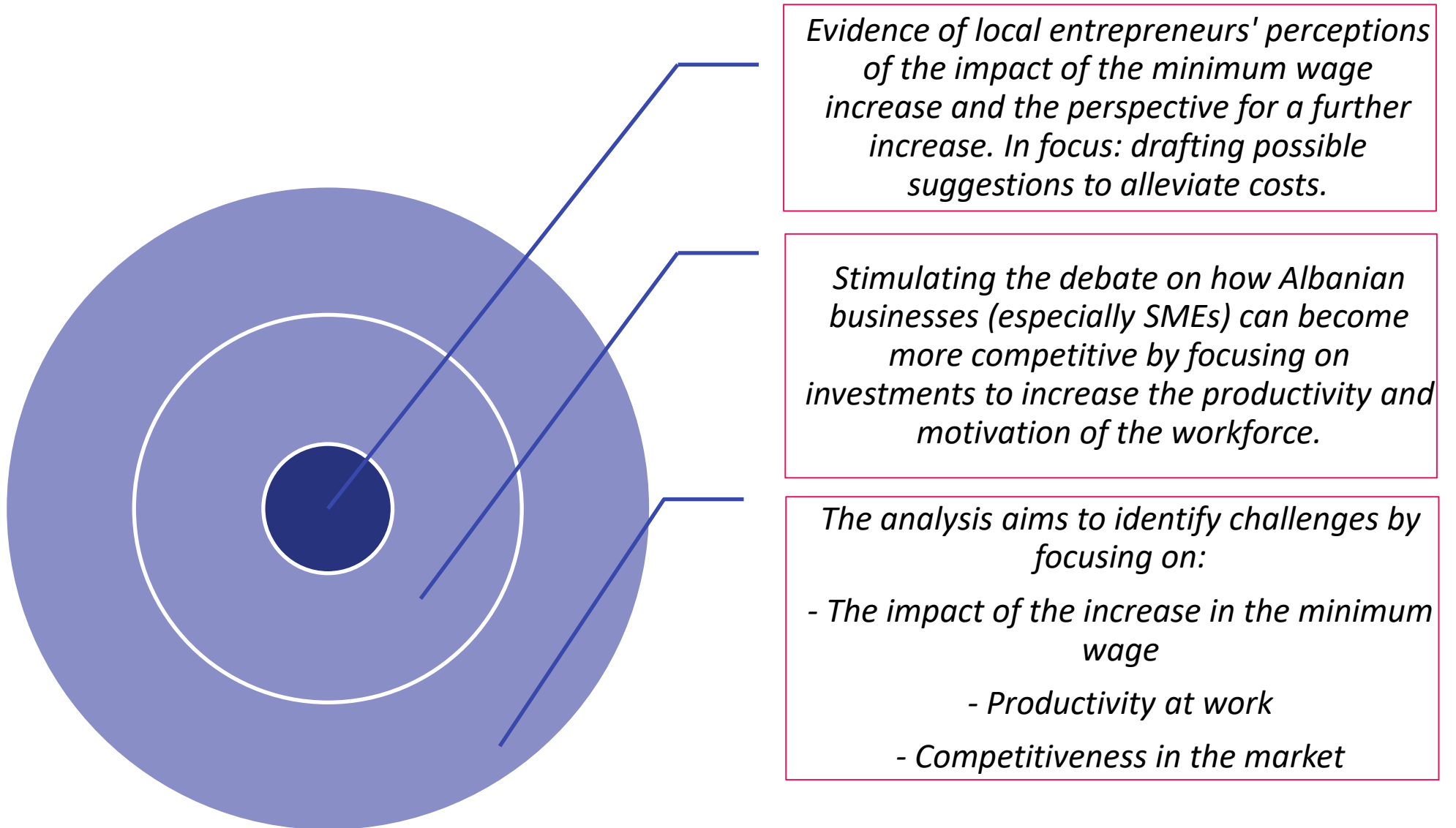
According to the OECD, on average, an SME in Albania, excluding entrepreneurs, employs 5.5 people, the highest in the WBT region, which raises concerns about SME productivity.

According to the World Bank, "Labor shortages and high inflation in the Western Balkans have created pressures on wages, which could slow the pace of hiring by firms. Economies in the region are announcing increases in minimum wages to compensate for the fall in real incomes due to inflation."

Referring to EU Progress Report Albania, 2022, "Nominal wage growth accelerated to 6.6% in 2021 from 2.4% in 2020, partly reflecting a decline in underreported wages. The lack of a qualified labor force and the increase of wages in the public sector, mainly in health and education, brought the average nominal monthly wage to 465 Euros in 2021".

The minimum wage in Albania is set by the Council of Ministers and typically follows a broad consultation approach in the National Labor Council
According to the Draft National Strategy for Employment and Skills consulted in 2022, the value of the minimum wage should reflect economic changes, living standards, and productivity growth.

I. OBJECTIVE



I. METHODOLOGY

Desk-research

Reports, national and international, laws/bylaws

Analysis of official data from secondary sources

Synthesis of findings and recommendations to date

The current work of the Secretariat on labour market issues

Consultations

Consultative meetings with business associations - Tirana Chamber of Commerce and Industry, Manufacturers Union, AmCham, and former IC members

