

Informal employment with a particular focus on rural areas in Albania: current situation and challenges

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Abstract- Informal employment in its diverse forms is gaining increasing attention within global and national development agendas. Informality is difficult to measure, particularly in rural areas, where labour statistics and data are often not collected. From this point of view, the study aims to reconsider existing national and international research regarding informal employment, with a particular focus on the rural areas with the intent of having a clear understanding of the working age population outside the labour force in the rural areas, as well as those that are underemployed, and/or informally employed. Moreover, it aims to highlight institutional arrangements as they relate to employment services and the social and health insurance schemes, considering the difficulties / implications posed by the systems themselves as well as the related procedures in terms of registration as unemployed job-seekers. The author brought together in group discussions with stakeholders to gain a better understanding of the employment challenges faced in rural areas. The proposed methodology was developed through Desktop Research and direct interviews with focus groups.

Index Terms- Albania, challenges, government institutions, informal employment, rural

I. INTRODUCTION

Issues of employment in general and rural employment in particular are vital to the economic wellbeing of any economy, especially for a developing economy such as the novice market economy of Albania. Employment should be at the forefront of economic policy for countries like Albania that have the reduction poverty on the focus of its sustainable development. In the case of Albania, where much progress has been made in terms of economic growth and poverty reduction, the multifaceted issues of rural areas still remains, where employment can be ranked as the main factor. In fact, rural areas are still the poorest areas of the country and in addition a very large portion of self-employed individuals are engaged with agriculture.

The matter of fact remains that much less is known in terms of economic activity, employment, and rural non-farm activity in the rural areas of Albania. Therefore, it is imperative to consider the issues of employment in the rural areas, as well as identify potential rural non-farm activities that might contribute to increases in employment as well as overall development of these areas in the country.

II. RESEARCH OBJECTIVES & METHODOLOGY

This study aims to present an outline of informal employment in rural Albania, exploring current situation, as well as identifying potential challenges. Goals and objectives of the study include:

- Review existing national and international research regarding informal employment, with a particular focus on the rural areas by using and analyzing available statistical data on the magnitude, depth and structure of the rural economy/ employment in Albania, with the intent of having a clear understanding of the working age population outside the labour force in the rural areas, as well as those that are underemployed, and/or informally employed.
- Highlight institutional arrangements as they relate to employment services and the social and health insurance schemes, considering the difficulties / implications posed by the systems themselves as well as the related procedures in terms of registration as unemployed job-seekers.
- Bring together in group discussions with stakeholders (farmers, entrepreneurs in rural areas, associations, etc.) to gain a better understanding of the employment challenges faced in rural areas.
- Suggest formulation of policy recommendations on stimulating new sources of employment, and the conditions for success in stimulating employment in rural areas.

The proposed methodology was developed through:

- Desktop Research: review of researches, policy papers, reports from various sources such as ETF, UN, USAID, World Bank, IFAD, IDS, ILO, ISS, academic literature, government strategies, etc. to identify informality causes in the labor market, dreams and aspirations of youngsters living in rural areas, models of reentering the labor market through training and in-job formation, strategies, policies, and existing gaps to better understand and identify the issues in this matter.
- Direct interviews with farmers of different ages from 4 regions, Kukes, Peshkopi, Vlore and Lezhe.

Period: 30 October to November 30, 2015. Semi structured questions were used in discussions group for the field visits. Length of the discussion meetings: 60-90 min.

Some of the foreseeable interviews include but are not limited to:

- National Labor Office
- Local Labor Offices
- MoSWY (Ministry of Social Welfare and Youth District)
- District Departments of Agriculture
- Mountain Areas Development Agency
- Regional Agricultural Advisory Centers
- Vocational Training Centers / VET School
- A number of Local and International NGOs with focus on rural economy VET and Employment
- Intermediary business for recruitment and employment services

III. BACKGROUND OF INFORMAL EMPLOYMENT IN RURAL ALBANIA

The origin of the informal sector in Albanian's economy can be traced back to the very beginnings of transition since one of the dominant consequences of structural adjustment in transition of Albanian economy has been the shrinking formal sector and the expansion of the informal sector. The decline in formal sector employment during the 1990s-2000s and the expansion of the informal sector during the same period have together constituted one of the most enduring features of the transition period. One of the main impacts of new economic reform after falling down the communist regime in Albania was the privatization of the land of the ex-agricultural cooperatives, within a short time. This process was accomplished immediately and the initial effect of the reform was 450,000 small farms that are operating in agriculture sector. Actually, Albania's agricultural sector is highly fragmented with small farms with an average area of 1.25 ha. Farming in Albania, has traditionally played an important role regarding employment, even though most of the country is mountainous.

