

SOME EFFECTS OF INFORMAL ECONOMY FOR ALBANIAN EMPLOYEES

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Abstract

While Albania transitioned from a centralized economy into a market economy several concerns which influenced life and behavior of Albanian employees appeared on the scene. One of the most prominent concerns is the appearance of informality in labor market. In Albania, informality is calculated. Informality in Albania is calculated to be larger than 50 percent of its official Gross Domestic Product. This paper sheds light on some effects of informal economy in the labor market, mainly on Albanian employees, following a survey conducted in Tirana. It will also offer an approximate calculation of informality, as well as some ideas on raising awareness on effects caused by this phenomenon.

Keywords: Informal economy, labor market, Albanian employees

Introduction

In the beginning of 1990 Albania changed its political system from a socialism characterized by an extremely centralized economy into an open market economy. But this period carried critical social and economic problems, such as unemployment, poverty, individual and society's insecurity. The initial created conditions made it difficult to accept the unveiling phenomena of high unemployment and social polarization.

The totalitarian system in Albania employment foresaw employment of all people in a working age. Though it seemed comprehensive, it resulted without economic effectiveness, and was one of the reasons that led to the system's collapse. Total employment was equal to hidden unemployment, regardless of its measures. In a totalitarian system "the right of work" stemmed from the Constitution of the time. The State took it upon itself to wholly organize and lead the society. Therefore employment had taken the form of a moral obligation. It was centralized, thus forcing individuals to work in planned working positions. In this way, the mechanisms of market

economy were replaced by bureaucratic methods. The high level of industrialism and lack of market economy mechanisms and competition were characteristics of the Albanian market. The country's economy up to the first years of its transition was characterized by the following:

- Distribution of labor in manufacture and heavy industry,
- Underdeveloped technology, which is often non-productive,
- Existence of a limited experience over the way free market and competition works,
- Lack of free labor market.

In these conditions during the transition period started to function the labor market in the country. The changes of 1990 in Albania brought radical changes in the political, economic, and social sphere. System change was accompanied besides other by some negative phenomenon. In Albania, different from the other countries of the Eastern Europe, where some of them had a gradual transition to a programmed and concerted development strategy, "shock therapy" was implemented. Therefore most part of industries' branches got paralyzed, besides that of energy and bread production, and some other enterprises. Labor market has totally changed during the transition period. This type of market was almost non-existent prior to 1990, given that the state was the sole buyer and the only economic regulator, including the labor market. After 1990, an increasing private sector emerged in the country, while the state sector was mainly concentrated in the cities. During the process of change many companies closed, were privatized or liquidated, which had a great influence in the level of employment throughout the country. During 1990-1993 the country faced a steep decline in its level of employment, respectively:

2 percent at the end of 1990,
4 percent at the end of 1991,
25 percent at the end of 1992,
Over 30 percent at the end of 1993.

Some of the factors that contributed in this were:

- Disintegration of companies and agricultural cooperatives caused farmers not to adequately produce goods, given the surface area was small, up to 1 hectare per family, and it didn't provide work for the entire family throughout the year.
- Privatization of state enterprises made many workers unemployed or get social services support.

Besides unemployment other phenomena appeared, such as informal economy, and in this framework informality in the labor market must be considered and calculated. In this context this paper commits to present problems related to informality in the labor market.

Methodology

The study was based on desk research preliminary preparation and work in the field. Desk research refers to the study of foreign and Albanian literature, preparation of a questionnaire, data processing, and outcome results. A considerable number of authors were read for this study. Data considered in the paper are verbal ones, expressed through a questionnaire. The sample of selection has considered small and medium businesses. This is mainly due to the fact that large businesses, thus big taxpayers, are object of international surveillance given what they produce should be in observance of ISO standards, this linked also to the quality of products and standards in treatment of workers. Large businesses contacted by the working group said that adhering to these standards is the key to their longevity and necessity for remaining in the market.

SPSS statistical program was used for sample selection. In this paper the target group is employees, and valuing that expected impact will be average, thus 0.15, or 15 percent, desired statistical power 0.8, hypothesis probability value 0.005, number of predictions is 16, while minimal number of respondents is 142. A total number of 145 employees took part in this canvass.

Geographic spread of the study: This research took place in the city of Tirana, given that it is the capital of the country, and approximately one third of the country's population lives here. Economic units established in Tirana's main streets were part of the research, and it included what is considered as small and medium businesses.