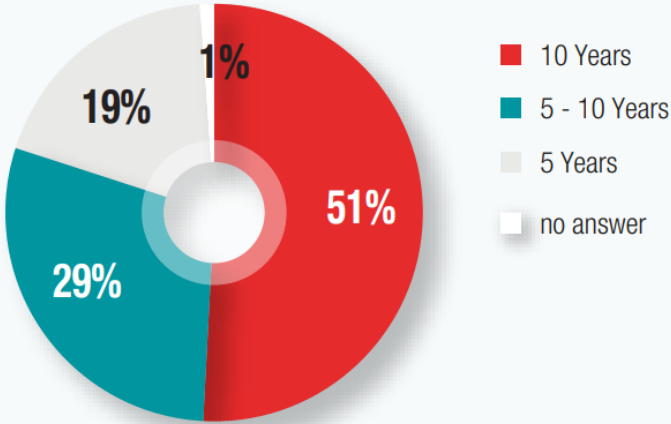
Comments from IC Members and Partners

Survey

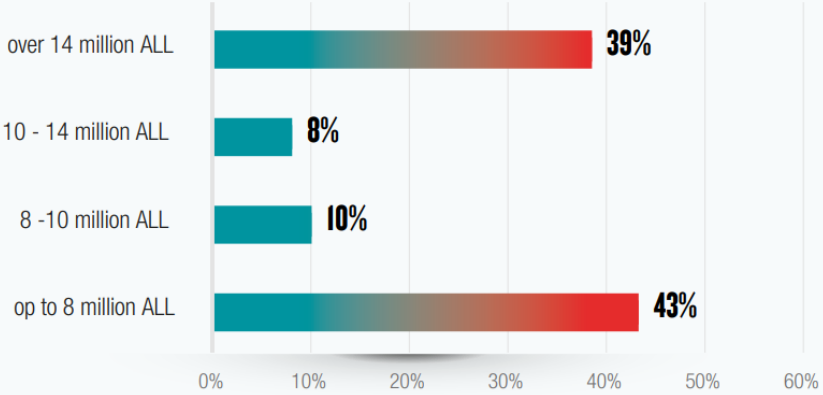
Questionnaire (online sent to 35,000 companies) focusing on the identification of problems from the increase of the minimum wage and the effects on business activity
506 anonymous responses received

IC SURVEY: SAMPLE PROFILE

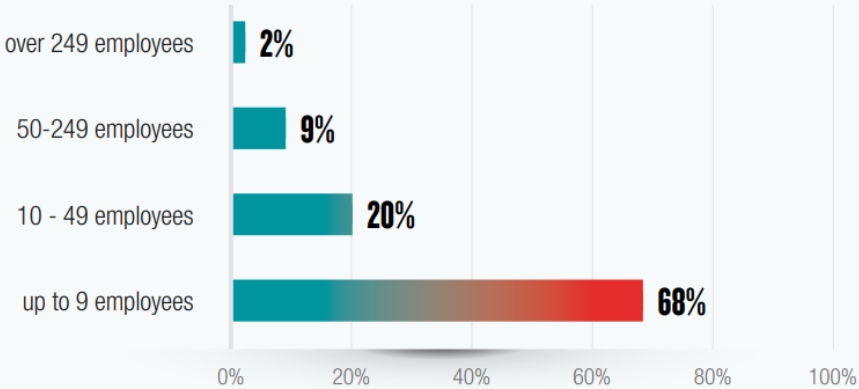
Year of business registration at the National Business Center



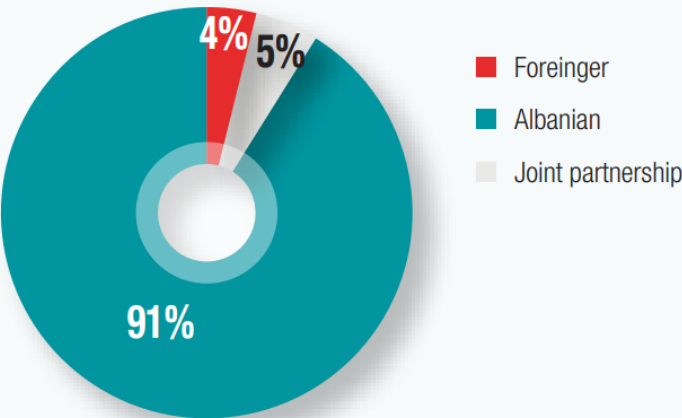
Size of your business according to last year's turnover



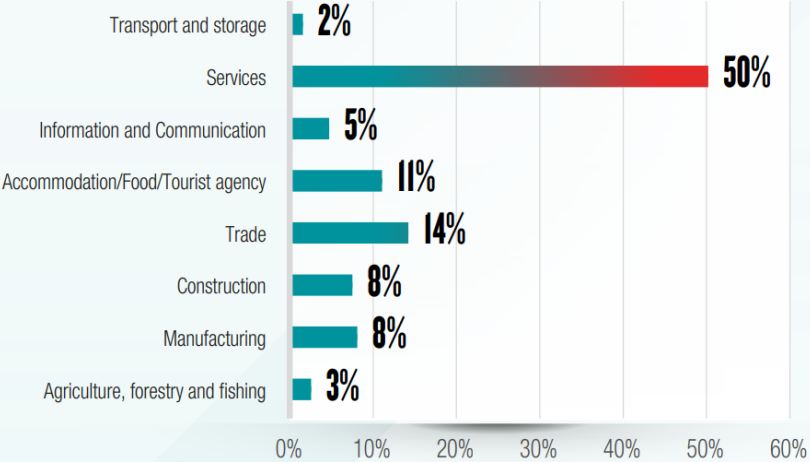
What is the average number of employees in your business?



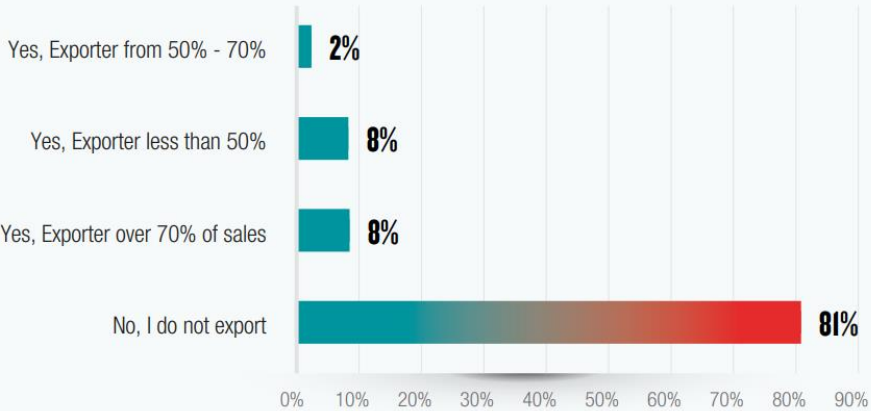
The largest shareholders/Partners (with over 50% of shares) of your business are:



Main economic activity of your business



Are you an Exporter?





