GENDER WAGE GAP IN ALBANIA

Sources and Recommendations

November, 2011

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MINISTRIA E PUNËS, ÇËSHTJEVE SOCIALE DHE SHANSEVE TË BARABARTA

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Abbreviations

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AMoLSA	Albanian Ministry of Labour and Social Affairs
ALSMS	Albanian Living Standards Measurement Survey
INSTAT	Institute of Statistics

I. Introduction

Labor market issues, be those of employment, unemployment, inactivity, wages and the like are very important for every country since they are linked to some of the main indicators of economic wellbeing or lack thereof. These issues and indicators become increasingly important for developing countries that are trying to achieve development and economic growth. Gender indicators within these labor market indicators are of special interest not only due to a long history of gender discrimination against women in the labor market, but also because women comprise half of the population and thus half of the labor force. Exclusion of women from the labor force, or discrimination of women in the labor force is associated with lost productivity and thus impedes growth and ultimately development.

One of the issues that has continued to gain ground and attention is that of gender wage gap between men and women in the labor market. In the context of Albania, as a developing country, understanding wage differences or discrimination in the labour market is especially important due to the influences that it may have on education of future generations (stemming from the expectations formed by the parents), income inequality, occupational seggregation, women's position and opportunities, pensions in the old age, intergenerational inequality, and ultimately poverty. Albania has undergone major transformations in the labor market, but not much is known regarding the gender wage gap and its determinants. Studies regarding issues of labor market in general and wage discrimination in particular have been lacking in Albania. In the past two decades, the Albanian economy has been transformed from centralized planning to an open market economy associated with major transformations in the labor market. In the midst of these transformation, women found themselves in a particularly challenging position due to their dual burden inside and outside the household. During the labor market liberalization in the 1990s with the shutting down of major industries, overcrowding in administrative

jobs, price liberalization, increased competition, and collapse of social protection, women suffered the highest unemployment rates in the economy. The unavailability of social protection and economic rights reinforced women's homemaking roles (Tarifa, 1994). Although the Albanian economy overall has shown high growth rates and has achieved poverty reduction, women do not appear to have fully recovered their position in the labor market. Women continue to have lower labor force participation and employment rates, higher unemployment and inactivity rates, and lower wages in the labor market.

● **Figure 1.** Employment Rate 2007, 2008, 2009

Source: INSTAT

● **Figure 2.** Main Labor Market Indicators, 2009
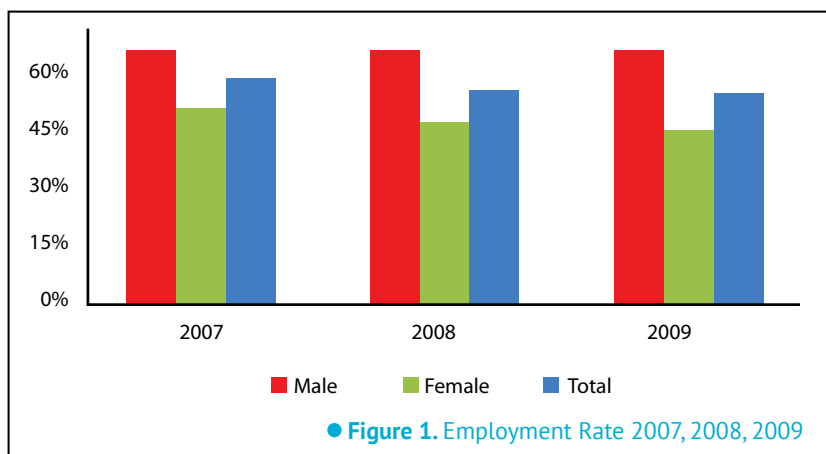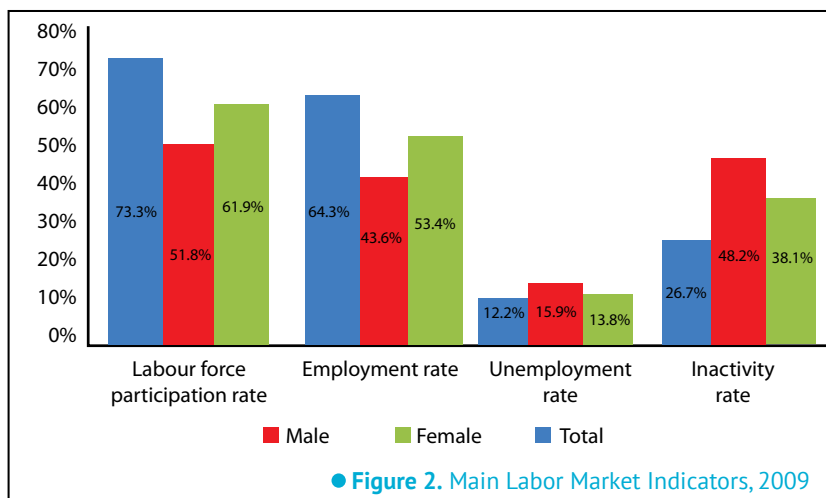
Source: INSTAT

Statistics from the Albanian Ministry of Labour and Social Affairs (2005) show that in 2004, the employment levels were 38.3 percent for women and 60.1 percent for men; whereas unemployment was 17.5 percent for women and 12.4 percent for men. In terms of labor force participation, in 2003, 70.5 percent of men in the working age participated in the labour force compared to 46.7 percent for women (Albanian Ministry of Labour and Social Affairs, 2005). In 2004, men were at 68.6 percent, while women were at 46.4 percent. Employment rates between 2007 and 2009 (figure 1), show that women continue to have lower rates than men. In 2009, women's employment rate was 43.6% compared to 64.3% for men. In 2008, women's employment rate was about 45%, while men's was just above 60%. This same trend is seen in 2007, where women's employment rates were just above 45%, while men's continued to be over 60%. In 2009 (figure 2), women continue to have lower employment rates (43.6% compared to 64.3% for men), lower labor force participation rates (51.8% for women compared to 73.3% for men), higher unemployment rates (15.9% for women compared to 12.2% for men), and higher inactivity rates (48.2% for women compared to 26.7% for men). Higher unemployment levels and low employment levels for women are of concern relating to their economic well-being. However, low rates of labor force participation as well as high rates of inactivity are of further concern since the longer women remain out of the labor market the more they are at risk of losing their human capital and therefore their economic position as well as their rewards in the labor market.

Women continue to remain overwhelmingly in the social-state-service sector, where they comprise 80 percent of employees (Albanian Ministry of Labour and Social Affairs, 2005). Men are 2 times more in lawmaking, senior officials, leading executives, while women are mostly found as specialists and regular employees (Albanian Ministry of Labour and Social Affairs, 2005). As a result of occupational segregation, women's wages are also lower than those of men. In addition, in the urban areas females frequent universities more than men as a way to deal with the harder employment opportunities that they face in the labour market (The World Bank, 2002). Although in 2008, wages increased by 8.8 per cent in the public sector and by 15.1

per cent in the private sector and there has been a further increase of 16 per cent in the public sector in 2009, wage differentials favoring men still remain in the Albanian labor market.

The issue of wage differentials and wage discrimination in the labor market is not peculiar to Albania. Rather, wage differentials between men and women are found in virtually every labor market from the least developed to the most developed countries. Transition economies in the region that have also undergone transformations due to the system collapse after 1990 have experienced similar impacts. During communism in almost all of the transition economies, wages were set according to the industry specific wage grids responding only to worker's education and experience (Munich et al., 1999). There was a policy of full employment, and women enjoyed high education and health care access (Munich et al., 1999). The fall of communism ended the wage regulation, responding to increased returns to education and causing increased wage dispersion (Svejnar, 1999). As a result of skill composition, labor market institutions, and specific country history and culture, gender wage dispersion has affected countries differently. During the early transition, the gender wage gap diminished in Eastern Europe, but it increased in Russia and Ukraine (Brainerd, 2000). During mid transition, Newell and Reilley (2000) report that the gender wage gap has remained relatively stable for most countries in the transition economies. Returns to education more than doubled in Romania in 2000 compared to the levels under central planning (Andren et al., 2004). Skill related wage differences rose in the transition economies following the system change (Svejnar, 1999). In the case of Bulgaria, Giddings (2002) shows that the high levels of human capital that women had acquired during communism helped them in the transitional period by favoring their earning and improving their economic conditions. Women's higher human capital helped reduce the gender wage gap in Russia (Oglobin, 2005). Occupation segregation by industry or job status, also contributes to the gender wage gap. Jurajda (2003) finds that in the Czech Republic and Slovakia, occupational segregation explained over 1/3 of the gender wage gap. Oglobin (1999) finds that gender differences in education and work experience are not enough

to explain the gender wage gap in Russia; rather it is occupation segregation which is the main determinant of the gender wage gap. Occupation segregation is found to account for 75-80 percent of the gender wage gap in Russia (Oglobin, 1999; Oglobin, 2005). As a result of the similarities of labor market practices across the region, occupational segregation is expected to play a major role in most of the transition economies (Oglobin, 1999). Social norms may also affect the gender wage gap by promoting occupational segregation. Social norms may dictate certain gender roles, which influence concentration of women in certain occupations, thus increasing occupational segregation (Oglobin, 1999). Social norms may also affect employer preferences who may see women better fit for certain occupations than men. For the case of the Czech Republic and Slovakia, employers strongly preferred men to women in many occupations (Svejnar, 1999). In addition to the usual preference for men in maintenance and repair, employers also preferred male to female employers in professional, administrative, and service occupations; 36 to 58 percent preferred males, while under 10 percent preferred women (Svejnar, 1999).