Results Analysis

As above-mentioned a survey at employees' level was held, in order to note influence of informality in them. Following are questions and responses analyzed after the survey.

Question 1: Type of business you work in

One of the questions directed to the employees was linked to the type of enterprise that hires them. Obtained information helps us understand who are those that have a depending employment, and those who have an independent employment, such as those work in a company, business, and also those who produce goods for their personal use. In the following table are presented obtained responses.

Type of business	Frequency	Percentage
Factory	2	1.3
Bank or insurance company	10	6.5
Salesman, restaurant, service chain	25	16.3
Hospital or private school	3	2.0
Engineering company, architecture studio, attorney's office, medical clinic	3	2.0
Agricultural farm, agricultural cooperative, small business, car house, shop, service firm	23	15.0
Other: beauty shops, printing house, call center, street vendor, etc. (<i>analyzed below</i>)	87	56.9
Total	153	100.0

Interpretation: Out of 153 respondents the highest frequency is taken by salesmen, restaurant workers, and those working in the service chains, for a total of 25 cases or 16.3%. Second place is taken by those who work in the agricultural farms but that have come to the capital to sell their produce, including small workshops, car houses, service firms, for a total of 23 cases or 15%, followed by those working in a bank or insurance companies, 10 cases; those working in the hospitals, schools, attorney's offices or medical clinics, 3 cases. A category of its own or approximately 57% is taken by those who work in the beauty shops, printing houses, call centers, street vendors, shop tenders, private teachers, house cleaners, mobile phone shops, marketing distribution, sales agent, library, workshop.

The question aimed to gather information regarding type of enterprise or business that has hired the employee. According to the type of enterprise - organizational culture – it takes into consideration to a large extent its work relationship. Therefore, enterprises which belong to a clan culture of the organization are generally characterized by high informality. Enterprises or organizations of family type (Clan) are those in which selection and employment of workers is based on family relations and acquaintances.

Human relations in clan enterprises are those of participation and cooperation. Theoretically, some of clan businesses specifics are presented as:

- ✚ Connection – personal relations
- ✚ Goal – loyalty
- ✚ Appearance - internal compactness
- ✚ Wage – based on the type of relationship
- ✚ Leadership style – facilitator and cooperator

This type is mostly apparent in small handicraftsman shops, agriculture, etc. Therefore 74% of people working in them are hired by small

businesses, which from their composition make one think that they are clan-type businesses, and as such influence the increase of informality rate.

Question 2: Duration of employment

Another question addressed to the respondents was about duration of their employment, and gathered answers are presented in the following table. It is important to clarify that with a long time we mean an employment for over one year. Gathered data show stability when it comes to employment.

How long have you been employed?	Frequency	Percentage
Long time	126	82.4
Temporarily	24	15.7
Refused to respond	3	2.0
Total	153	100.0

Interpretation: From 153 respondents, 82.4% or 126 of them stated that they have been employed for a long time, only 24 of them or 15.7% said temporary, while 3 persons refused to respond.

Question 3: Work Mobility

Respondents were asked about stability in a working position, or otherwise their job mobility. Gathered results are presented in the following table:

Changed jobs	Frequency	Percentage
One	75	49.0
Two	50	32.7
Three	13	8.5
Four	5	3.3
Over four	10	6.5
Total	153	100.0

Interpretation: Reported data show 49% or 75 employees have been working in their current job for the first time. While 32.7% or 50 respondents said this is their second job, 8.5% or 13 respondents said third job, and only 3.3% or 5 persons said this was their fourth job. Those who responded they had changed jobs over four times, were 10 respondents.

We are interested to know if there is any difference with job mobility and longevity in a given position. In order to analyze this we use SPSS program and through cross-tabulation we have the following results.