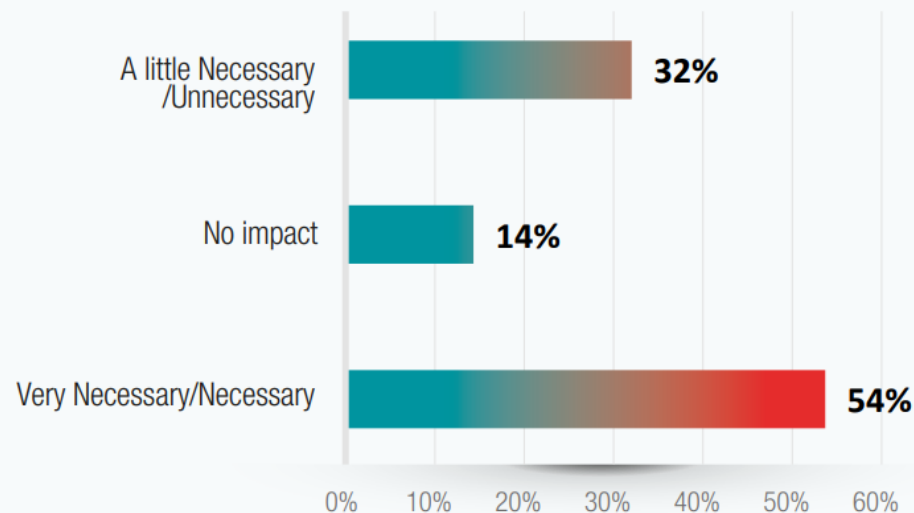
II. FINDINGS

II. FINDINGS, MINIMUM WAGE INCREASE

There is a widespread belief that raising the minimum wage could potentially lead to an overall upward trend in wages across the country, with broad consensus on the need for an increase, particularly in sectors such as trade, tourism, construction, and industry

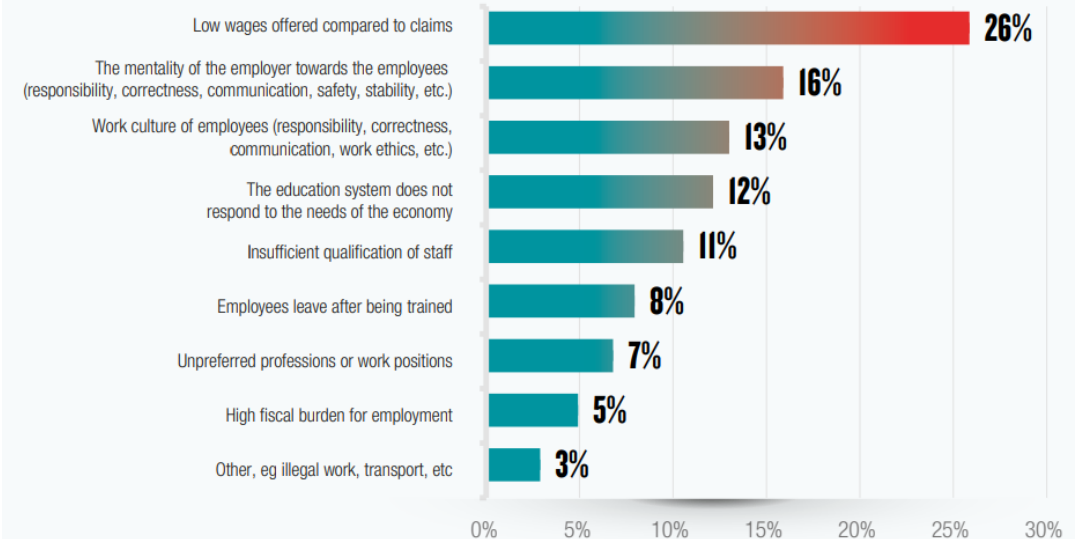
In the private sector of the local labor market, low wages are often seen as a major source of dissatisfaction and discouragement among employees and jobseekers

How do you judge the decision to increase the minimum wage from 30,000 Lek to 34,000 Lek, and further to 40,000 Lek?



Source: Secretariat's Survey, March 2023

In your general opinion, what are the 3 most important employment problems in the economic sector where you are/aspire to be employed?