Recognizing women's position in the labor market and adequately addressing these issues, which lead to the gender imbalances, is very important especially considering Albania's attempts to join the European Union. This report, presents the gender wage gap in Albania using 2008 Albanian Living Standard Measurement survey data, and draws on the literature and methodology of wage decomposition to decompose the gender wage gap and identify its sources. Lastly, recommendations as to reduce the gender wage gap are provided.

Data and Descriptive

II. Data and Descriptive

The analysis in the report is conducted by making use of the 2008 Living Standards Measurement Survey study (LSMS), which is a household survey. The data in this survey is collected by INSTAT with the technical support of the World Bank. The 2008 Albanian LSMS is an extensive household survey collecting data at the household and the individual level. The survey is divided into different modules including household roster, education, labor, agriculture, social capital, etc. The labor module is quite comprehensive providing information on labor force participation, employment and unemployment, economic activity, and wages. This data which is at the individual level and disaggregated by sex is favorable for the gender wage gap analysis. In addition the survey is nationally representative as well as representative of the urban and rural areas, and of the four strata, namely, coastal, central, mountain and Tirana. This information is used to conduct regional analysis in addition to the national gender wage gap calculations.

The overall trends in the data show an apparent wage differential between men and women in Albania favoring men (Table 1; Figure 3). Although women have on average more education, they lack in experience. Women have on average 5 years less experience than men, which is a result of child-caring and child-rearing responsibilities. As primary provider of such responsibilities women take time off the labor market, which negatively affects their work experience and consequently their rewards in the labor market. Consistently, women receive on average lower monthly wages for all education categories (Table 2 and 3), with the exception of the no diploma category, where there are no wage differentials between men and women. Although women start with higher education levels and maintain the education advantage throughout the age distribution (the gap is larger for the age group 20 to 30 years of age), in terms of wages, this positive impact that education is expected to play in the labor market is outweighed by the discontinuity in the labor market

(Figure 4). Women's lower work experience counterbalances the higher education levels therefore negatively affecting rewards in the labor market (Figure 5). The general trend of the age-wage profile between men and women shows lower wages for women throughout the age distribution with a larger gap between 30 and 50 years of age (Figure 6). Around age 30 it is also the time that the majority of women may be taking time away from the labor market to either have children or to take care of their children. This break extends beyond this age as women continue to be primary care givers for their children, therefore their discontinuity in the labor market extends for years and thus creating a gap which is carried over even when women return in the labor market and feeds the continuity of the gender wage gap. Women may not recover their returns in the labor market as a result of their lower and discontinued experience in the labor market.

● **Table 1.** Descriptive Statistics

Variables	Males	Females	Total	P-Value
Ln Wage	10.089	9.878	10.021	**0.000**
Monthly Wage	28746	22617	26765	**0.000**
Age	42.463	39.327	41.450	**0.000**
Experience	26.092	21.744	24.687	**0.000**
Years of Schooling	10.371	11.584	10.763	**0.000**
No Diploma	0.81%	0.13%	0.59%	0.193
Primary 4	4.26%	1.56%	3.39%	**0.000**
Primary 8	43.86%	33.97%	40.66%	**0.000**
Secondary	21.49%	22.28%	21.74%	0.678
Vocational	17.52%	18.18%	17.73%	0.763
University	11.80%	23.63%	15.62%	**0.000**
Total Observations	2178	1051	3229	
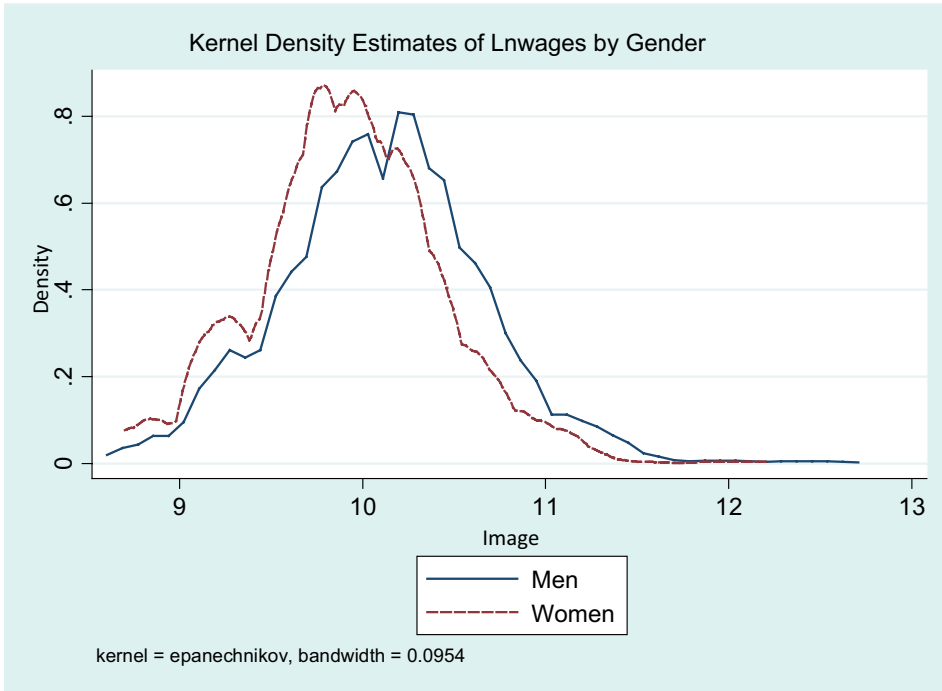
● Figure 3. Ln Wages by Gender

Besides the differences in experience levels, which is directly related to wages in the labor market, occupational segregation, lower status at work, and a mismatch between skills and occupations are other factors that negatively affects wages and deepens the gender wage gap. Occupational segregation creates wage differentials by putting downward pressure on wages for occupations that are overcrowded by a certain sex. Certain occupations have traditionally been female occupations and that same pattern is still present in Albania. Women are mainly in public sector occupations such as education, healthcare, public administration, technicians, clerks and services. Lastly, even within the same occupation women and men are rewarded differently either because of a pure wage premium of the market for men, or because even within the same occupation women hold lower positions than men (Table 4). This may be a result of a mismatch between skills and occupations. Whereas women have higher education, their education levels don't always match they occupation or position at the workplace.

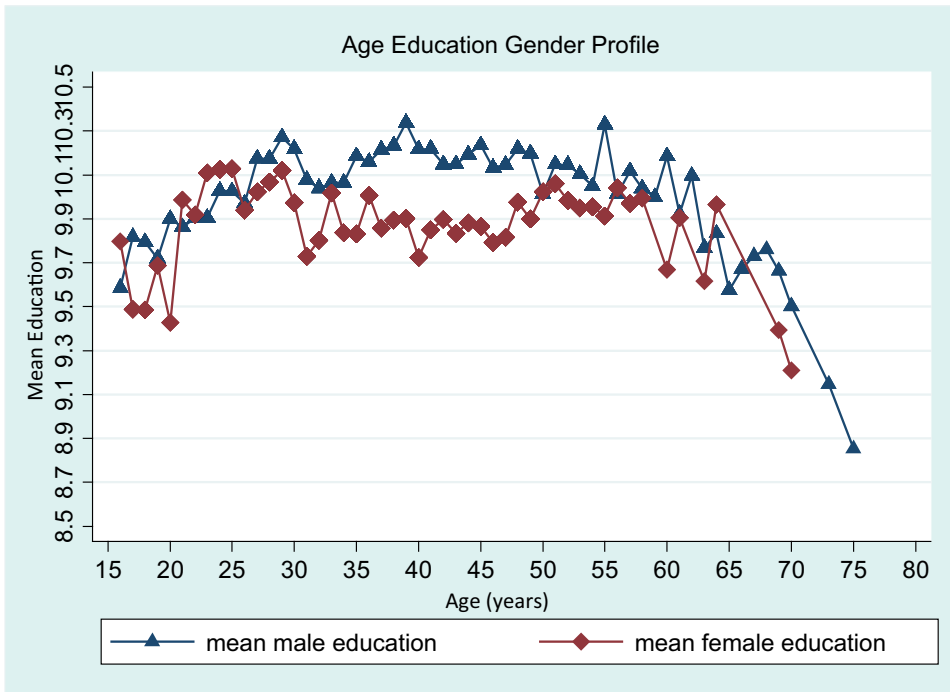| Variables	Males	Females	Total	P-Value
No Diploma				
Ln Wage	9.497	9.798	9.519	0.543
Primary 4				
Ln Wage	9.779	9.428	9.727	**0.004**
Primary 8				
Ln Wage	9.962	9.539	9.848	**0.000**
Secondary				
Ln Wage	10.181	9.878	10.080	**0.000**
Vocational				
Ln Wage	10.147	9.950	10.081	**0.000**
University				
Ln Wage	10.472	10.346	10.410	0.075
Total Observations	2178	1051	3229	

Indeed, women are predominantly in the professionals, technical and associate professionals, clerks, and service shops and market sales workers (Table 5). Men on the other hand, are over three times more likely to be in legislators, senior officials, and managers. They also dominate the crafts and related trade workers, as well as plant and machine operators and assemblers. As mentioned above, even within the same profession women are consistently rewarded less than men, which points to discrimination in wages against women in the labor market. The occupation distribution appears to be similar in 2008 as in 2005, which shows a potential lack of job mobility in the labor market, which may also be linked to the preservation of the gender wage gap. In 2005 as in 2008, one of the potential reason through which the market rewards differently is the different occupations held by males and females. In 2005, the overwhelming majority of the highly paid jobs such as legislators, senior officials and managers are held by the males. Males occupied 6.20 percent of these positions, while females occupy only 1.95 percent. There is also a large difference in another

well paid occupation category, such as craft and related trades. In 2005, men in this latter category represent 28.69 percent, while women represent only 10.51 percent. As in 2008, women comprised the majority of professionals, technicians and associate professionals in 2005. They were also found in the majority of the service, clerks, and elementary occupations. The only difference between the two years is that women are not the majority in the agricultural sector, which was also due in part of the high previous migration rates in Albania. In 2008, there are no statistical difference between men and women in the agricultural sector, however there is a large difference in their rewards. Women's monthly wages in the agricultural sector are about 1.6 times lower than those of men. This shows the unequal rewards for women in the agricultural sector which may be mainly due to the fact that they work mainly on family or small scale farms, whereas men might be employed in larger agricultural or agro processing firms extending beyond small scale family farming.