Actually, most rural workers in Albania are self-employed, on their own farms, often very small, or on enterprises typical of rural non-farm activities. Hired workers are in the minority. In 1994, the World Bank confirmed that almost 24% of rural population in Albania was up the supply capacity of agricultural land as a result of self-employment (World Bank, 2004). This self-employment constitutes a source of impoverishment of the village.

On the other hand, the presence of a majority of the rural population and the limited possibilities of movement of rural population towards the cities, lack of functioning land market brought as a result the fixity of the size of farms, keeping them at their initial creation size. Limited size of land area and few employment opportunities outside the agricultural sector have put the Albanian agriculture at the level of semi-subsistence.

Actually, in Albania's post 90, self-employment in agriculture is the main source of employment. Thus 44.1% of total private sector identify with employees that are working in agriculture sector (LSF 2009, INSTAT, Albania). But why it is difficult for rural workers to move away from agricultural farms?

In the last years, with development of market economy enforcedly has also grown the rural informal sector. Interest in the rural sector is also underlined by the fact that among Albanian relatively large labor force of self-employed workers,

two-thirds are engaged in agriculture on which is predominantly rural based.

A panorama of informal sector activities in Albanian rural sector, is presenting as follows:

(1) Agricultural activities. These are predominantly farming units dependent on family labor and are made up of a large number of small farmers in the rural and semi-urban areas (Bassanini & Duval, 2004);

(2) Fishing and fish processing activities. These are found mostly along Albanian's coastline and are mainly composed of fishing by males aged between 18 and 60 years that used marketing the fish is basically undertaken by them individually;

(3) Rural agro-based processing activities. These include processing of agricultural products on artisan basis. These activities are dominated by female workers. Their skills are acquired from within the family. Their experience of seasonal underemployment is pronounced. Mostly married, with children, they lack social security protection (Gueron, 2005);

(4) Forestry activities. A lot of forestry in mountain areas is destroyed from cutting without permission.

From the study of the informal rural agricultural sector, these distinctive types of rural labor were identified:

▪ Family labor

A distinctive characteristic of rural informal labor is family labor. It goes through all the sub-sectors within rural agriculture. It is predominant in producing of agricultural and livestock products, in fishing and agro-processing. From a labor market and economic standpoint, family labor is considered crucial for the survival and viability of these farms. It is also used as a kind of training for the transfer of skills from one generation to the next. Currently, the family is the basic unit of farm production in the Albanian society. Economic role of family members in rural areas is typically more competitive than complementary. Family member plays an additional role in home care, cultivation of plants in agricultural and other jobs.

Almost 0.3% of agriculture workers are paid employees, while the rest, are self-employment and use their work. Specifically any self-employed in this case has 1-2 members depending on his family (LSF. 2009 INSTAT, Albania); Economic role of family members in rural areas is typically more competitive than complementary. Family member plays an additional role in home care, cultivation of plants in agricultural and other jobs. Almost 0.3% of agriculture workers are paid employees, while the rest are self-employment and use their work. Specifically any self-employed in this case has 1-2 members depending on his family (LSF. 2009 INSTAT, Albania);

▪ Casual labor

Known in local jargon as "by-day", it is the next major type of labor in the rural informal sector. Casual labor exists under different patterns, and has a high level of mobility migrating from the countryside areas of the country to work out in Greece, Macedonia or Montenegro. Many rural workers migrate to industrial areas to find a new job. In fact, informal work in construction and service sectors without contracts and social security, absorb a large number of these workers from the countryside. These jobs offer more working days per year and pay well than work in farms. So many workers from the village combine agricultural activities and non-agricultural according

different seasons. They return to their regions of origin to make use of the farming season there also. Where they are not migrant, many casual workers also have their own farms where they grow crops or the other agricultural product for subsistence; Permanent labor. This constitutes a relatively small proportion of the rural agricultural labor force.