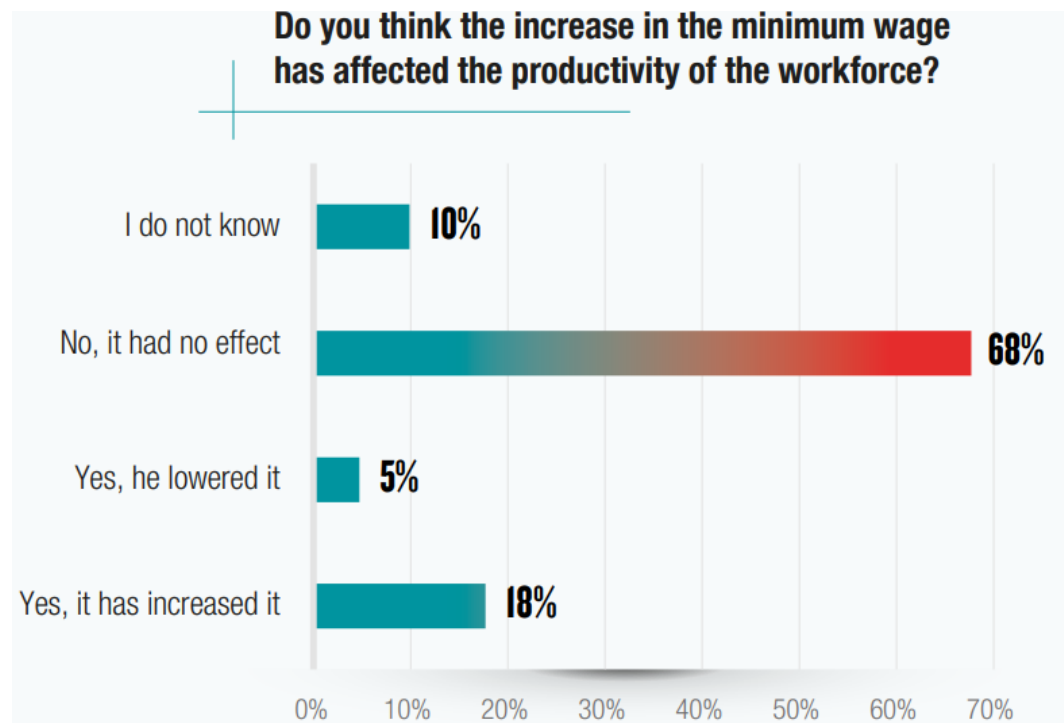


Source: Secretariat's Survey, March 2023

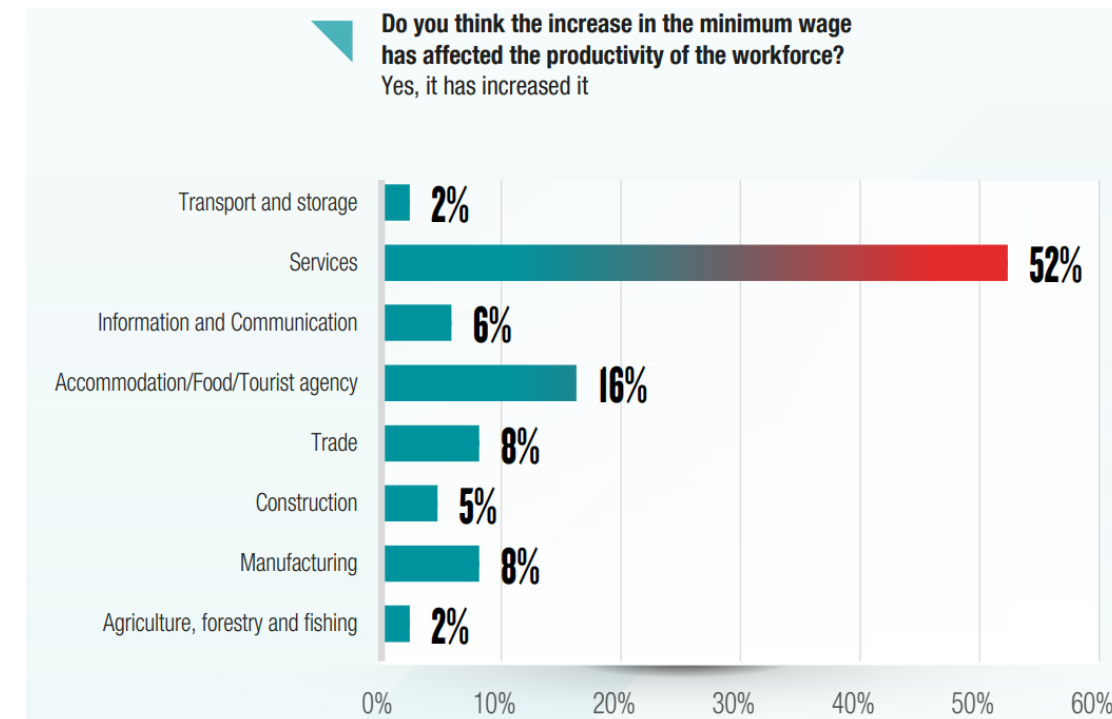
II. FINDINGS, INCREASING THE MINIMUM WAGE AND PRODUCTIVITY

Overall, the prevailing belief among companies is that raising the minimum wage does not significantly impact labour productivity, with 68% of companies reporting no effect. Only 18% of companies indicated that it had led to increased productivity, with the tourism sector showing the most noticeable impact in this regard

Newer companies generally hold a more positive view regarding the correlation between the minimum wage and productivity.



Source: Secretariat's Survey, March 2023

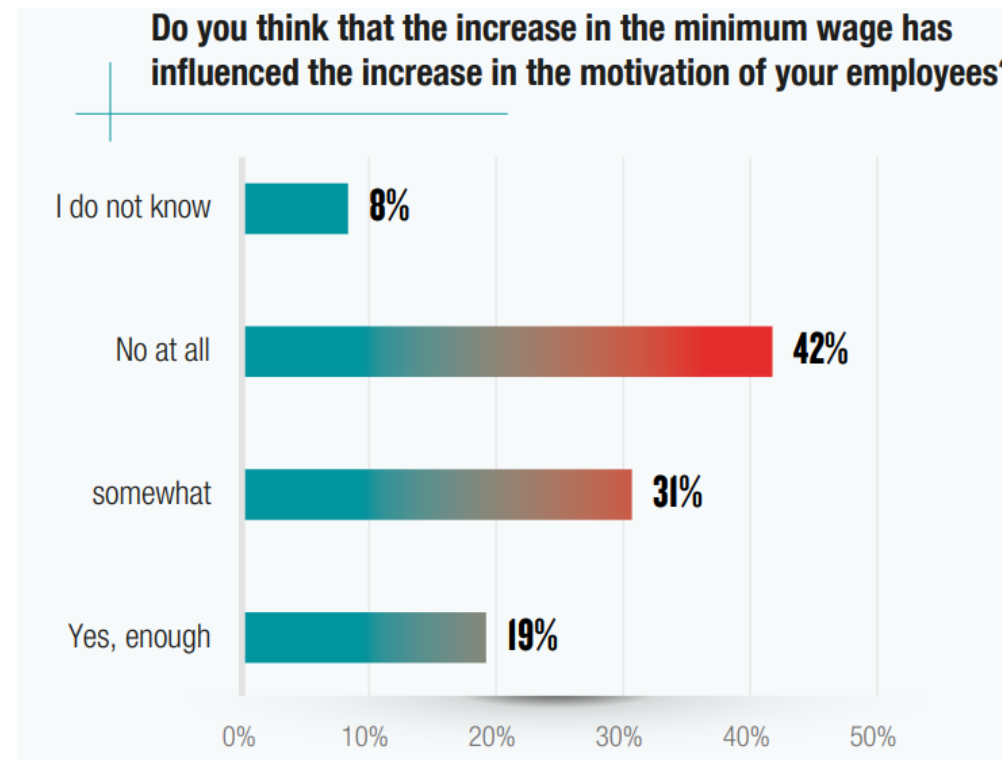


Source: Secretariat's Survey, March 2023

II. FINDINGS, INCREASE OF THE MINIMUM WAGE AND MOTIVATION AT WORK

Increasing the minimum wage has been found to boost employee motivation, which in turn can positively impact productivity.