● **Table 3:** Monthly Wages by Education Categories

Variables	Males	Females	Total	P-Value
No Diploma				
Wage	19973.6	18000	19828.62	0.853
Primary 4				
Wage	21580.93	13059.75	20310.34	**0.001**
Primary 8				
Wage	24786.05	15650.09	22319.26	**0.000**
Secondary				
Wage	31066.58	21941.36	28044.51	**0.000**
Vocational				
Wage	29339.19	22787.79	27168.57	**0.000**
University				
Wage	41795.72	33899.13	37935.63	**0.009**
Total Observations	2178	1051	3229	

Figure 4. Age Education Gender Profile
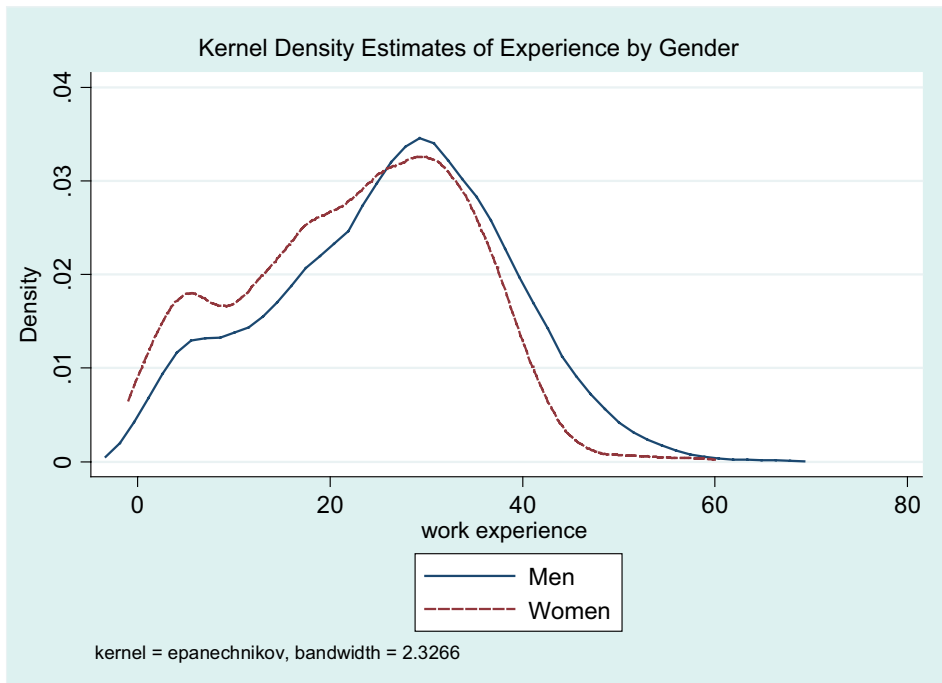
Figure 5. Estimates of Experience by Gender
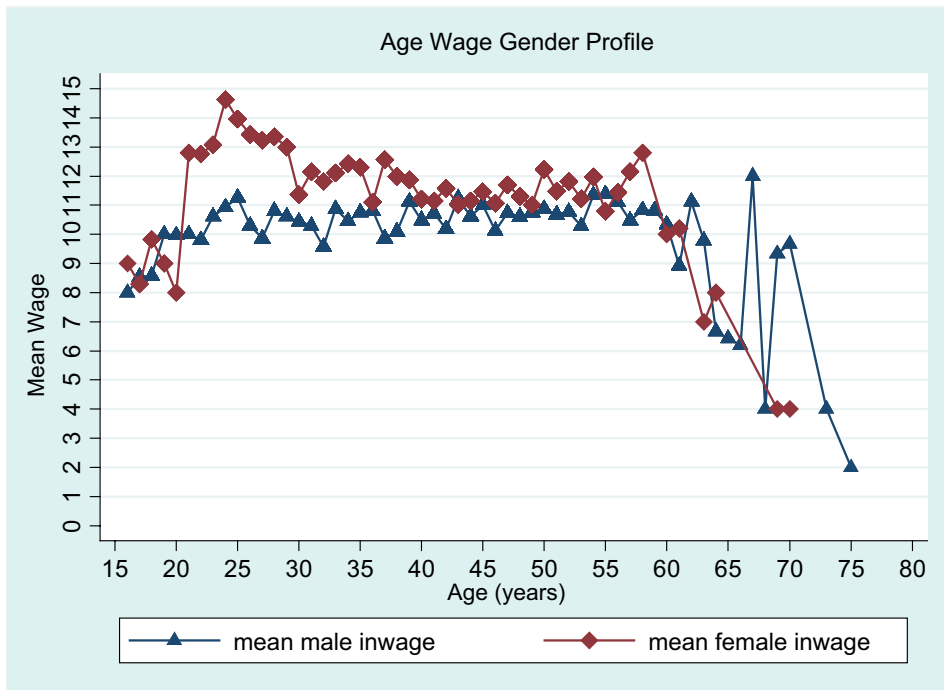
Figure 6. Age Wage Gender Profile

● **Table 4.** Monthly Wages by Occupations

Variables	Males	Females	Total	P-Value
Legislators and Managers				
Wage	56052.15	31686.57	53098.13	**0.002**
Professionals				
Wage	39315.11	34225.24	36408.42	0.137
Technicians				
Wage	33659.3	23504.79	29114.29	**0.000**
Clerks				
Wage	26378.94	28275.88	27349.51	0.656
Service Workers				
Wage	26412.93	22830.37	24756.14	**0.032**
Skilled Agricultural and Fishery				
Wage	20396.51	12486.16	18081.6	**0.000**
Craft and Trade				
Wage	30080.68	19490.85	28187.98	**0.000**
Plant and Machine Operators				
Wage	28030.65	17061.62	26579.77	**0.000**
Elementary Occupations				
Wage	24393.02	15866.06	22183.22	**0.000**
Total Observations	2178	1051	3229	

●**Table 5.** Main Occupations by Gender

Variables	Males	Females	Total	P-Value
Legislators and Managers				
Wage	56052.15	31686.57	53098.13	**0.002**
Professionals				
Wage	39315.11	34225.24	36408.42	0.137
Technicians				
Wage	33659.3	23504.79	29114.29	**0.000**
Clerks				
Wage	26378.94	28275.88	27349.51	0.656
Service Workers				
Wage	26412.93	22830.37	24756.14	**0.032**
Skilled Agricultural and Fishery				
Wage	20396.51	12486.16	18081.6	**0.000**
Craft and Trade				
Wage	30080.68	19490.85	28187.98	**0.000**
Plant and Machine Operators				
Wage	28030.65	17061.62	26579.77	**0.000**
Elementary Occupations				
Wage	24393.02	15866.06	22183.22	**0.000**
Total Observations	2178	1051	3229	

III.   Methodology

Oaxaca, Blinder (1973) and Lemieux (2002) methodologies are used to analyse the gender wage gap and its decomposition in the labour market in Albania. This methodology is widely used and accepted in the literature.

3.1 Oaxaca Blinder Decomposition

Following Oaxaca-Blinder (1973), the wage differential between two groups, males vs. females in our specific case, may be decomposed in : 1) the proportion of the differential attributed to the shift of the intercepts, which is typically regarded as pure discrimination of the rent of being of a specific sex; 2) the explained part attributed to the differences in the coefficients or returns, and the differences in the average characteristics or endowments; and 3) the unexplained or interaction between the coefficients and the average characteristics. Thus, stemming from the[1] basic equation used in this analysis—the human capital earnings function from Mincer (1974)

(1) $\ln w = c + rS + b_1 E + b_2 E^2 + e,$

where w is hourly wage, c is a constant, S is years of schooling, E is years of experience in the labor market, and e is the error term—we can write the raw wage differential as:

(2) $R = b_0^f + \sum_i b_i^f \overline{X_i}^F - (b_0^m + \sum_i b_i^m \overline{X_i}^M) = E + C + U$

where E= portion of differential attributed to differences in endowments

(3) $E = \sum_i b_i^f (\overline{X_i}^F - \overline{X_i}^M),$

C = portion of differential attributed to changes in coefficients

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[1] The notation used in this section derives mainly from Lemieux (2002).

(4) $C = \sum_i \overline{X_i}^M (b_i{}^f - b_i{}^m)$,

U= the unexplained portion of the differential due to the shifts in the coefficients

$b^f_0 - b^m_0$, and D= portion of the differential attributed to discrimination = C + U

3.2 Lemieux Decomposition

Following Lemieux (2002), and using standard OLS regressions augmented by a probit model, the gender wag gap may be decomposed into 1) changes in the regression coefficients, 2) changes in the distribution of the covariates, and 3) changes in the residuals, which are modelled as a function of unmeasured skills and skill prices. More specifically, in our approach, we create counterfactual wages controlling for 1) changes in prices or returns, and 2) changes in characteristics or endowments. The first step is to run separate OLS regressions for males and females. Keeping the same endowments and error terms from the female regression, we create female counterfactual wage regressions, using the coefficients from the male regression. This way we can see what the female wage equation would look like if females were paid according to male wages. After controlling for changes in the price of skills, we can control for changes in endowments by creating a female counterfactual wage that keeps the coefficients from the female wage equation, but that gives females the endowments, from the male wage equation. Thus, we can see how the average wages for females would change, were they to be paid according to the female wage equation, but having the endowments of men. In order to give females the average endowments of males, we run a probit equation on the entire sample of being male (using as many controls as possible), and use the propensity score to weight the female wage equation.

