The evasion of social insurance contributions in agricultural self-employed

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Summary

The undertaking of the study on contribution evasion in Social Insurance in self-employed persons in agricultural consists in finding the real reasons of why the self-employed in agricultural are not paying the contributions of the social insurance according to the Law No.7703 date 11.05.1993 on “Social Insurance in Albania Republic”. The frequent changes made to this Law gave a strong support to the self-employed in agriculture (5%) in comparison to the self-employed in urban areas. The new policy of contributions gathering aims the gradual growth of this contribution after the year 2000, diminishing the state financial support to the farmers contributions and intending to equalise the contribution level of the self-employed in agriculture with the level of the self-employed in urban areas. This means that the self-employed in agriculture can contribute at the same level as the self-employed in urban areas and consequently they shall be entitled to benefit the minimum state pension as soon as they retired. Through this study there are indicated the steps and deadlines of the gradual development of the above-mentioned process. The end of this process is supposed to be the year 2006. As the process intends to enhance participation in the scheme and cover all benefits under the scheme with contributions collected by the self-employed in agriculture.
**THE OBJECTIVES**

Through undertaking this study on the contributive evasion in social insurance from self-employed in agriculture we aim to find out:

⇒ The reasons why the self-employed in rural areas are not paying social insurance contributions.

⇒ To what extent the responsibility of citizens is developed to obey the rule of law.

⇒ How to motivate them for an active statement and a higher responsibility to resolve their social problems and escape from poverty.

⇒ The ways to strengthen the institutional capacities of Social Insurance Institute (SII) for an effective management of the resources.

Chapter 1. Why the evasion of social insurance contributions in agricultural self-employed is a problem?

1.1 Social insurance for agricultural self-employed

Rural social insurance scheme was established under the Act no. 4976, date 29.06.1972 “On pensions of the agricultural co-operative members”. According to the Provisions of this Act, ex-agricultural co-operative members shall be eligible to pensions and maternity benefits provided they meet certain requirements as concerns the insurance period. Both the pension and benefit amounts are determined on the basis of their monthly income. The qualifying condition for old age pension was 20 years of co-operative membership. There is a minimum and a maximum level of the pensions. This scheme becomes fully in force in 1974.

According to the Decision of the Council of Ministers no. 76, date 18.01.1993 “On the criteria set out for the calculation of the social insurance contribution of the private farmer”, the compulsory social insurance scheme covered also the self-employed in agriculture.

The pay-as-you-go social insurance system in Albania is introduced only in 1993, under the Act no. 7703, date 11.05.1993 “On Social Insurance in Albania Republic” and it is also covering the agriculture self-employed. The self-employed in rural areas are not paying any kind of taxes so far. That’s why the idea of finding out the ways to motivate them to pay social benefits may be considered as an innovative idea.

According to the Act no. 7703, date 11.05.1993, all pensions awarded under the Act no. 4976, date 29.06.1972 “On Pensions of Agricultural Co-operative Members” shall be
considered well awarded and shall not be subject to any change; they shall be only indexed. Also, there have been defined new criteria related to coverage of the rural self-employed, which could be summarised as follows:

a) if the insurance period in the state sector would be not less than half of the insurance period (35 years), persons shall be eligible to a pension equal to the state pension; in other cases the pension shall be determined according to the Act no. 4976, dated 29.06.1972 concerning Pensions of Agricultural Co-operative Members;

b) the employment period recognised as insurance period under the Act “On Pensions of Agricultural Co-operative Members” shall be recognised as such under the new Social Insurance Act as well;

c) the insurance period, during which contributions are paid after coming into force of this Act, shall be considered as periods of employment with the state”.

**Urban pension** is a monthly benefit, the minimum level of which is determined by the Council of Ministers. For the year 2000, the state pension amount is 4,400 leks.

Persons who have completed the minimum number of insurance years and less than half of this number is acquired through work in the ex-state enterprises, private firms or as self-employed, shall be eligible to a pension equal to the rural pension.