Permanent jobs on rural areas are rare, as teachers, employees by health sector, by local government etc. While referring to the LSF 2009 (INSTAT, Albania), agriculture employed in regular employment contracts make up only 2.99% of the active labor force;

- Mutual labor

This is an arrangement by which farmers within an area bound by common agreement pool their labor together to assist each other in turns;

- Child labor

This form of labor is an important component of the informal sector workforce. It is an integral part of family labor, especially in the rural set-up. Different categories of children were identified: those who had never been to school, those who had dropped out of school and those who were still in school but assisted their parents. Some children were engaged by a parent or a close family member and may be paid or not. Such children, aged between 10 and 15 years, were usually out of school and fully in the labor market. Child workers are engaged mainly in economic activities such as livestock sector (Shahollari, 2001).

- Part-time employment

Part-time employment remains a female domain for the first decade of transition. Changes have occurred in terms of employment of women in agriculture. In the first years after 1990, there was a withdrawal of women from agricultural works. They dealt mainly with the administration of home and other affairs of family. On the other side, later, after 2000s, noted that the percentage of women working in agriculture exceeded the employment of men (approximately 56% of women versus 44% men) (LSF 2009 INSTAT, Albania). This new model of employment is related mainly to the removal of men from the village in emigration or in temporary or permanent work in the nearest cities.

Against this background of informal employment variables at rural areas always are raised the concerns on the quality of VET system to reduce these and increase youth skills for formal and cost-effective jobs in this sector. The transition period towards market economy did affect the structure of education system in Albania, given higher priority to general and university education while the system of vocational education was receiving less attention from respective institutions thus abandoned in notable ratios by youngsters, contributing to less income generating employment and low level of required competences in the market.

IV. CORRELATION BETWEEN RURAL EMPLOYMENT AND THE RURAL PENSION SCHEME BENEFITS

The rural scheme was created in 1972 and became operational in 1974. The eligibility criteria for the old age pension of the rural scheme were a work history of 20 years in the agricultural cooperatives. After the dismantling of the agricultural cooperatives (1992) and state-owned farms (1993), the rural working age population consisted of self-employed farmers and

their families. In 1994, approximately 166 thousand farmers and disabled, former members of the agricultural cooperatives, benefited pensions from the scheme established in 1972 which provided pensions whose amount was around 50% of the urban pension, while approximately 82 thousand individuals benefited from the Economic Assistance scheme.

Currently, the SII implements the law no. 7703 and provides two kinds of rural pensions: i) a very low rural pension for individuals whose contributory history is related only to the work in the former agricultural cooperatives and ii) rural pensions whose amount is higher and depends on the contributory history in the former agricultural cooperatives as well as on contributions after 1994 as self-employed in agriculture.

With regard to contributions, they are flat and set each year through a Decision by the Council of Ministers. The contributions that would have been paid as a self-employed in the urban areas are then calculated with the state budget covering the difference between the amount and what the worker actually pays. On average, the amount of contributors paid from self-employed in agriculture is approximately 53% of the contributions paid by individuals self-employed in urban areas. Nevertheless, although farmers contribute much less than the self-employed in urban areas their pension amount is slightly lower than in the urban scheme.

The policies implemented until now have kept contributions very low and have increased rural pensions much more than urban pensions. Currently, the direct contributions by self-employed in agriculture cover only 18.7% of expenditures for rural pensions. Moreover, despite the subsidies of contributions from the state budget, these subsidies together with the direct contributions cover only 66% of the expenditures for the rural scheme. On the other hand, the law determines that farmers are eligible for a full pension in cases when excepting the work in agricultural cooperatives they have a contributory history of 17.5 years as self-employed in agriculture. Due to this law many farmers do not contribute anymore in the pension scheme after they have fulfilled these eligibility criteria. The contribution obligation keeps away of formal working relations the new entries in the labor market and the returnees from migration.

Nevertheless, despite of all these special privileges the participation of individuals self-employed in agriculture in the pension scheme is very low.

The average annual number of rural contributors in the first years of the scheme's implementation fell drastically marking its peak in 1997. After that year, a gradual increase of the contributors' number is noticed reaching its maximum in 2011 with 692 thousand. Currently, the number of direct contributors is approximately 643, 000. The increase in the number of contributors to the scheme came mainly due to the increase of the contributor's number in the rural areas as a result of the favorable conditions of the contribution payments as approved by law, even though this number is yet very low compared to the total number of self-employed in agriculture.