There is no agreement in the literature on the inclusion of control variables in the wage regression (Kunze, 2000), leaving them to the discretion of the researcher and to the question that

needs to be answered. In addition to the standard education and experience variables in our analysis we also include additional control variables. The number of children, and the person's marital status are included because they may serve as a measure of the implications that women's double burden may have on their wages. The lack of social support and state provided child care makes women the primary care givers of their children. Thus, the number of children reflects the cost of lost experience for women (Grimshaw and Rubery, 2002). A married women with children might be viewed from the employer as less productive, since she might need more time off work and be considered less dedicated to work due to her family engagements. As a result, the employer might offer women lower wages. On the other hand, a married man might be regarded as more stable and dedicated to work since it is the wife that is expected to take care of the household. Married men may also just receive preferential treatment (Weichselbaumer and Winter-Ebmer, 2005). The distance index and social capital index are included to control for the costs or benefits of social support. Women who live in areas with adequate transportation, and have social capital that facilitates child rearing might be more productive and mobile. We control for the percentage of females in each occupation as to control for occupational segregation. This variable has been widely used in the literature to capture female occupational segregation (Jurajda and Harmgart, 2007; Andren and Andren, 2007). Lastly, we control for regional differences, which can play a role in terms of market segmentation and supply side, as well as social, economic and cultural aspects.

IV. Analysis and Main Findings

The gender wage gap in 2008 in Albania, as shown by both methodologies, is of 17.63% favoring men. Although we can only speak of trends, since the data used is cross-sectional, there appears to be a decreasing trend of the gender wage gap between 2005 and 2008. Whereas in 2005, the gender wage gap was of approximately 36%, in 2008, it is of approximately 18%. The decomposition of the gender wage gap into three parts, namely: 1) endowments, 2) coefficients, and 3) interaction between the two above factors, shows that the majority of the gender wage gap is accounted for by differences in the coefficients. This result should be read as different rewards for same skills. Therefore, men and women of the same endowments, receive different rewards in the market. This type of difference is also considered as gender discrimination in the labor market. It means that given women's endowments, the difference between what they are actually paid and what they would get paid if given the male wage structure is negative, indicating a superior wage structure for males. If women were paid men's wages for their endowments they would get paid more. However, it should be noted that women's endowments help reduce the gender wage gap.

The results point to various factors that increase the gender wage gap and to one particular factor that helps reduce the gender wage gap (Table 6). The results also show that there exists a pure premium of being male in the labor market. The main factors that contribute to the gender wage gap against women are work experience, occupational segregation, number of children under six and number of hours worked per week. On the other hand, education helps reduce the gender wage gap. Given women's higher education levels on average, the gender wage gap is reduced by such advantage. However, education is not enough, and wage differentials continue to be present in the labor

market. On average, women have less experience than men, which is due to the fact that women take time off the labor market for children bearing and rearing activities. Women's role as primary care givers of their children and the discontinuity in the labor market negatively rewards them and thus increases the gender wage gap. This result is reinforced by the fact that the number of children under six, who are typically children that require more care and attention, is also negatively rewarded increasing the gender wage gap against women. These two factors reinforce each other as well as women's expected role in the household and in the labor market. The more children a women has the more time she is expected to take away from the labor market, or to work part-time. Indeed, hours worked per week also increase the gender wage gap, indicating that more women work part-time or less hours than men. Occupational segregation also contributes to the gender wage gap, since it crowds women within a certain occupations putting downward pressure on wages. Certain occupations have traditionally been female occupations and that same pattern is still present in Albania. Women are mainly in occupations such as education, healthcare, public administration, technicians, clerks and services, which are less rewarded and the crowding of women within these occupations also contributes to the lowering of the wages. However, even after controlling for occupations, the market rewards males and females differently even within the same occupations.

Although the gender wage gap appears to have been reduced from 2005 to 2008, the factors contributing to such disparity still remain. As in 2005, education plays a positive role in reducing the gender wage gap, while, work experience, young children, and occupational segregation still remain the main contributors of the gender wage gap.

● **Table 6:** Oaxaca Decomposition

Variables	Endowments	Coefficients	Interaction
edu	0.057	0.532	0.067
	(0.008)***	(0.066)***	(0.010)***
work experience	-0.09	-0.828	0.116
	(0.019)***	(0.164)***	(0.027)***
work experience squared	0.088	0.588	-0.137
	(0.017)***	(0.100)***	(0.028)***
% occupation by gender	-0.004	0.036	0.002
	(0.002)**	-0.047	-0.002
distance index	0.002	0	0.001
	-0.002	-0.002	-0.003
children_under6	-0.004	-0.011	0.004
	(0.002)*	-0.01	-0.004
married	-0.002	0.009	-0.001
	-0.004	-0.047	-0.005
hours per week	-0.02	0.025	-0.002
	(0.004)***	-0.08	-0.006
coastal	0.001	0.02	-0.001
	-0.003	-0.014	-0.001
central	0.003	0.018	-0.001
	-0.003	-0.014	-0.001
mountain	0.003	0.017	-0.004
	-0.002	-0.012	-0.003
Constant		-0.681	
		(0.142)***	
Total	0.036	-0.273	0.043
	(0.011)***	(0.020)***	(0.014)***
Observations	3229		

Standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

In the urban areas, the gender wage gap is 16.20%, almost 2% less than the national average. Although the gender wage gap is lower in the urban areas, the factors contributing to it appear to be similar to those for population average (Table 7). The impact of endowments continues to be positive and is mainly explained by the positive impact of education. However, given women's endowment the difference between what they are paid and what they would get paid given the wage structure of the men indicates a superior wage structure for men. The majority of the gender wage gap is attributed to the differences in the coefficients, which favor men. Therefore, women are rewarded less in the labor market for the same endowments as men. Again, we find evidence of gender discrimination in the gender wage gap. There continues to be a premium of being male in the wages, and factors such as work experience, number of children under six, and hours worked per week increase the gender wage gap. These factors reinforce the importance of work experience and continuation in the labor market. Women are being penalized in the labor market for getting in and out the labor market taking care of their children. Discontinuation in the labor market is viewed by employers as affecting women's productivity in the job through decreased human capital or lower hours of work to permit for child rearing.

● Table 7. Oaxaca Decomposition Urban

Variables	Endowments	Coefficients	Interaction
edu	0.054	0.302	0.03
	(0.009)***	(0.085)***	(0.009)***
work experience	-0.09	-0.973	0.117
	(0.022)***	(0.198)***	(0.031)***
work experience squared	0.085	0.62	-0.127
	(0.019)***	(0.123)***	(0.031)***
% occupation by sex	-0.004	0.103	0.016
	-0.005	(0.048)**	(0.008)**
distance index	-0.001	0.009	0.002
	-0.001	-0.008	-0.002
children_under6	-0.006	-0.018	0.005
	(0.003)**	(0.010)*	-0.003
married	-0.002	0.013	-0.001
	-0.004	-0.053	-0.004
hours per week	-0.014	0.002	0
	(0.004)***	-0.094	-0.005
coastal	0	0.018	0
	-0.001	-0.012	-0.001
central	0.002	0.022	-0.001
	-0.003	(0.012)*	-0.002
mountain	0.003	0.02	-0.003
	-0.002	(0.011)*	-0.002
Constant		-0.361	
		(0.169)**	
Total	0.026	-0.241	0.038
	(0.012)**	(0.022)***	(0.015)***
Observations	2104		

Standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

In the rural areas we see the opposite, which also explains the increase of the gender wage gap in the national average compared to the urban areas. In the rural areas, the gender wage gap is 32.71% favoring men. The gender wage gap in the rural areas is almost two times greater than the national average. The main mechanism that drives the gender wage gap in the rural areas is the difference in coefficients or returns in the labor market (Table 8). The rural areas have the largest difference in coefficients against women compared to the national average and the urban areas. Education helps close the gender wage gap; however work experience and hours worked per week increase the gap. On the other hand, occupational segregation does not appear to have a significant impact on the gender wage gap. This might be as a result of the limited occupations available in the rural areas. The majority of the population in these areas is in agricultural activities or elementary jobs. Indeed we find that in 2008 there are no significant differences in the percentage of men and women working in agriculture.