Half of the respondents highlighted a notable increase in motivation at work to some extent as a result of raising the minimum wage.

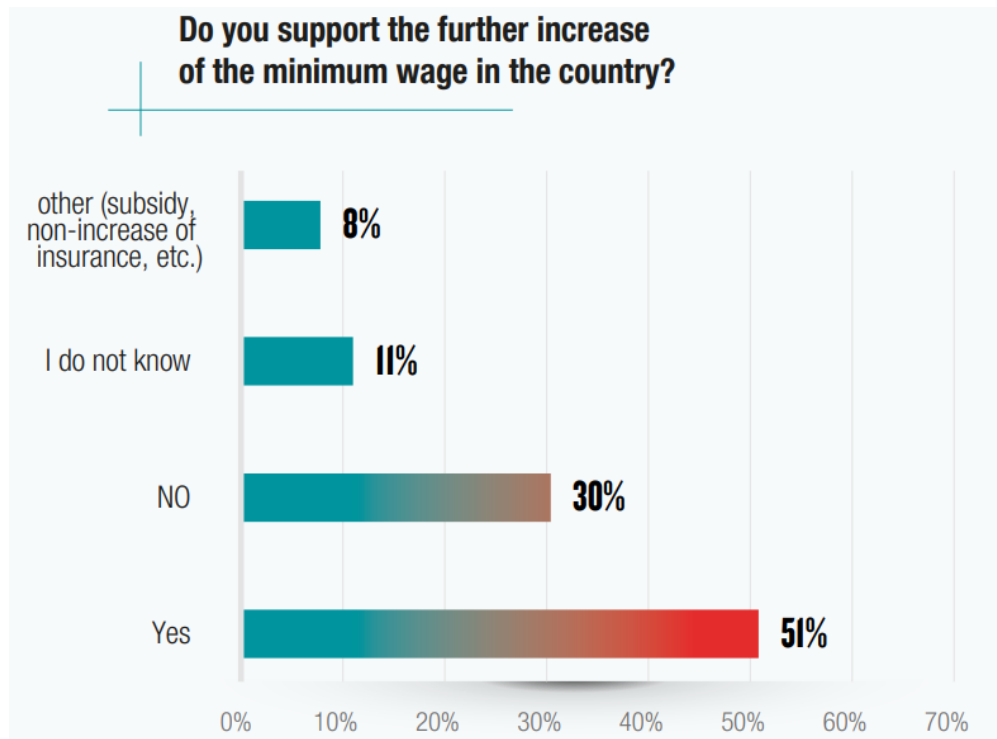


Source: Secretariat's Survey, March 2023

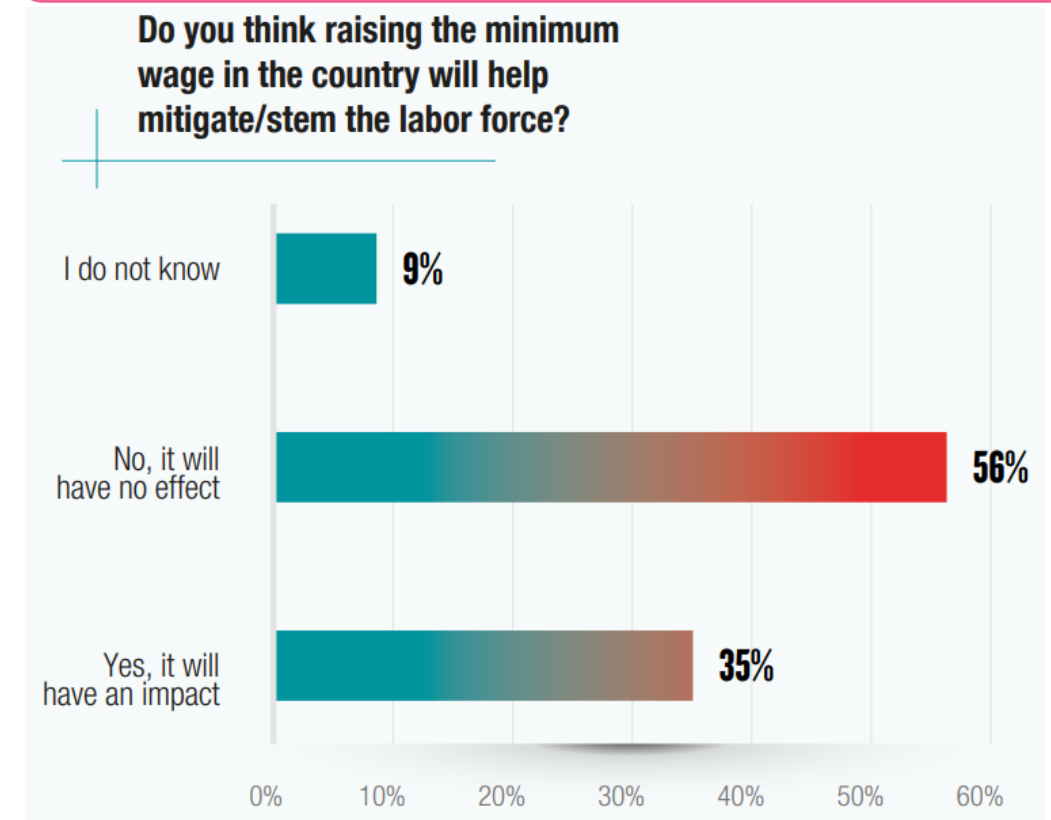
II. FINDINGS, FURTHER INCREASE IN THE MINIMUM WAGE

There is a clear indication of widespread support for further increasing the minimum wage

Furthermore, over one-third of companies expressed the belief that raising the minimum wage could be an effective measure to mitigate labor force emigration from the country.