Compared to the total number of beneficiaries, the beneficiary - contributor ratio turns out to be in considerable critical levels.

A typical correlation is noted in database gathered by Albanian Institutions (INSTAT and ISSH) affecting the interest of youngsters from either urban or rural to participate in the active labor force - the dependency rate.

The high unemployment rate, the informal work and non-participation in the scheme of the self-employed in agriculture is becoming a great social burden to society and to the state budget, as this category of uninsured people will either not be entitled to benefits or receive low benefits from the pension scheme and other schemes. Hence they will look for other schemes of social protection such as Economic Aid and other social assistances. These social protection schemes are financed from the state budget and the increase of the beneficiaries will make their financing impossible.

V. DATA ANALYSIS AND FINDINGS FROM THE INTERVIEWS

Farmers in all visiting sites expressed their hesitation for formalizing their activities and especially their relation with government agencies.

The employment/unemployment title is closely related to the property law 7,501 which distributed the land based on the family certificate of October 1st, 1992. Every family member in possession of a property title was considered self-employed. Even the off springs born after October 1992 that do not own a property title are not considered unemployed unless they declare voluntarily in the labor office such status in addition to their status in the family property (land).

Prior to territorial reform each municipality has an employment office (local NES offices) covering the interests/requests for jobs in case any rural residents needed to work. Historically job seeking used a different path from these offices as males of working age use their family ties for finding jobs – firstly abroad where the majority of economic migrants live and secondly in big cities where they work in construction.

After 2010 the labor offices were accommodated within regional governments (QARK) thus creating a bigger obstacle (distance) with rural dwellers. Registration in the labor offices was meant to create some benefits additional to job seeking for rural citizens – health insurance and local tax deductions. However the registration in the labor office does not offer the above mentioned benefits by default – the communal council is the body that approves the list of people who benefit such titles.

The regional labor office has no administrative power over LGUs which operate under the organic law and employment does not fall within this law. However each municipality/commune is responsible for managing the provision of social/economic assistance. If both offices would have cooperated in identifying, registering or assisting the re-entry into the labor market for rural dwellers the situation would have been different. Additionally the scope of unconditional grant would have helped the LGUs to promote the local businesses thus foster local employment.

Head of departments and specialists of Social Insurance Institute explained the actual pension scheme and its correlation with the interest of rural dwellers to get involved in the labor market.

Law no. 7703 dated 11.05.1993 "On Social Insurance in the Republic of Albania" (as amended), created a compulsory, public and universal coverage social insurance system, as well as a voluntary supplementary pillar, which presently, does not appear to be developed despite the measures taken and the legal framework already completed.

The compulsory system comprises 2 main pillars:

A mandatory social insurance scheme which is managed by the Social Insurance Institute and covers individuals employed by the state and the private sector as well as the self-employed in the urban and rural areas, provided that they have contributed for a specified time in the scheme.

A voluntary scheme that includes those who are not insured any more, those who have been insured and wish to continue to be insured, as well as those who are covered by the law, including the university students.

And 2 additional pillars

A supplementary scheme for higher constitutional functions, civil servants and military including police. The supplementary pension is covered from the state budget.

Special pensions for those who have fought in WW II, who have titles on culture, arts, economy and politics as well as persecuted from the totalitarian regime. Special pensions as well are directly financed from the state budget.

Under **mandatory social insurance scheme** individuals who have reached the retirement age and have contributed for 35 years, regardless of the formula application for calculating the pension amount, receive a monthly amount which should not be less than the minimum pension, which is annually defined by the Council of Ministers, but cannot be higher than the maximum pension which is legally twice as much as the minimum pension. Currently, the SII implements the law no. 7703 and provides two kinds of rural pensions: a very low rural pension for individuals whose contributory history is related only to the work in the former agricultural cooperatives and rural pensions whose amount is higher and depends on the contributory history in the former agricultural cooperatives as well as on contributions after 1994 as self-employed in agriculture.