**Rural pension** is a monthly benefit, the minimum level of which is determined by the Council of Ministers. For the year 2000, the rural pension amount is 1,155 leks.

Under this Act, the self-employed in agriculture, aged 16 are liable to pay contributions up to the pension time, so that they can obtain an old age, disability, survivor pension and a maternity benefit. The contribution amount they shall pay is equal to that of the other self-employed, but the Council of Ministers is entitled to make exceptions and determine the contribution amount and criteria upon which the contributions are paid. Actually they do not pay the same contribution amount. The contribution amount depends on the economic level of the country’s regions. The most well off farmers, located in the coastal plains of the south, own more land, and cultivate wheat crops marketing some produce. The poorest farmers are in remote areas of the north, working very small plots and raising livestock. Because of this situation, farmers in remote areas shall pay 9% of a fixed annual income, or 972 leks per year, whereas the farmers of the other districts shall pay 15% of the fixed annual income, or 1,620 leks per year. This constitutes only 5 percent of the amount of contributions payed from urban self-employed. The difference of the contribution rate between the rural self-employed and the other ones is left to be yearly paid out of the state budget.

**Monthly minimal wages over which are calculated the contributions**

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<tr>
<td>Employer Employee</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1639</td>
<td>2560</td>
<td>3180</td>
<td>4100</td>
<td>4910</td>
<td>6040</td>
<td>6645</td>
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<tr>
<td>Self-employed Urban</td>
<td>-</td>
<td>1500</td>
<td>1500</td>
<td>1639</td>
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<td>Self-employed Rural</td>
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It was determined that contributions had to be payable three times a year: in April, at 10% of the annual amount of contribution; in August, at 30%; in November, at 60%. The payment of contributions is done through the following agencies: municipalities, communes, banking branches and agencies, and post-offices of TELECOM. Contributions are paid to the Social Insurance Institute account. For the performance of this new function, the previous staff of the Social Insurance Institute was completed with 300 employees. The decision foresees the extension of the social insurance scheme to only 400 thousands ex-co-operative members. Taking into account the new operations to be performed with the application of the rural compulsory scheme, the SII in collaboration with the chairmen of the communes designated inspectors for each commune. This was the first step to facilitate the inspectors’ job. It was followed by other measures. So, population of the rural areas was introduced to the new scheme. In most of the cases, the heads of the households were even asked to sign a document where they admitted to be informed about the establishment of this scheme. Also, the administrative staff at local level specially focused on the people who were or would be eligible for a benefit in the near future. The same way was followed to urge self-employed women, so that they could obtain the maternity benefit.

Implementation, especially of the rural social insurance scheme has not been smoothly going due to legal reasons such as acknowledgement of all employment periods, prior to the coming into force of the Act no. 7703, date 11.05.1993, Article no. 91, as insurance period valid for the new social insurance system, under the above-mentioned Act. There are no conditions under which these shall be reckoned for pension eligibility in the transition period.

Extension of the coverage of social insurance for self-employed in agriculture is of a special importance for Albanian conditions. The number of economically active population in rural areas is about 511 thousands from about 300 thousands persons in urban areas. But if in the urban (state and private sector) there are contributing about 275 thousands, from agricultural self-employed only 114 thousands persons are paying to the social insurance fund. Only 20% of the economically active rural self-employed are paying contributions. Under the Decision of the Council of Ministers no. 665, date 29.11.1995, the members of the households of self-employed in agriculture benefiting under the Act no. 7710, date 18.05.1993 “On Social Assistance and Welfare” are not liable to pay contributions.

Chapter 2. A general view of the situation in rural areas

Albania’s agriculture provides a livelihood for the majority of the population, around 60% out of a population of around 3.5 million. It has experienced dramatic changes since 1991, and further change is likely to mark sectoral development for years to come. Important progress has been made in terms of land reform, the privatization of former collective farms and agro-processing enterprises, and establishing a largely distortion-free incentive framework. As a result, private sector involvement in

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1 During the transforming processes of the country’s economy and privatisation, a great deal of attention was focused on agriculture and especially on land privatising that was approved under the Act no. 7501, date 19.07.1991 “On land” and state farms in conformity with the Decision of the Council of Ministers no.452, date 17.10.1992.
production, processing, marketing, and trade has increased considerably and continues to do so.