Source: Secretariat's Survey, March 2023



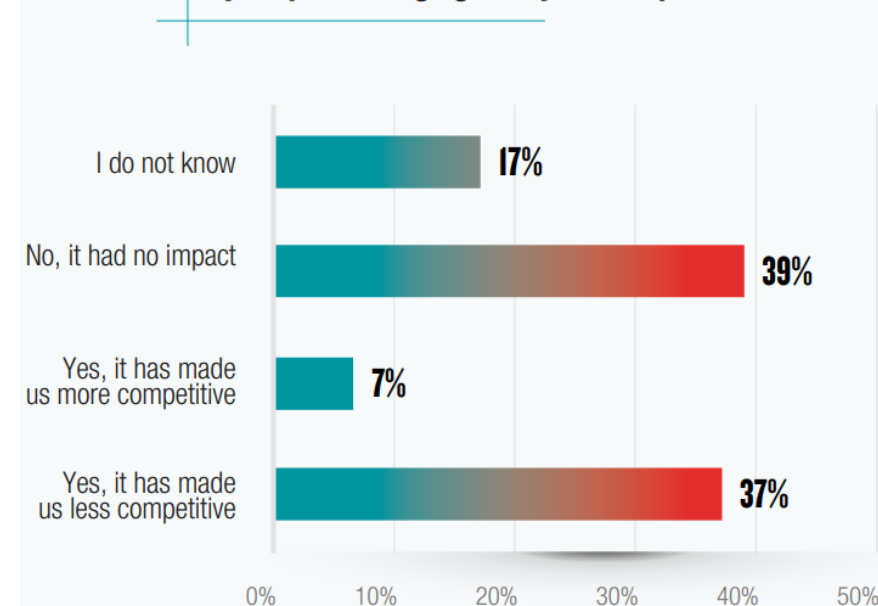
II. FINDINGS, MINIMUM WAGE AND COMPETITIVENESS

Opinions among companies are divided when it comes to the impact of minimum wages on competitiveness

A similar pattern was observed in export-oriented companies, where 43% reported a decline in competitiveness (with 38% of them being in the manufacturing industry), while 43% did not report any impact on their competitiveness

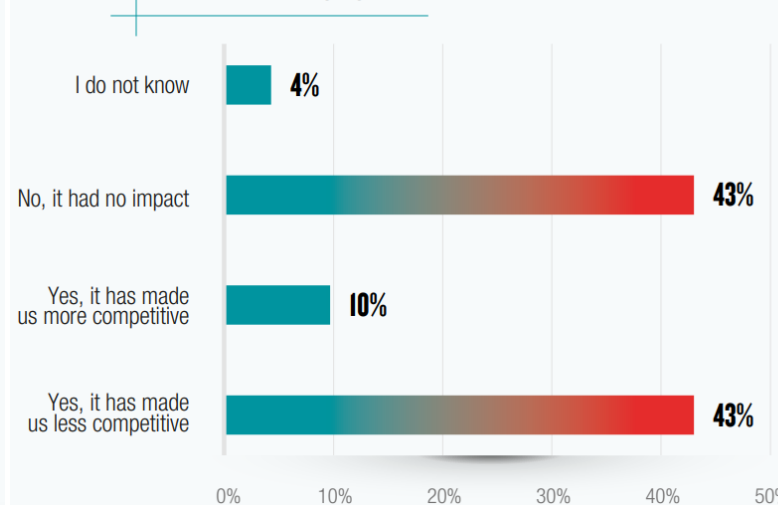
Trade, industry, and tourism sectors were perceived as less competitive due to wage increases based on the company's activity

Has the increase in the minimum wage affected your positioning against your competitors?



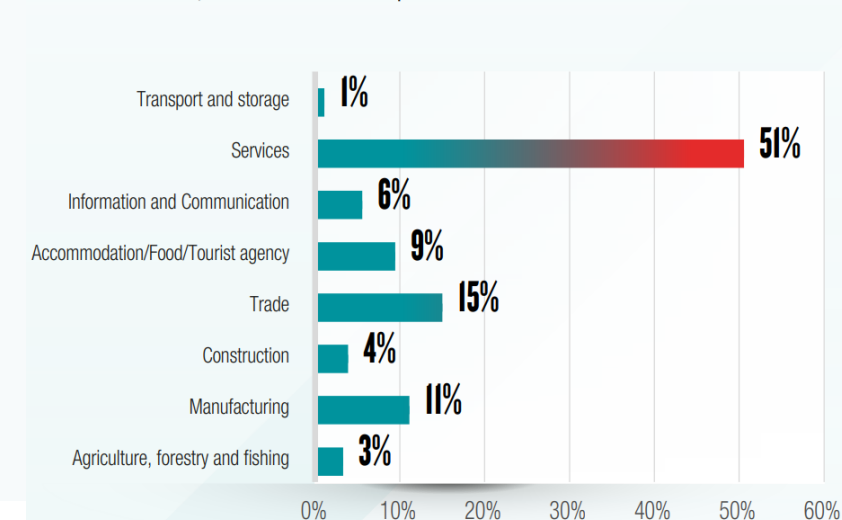
EXPORTERS

Has the increase in the minimum wage affected your positioning against your competitors?



Has the increase in the minimum wage affected your positioning against your competitors?