● **Table 8.** Oaxaca Decomposition Rural

Variables	Endowments	Coefficients	Interaction
edu	0.018	0.556	0.039
	(0.008)**	(0.128)***	(0.015)**
work experience	-0.068	-0.749	0.118
	(0.035)*	(0.309)**	(0.054)**
work experience squared	0.071	0.595	-0.144
	(0.030)**	(0.179)***	(0.053)***
% occupation by gender	0.005	-0.212	0.009
	-0.003	-0.142	-0.007
distance index	0.001	0.005	-0.002
	-0.002	-0.006	-0.003
children_under6	-0.001	-0.01	0.004
	-0.004	-0.021	-0.008
married	-0.001	0.037	-0.005

	-0.008	-0.097	-0.012
hours per week	-0.034	-0.117	0.017
	(0.013)***	-0.146	-0.021
coastal	-0.01	-0.007	-0.001
	-0.008	-0.035	-0.004
central	-0.011	-0.017	-0.003
	-0.007	-0.036	-0.006
Constant		-0.481	
		(0.274)*	
Total	-0.029	-0.399	0.032
	-0.02	(0.042)***	-0.034
Observations	1125		

Standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

The gender wage gap is the lowest for the high education individuals in the labor market (those who hold university and above degrees). The gender wage gap for the highly educated workers is 15.40%. The pure wage premium of being male for this category however is greater than that of the national average (Table 9). Unlike the national wage gap, for the highly educated workers, the endowments as well as coefficients or returns in the labor market increase the gender wage gap favoring men. Although in the highly educated group, the differences in endowments increase the gender wage gap, the difference in coefficients or returns is less than in the national average. The interaction between the two closes the gender wage gap favoring women. The negative sign of endowments might be explained by the fact that education levels in this group do not play as important of a role as in the national average. Indeed when we look at each characteristic we see that we do not find the same differences as in the national average. In the detailed decomposition, as expected, we find no significant changes of education, in terms of endowments, coefficients, or the interaction. Therefore the overall difference in the other endowments might take over and education is not enough to make up for it. Occupational segregation on the other hand appears to increase the gap especially in terms of endowments. As noted before,

although there are different rewards in the labor market for the same set of characteristics, they are less discriminating than in the national average. This might be a result of the different characteristics of the labor market as well as social aspects of life for highly educated workers. Highly educated women might have more opportunities in terms of employment, as well as accessibility to services and a better network as well as support system for child-care.

Table 9. Oaxaca Decomposition High Education

Variables	Endowments	Coefficients	Interaction
edu	0.01	0.536	-0.006
	-0.007	-0.764	-0.008
work experience	-0.028	0.022	-0.007
	-0.094	-0.357	-0.116
work experience squared	0.015	-0.03	0.013
	-0.075	-0.229	-0.102
% occupation by gender	-0.415	0.35	0.531
	(0.123)***	(0.089)***	(0.135)***
distance index	0.001	0.023	-0.001
	-0.003	-0.02	-0.004
children_under6	-0.003	-0.006	0.001
	-0.004	-0.021	-0.003
married	-0.004	0.041	-0.01
	-0.024	-0.114	-0.028
hours per week	-0.008	0.163	-0.009
	-0.007	-0.184	-0.01
coastal	0.001	0.014	0
	-0.005	-0.025	-0.002
central	-0.002	-0.009	-0.002
	-0.004	-0.019	-0.005
mountain	0.005	0.009	-0.002
	-0.006	-0.023	-0.004
Constant		-1.363	
		(0.802)*	
Total	-0.426	-0.249	0.508
	(0.126)***	(0.072)***	(0.140)***
Observations	537		

Standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

The gender wage gap for the lower education (all those who do not hold a university degree) group of workers is 24.73%. Education and overall endowments mainly driven by education help reduce the gender wage gap for this group (Table 10). Although this group of individuals includes those individuals with lower educations as defined by all of those individuals not holding a university degree, on average women have more years of education; therefore overall education plays a positive role. Although endowment play a positive role in reducing the gender wag gap, the difference in coefficients accounts for the majority of the gender wage gap against women. As in all other groups, the difference in coefficients consistently accounts for the gender wag gap, which may be also read as discrimination in the labor market since it awards different returns to same characteristics. There continues to be a wage premium of being male and work experience, occupation segregation and number of hours worked per week continues to be the primary factors accounting for the gender wage gap. It should be noted that the negative impact of work experience is the largest in this group. Lower educated women might stay out of the labor market longer, either due to more difficulties finding a job, or to child-care responsibilities due to their lower accessibility of private child care or support system or higher reliance of state services.

● **Table 10.** Oaxaca Decomposition Lower Education

Variables	Endowments	Coefficients	Interaction
edu	0.02	0.46	0.029
	(0.005)***	(0.084)***	(0.007)***
work experience	-0.045	-0.939	0.058
	(0.015)***	(0.203)***	(0.021)***
work experience squared	0.062	0.673	-0.095
	(0.015)***	(0.121)***	(0.025)***
% occupation by sex	0.006	-0.154	0.018
	-0.004	(0.060)***	(0.007)**
distance index	0.002	0	0
	-0.002	-0.001	-0.003
children_under6	-0.004	-0.015	0.006
	-0.003	-0.011	-0.005
married	-0.001	-0.001	0
	-0.002	-0.053	-0.003
hours per week	-0.02	0.035	-0.002
	(0.004)***	-0.089	-0.006
coastal	0	0.021	0
	-0.003	-0.016	-0.001
central	0.002	0.022	-0.001
	-0.004	-0.017	-0.002
mountain	0.003	0.029	-0.008
	-0.002	(0.014)**	(0.004)*
Constant		-0.445	
		(0.161)***	0.004
Total	0.025	-0.314	-0.015
	(0.010)**	(0.022)***	
Observations	2692		

Standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Overall women appear to be better endowed as men primarily through their education levels. The main mechanism through which their wages differ is the different returns in the labor market for the same characteristics or endowments. Therefore, we would expect that given women's higher endowments, if they were to be paid according to wage structure of men that the gender wage gap would close or even favor women. Instead, if women continue to have their wage structure but men's endowments the wage gap would actually increase favoring men. The gender wage gap favors women if they would be paid according to the wage structure of men for their characteristics (Figure 7). Instead, the gender wage gap would increase even further if women are paid according to their wage structure, but were given the characteristics of men (Figure 8). This points to the importance of women keeping their higher education levels and continuing to accumulate more human capital since the contrary would increase the gender wage gap even further. Given that the disparity in the labor market is overtaken by the differences in coefficients, the gender wag gap would still favor women if they are given both the covariates or characteristics as well as returns to those covariates of men (Figure 9).
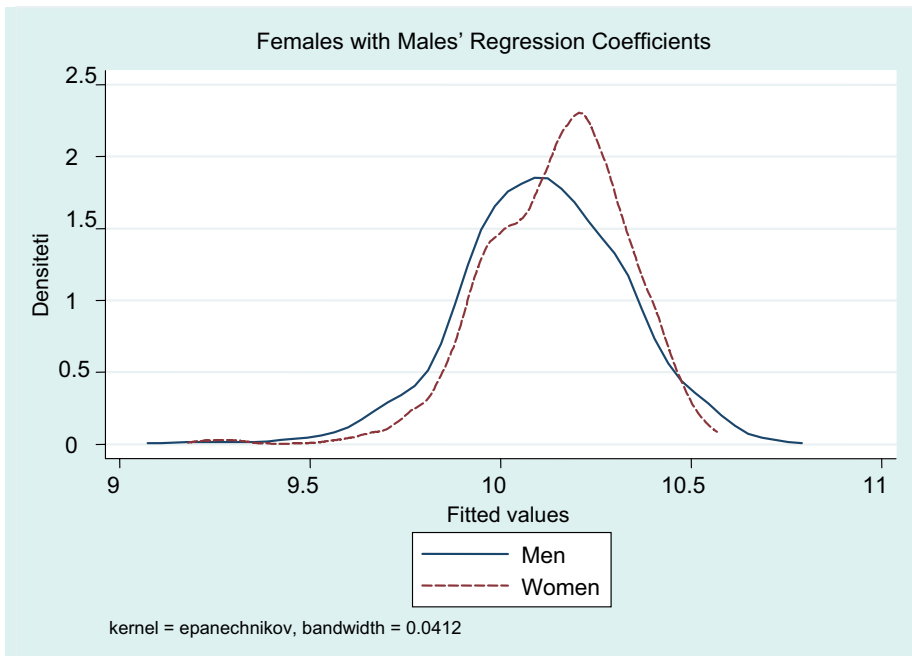
Figure 7. Female Wages with Men's Regression Coefficients
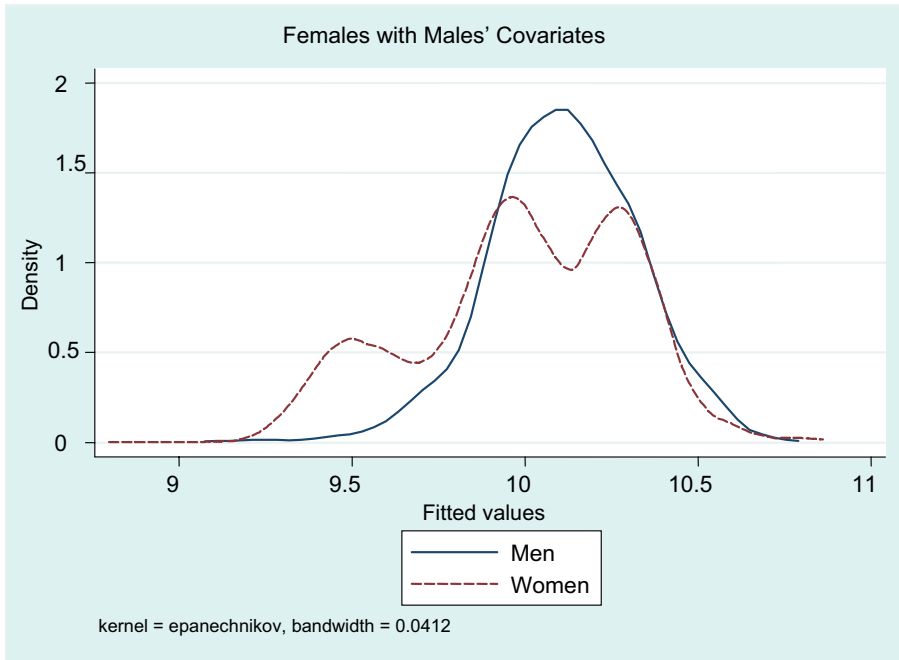
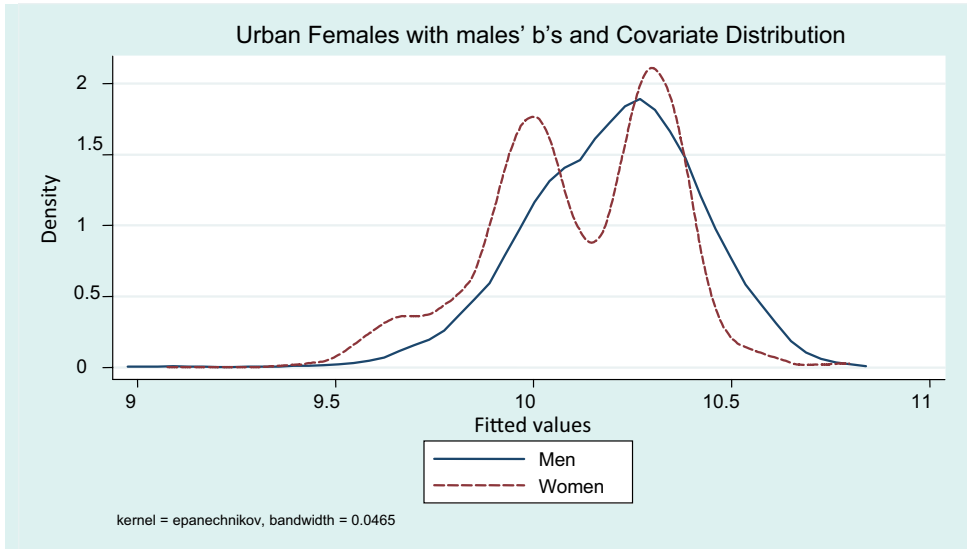**Figure 8.** Female Wages with Male's Covariates
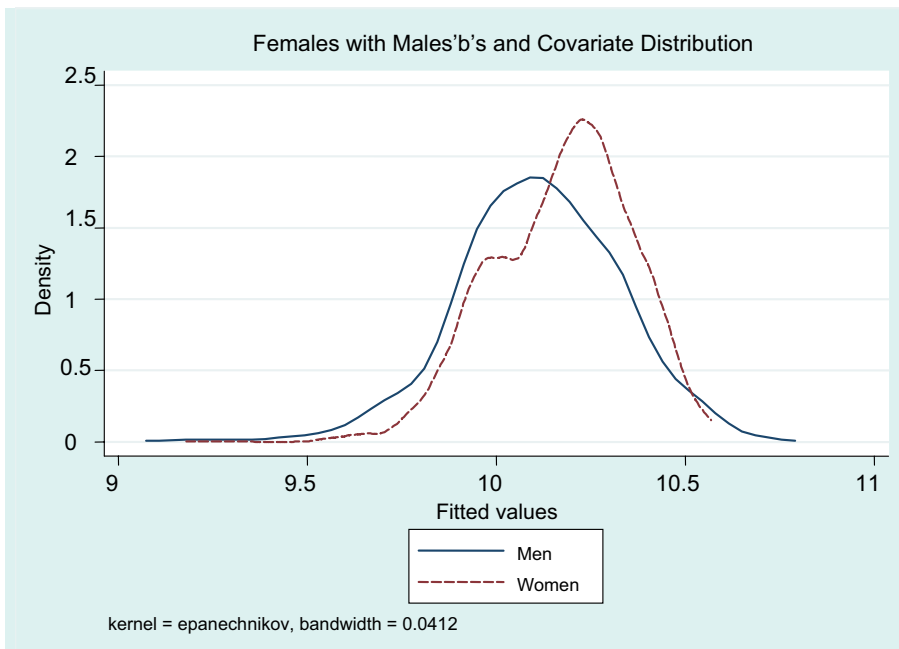
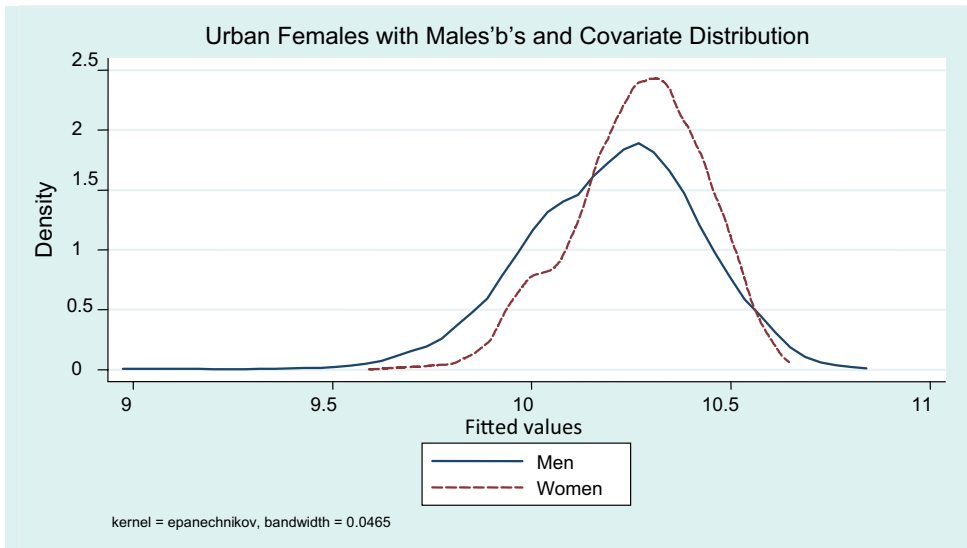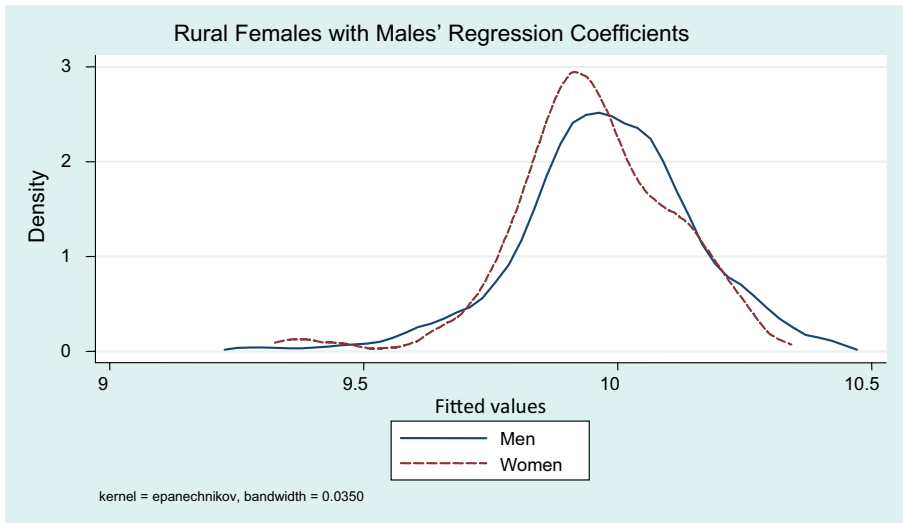**Figure 9.** Female Wages with Male's Coefficients and Covariates

The wage distributions become almost identical for men and women in the urban areas when women are given the returns of men (Figure 10). The gender wage gap increases even further when women are paid according to their wage structure, but are given the characteristics of men (Figure 11). When women are given both the covariates and returns of men, the wage distributions are similar to those of women with males' returns, but the gap is wider although still favoring women (Figure 12).
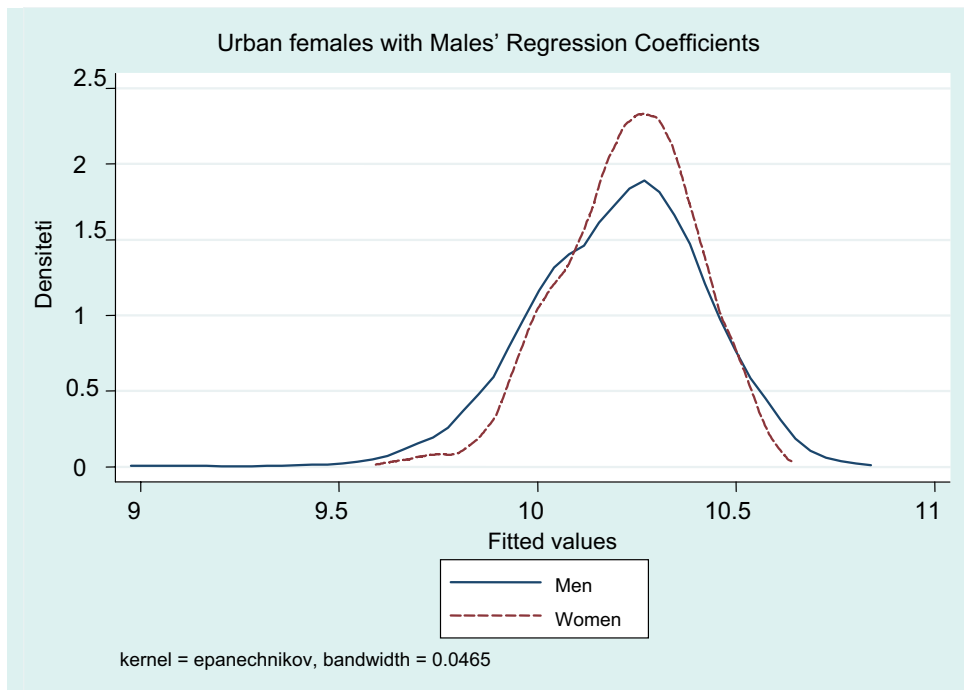
Figure 10. Female Wages with Male's Coefficients in Urban Areas

Figure 11. Female Wages with Male's Covariates in the Urban Areas

Figure 12. Female Wages with Male's Coefficients and Covariates in the Urban Areas

The wage distribution of men and women in the rural areas appears to close when women are given men's returns, however women do not gain an advantage (Figure 13). This might be as a result of more

similar endowments between men and women in this area. The gender wage gap increases when women keep their wage structure but receive the covariates or characteristics of men (Figure 14), and the gender wage gap closes but is still persistent when women are given both characteristics and returns of men (Figure 15).

