

## The Rural Development and Employment in Albania

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### Abstract

Public institutions in Albania play an important role in the functioning, regulation and development of the rural areas, including their support to the rural labor market as an important mechanism for the allocation of labor, resources and income generation. The governments' efforts emphasize the prioritization of rural employment as crucial for development of Albania. But, this paper concludes that many young Albanians from rural countryside would like to run away from their country, not because they don't love their country, but because they see no employment (and livelihood) perspective. The economic development of the country seems more as a residual rather than prosperous, despite many foreign experts and donors trying over 25 past years to present a sustainable economic development model. Informal work arrangements remain widespread across many economic activities and the division between unemployment and informal work (employment) is still blurred. Albanians from rural countryside should be drawn more to farming than in the recent past. Government institutions should reflect a clear rise in the status of farming compared to the recent past, improving the respective legal framework, addressing constraints on access to farming activities and borrowing (or financing) and adapting fiscal policies which will motivate and incentive them to be drawn more to farming than in the recent past.

**Keywords:** The Rural Development and Employment in Albania

### 1. Introduction

About<sup>1</sup> 560,000 Albanians have been granted residence permits for the first time in European Union countries during these last ten years, according to data published by Eurostat estimated to be as much as 19.5% of Albania's current population. Albania has recorded the highest number of residence permits compared to other Balkan countries. The record of residence permits issued for the first time in the last 10 years was marked in 2008 where Eurostat was granted a residence permit of nearly 100 thousand Albanians. Then the number of permits went downward, where in 2013 it reached the lowest level of 31,000 applications. After 2013, the number of residence permits increased again, from 2014 to 2017, with a residence permit for the first time, about 200 thousand Albanians. This coincides with the new wave of immigration, where asylum applications in 2015 reached over 60,000. In the region, the lowest number of residence permits has Montenegro for only 2500 citizens according to Eurostat in 2017. Of those acquiring citizenship of an EU-28 Member State in 2016, the largest groups were Moroccans (101 300, or 10.2 %), followed by Albanians (67 500, or 6.8 %), Indians (41 700, or 4.2 %), Pakistanis (32 900, or 3.3 %) and Turks (32 800, or 3.3 %). Most Albanians received Italian citizenship (55 %) or Greek citizenship (42 %) and the majority of them where from rural areas because there used to live more than 56% of Albanians.

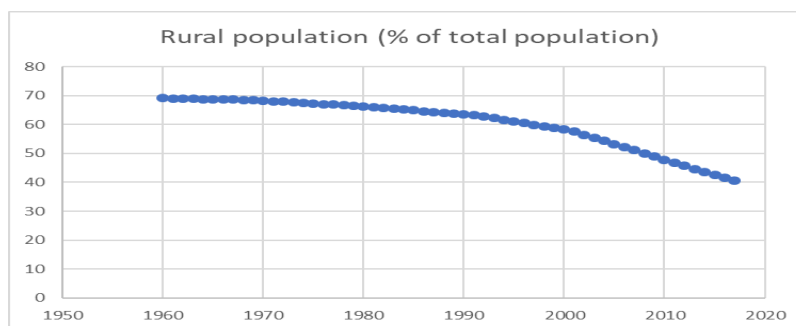


Figure 1: Rural population (% of total population) 1960-2017. Source: INSTAT

However, the contribution of rural activity to Albanian GDP accounts for about 18.965%<sup>1</sup> of the GDP in 2017. Seemingly on the contrary, the employment in the agricultural sector engage more than 55% of the workforce in the country (INSTAT), thus indicating the relevance of the rural labor market in the national labor market.

Employment by main sectors	2011	2012	2013	2014	2015
<b>Agriculture, forestry and fisheries (%)</b>	<b>45.4</b>	<b>46.1</b>	<b>44.0</b>	<b>42.7</b>	<b>41.3</b>
Industry (%)	10.6	9.1	9.7	11.0	11.6
Construction (%)	8.2	8.2	7.1	6.4	6.9
Services (%)	35.7	36.6	38.8	39.4	40.2

Table 1. Data for employment as per INSTAT Reports

Living standards of rural residents - 46.5% of the population (INSTAT, Census 2011<sup>1</sup>) largely living under sub-standards levels compared to the urbaners. Distribution of the Albanian population across the wealth quintiles shows that about 8 out of 10 people living in urban households are in the two highest wealth quintiles, while 7 out of 10 people living in rural households are in the two lowest wealth quintiles.

As per Commission Staff Working Document, Albania 2016 Report: "Strengthening economic activity improved labor market conditions but unemployment, especially of young people, remained high. The economic recovery created jobs and the employment rate rose to 52.9 % in 2015 from a low of 49.9 % in 2013 (15-64 years). Over 40 % of the workforce is employed in agriculture, mostly in low-skilled jobs, and informal employment remains widespread. Labor force participation also increased, to 64.2 %, possibly reflecting improved employment prospects and a decreasing trend in remittances. Active labor market policies expanded from a low base, but they still covered only around 4 % of the unemployed. The unemployment rate (15-64 years) fell from 17.9 % in 2014 to 15.9 % in mid-2016. The unemployment rate for young people (15-29 years) also declined but remained very high at 29.9 %, highlighting substantial skill mismatches. A relatively high minimum wage might also act as a disincentive for hiring low skilled and young people. Agriculture, forestry and fisheries remain the main job providers, with 41.3 % in 2015 (against 42.7 % in 2014). A strategic approach needs to be developed to tackle labor market challenges such as youth unemployment and informality. The law on employment promotion program was finalized but remains to be adopted by the Council of Ministers."