Yes, it has made us less competitive



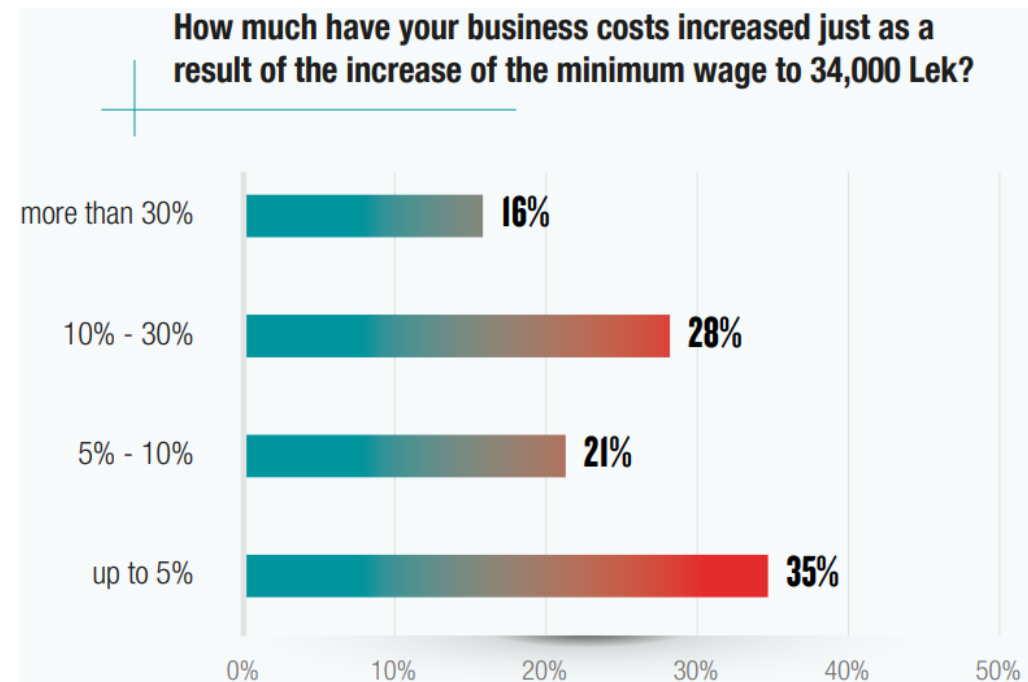
Source: Secretariat's Survey, March 2023

II. FINDINGS, MINIMUM WAGE AND COMPETITIVENESS

Albanian companies indicate that a significant proportion of their employees are covered by the minimum wage level

The consequence of the increase in the minimum wage is evident in the rise of personnel costs, with over 50% of the costs being attributed to this factor for a quarter of the surveyed companies

Official data show that in 2022, 42.3% of employees were paid a wage of ALL 40,000 or less.



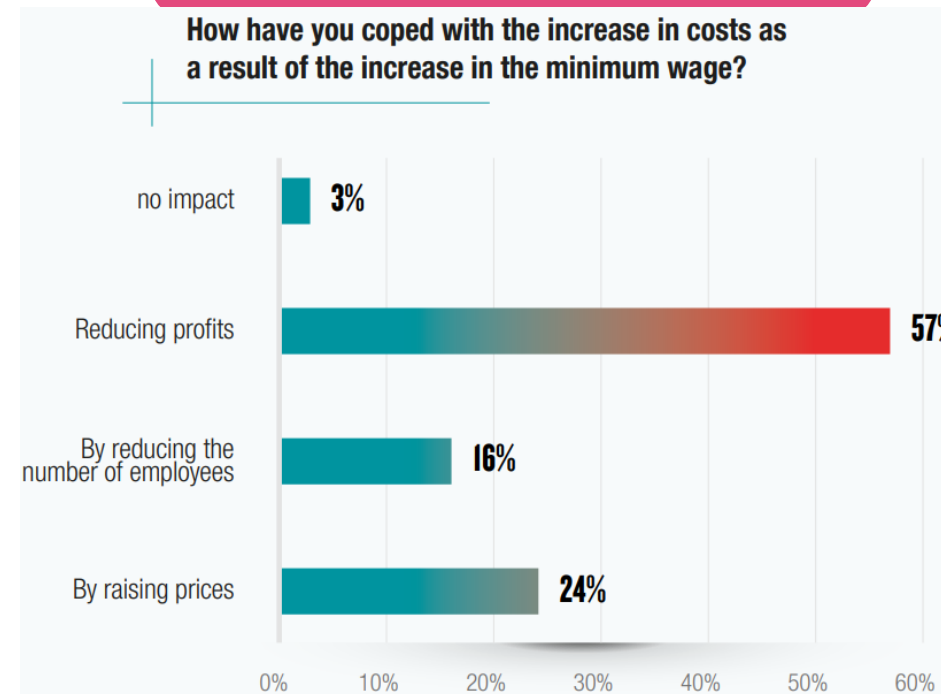
Source: Secretariat's Survey, March 2023

II. FINDINGS, MINIMUM WAGE AND COMPETITIVENESS

The increase in the minimum wage has resulted in a decrease in profits and an increase in prices

Companies are grappling with the costs arising from the increase in the minimum wage lowering profits.

The sectors most affected by employee turnover are mainly Tourism and Trade



Source: Secretariat's Survey, March 2023

II. FINDINGS, POLICY SUPPORT AND ACCESS TO FINANCING

Even though companies support the increase in the minimum wage, they still expect financial assistance from the government to help cover the increased labour costs.

It would be reasonable to consider the option of part-time employment category during the calculation of social contributions.

During our consultation process, businesses highlighted that they applied to AIDA (Albanian Investment Development Agency) for financial support for machinery purchases in late November 2022, but have not received any response yet.

The minimum wage should be increased, but in order to remain competitive, supportive policies should be in place to reduce taxes, such as personal income tax.

- (i) Government subsidies for manufacturing enterprises, particularly in the textile industry,
- (ii) Increase in pensions based on the percentage increase of the minimum wage,
- (iii) Increase in wages in the price manuals for construction in both private and public investments,
- (iv) Combatting informality and increasing controls on the declaration of actual employee wages

CAN WE CONCLUDE THAT?!

WAGE INCREASE

(pros & cons)

- + Promotes competition in the labour market
- + It reduces employee turnover and can reduce emigration
- + Increases purchasing power and consumption
- + Mechanism to cope with the increase in consumer prices
- It can increase informality
- It can increase inflation in a spiral way
- It is not necessarily associated with increased productivity and competitiveness
- Tougher competition between firms

CHALLENGES

Enterprises will be oriented towards costs or technological developments and productivity growth?

Restructuring of enterprises towards services (tourism) or manufacturing (fashion)?

Are all enterprises ready to respond positively to the Government's stimulus for increasing salaries in the public sector?

What are the other support measures and programs (fiscal, financial and structural) that should accompany the salary increase?



RECOMMENDATIONS

III. RECOMMENDATIONS

- ECOSYSTEM INCLUSIVENESS

Recommendation 1: If considering the development of a national wage plan, the government, in collaboration with chambers of commerce and business associations, should encourage public participation and consider it as a tool for consulting issues related to labor productivity and wages, including also workers and their unions in focused discussions.