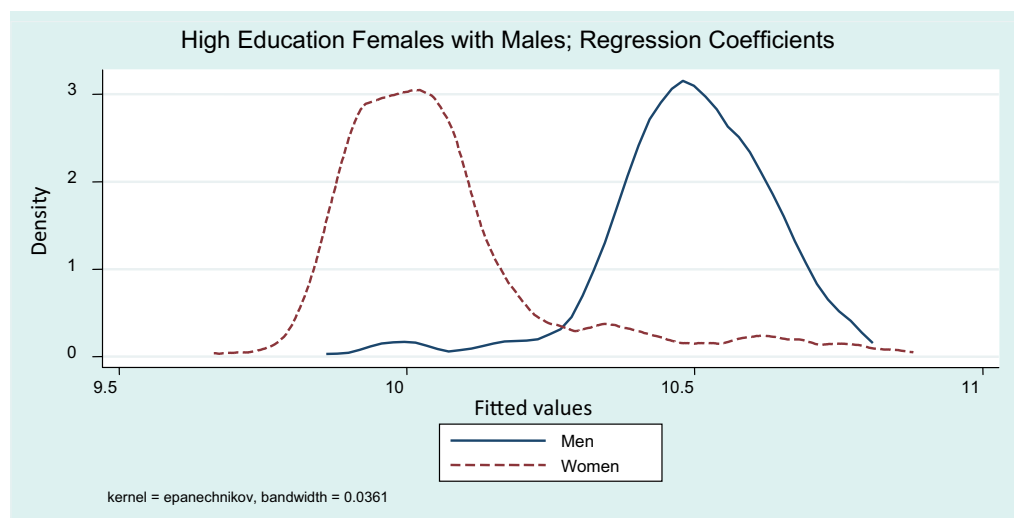● **Figure 13.** Female Wages with Male's Coefficients in Rural Areas
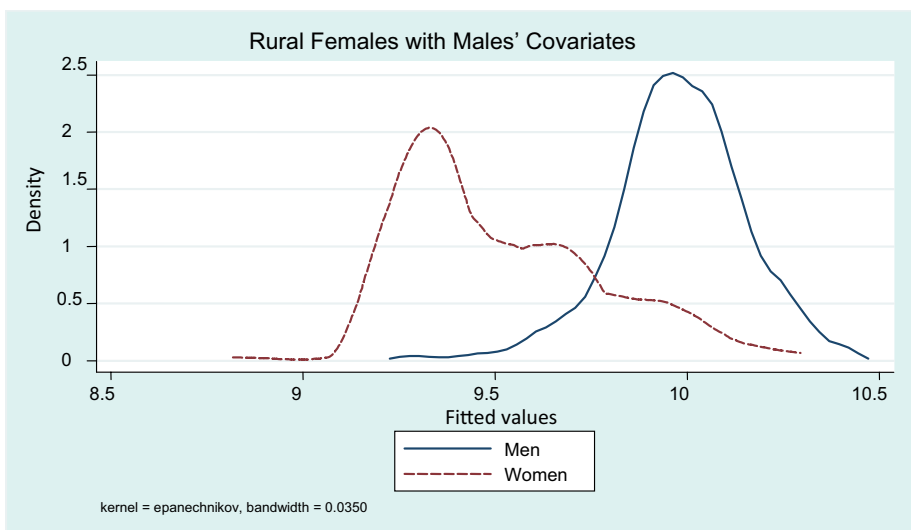
● **Figure 14.** Female Wages with Male's Covariates in Rural Areas

Rural Females with Males' b's and Covariate Distribution

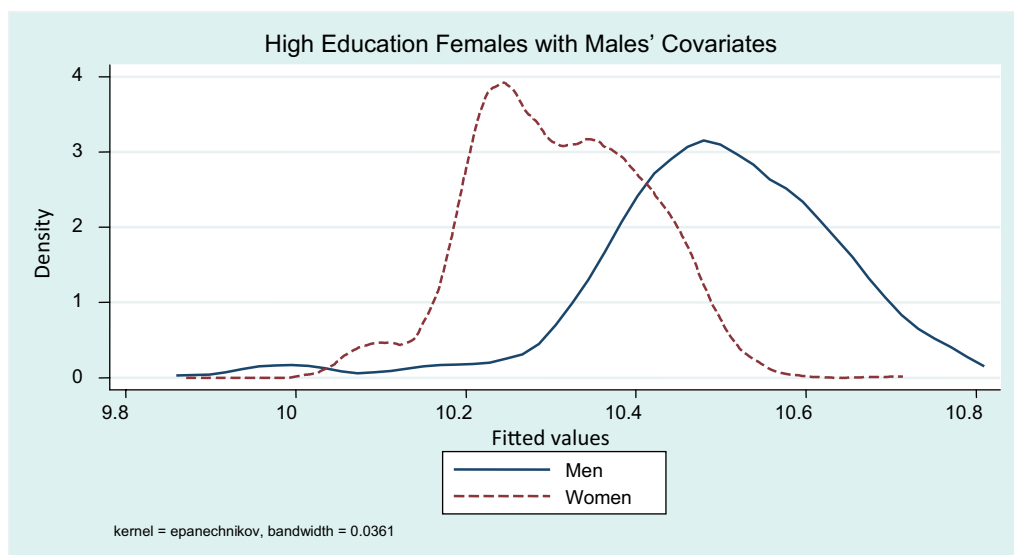kernel = epanechnikov, bandwidth = 0.0350
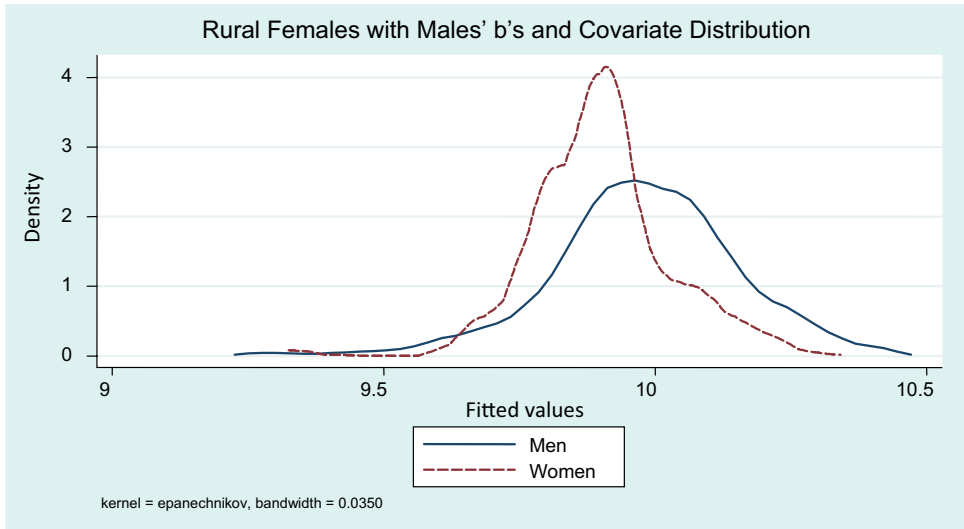
● **Figure 15.** Female Wages with Male's Coefficients and Covariates in Rural Areas

The shape of the distribution becomes almost identical for the higher education group when women receive the returns of men; however on average they still continue to receive lower wages (Figure 16). It appears that in the case of high education men have better endowments overall therefore the distribution becomes closer when females are given the covariates of men (Figure 17). The distribution goes back to be similar when women get the returns of men when they are given both the covariates and returns of men (Figure 18).
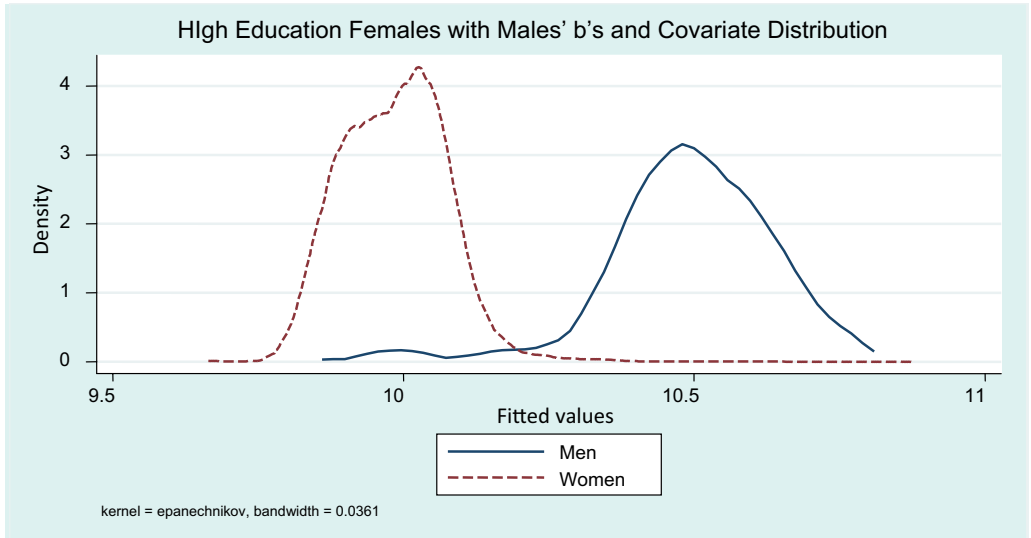
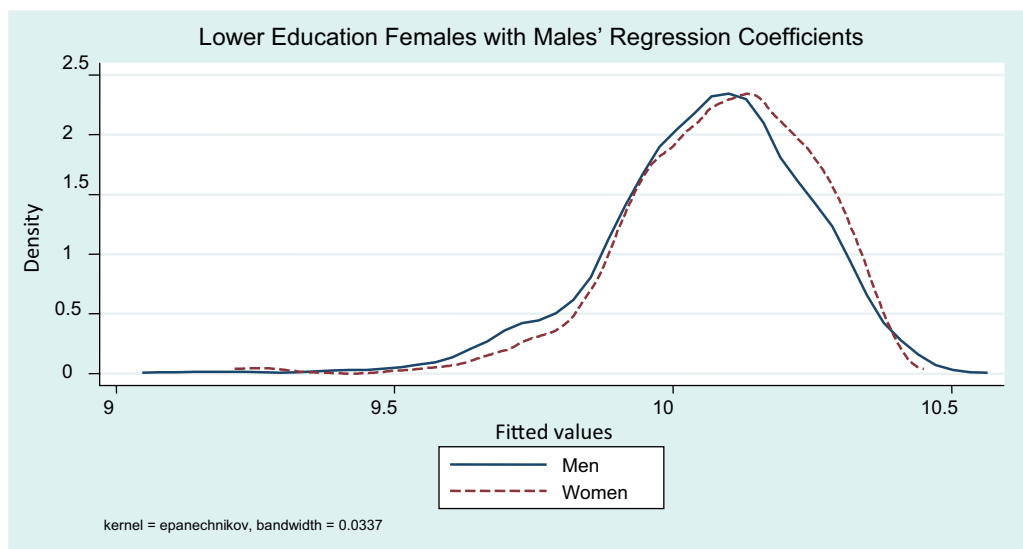**Figure 16.** Female Wages with Male's Coefficients for High Education