## 2. Methodology

This paper is based on the reviews and analysis of existing national and international reports regarding rural employment in Albanian and the region by analyzing available data on the magnitude, depth and structure of the rural economy/employment in Albania. Opinions about the aspirations of young people and attitudes toward farming were collected using focus group discussion and interviews. Almost 50 people participated in the primary data collection by interviewing and/or focus groups, including young people, their parents, and key informers from local actors implementing youth programs in rural countryside of Albania. Direct interviews with farmers of different ages from 4 regions, Shkodër, Elbasan, Vlorë and Fier. Semi structured questions were used in discussions group for the field visits. As a result, were held 24 interviews in total, 6 with farmers groups in Shkodër district, 5 with farmers groups in Elbasan district, 5 with farmers (women groups) from Vloa district and 83 farmers groups from Fieri district.

## 3. Theoretical analyses

*The traditional distinction between urban and rural areas within a country as Albania or its neighbor countries is based on the assumption that urban areas, no matter how they are defined, provide a different way of life and usually a higher standard of living than is found in rural areas.* In many European countries, this distinction seems unclear and the principal difference between urban and rural areas in terms of the circumstances of living tends to be a matter of the degree of concentration of population. This was the case of Albania, where census data was disseminated according to civil divisions, as expressed clearly in the national census legislation. Nevertheless, because of the need to provide statistics comparable to the statistical data of the other European countries, Albania developed an additional classification of urban-rural population, based on statistical concepts, and in line with the most recent Eurostat definitions.<sup>1</sup>

The actual scholars (economists and sociologists) discussion<sup>1</sup> is the overlap between a 'crisis' in agriculture and a 'youth crisis' that is inducing the policy concerns about, among others, the skills, size and sustainability of the future workforce for smallholder food farming: will the farmers of the future have the capacities, knowledge and networks for smallholder agriculture to maximize its potential for poverty reduction and food security? These are some serious issues posed from

researchers related to youth and the agri-food system, most notably to the aspirations of young rural people that are dominated by formal sector employment and modern urban lifestyles, and a generalized reluctance, to consider farming as an employment option. The pace of economic growth and global integration, in many countries is a factor that affects the opportunities that may be available to these young people which appear to be increasing fast in several (not all) of developing countries. The rapid development of work opportunities available as a result of new technological development, new markets, transport and communications links and skills-sets means that it is difficult to know for sure which aspirations are reachable, and for whom, and which are less realistic and merely likely to lead to frustrated ambitions.

Also, better education and communications appear to have had the effect of dramatizing the hardships of a farming life: often viewing farming as a way of life rather than as a job, and 'farmer' as an identity as opposed to a job title. The lessons of such privation have been hard won for many, both parents and children. For young women, in particular, there can be very strong motivations for escaping a life as subsistence farmer or farmer's wife (depending on the context and on how women's roles in agriculture are viewed).

The idea that the farming activity is entirely unattractive is by no means the truth of history and custom for developing countries where the incomes obtained from this activity do not justify the efforts. In contrary, young people in countries where Governments have signaled a high value for agriculture through policies, measures and subsidies, are also more inclined to view agriculture as having a positive future. Increased public spending on farming and farm support programs, initiatives geared at enhancing smallholder productivity and skills and efforts that in effect improve the image of the sector through the introduction of modern technology and approaches all seem to appeal to young people. High food prices appear to contribute only to the extent that food prices are seen as high rather than volatile and where small farmers are net gainers (taking into account the higher consumer and input prices they also pay).

Agriculture is the main source of livelihood for one billion poor people living in rural areas on less than US\$1.25 a day. Over 80% of food consumed in much of the developing world comes from the smallholder sector which is consider playing a key role in poverty reduction and food security, with great potential for impacting on nutrition via higher volumes and wider varieties of food produced (IFAD 2013:6). Some argue that growth-poverty linkages in agriculture are also stronger compared to other sectors, with greater potential to reduce poverty than non-agricultural activities, in allowing more poor people to participate in growth and creating more opportunities for employment for poor people (Diao et al 2010, on Africa; Lipton 2005). *The macroeconomic figures appear to bear this out: cross country research suggests that the poverty gap is reduced by a 1% increase in agricultural GDP per capita 5 times more than it is by increased per capita GDP in other sectors (Christiaensen, Demery and Kuhl, 2011).*

However, a recent examination by Collier and Dercon of this model of smallholder-farmer focused on agriculture-based growth for economic development and poverty reduction suggests that the evidence on which it is based is not as strong as believed, and the context of contemporary global economic dynamics means this strategy is unlikely to work. Instead, a radical transformation is needed over the next 50 years, involving huge increases in agricultural production and labor productivity. In order to materialize the transformation of agriculture to fuel economic development, certain changes in scale are important focusing on a 'more open-minded approach to different modes of production', rather than focusing exclusively on smallholder farming (Collier and Dercon, 2014).