- A particular reference can be made to SDG 8 "Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all."

III. RECOMMENDATIONS

- DECENT JOB

Recommendation 2: Prioritize efforts and interventions to improve work culture and provide decent employment for all through education of workers and employers on labour legislation and employment contracts - rights and obligations.

- Employment offices and recruitment companies should take responsibility for providing consultation, and professional education centers should offer short trainings for candidates on *(a) job descriptions and responsibilities; (b) remuneration and social and health coverage; (c) notice periods and reasons for termination; (d) vacation payments and medical reports; (e) work hours, organizational rights; (f) how to resolve complaints and where to report violations of labor legislation by employers.*

III. RECOMMENDATIONS

- WAGE INDEXING

Recommendation 3. The government, in collaboration with social partners, can be involved in an inclusive process of building consensus to evaluate the adoption of a wage indexing mechanism for both the public and private sectors on an annual basis.

- *During the selection of a wage indexing mechanism, macroeconomic indicators such as inflation and unemployment targets, as well as business competitiveness in Albania, should be taken into consideration. It is recommended to conduct a detailed analysis of economic factors and objectives before making any decision in this direction.*

III. RECOMMENDATIONS

- PART-TIME EMPLOYMENT AND SOCIAL INSURANCE

Recommendation 4. To address these interconnected issues, proportional social and health contribution payments for part-time employment could be eased, advocating for payment per hour (for further discussions).

- *Part-time employment and social contributions:* Despite the measures taken, undeclared employment continues to be directly linked to the informal economy and low productivity of small and medium-sized enterprises (SMEs). This systemic issue is evident both in fully undeclared employment and partially undeclared employment. Business observations, particularly in the services and tourism sectors, confirm that inflexible systems of social and health contributions are major drivers of this issue.



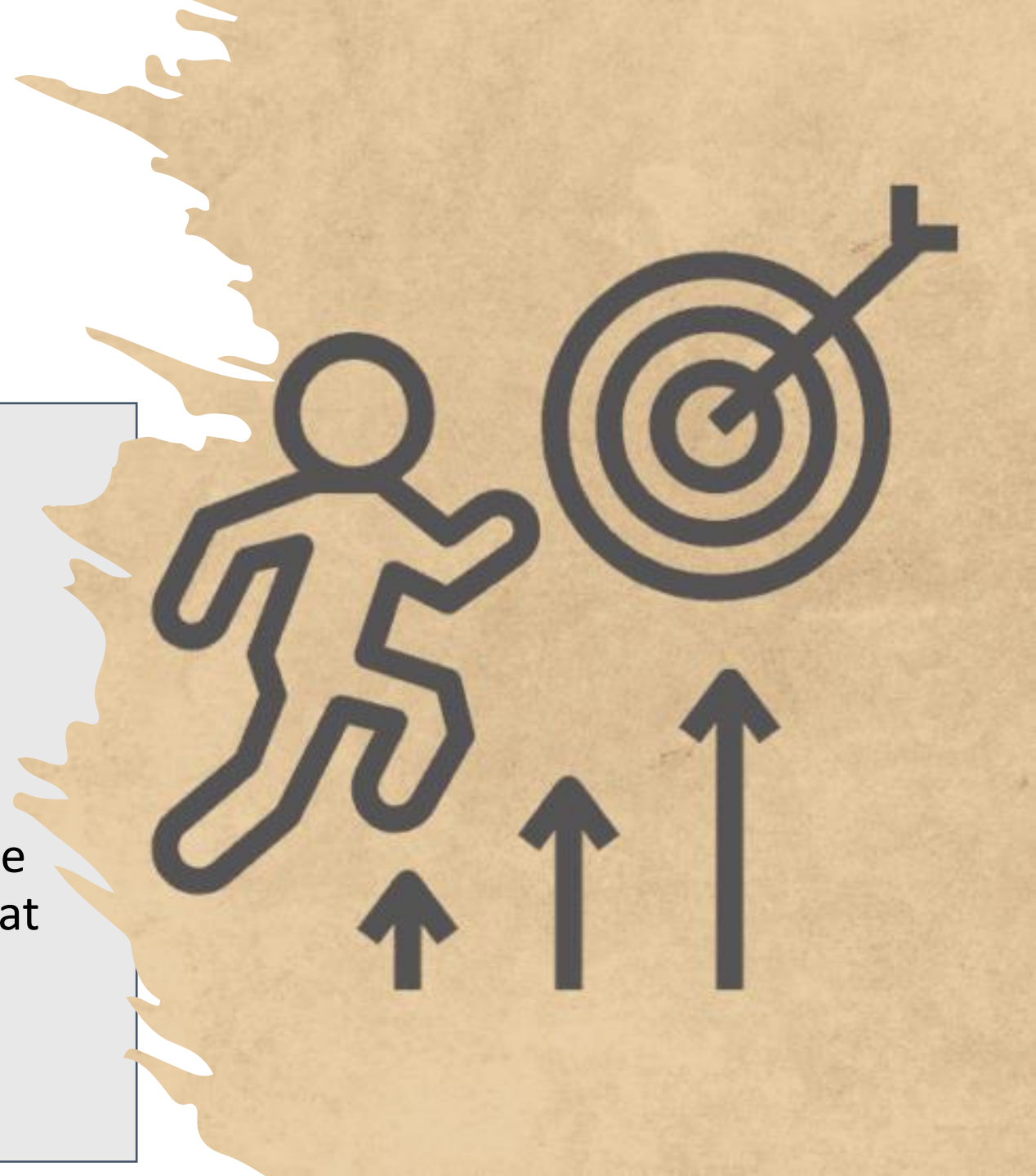
DISCUSSION

**ARE WE
READY?**

DISCUSSIONS

Unsustainable wage increases without a corresponding increase in productivity and quality may create issues with competitiveness and potentially pose structural risks for businesses that may take time to recover.

- Has the time come for entrepreneurs to shift their focus toward increasing productivity at work as a key factor in ensuring their health and ensuring sustainable growth in the country?
- Limited capacities of companies to upgrade technology and enhance competitiveness at a broader scale require additional support from financial institutions and state-guaranteed instruments.



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