Figure 17. Female Wages with Male's Covariates for High Education

HIgh Education Females with Males' b's and Covariate Distribution

kernel = epanechnikov, bandwidth = 0.0361

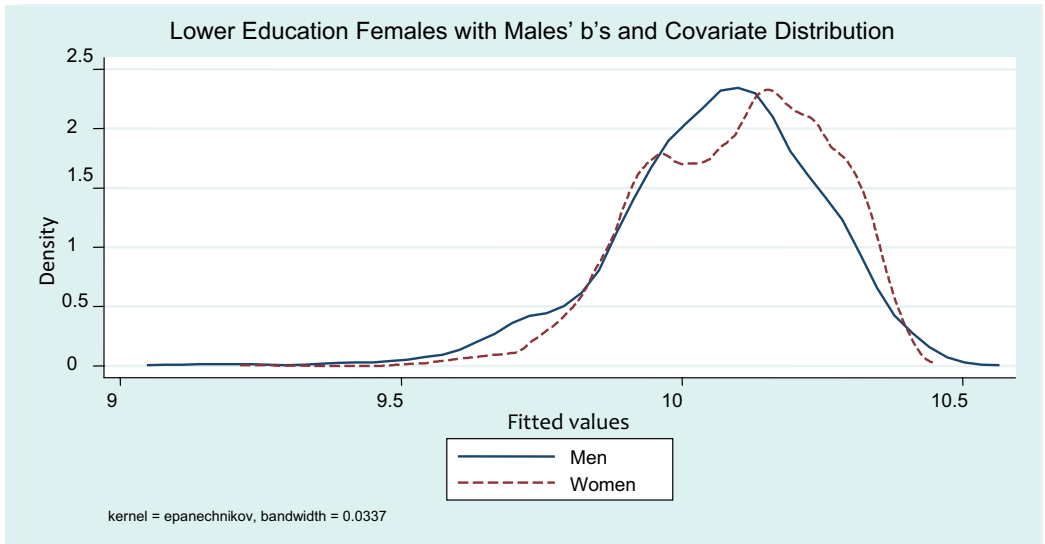● **Figure 18.** Female Wages with Male's Coefficients and Covariates for High Education

For the lower education group, the gender wage gap almost entirely closes and slightly favors women when women are given the returns of men (Figure 19). The gender wage gap goes back to increasing and majorly favors men when women are given the covariates of men (Figure 20), while the gender wage gap closes (although slightly more than in the case when women are given men's returns) in the case when women are given the covariates and returns of men (Figure 21).

Figure 19. Female Wages with Male's Coefficients for Lower Education
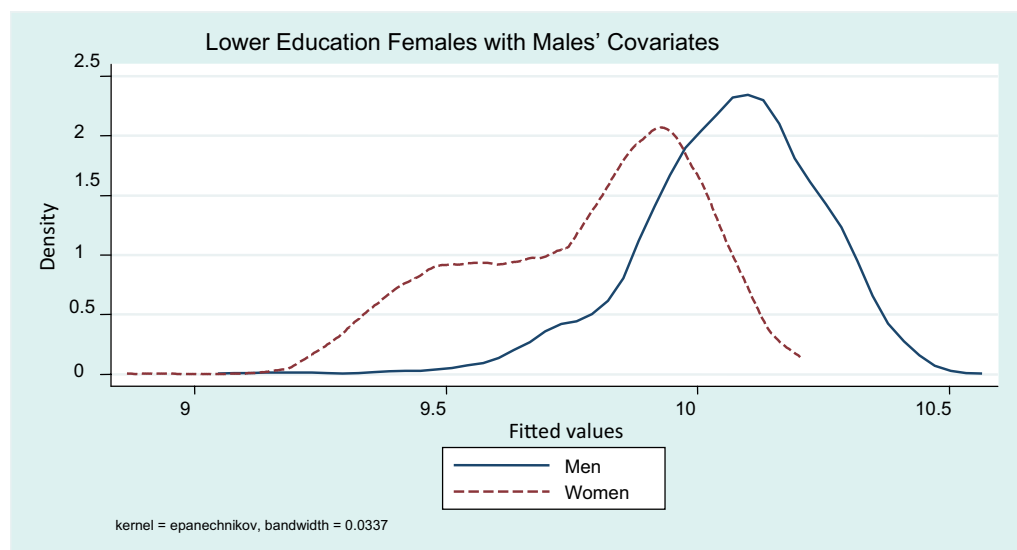
Figure 20. Female Wages with Male's Covariates for Lower Education

Figure 21. Female Wages with Male's Coefficients and Covariates for Lower Education

V. Conclusions and Recommendations

The majority of the 17.63% of the gender wage gap is accounted for by the different rewards provided by the labour market. The different rewards provided by the labour market, the pure rent of being male, experience loss, occupational segregation, child care, and part-time work, all reduce women's wages and put them at a disadvantageous position. There appears to be an apparent reduction in the wage gap from 2005 to 2008 from about 36% in 2005 to about 18% in 2008. Besides potential improvements in the labor market in terms of skill rewards, part of the reduction in the gender wage gap might also result from two additional sources. One such source is the continuous increase in the wages in the public sector especially in education and health where women comprise the majority of the employees. A second potential source is the financial crisis, which in many countries has mainly affected certain occupations related to business, finance, trade, manufacturing, and the like, the majority of whom are occupied by the male workforce.

The main implication is that education although key, it is not enough. Women currently in the labor market maintain an advantage in education since on average they have more education than men. However, education is not enough to make up for the labour market discrimination in terms of wages. If women kept their current endowments, where education is the main factor, and were paid according to the wage structure of men, their average wages would score higher than those of males. Instead, if their education levels decreased and were the same as those of males, they would earn even less than they do now. Nonetheless, it is other factors such as occupational segregation, lower work experience— as a result of discontinued experiences in the labour market—, child care, and part-time work that account for the majority of the gender wage gap.

Consequently, there are three main messages that come out of this report:

1) Education is key and should be given special consideration by the policy makers, but other important sources such as occupational segregation, work experience, child care, and part-time work play a crucial role,

2) although education is not enough to make up for the gender wage gap, if education levels of the females were to decrease, the gender wage gap would be increased even further,

3) the problem is much bigger in the rural areas and for the low educated group.

Policy makers should concentrate on better implementing the policies that fight gender segregation and that offer equal pay for equal work. Although legislation of this sort is present in Albania, it has not found much applicability and enforceability especially in the private sector. In addition, equal pay for equal work policies should be enforced in conjunction with policies similar to those of affirmative actions promoting the hiring of women in non-traditional fields.

In order to prevent occupational segregation it is important that policies are designed not only for the labour market, but also for the educational system as to stop promoting curriculums that influence choice of women into mainly dominated female occupation. The education curriculums should move away from retaining the reproductive and gender stereotypes in the selection of the fields of study. There should also be a larger role of schools in providing career orientation to students related to the skills required in the labor market rather than focusing on traditional vocations.

As is the case with many transition economies, there is often a mismatch between skills and occupations. Policies should be designed such that they match women's skills and education with the appropriate occupation, as to avoid segregation of women in lower positions within a profession.

To alleviate the loss of experience and discontinuity in the labour market, as a result of child bearing and rearing, policies should be designed to either share the child care responsibilities between both males and females, or have better provision for child care.

Policies should be designed as to bring the rural areas closer to urban areas and overcome the labor market as well as cultural barriers that keep women at a disadvantage discriminating against them.

The focus should continue to remain on the importance of education given its positive impact in reducing the gender wage gap, especially in the rural areas where education levels and labor market opportunities are lower.

Lastly, the importance of quality data collection that allows for disaggregated analysis is very important. Collecting data by sector of the economy would make the analysis even more complete and would reveal the gender differences by sector, where we would expect to find a large difference. In return, this would allow for a more complete analysis and policy recommendations as to reduce differences in the labor market stemming from different sectors of the economy.

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