In developing countries modern and clear-cut entrepreneurial forms of agricultural production coexist with traditional forms and with combinations of the two extremes. They include economic units - households whose engagement in agriculture is consistent with informal sector activities, and households engaged in subsistence agriculture that produce exclusively for own final use or sell part of what they produce. These households that engage in 'backyard' agriculture or gardening, where what is produced is marginal to the household's consumption, are excluded from the current international definition of employment and thus from informal sector employment and from informal employment. However, when the production of 'backyard' agriculture is significant to the household's consumption, persons engaged in it are in employment. If they do not sell any product, they are excluded from the informal sector but included in informal employment.

In the near future, the need to feed a large and growing urban population will create more demands on the agriculture sector, including the demand of global markets. This means meeting 2 challenges posed by supplying rising global food needs and the need for involving more people in sustainable farming practices – at least the future offers some hope! However, this requires a transformation in productivity of the farming – in the way people cultivate (both scale and scope) and in the inclusiveness of agricultural policy towards smallholder farmers. Without significant productivity increases, innovations and/or diversification in the near future, small farms will be decreasingly viable as economic and social units (Jayne et al. 2010). Success stories from the green revolution of the 1960s and 1970s demonstrate how technological

advances and the right investments and interventions can increase productivity. Following the trend, we can conclude that improvements in agricultural technology along with modernized management practices, and the right incentives for rural people can meet the food challenge. Overcoming these challenges needs innovation, increased take-up of new technologies and farmers need to be able to engage in rapidly changing markets including factor markets. The youngsters are the well-matched human resource that will serve as an input in this transformation process. They possess the vision, skills and adaptability for following the rapidly changing trends of markets and technology.

The trend of expanding markets and increased demand for food products from a growing global population creates the ground for more incentives to engage in farming, making the sector an attractive prospect for the next generation. However, young people, even young rural people in developing countries where agriculture is still the dominant sector in terms of livelihoods, do not aspire to farming and this is potentially disastrous for the agriculture sector. This 'agriculture in peril' narrative is matched by an equally strong 'youth in peril' narrative, whereby young people are seen to be either 'victims' of the vagaries of the economy and hardest hit by unemployment or 'villains' – lazy and not willing to work hard for a living (Sumberg *et al* 2013; Anyidoho *et al* 2012a). Young people are treated as a homogeneous group, with little sense of social differentiation, and agriculture and young people are each seen to be the savior of the other.

Historically, aspirations studies from the 1960s and 1970s, mainly in West Africa, suggest that young people in these societies expressed high aspirations and expectations taking them away from farming, which was considered to be low status (Nwagwu 1976; Osuji 1976; Owuamanam 1982; Hurd and Johnson 1967; Gugler 1968; Campionvincent 1970; Imoagene 1976). More recently, low levels of wellbeing – material, relational and psychosocial – were reported by young girls working on South African fruit farms in Kritzinger (2002). While the young people interviewed in Juma's (2007) Tanzanian study considered farming to be dirty and undesirable: 'agriculture is regarded as an employer of the last resort to young people.' This sentiment of agriculture being the last resort, something one does if failing at school, or in business or as a migrant, is echoed in Getnet Tadele and Asrat Ayalew Gella's work in Ethiopia (2012) and is not peculiar to this setting. For some young people, agriculture is not even an option as pressure on resources especially land scarcity poses serious barriers to entry for young people.

Studies from many developing countries suggest a trend towards young people exiting agriculture. This is prevalent across all sizes of landholdings, but with different motivations. It has geographical as well as economic elements: it is particularly strong in villages close to urban centers and where the per capita value of agricultural production is low.

*Many of the studies of young people's aspirations towards agriculture tend to focus mainly on farming rather than other agricultural-based activities, and as a long-term prospect.* Public policies could do much to improve the attitude of young people toward small holder farming and/or the wider agricultural food system. The evidence in the literature indicates that the lack of appeal of agriculture for many young people reflects: a) lack of effective public investment in small holder farming and the public infrastructure needed to link to markets; b) declining access to land and uncertain access to inputs among young people, including decline in average farm size in many countries in past few decades but also c) social change resulting from rapid increases in mass education provision but which have often resulted in a perceived decline in the status of agriculture.

*Types of rural labor in Albania.* From the study of reports over the informal rural agricultural sector in Albania, 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 agricultural 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 (2009<sup>1</sup> SII, Albania); Economic role of family members in rural areas is typically more competitive than complementary. Family members play the same roles in home care, cultivation of plants or cattle and other jobs.

**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, or employees by health sector and local government, etc. While referring to the LSF 2009 (INSTAT<sup>1</sup>, Albania), agriculture employed in regular employment contracts make up only 2.99% of the active labor force;

**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 (cattle) sector (Shahollari, 2001).

**Part-time employment** remains a female domain for the decades 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<sup>1</sup> 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.

**The quality of VET (Vocational Education & Training) system.** The background of informal employment variables at rural areas always raise the concerns on 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.

While, for better understanding the rural sectors in Albania, a structure of informal sector activities is presenting as follows:

- (1) Agricultural activities. These are predominantly farming units depended 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 fish selling is basically undertaken by them individually;
- (3) Rural Agriculture 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 they are married and having children, they lack social security protection (Gueron, 2005);
- (4) Forestry activities. A lot of forests in mountain areas are destroyed from cutting without permission and without thinking for long-term sustainable activities based on forests.