The agriculture sector has been main contributor to GDP over the past years, ranging between 55% and 65%, and has increased both, output and total factor productivity. Against the backdrop of recent unrest in Albania the relative importance of agriculture is likely to be increased markedly, in terms of its capacity to absorb shocks in overall economy, and as an income and employment safety net. The private agricultural sector—mainly subsistence farming—was the largest employer in the country. Preliminary estimates indicate that agricultural production grew by 3.7% in 1999, whereas overall economic activity grew by around 7.3%.

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<tr>
<td>GDP</td>
<td>-28.00</td>
<td>-7.20</td>
<td>9.60</td>
<td>8.30</td>
<td>13.30</td>
<td>9.10</td>
<td>-7.00</td>
<td>8.00</td>
<td>7.30</td>
</tr>
<tr>
<td>Agriculture</td>
<td>-17.40</td>
<td>18.50</td>
<td>10.40</td>
<td>8.30</td>
<td>13.20</td>
<td>3.00</td>
<td>1.00</td>
<td>5.00</td>
<td>3.70</td>
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The mode of privatisation in agriculture resulted in very fragmented and small land sizes (average 1.1 hectares). Very small family farms, as opposed to the state farms and cooperatives before transition now carry out farm production. Major shifts in production patterns have taken place since the radical changes earlier in the decade. All producer and consumer prices have been liberalised, and receive only moderate protection. A radical land distribution program, coupled with a rapid privatisation of previously collective farms assets, fundamentally changed the structure of the agriculture sector. Albanian farmers adapted quickly to the combination of opportunities and constraints created by economic transition. There has been a massive in forage based livestock production which more than compensated for the drop in crop and fruit production. Cereal needs sector now dominates production, agro-processing, marketing, and trade. Most farmers have adopted a subsistence approach to farming, with the aim of producing enough wheat for their own consumption and relying on livestock and/or vegetable to generate cash income.

Despite the fact that agricultural sector is expected to be further developed, handicraft, some other non-agricultural activities and emigration will remain important income resources for a part of the rural population. The number of rural-based Albanians working abroad in 1995 was estimated at around 170,000 and the number of families having at least one member abroad was about 24 percent of all rural Albanian families.

For another part of the rural population with difficulties in earning their living, movement from rural to urban areas will continue to be another possibility to improve the living

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2 Albanian Institute of Statistics
conditions. There has been a strong process of urbanisation over the recent years in Albania. This process, however, seems much faster, especially after the spring 1997 events. Clandestine houses build without authorisation, and slum areas around cities are growing fast. Unemployment and informal activities in towns are increasing. Some thousand families, which had received social assistance in their commune in the Northeast of the country now claim social assistance in Tirana, Durres and other attractive towns, where they are “unemployed” and in “need”. It seems wise to slow down the process through regionally targeted financial transfers and income support systems in favour of the communes of origin. Hence the current public investment emphasis on improving urban infrastructure is very much to the advantage of the agriculture sector, and may generate as much or more immediate benefit as direct investment in the agriculture sector itself.

Employment of the rural population is surely linked with the differences in opportunities for a rapid development between lowlands and highlands and even within the same region. Land transaction approved under the Act no. 7983, date 27.07.1995 “On the transaction of the agricultural land, meadows and pastures” will give an impulse to the movement of the population from rural to urban areas and from high lands to lowlands. This will create the opportunity to consolidate and enlarge farm holdings. This in turn will provide a more suitable resource base for the cost-effective use of modern technology, and the adoption of more profitable and productive farm-management systems. Albania’s agriculture base is very limited, with only 0.2 ha of arable land per capita (the lowest in Europe). The country’s land area is 27,400 km2 or 2.9 million hectares. Of this area only about 25 percent is arable land. An additional 15 percent is pastureland, while about 40 percent are forestland.