Cross-tabulated data:

During your career, how many jobs have you changed? * How long have you been employed? Crosstabulation

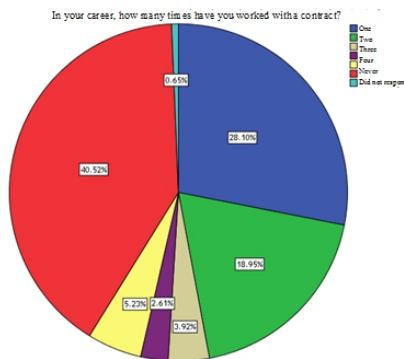
Count

		How long have you been employed?			Total
		Long time	Temporary	Refused to respond	
During your career, how many jobs have you changed?	One	64	8	3	75
	Two	38	12	0	50
	Three	12	1	0	13
	Four	4	1	0	5
	Over four	8	2	0	10
Total		126	24	3	153

Interpretation: We note that those you have a job for the first time, but they have been working in this position for a long period of time are 64 persons, while 8 out of 153 respondents work in a temporary job, and only 3 refused to respond. Those who have changed their job before, therefore this is their second job, showcased high stability, 38 of them have been working for a long time, while only 12 respondents, who have changed job before, have the current position temporarily. Those who responded that this was their fourth job, four of them said that they had been doing it for a long time, while only one reported that it was temporary. It is noteworthy to mention that the higher mobility from one job to the other is, instability in a job appears to be higher, while only 2 respondents said they had changed jobs more than four times and the current was temporary. Those who had changed jobs over four times and had been in the current job for a long time were 8 respondents.

Question 4: How many times did an employee work with a contract during his career?

We present gathered responses through the following graph:



Interpretation: 28.1 % of respondents or 43 persons responded to have worked only once through a contract, 19% or 29 persons said twice, 3.9% or 6 persons responded to have worked three times with a contract in their career, 5.2% or 8 persons over four times, while one did not respond. It is important to emphasize that 40.5% or 62 persons have never worked with a contract in their lifetime. Through this question we are able to evidence that a large number of people has worked or are working without a contract, which implies that these employees are not treated pursuant the Labor Code, underscoring that those that have had a work contract for more than one job is roughly 30 percent.

Question 5: Benefiting from paid annual leave

Respondents were asked if they benefitted from paid annual leave or from compensation instead of it. Results are presented in the following table:

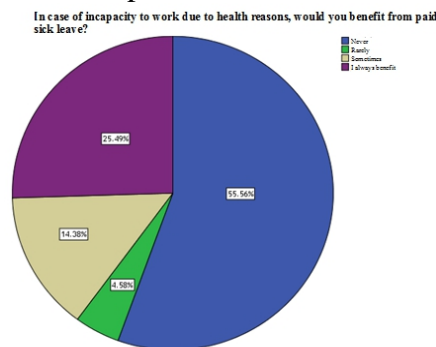
Do you benefit from paid annual leave or from compensation instead?	Frequency	Percentage
Yes	57	37.3
No	87	56.9
Did not want to respond	9	5.9
Total	153	100.0

Interpretation: 56.9 % or 87 of the respondents did not benefit paid annual leaver or compensation instead of it, while 37.3% or 57 of them did. Only 5.9 percent or 9 persons did not want to respond.

Noteworthy to underscore is that a majority of employees did not benefit paid leave which illustrates the fact that in more than 50% of the cases the Labor Code is not respected.

Question 6: Short-term benefit from Social Insurance

Respondents were asked if in case of incapacity to work due to health reasons, would they you benefit from paid sick leave, paid by Social Insurance. Incapacity to work due to health reasons is certified through a medical report. Responses are presented in the following graph:



Interpretation: More than half of respondents, thus 55.56% or 85 persons do not benefit in case of incapacity to work due to health reasons, 25.49% or 39 respondents always benefit, 14.38% or 22 respondents benefit sometimes, and only 4.58% or 7 persons rarely benefit.

This shows a difficult situation of employees as they are not protected in case of incapacity to work due to health reasons.

Question 7: Long term benefits – maternity leave

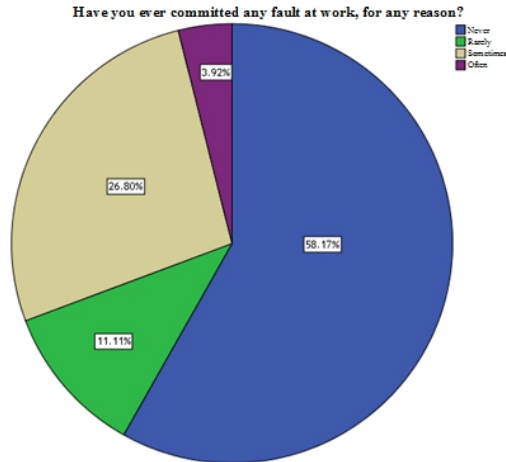
This question was addressed only to female respondents in order to understand if they benefited maternity leave according to legal dispositions. Albanian Labor Code, Law No. 7961, dated 12.07.1995, amended by Law No.104/2014, Article 104, Paragraph 1, stipulates that “Pregnant women are forbidden to work during the 35 days that precede the expected date of giving birth to the baby and 63 days after giving birth to the baby.” With partial maternity leave we imply the period of 150 days where an employee receives 80% of her wage, while full maternity leave we mean 365 days where an employee receives 50% of her wage. Respondents’ answers are found in the following table:

Taken Maternity Leave	Frequency	Percentage
Not a single day	50	44.6
Only period preceding birth	1	0.9
Only 63-days after birth	4	3.6
Partial leave	32	28.6
Full maternity leave	25	22.3
Total	112	100.0

Interpretation: Out of 153 respondents, 41 are male and 112 are female employees, of different age-groups. We consider that in the timeframe of political-economic system change to date, thus 24 years, all sample respondents enjoyed the right to benefit from maternity leave. Out of 112 female respondents, 44.6% or 50 of them said that they do not benefit a single day of maternity leave. 32 respondents said that they benefited partial maternity leave, while 3.6% or 4 respondents said they benefit leave only for the period after the baby was born. And only 1 respondent benefited maternity leave preceding baby birth. This situation shows that greater attention should be shown to child and mother health, especially in the timeframe of 43 days prior to baby’s birth and 63 days after baby’s birth.

Question 8: If the employee committed fault at work

The survey considered a Liker Scale for this question. We present gathered data through the following graph:



Interpretation: 58.2% or 89 respondents have never committed any fault at work, for any reason. While 26.8 percent or 41 respondents have sometimes committed a fault at work, and 17 respondents commit rarely a fault at work. Only 3.9 percent or 6 respondents commit often fault at work.

Taking into consideration that in many cases the Code of Labor is bypassed including other elements of progressive discipline stipulated in the Code, employees are more careful when it comes to doing their job. On the other hand, this indicator draws attention to the fact that employees work under stress conditions, and a psychologist would be able to value this more. This enables us precede to the following question.

Question 9: Disciplinary actions taken if committed fault at work

Respondents were asked if disciplinary actions as foreseen by the Labor Code were taken against them if committed fault at work. Responses are presented in the following table.

Disciplinary actions taken	Frequency	Percentage
Yes	15	9.8
No	54	35.3
Did not commit fault	84	54.9
Total	153	100.0

Interpretation: 54.9% or 84 respondents have not committed any fault, to 15 persons it happened to have committed fault and disciplinary actions were taken against them as stipulated by the Labor Code, while no disciplinary actions were taken against 54 persons, according to what the Labor Code stipulates.

Question 10: What kind of measures were taken in case of disciplinary actions

Respondents were asked about disciplinary actions taken against them by their employer. In the following table are presented respondents' answers.

Disciplinary actions	Frequency	%
Verbal warning	18	11.8
Letter of reprimand	1	0.7
Dismissal	2	1.3
Did not respond	127	83.0
Verbal warning and letter of reprimand	3	2.0
Verbal warning, letter of reprimand, change employees work position, dismissal	2	1.3
Total	153	100.0

Interpretation: 127 respondents out of 153 did not respond to this question. This does not allow us to get further information of disciplinary actions taken against them, if any. While 17 respondents admitted that they had received verbal warning, and only 1 of them had received a letter of reprimand. 2 persons were dismissed, and 3 other people had received verbal warning and letter of reprimand. While only 2 persons or 1.3% of respondents had received verbal warning, letter of reprimand, had changed their working position, and at the end were dismissed.

Questions 11: In case of dismissal would employees receive the benefits and compensations as specified in the labor legislation

The last question addressed to the respondents was linked to benefits and compensations as specified in the Albanian labor legislation. Through this question we aimed to show how much was the Labor Code respected. The following table presents results.

Benefits and compensation received in case of dismissal	Frequency	Percentage
None	80	52.3
Three months wage	44	28.8
Six months wage	28	18.3
Twelve months wage	1	0.7
Total	153	100.0

Interpretation: More than half of respondents, or 80 persons, admitted that in case of dismissal they would not receive any compensation

from their employer. While 28.8 percent or 44 respondents stated that they would receive the wage of three months. 28 respondents said they would receive the wage of six months and only one respondent claimed he would receive the wage of twelve months if dismissed from their job.