#### **4. The role of Albanian public institutions for rural employment**

The evidence in the reports and academic literature indicates that the lack of appeal of agriculture for many young people reflects: a) lack of effective public investment in small holder farming and the public infrastructure needed to link to markets; b) declining access to land and uncertain access to inputs among young people; c) social change resulting from rapid increases in mass education provision but which have often resulted in a perceived decline in the status of agriculture; and one of the most important d) lack of financing.

Much of responsibilities in Albania stays with NES - National Employment Service – a government organization under the MSWY (established by the Council of Ministers Decision "On the approval of the status of the National Employment Service" No. 42, of 17.01.1998) that is the responsible agency for the provision of the employment services across Albania. Despite the fact that NES is an important government agency engaging well trained staff of around 360 persons, *its role and impact*

*in the rural labor market is rather limited as its services are almost exclusively offered to the urban areas of Albania where its regional offices are located. This spatial vacuum mostly builds on the assumption that citizens in the rural areas are self-employed in the agriculture sector and do not pronounce any need for NES employment services.*

While, some other government agencies should focus on the development of the agricultural sector as the Ministry of Agriculture and Rural Development (MoARD) are responsible for rural development with a particular focus on agricultural development. The extension services staffed by 290 employees as an important department of MoARD provide technical qualified services in the form of know-how through the regional directorates of agriculture to all farmers. The national extension service and the Agricultural Technology Transfer Centers (public institutions under MoARD) manage to disseminate information for about 20% of the farmers and agribusinesses or 70,000 farmers out of 353,000 farms and 2,000 agribusinesses/processing enterprises. More than 8,000 farmers are assisted by extension service staff to apply/benefit from the support schemes. The issue of economic diversification in the rural areas is eminent as it will bring in the contribution of other government agencies as well. Ministry of Economic Development, Tourism, Trade and Entrepreneurship was commissioned a key role to promote non-agriculture business development, and rural tourism sector which has been among the largest non-agriculture sector and potential for development in the rural areas of Albania. Actually, this task is assigned to Ministry of Tourism and Environment and to the Ministry of Agriculture and Rural Development which runs various support schemes to enhance the natural competitive advantages of Albania, the improvement of the productivity of available human and natural resources, the mobilization of underutilized potential of Albania regarding the available natural resources, agricultural land and tourism development. The Ministry of Infrastructure and Energy has an important role in administering some significant non-agriculture resources and activities which account for potential employment in the rural labor market, such as mining, renewable energies and other industries in Albania etc. With the Albanian government of 2017, the Ministry of Health and Social Protection together with the Ministry of Finances and Economy share the role in labor policy area, as well. Also, the role of the local governments is especially important in the rural areas where the activity and impact of the central government is far more limited compared to the urban areas. The agricultural sector is the main economic activity in many municipalities and villages, which calls for the necessity of preparing local economic development programs, employment policies for the sector, training program for implementing innovation and technology transfer, business promotion, as well as environmental preservation.

*Although neither these Ministries, nor other government agencies including the Department of Strategy and Donor Coordination, or ad-hoc bodies such as the Inter-Ministerial Committee for Agriculture and Rural Development, has established proper mechanisms to efficiently coordinate the cross-cutting issues of human development in rural areas. Efforts to reshape the trading mechanisms to assist rural workers, primarily farmers, to access with full rights and obligations the real market, should be led by the cooperation of these institutions.*

The Inter-sectoral Strategy for Agriculture and Rural Development in Albania<sup>1</sup>, as part of the National Strategy for Development and Integration aims to improve the living standards in rural areas, directly affecting the rural labor market by supporting higher levels of income generation and preparing the agriculture sector for EU integration. This policy document outlines government support measures in the following policy areas: Enhancing farm viability and competitiveness of agriculture and primary food-processing, while progressively aligning with the Union standards; Specific objectives for restoring, preserving and enhancing ecosystems dependent on agriculture and forestry; Specific objectives for balanced territorial development of rural areas promoting social inclusion, poverty reduction and balanced economic development in rural areas; Transfer of knowledge and innovation in agriculture, forestry and rural areas and assistance to implementation of rural development policies. *The last two measures are key inputs in enhancing skills of rural population with a special focus on rural youth.*

The draft Strategy for Agricultural and Rural Development 2013-2020 indicates that the public expenditure financed by the government for the rural development in the year 2013, was only 10 million Euro, forecasted to gradually reach up to 13.9 million Euro by the year 2020, a budget which could hardly justify the strategic objectives outlined in this strategy. In addition to the modest financing from the government's budget, the development of the rural areas in Albania might benefit also from the EU support to access IPARD funding which is the main EU assistance component on rural development. Up to now, all these incentives did not reach rural small businesses or even less rural job seekers.