From the data available the employed persons in agriculture make up 60% of all of the employed persons. It is to be underlined that in this figure is included all the rural population at working age that has benefited under the Law “On Land”, although they might not have been utilising the land to obtain incomes. According to the data received from the Ministry of Agriculture and the survey on self-employed in agriculture, land relations seem to be unstable due to contradictions with the ex-owners, quality of land, insufficient land, etc. We come up with this idea, for some of the self-employed pretend to have insufficient incomes to meet the obligations stemming from the compulsory social insurance scheme.

Actually, the rural families are overpopulated. There is excessive labour force in the farms. This is due to the limited movement of the rural population to urban areas in the past 50 years, as well as insufficient land, which is surely the main means of agricultural activity. Labour market, which is confined within the farms, is usually seasonal and in most of the cases related with stock-farming. It is obvious that the families with larger pieces of land obtain sufficient incomes both from agriculture and stock-farming. The Albanian farm might be considered self-relying, because most of its production goes for consumption. Only a small part of it is processed and then taken to the market. Consequently, out-farm activities, employment in the public sector and social benefits are

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very important income resources, especially for the families with insufficient land.

Aged and disabled farmers receive income support:

a) under the old scheme for farmers’ cooperatives (transitional arrangement under the new scheme),
b) under the new social assistance arrangements (ndihma ekonomike),
c) under new arrangements if they have paid contributions - the number is not known, because the new scheme does not distinguish urban and rural population.

It is difficult to identify the money saved by the farmers exactly, for the vast majority prefers to keep the money at home rather than in the banks. However, considering the ratio of incomes to the average number of the farms, the annual income for each farm is assessed to be 205,088 leks. The farm’s expenditure is calculated to be approximately 145,200 leks/year are therefore saved by the farm. As the average number of the farm members is 5, the average annual savings amount is 12,000/capita. With such a savings amount, anyone from the self-employed people is able to meet the obligation to pay the current social insurance contribution annual amount which is, at its maximum 1,620 lek (with actual prices this sum is covered by selling 5 litre milk per month). In this context, it is very important to mention that farmers have not paid taxes so far, which means the taxes have been pardoned by the state. The only obligation to be met by them has been contributions under the compulsory social insurance.

Incomes under the social security system are also very important for the rural families. Pension is the main income for about 35% of the families with little portions of land. Thus, we have to think seriously about any change to be made to the rural social insurance scheme, especially under the conditions of the low rural pension amount that equals 1,155 leks. In fact, rural population is not so interested in the social insurance system due to the some important factors:

a) The benefit amount under the social insurance scheme is almost equal to the benefit amount provided by the state, (a person from the rural areas obtains means-tested social assistance benefit, called ndihma ekonomike);
b) The rural pensions have not been increased in the same proportion the urban pensions have. While at present the ratio is at 1:4, (1155 lek rural pension/ 4400 leke urban pension), before it was at 1:1.5;
c) Furthermore, if income is compared to the needs for consumption, (28.8 thousand leks/capita), it results that income is 2.5 times lower. That is why the liabilities towards the state institutions are met by solely 20% of the rural families.

A vast majority of rural population is poor. The reasons for this poverty lies in many factors such as, bad economic management for years in succession, small portion of the arable land per capita, small number of cattle, loss of the previous jobs both in public and co-operative sectors on the part of a great number of people, etc. On the basis of the data available poverty is more widely spread in rural areas, but it is deeper in urban ones. The number of the families drawing assistance allowances is bigger in communes than in municipalities, although the fund for the rural areas is smaller due to partial assistance that prevails here.
Chapter 3. Analysis of the developments on the compulsory insurance for agricultural self-employed

To judge on the efficiency of the rural compulsory scheme, it is necessary to address to the results achieved from 1993 until 1999. In 1994 the number of contributors increased, due to participation of the ex-state farms’ employees in the scheme, whereas contributions were doubled as a result of the wide application of insurance on family bases as well as the fines imposed for delayed payment. In 1999 there is an increase as the result of changes in law which give the opportunities the agricultural self-employed to pay contributions of the previous years without fines.