The self employed rural dwellers need to complete 35 years of contributions into the scheme from which only 17.5 years of contribution is counted after 1993 based on the formula calculating the elderly pension. Practically this contribution is voluntarily paid as the law does not oblige citizens to pay and rural dwellers do not see any benefit of contributing beyond the 17.5 years. Bearing in mind a) the amount limitations (minimal pension defined annually by the CM and maximum pension = 2 X minimum pension) and b) the time limitations, rural dwellers does not consider the pension as a stimuli for formalizing their employment or clarifying their status (employed or unemployed). On average, the amount of contributors paid from self-employed in agriculture is approximately 53% of the contributions paid by self-employed in urban areas. Although farmers contribute much less than the self-employed in urban areas their pension amount is slightly lower than in the urban scheme.

Currently, the direct contributions by self-employed in agriculture cover only 18.7% of the rural pension fund. Moreover, these subsidies together with the direct contributions cover only 66% of the expenditures for the rural scheme. Nevertheless, despite of all these special privileges the participation of individuals self-employed in agriculture in the pension scheme is very low.

As mentioned in the previous paragraphs farmers (self – employed) contribution is virtually collected on a voluntary basis (for even though it is mandatory, they cannot be “forced” to pay) based on a well organized network of insurance agents – farmers inspectors. IIS has established a separate department in 1993.

There are 215 inspectors tracking the self-employed citizens in rural areas based on the agriculture census. Their functional task is identifying and informing citizens. They also exercise their role as insurance agent by getting a premium for every new contributor within a period (annually).

The most successful year in collecting the self-employment contribution in rural areas was 2014 when the number of contributors reached almost 120,000 whereas the annual average before 2014 and in 2015 has been around 40,000.

Becoming a contributor to the scheme requires certain documents however. This document is issued from the LGU where the farmers are registered as inhabitants.

For the second time the analyses highlight the necessity of cooperation between LGUs and IIS (central government agency) in order to incite the formalization of the work performed in rural areas.

VI. CONCLUSIONS AND RECOMMENDATIONS

Government institutions in Albania which play an important role in the functioning, regulation and development of the rural areas should orient their support to the rural labor market as an important mechanism for the allocation of labor, resources and income generation in both demand and supply forces across the various economic activities in the country.

As per official statistics, rural areas of Albania present high levels of unemployment, which may shadow under or informal employment, typical for women and youngsters engaged in unpaid labor. High levels of unpaid farm labor in rural areas artificially increase labor force participation and employment statistics while reducing unemployment figures.

Given the high percentage of rural people in subsistence farming and their high involvement in unpaid labor or inactivity, statistical measures need to be revisited as to capture what they are supposed to capture. There is confusion on what basic labor market indicator are capturing, which also makes comparisons very difficult between urban and rural areas or districts. Consequently labor market statistics need to be revisited or alternative measures such as underemployment should be provided to capture the reality of the situation in rural areas.

Agriculture is and will remain the predominant activity in rural areas but their (agriculture businesses) formal involvement in the agriculture industry is far behind. Regardless its positive trend of growing this industry is organized mostly in the form of a small scale mainly for family farming. This fact among other prerequisites has caused a limited economic diversity in rural areas. The substantial reliance of rural areas in family farming and predominantly land based activities may not sustain economic growth or development in rural areas for the future. The agriculture will continue its steady growth, despite the declining share in the economy and its still-low level of productivity reacting to the local and some international demand. From this perspective agriculture will continue to provide moderate potential for new jobs with its underlying challenge to upgrade the existing activities. However, in order to support rural non-farm activities, which may foster rural employment in a better skills enhanced status, and also serve strategic needs of country's development more efforts are required by government and international actors.

Following the above logic of development Albania should support the transformation of the agricultural sector into a competitive sector of the economy, aiming to achieve by 2020 productivity levels similar with the other recent members of the European Union.

Tackling the informality of the rural economic activities would facilitate greater engagement of the local workforce in formal activities, resolving many unemployment related issues, and secure higher standards of living for Albanian citizens in the rural areas. The formalization of rural businesses will help increasing the competitiveness of such businesses as the inputs they'll buy – including skills – will better match the market demand for products and services from rural businesses.

Although serious efforts are commenced, further adoption of the right incentives (or avoidance of some actual disincentives) aiming at facilitating the living in the rural areas to pull out from the self-employed status and join the market with equal rights and obligations, need to be clarified and included in the policy measures presented into various strategies. Such effective instruments may include the reforming of the pension or healthcare systems, calling for provision of partial/realistic contributions for the public services received better enforcement of property tax collection etc.

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