The Labor Code (law 7961 date 12.7.1995, amended) is the legal backbone of the labor issues in Albania while the Law on Employment Promotion<sup>1</sup> builds the legal framework on employment. The vocational training and on the job-training are main instruments for promoting employment of job seekers and youngsters. According to the Law<sup>1</sup> "On the Vocational Training System" should not lead to social exclusion but be supportive for any vulnerable group, so the distribution mechanisms of subsidies should keep on the loop target groups<sup>1</sup> under special conditions. Career guidance is another

important aspect stipulated in this law<sup>1</sup>. *At the end, the adoption of a comprehensive approach for skills development and employment opportunities creation requires also a revision of the main legal acts regulating the rural labor market.*

### 5. Issues identified in rural employment

Over 40 % of the workforce is employed in agriculture, mostly in low-skilled jobs, and informal employment remains widespread. According to World Bank Report (2004), 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 the initial effect of the reform was 450,000 small farms with an average area of 1.25 ha. Farming in Albania has traditionally played an important role regarding mostly self-employment, even though most of the country is mountainous. This self-employment constitutes a source of poverty of the village because of the limited opportunities for farming and few employment opportunities outside the agricultural sector have put the Albanian agriculture at the level of semi-subsistence. Rural population (% of total population) in Albania was reported at 41.62 % in 2016, according to the World Bank collection of development indicators, compiled from officially recognized sources.

Although the GDP has doubled in less than a decade, the figures of the employed people have gone down. The unemployment rate has risen yearly, reaching 16.1 % in 2013, and it results to be even higher (21.8% in 2014) but improved by 2018 at the annual average of 13% if the new international standards in processing of the LFS data are applied. The most important deviation is related to the not consideration of the unemployed job seekers in the rural area and the massive emigration of Albanians in developed countries mainly EU countries.

While, related to the unemployment rates from 2013 to 2017, there are 2 graphics as per data in the figure 2., below:

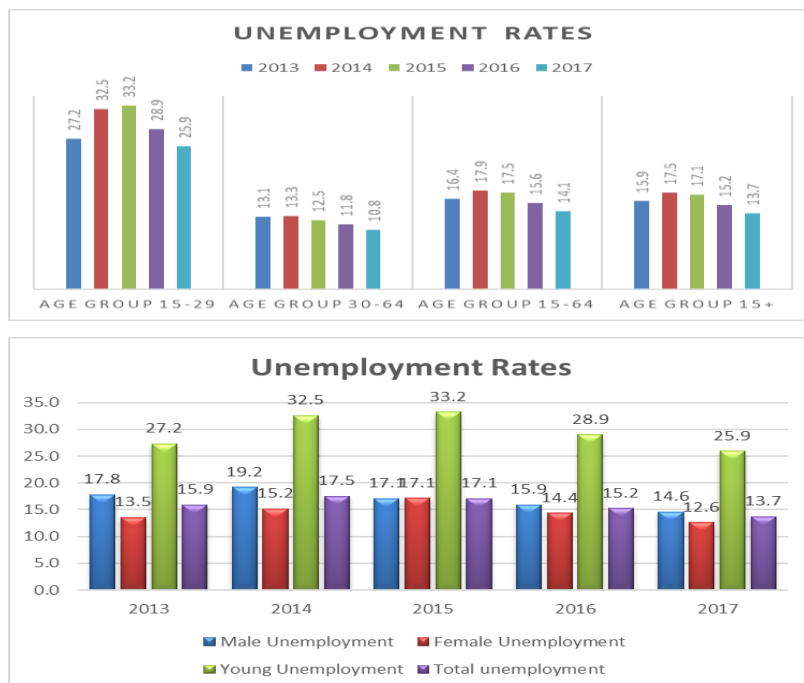


Figure 2: Unemployment rates 2013-2017. Source: INSTAT

Agriculture continues to be the sector that keeps “employed” the majority of the population, with approximately 41.3%, whereas the private non-agricultural sector has a very low weight, being, thus, incapable of absorbing an ever-growing demand of employment that is generated by the demographic, social and economic structural changes. The majority of the jobs belong to unpaid contributing family workers (34.0%) and self-employment (24.1%). At an already lofty level, the passiveness in the labor market increased in last years, affecting twice as much the female labor force, compared to males.

*Boosting rural employment is vital to the economic wellbeing of any economy, especially for a developing economy such as the novice market economy of Albania.* In the case of Albania, where some 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. 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. In this respect, cross-cutting themes such as youth employment, SME, green jobs, and the like should also be considered in the larger scheme of rural labor market and rural development.

Making the youth employment a priority of sustainable development ensures inclusion of a vital part of the labor force that shall be the productive force of tomorrow. Inclusion of youth into the labor force and the labor market increases the utilization of the available labor force as well as increase economic productivity. In the context of Albania, youth still makes up 25% of the population, and Albania is recognized as having a young population. In addition, almost half of youth resides in rural areas thus their livelihoods and prospective in the labor force is linked to these areas. From this assignment will feed to a baseline analysis of youth involvement in rural labor market and skills development required and will identify areas where rural development programs can be targeted to increase their contribution to employment creation. This will also suggest formulation of policy recommendations on stimulating new sources of employment, and the conditions for success in stimulating employment in rural areas.

**Regional employment aspects.** South East European (SEE) labor markets are characterized by low employment and activity rates, particularly among women and youth, as well as by high and persistent unemployment. Youth unemployment is exceptionally high by European standards and has further deteriorated during the economic and financial crisis. In addition, long-term unemployment has been a salient feature of the labor market in the region for more than a decade and carries direct consequences in terms of social exclusion and further obsolescence of skills. High outward migration and an ageing population present additional constraint on the long-term growth of the Western Balkan countries and pose long-term fiscal challenges<sup>1</sup>. Also, informal sector employment is high, with levels estimated at between 30% and 40%<sup>1</sup>. There are large imbalances between labor demand and supply in SEE. During the economic restructuring a significant part of the workforce moved from sectors that were shrinking into unemployment and inactivity. One of the main reasons behind this unfavorable development is the lack of skills and competences. Technological progress creates demand for higher-level skills, and this leads to further gaps. The existing mismatch between the competences requested by the labor market and the skills generated by the educational and training systems of SEE countries calls for a coordinated regional approach to address this acute issue.