Estimating labor informality (an empirical approach)

Estimating informal economy is important given the influence scale it carries. Informal economy, in the general context underscores labor informality, which might we traced either through a direct or indirect approach.

The most accurate way of defining labor informality is the **direct approach** using the index of informality as expressed in the following ratio.

$$I_{ij} = \frac{R_e}{T_e} \cdot 100, \text{ where:}$$

- I_{ip} Index of labor informality
- R_e Registered employees
- T_e Total employed

We replace in the above formula data gathered through our survey. Total number of respondents is 153 people, which corresponds to T_e . We considered as registered employees those who have a work contract. Number of those holding a work contract is 80. After we make the necessary replacements in the formula we get:

$$I_{ij} = \frac{R_e}{T_e} \cdot 100 = \frac{80}{153} \cdot 100 = 52.3\%$$

Thus, the index of labor informality results to be at the level of 52.3 percent.

Latest CIA Factbook Country report on Albania, dated June 23, 2014 states that Albania has an informal, and unreported, sector that may be as large as 50% of official GDP. Hence, the survey result agrees with the aforementioned outcome. We would like to underscore that in this assessment of 52.3% we did not consider “do-it-all-yourself” business, such as shoemakers, tailors, electricians, painters, etc. which in our country work in complete informality. Regardless, level of informality in the labor market may be higher if we were to consider “do-it-all-yourself” businesses.

Estimating informality according to standards of living (in official figures)

Considering data provided by the Albanian Institute of Statistics, known as INSTAT, and data reported in the CIA Factbook Country Report,

respectively for level of employment and country's GDP for 2012 and 2013, we display them in the following table:

	2012	2013	Percentage
Standard of living (in \$ billions)	28.14	28.34	1.007
Employment level (in thousands)	1,140	1,024	0.898

From the official data we understand that there is a level of informality in the labor market given the employment level has decreased by 116,000 jobs or 11 percent, and standard of living has increased by \$200 million while real wage growth only in the public sector was 2 percent.

Countering informality

The Albanian Labor Code, the Law on stimulating employment, the Law on Labor Inspectorate, foresee disciplinary actions against those that work in informality. But work for minimizing informality is difficult and complex. It is tied to economic indicators of the country, state employment programs and their enforcement, empowerment of the Labor Inspectorate as a specialized instrument in reducing labor work, designing awareness campaigns over dangers brought by unregistered work. In a system that stems and continually generates the dies that someone might survive while hidden, therefore not giving or receiving anything, informal work is only the most tangible part, thought thinking of what lies behind it. Some ideas that may help in raising awareness:

- Showcasing importance of working with a contract
- Informing the public on the great danger posed by “informal work” and negative consequences not only for employees but also the generations to come.
- Need for a greater familiarity with labor legislation. As negligence to have knowledge of might result in lack of its implementation.

Conclusions

We think that empirical verification expressed a justifiable reality for these reasons:

► It shows a current reality given the fact business analyzed in the paper are those that have employed between 1 to 10 workers, and that comprise 91% of sampled population. This includes coffee shops, shops, etc. The ability of hiring one, two, or three employees without a contract is not that easily evidenced.

► Also, these businesses belong to clan culture, where one employee or usually the business owner has been registered with the authorities, while other people working for him are not registered and are his family members. We are conscientious of this reality, given in the periphery zones of the capital higher level of informality has been noticed.

► Presence of informal activity in Albania becomes conditional to its economy's characteristics. Almost all businesses in Albania can be defined as micro or small, and 76% of them have employed only one person. Over 80% of these businesses work in retail or service sector while 10% in industry.

► Moreover, in the rural areas we have a number of 368,997 agricultural economic units owning between 0.52 hectares to 1.13 hectares of land. Despite problems that have accompanied the informal economy, it plays an important role in generating job, creating revenues for individuals and families, and reducing poverty, especially in developing countries.

► Through this poll we learned that employees are not aware of their current situation nor their future economic situation. An agreement between employer – employee seems to be in place. Seen from the perspective of an employee this situation is worthy as in the short-term they get higher revenues in cash. But in the long-run this situation needs further attention. One of the facts that could have played a role in it is remittances received by family members living abroad and helping the rest of families left behind in Albania.

► Procedures stipulated in the Albanian Labor Code are not always enforced, especially in disciplinary actions against employees. Only a small percentage of respondents claimed their employers had followed all steps, to their dismissal.

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