*Labor costs and Taxes impacting the employment in SEE.* The employment problems are due to a number of factors, including the taxation on labor. One potentially important concern is whether labor taxes are a constraint on job creation and whether overall labor costs are competitive. Moreover, there is a related concern – how the Western Balkan countries can finance social protection needs (especially pension, health, and unemployment) in a fiscally sustainable fashion and with the most favorable labor market impacts. Until now, these systems have relied heavily on financing through payroll taxes levied on employers and employees. Despite high contribution rates, many pension and health care plans in the region are running deficits, in part because of the narrow tax base. To the extent that the high tax rates discourage formalization, countries of this region remained in a vicious circle. Tax reform has been a recent priority of all governments across the region. Although by 2007, four of the five Western Balkan countries radically changed their systems of labor taxation, reforms focused on personal income taxes (PIT) rather than social security contributions (SSC).

As a region, the Western Balkans has relatively high government spending and a high share of GDP collected through labor taxes. On average, government spending in the five countries accounts for about 40% of GDP, with Albania well below the FYRs. While the Western Balkans countries, as a group, are below the EU-27 average of 47% (a very high level by international standards), Bosnia and Herzegovina are well above (at 50%) and Serbia is very close (44%). The general financing strategy in the region is to increasingly rely on indirect taxes (benefiting from the successful introduction of VAT), on the one hand, and a reliance on relatively high rates of social security contributions as the predominant form of wage taxation, on the other hand. Personal income tax revenues are low, averaging only about 3% of GDP. Compulsory social security contributions account for about 10% of GDP (Albania is different, with SSC revenues representing only 4.4% of GDP). This is not because of low contribution rates but rather reflects Albania's very high rate of informality, which stands out, even in a region where the informal sector is significant everywhere.

In 2005, the last year where data were available for all countries, official mean monthly labor costs ranged from €200 (Albania) to €423 (Bosnia and Herzegovina). The average for the five Western Balkan countries is about 41% of the average



for the EU-10. However, their labor costs are more in line with the two newest EU members, Bulgaria and Romania, which had mean labor costs of €235 and €365, respectively. Although labor costs in the Western Balkans do not seem to be out of line with comparator countries, official statistics indicate that they have been rising quite rapidly. In Albania, published wage data refer to public sector wages, and they appear to be around 25% higher than official estimates of economy-wide wages. Labor tax wedges are high because of high social insurance contribution rates. They are also not progressive, with relatively heavy burdens on low-wage workers and workers with dependents.

PIT (Personal Income Tax) rates have been generally lowered in recent years with the result that the region has the lowest rates in Europe. Labor costs are much more heavily affected by social security contributions, which are among the highest. As a result, tax wedges are quite high. For a single person at the average wage level, the tax wedge is 29% in Albania; about 33% in the two BiH entities; and in the 39-42% range in the other three FYRs. A very significant feature of the labor tax regimes in these countries is the absence of deductions, credits, and wage-varying rates. The consequence is an absence of progressivity in the taxation of labor income.

Labor taxation systems seem to support the preservation of dual labor markets, instead of promoting integration and formalization. The taxation of labor at the lower and higher ends of the wage distribution has distortionary effects. By enforcing high entry costs (in terms of high minimum mandatory bases for SSC payments and modest or entirely missing zero tax brackets for PIT), the taxes discourage formalization of jobs for low-wage labor. Cross-country regressions yield a short-run labor demand elasticity of -0.21, indicating that a 10% increase in labor costs will result in a (short-run) decrease in employment of 2.1%.

Once the Western Balkan countries enter a more stable development path, the relatively high tax wedge levels will have a significant negative effect on labor demand in the formal sector, with already present high negative impact on demand for low-wage labor. This has a non-trivial impact on those sectors that employ low-wage labor and on low-skill workers themselves.

**Financing, lending to agricultural businesses.** Based on all the reports and statistics it is clear that the poorest part of the population lives in rural areas of Albania. The banking market in Albania holds over 90 % of all financial system assets, and loans to businesses and households amounting to 35 % of GDP. Banks have much scope for increasing bank lending. But we have to keep in mind credit growth has been sluggish in recent years despite the gradual fall in interest rates as a result of both a low demand for and a tighter supply of bank loans. Banks' willingness to lend was affected by the high proportion of NPLs.

Rural Credit Guarantee Fund funded by the EU, KfW and the Government of Albania. This fund over the years 2015-2017 has provided about 1,000 credits, worth over 3 million euros. This fund will cover EUR 5 million in addition of grants from the National Financial Support Scheme which is available to finance about 20 million euros. According to Minister Peleshi this guarantee fund is of particular importance, especially at this stage that is going through the agricultural sector, which is getting more and more attention from both the Albanian government and the various international bodies. Also, as per Mr. Peleshi: "Lending to the agricultural market is not so cheap if it is not supported, and there is not that there is a distinct expectation of banks for the agricultural sector at least so far. Today's attention has come back, but of course an incentive, a support from the instrument as a "guarantee fund", covers part of the risk. So, in short, this Guarantee Fund, which today is called successful because it has given over 1200 loans, makes banks more profitable and with more favorable terms and conditions. So less collateral and lower interest rates."

The main obstacles for rural development remain the uncertainties over property ownership, poor access to basic infrastructure, lack of government support and financing. According to EC Albania 2016 Report, the government has increased the level of national direct support and national investment schemes in agriculture and agro-processing, totaling EUR 14.7 million in 2016<sup>1</sup>. But, in this report there are identified some issues for lack of administrative capacities for financing the rural and agricultural businesses, in the areas of: coordination of EU integration work in the sector, including both project coordination and management, and legal analysis and approximation work; policy analysis and overall economic analysis, monitoring and evaluation; and advisory services.

Agricultural statistics are partially aligned with the EU acquis. Milk and dairy statistics are being collected by INSTAT based on monthly and annual surveys, in line with EU standards and final data of agricultural census conducted in October 2012 have not been published yet. The Farm Structure Survey has not been implemented. However, concerning organic farming, the provision of subsidies through direct schemes and training on organic production continued. The law on organic farming was adopted in October 2016. According to EC Albania 2016 Report, Albania should in particular: further strengthen the

capacity of the Albanian Investment Development Agency in providing services to investors and promoting funding opportunities for small and medium sized enterprises. Enterprise and industrial policy EU industrial policy strengthens competitiveness, facilitates structural change and encourages an enterprise-friendly environment that encourages small and medium-sized enterprises. Albania is moderately prepared in this area. Some progress was made, particularly by establishing a National Business Centre and aligning policies with the EU Small Business Act principles. In the coming year, the country should in particular further strengthen the capacity of the Albanian Investment Development Agency in providing services to investors and promoting funding opportunities for small and medium sized enterprises. Albania will continue to implement the 2014-2020 business and investment development strategy in order to facilitate the business environment.

Access to finance remains a key constraint for Albanian rural businesses, while some funding was provided by several foreign and national funds. No financing was provided through the government's innovation and women entrepreneurs funds. In all projects and engagements of many foreign and domestic institutions, their efforts to support agricultural businesses and rural employment have not been a viable success except those that have been based on the economist's idea from Bangladesh Muhamed Yunus. His philosophy was: "Finance the poor, so that they become entrepreneurs and become their own".

## 6. Economic Activity by Gender in Rural Areas of Albania

As per Commission Staff Working Document, Albania 2016 Report, there is a difference in the labor force participation of women and men with the rate for women around 18 percentage points lower than for men, highlighting large structural problems in the labor market. However, considering Albania as a developing country, we conclude that the gender gap in Albania has not been an issue even during centralized economic system. As expected, rural areas are tremendously involved in agriculture (Table 2). There is a perceptible lack of other economic activities thus the number of people engaged (formally or informally employed) in non-agricultural activities in rural areas is quite limited, which once again reinforces the idea of lack of economic diversification. The issue at hand is two-fold. On one hand, lack of diverse economic activity and economic opportunity limits the need for skill acquisition or skill diversification. On the other hand, lack of skill in the labor force limits economic activity, resulting in a classical coordination failure. Whereas rural areas are mainly directed towards agriculture, urban areas are mainly directed towards services and industry. Economic activity also shows gender differences and very limited participation of women in other activities besides agriculture. Lack of participation in paid employment and in activities that have higher pays such as industry, where women's participation is quite limited also has repercussions in terms of social security and old age pensions for women. In return, this puts them at higher risk of economic difficulties and dependency.

	AGRICULTURE + FISHING	INDUSTRY			SERVICES		Total Employment
	Agriculture	Manufacturing	Construction	Mining and quarrying & Electricity, Gas and Water supply	Market Services	Non-market Services	
<b>Total Albania</b>	529,573	71,509	92,612	20,563	231,932	170,222	1,116,410
Male	242,811	40,279	85,924	15,408	153,567	88,165	626,152
Female	286,761	31,230	6,688	5,155	78,365	82,057	490,257
<b>Total Urban</b>	37,587	54,624	58,182	12,942	176,002	135,554	474,892
Male	18,251	28,196	51,806	8,824	110,863	65,840	283,781
Female	19,336	26,428	6,377	4,118	65,139	69,714	191,111
<b>Total Rural</b>	491,986	16,885	34,429	7,620	55,930	34,668	641,518
Male	224,560	12,083	34,118	6,583	42,703	22,324	342,372
Female	267,426	4,802	312	1,037	13,226	12,344	299,146

Table 2: Economic Activity by Gender in Rural Areas. Source: INSTAT, 2012, LFS.

Furthermore, the labor force in rural areas heavily relies on farm work. The majority of workers in rural areas are farm worker. The number of non-farm workers is quite low in rural areas. This goes to show that economic activity lacks diversification in these areas and there is need for increased rural non-farm activities. Heavy reliance in farm work may also impede demand for education and human capital accumulation, which on the other hand may reinforce activities in farm work. As a result, the need for rural non-farm activity arises, both as a way of risk diversification and demand for different skills. Although male and female farm workers are quite comparable in number in the rural areas (224,639 male and 267,098 female), there is large difference between men and women in terms of non-farm labor in the rural areas (Figure

3). These differences are indicative of lack of economic opportunities for women (even more than for rural population in general), therefore continuously trapping them into unpaid labor. Consequently, they limit women's opportunities for advancement and channeling into paid labor as well as the potential of the labor force for the rural areas. Lack of economic opportunities of women in rural areas affects social and economic development.

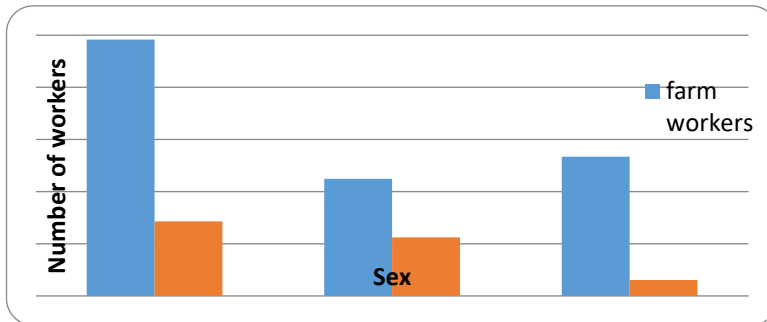


Figure 3: Farm/Non-farm workers by gender in rural areas. Source: INSTAT, 2012, LFS.

Youth has the most vulnerable position in the labor market not solely in Albania, but also elsewhere in the world. In the aftermath of the financial crisis, youth employment rate are quite low and unemployment rates are quite high in the European Union. Likewise, compared to other groups of the population, youth in Albania also have the highest unemployment rates, and lowest labor force participation and unemployment rates. On average, the number 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 and their pension amount is lower than in the urban pension scheme. The direct contributions by self-employed in agriculture cover only 18.7% of the rural pension fund.

## 7. Findings from the Interviews

Prior to territorial reform each municipality had 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/village council is the body that approves the list of people who benefit such titles.

The regional labor office has no administrative power over Local Government Units (LGUs) which operate under the organic law and employment does not fall within this law. However, each municipality in Albania 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. Opinions were collected using focus group discussion and interview checklist topics covering the following issues: 1) Views on the work prospects of young people in the rural communities; 2) Present day occupations; 3) Reliability of farming; 4) Policies and agriculture.

Many young Albanians would like to run away from their country. This is not because they don't love their country, but because they see no employment (and livelihood) perspective. The economic development of the country seems more as a residual rather than prosperous, despite many foreign experts and donors are trying over 25 past years to present a sustainable economic development model. Opinions gathered from focus groups varied to a great deal from the dominant activity of the community, the size of the population, migrating trends in the last 25 years, vicinity with markets, the agriculture land conditions (legal and physical), the importance of the crop planted by farmers, knowledge for managing the farm and so on.

*Farmers in Elbasan* presented the agriculture work as a second option for their young children whereas their education was highlighted as a priority. The vicinity of the University (in Elbasan) may satisfy this aspiration pronounced by parents and children at the same importance. The last 3-4 years farmers have seen a more intrinsic value of their agriculture produce

due to bigger investments, a more structured marketing offer, and some agricultural processing businesses established in the region. These developments have enlarged the role of agriculture in people's livelihoods and triggered their interest. This is doubled with the lack of employment opportunities in the region and the descending trend of seasonal migration to its neighbor countries or cities. However, people in Elbasan have traditionally shown a great interest in education and this trend continues to dominate the aspiration of parents.

*Farmers in* considered their children's education a way out of survival mode – living in rural Shkodër. This region has experienced massive migration movements towards EU countries and the trend is overlooking people's dreams. Shkodër has its university. Having the university close to their living place is a potential combination of gaining a degree (back up for escaping from the village and maybe the country) but also working and getting an interest in agriculture that similarly (but in smaller pace) to Elbasan was experiencing a rise in diversity, product quality and market offer.

*Farmers in Vlorë* (all women) were involved mainly with off land activities. This background shaped their opinion for their children aspiration – leaving the village at any cost. They expressed their inability in imposing their choice for children's future. In fact, youngsters of this region (Vlorë) behave more under peer pressure than family trend. Almost no one wants his child to have "only" one skill - though he/she would have better chances for employment. The one that can financially afford to send his children to college does so. Otherwise, the parent considers himself a failure, after leaving his child in poverty. The only losers are those who haven't got a university degree, despite the low value that it has. Often these are young people from rural areas or in general young people from the poorest groups.

Farmers in all visiting sites expressed their hesitation for formalizing their activities and especially their relationship with government agencies. Also, the Rural Labor Market Survey conducted, has exposed only 21% of the interviewed businesses would expect from the NES offices to supply qualified labor force. Consequently, citizens living in rural areas are deprived from this public service and find themselves disadvantaged in the labor market. The youngsters are most impacted group of this negligence as they often fall under no category, even of unemployed.

## 8. Conclusions

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.

a) Statistical references for informal employment should be clarified as per paragraph 8 of the 15th ICLS resolution which specified that, depending on national circumstances, either all own-account enterprises or else only those that are not registered under specific forms of national legislation including factories' acts, commercial acts, tax and social security laws, professional groups' regulatory acts, and similar acts, laws or regulations established by national legislative bodies should be considered informal<sup>1</sup>.

b) 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.

d) 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. Albanian public authorities 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.

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