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<tr>
<th>Agricultural self-employed</th>
<th>Percentage/Total</th>
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<tr>
<td>Contributors according the age</td>
<td>1999</td>
</tr>
<tr>
<td>15-30 years</td>
<td>11%</td>
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<tr>
<td>30-40 years</td>
<td>21%</td>
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<tr>
<td>40-50 years</td>
<td>33%</td>
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<tr>
<td>50-60 years</td>
<td>34%</td>
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<tr>
<td>TOTAL</td>
<td>100%</td>
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Referring to statistics of 1999, it results that young insured people is increasing, from 11-15% of the total number of contributors; persons who are near the pension age eligible for pensions make up 30 % of the total; whereas persons who are eligible for acknowledgement of the previous insurance period take up 30%. It is to be underlined that the majority of the contributors are on the way to retirement. The rural self-employed are much more interested in the short-term benefits (sickness and maternity benefits). This occurs, because they find more convenient to get some benefits during the present period, which appears to be very hard for them. They are of the opinion they can not afford paying contributions for their future insurance.

Incomes from contributions by sectors

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<tr>
<td>Public</td>
<td>895</td>
<td>1385</td>
<td>1721</td>
<td>2900</td>
<td>5414</td>
<td>7613</td>
<td>10226</td>
<td>10086</td>
<td>12490</td>
<td>13395</td>
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<tr>
<td>Private</td>
<td>-</td>
<td>2</td>
<td>45</td>
<td>265</td>
<td>906</td>
<td>1551</td>
<td>2231</td>
<td>1985</td>
<td>2859</td>
<td>3419</td>
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<tr>
<td>Self-employed</td>
<td>100</td>
<td>46</td>
<td>-</td>
<td>36</td>
<td>77</td>
<td>81</td>
<td>70</td>
<td>55</td>
<td>93</td>
<td>740</td>
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<td>In agriculture</td>
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<tr>
<td>Voluntary Contributors</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>28</td>
<td>36</td>
<td>66</td>
<td>114</td>
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<tr>
<td>Others</td>
<td>7</td>
<td>7</td>
<td>-</td>
<td>6</td>
<td>10</td>
<td>29</td>
<td>80</td>
<td>50</td>
<td>251</td>
<td>440</td>
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Therefore, by participation of the rural population in the social insurance system, will be increased the incomes and consequently their social benefits, which actually are in low levels, near the poverty line. Most of the social assistance beneficiaries from agricultural self-employed families, which are under the poverty line, are elderly people. To raise the number of the insured self-employed, the Parliament approved the Act no. 665, date 29.11.1995, and later another Act no. 8392, dated 02.09.1998 to allow the insurance for the years to come, apart from insurance in the previous years. Aiming at achieving better results over 1995, agricultural self-employed was liable to pay only contributions for previous years, but not fines, till 30.06.2000. Because of this there are increased the incomes from agricultural self-employed in the year 1999. But if will compare the incomes with expenditure, there is a big difference. So, the state budget is subsidising social insurance fund to make possible delivering the social insurance benefits.

On the number of the contributors, incomes and expenditures of rural social insurance (in thousands)

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<tr>
<td>Number of contributors</td>
<td>40</td>
<td>42.3</td>
<td>43.8</td>
<td>32.5</td>
<td>26.7</td>
<td>39</td>
<td>114</td>
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<tr>
<td>Incomes from contributions (in leks)</td>
<td>36</td>
<td>77</td>
<td>81</td>
<td>70</td>
<td>54</td>
<td>92</td>
<td>740</td>
</tr>
<tr>
<td>Expenditures (leks)</td>
<td>900</td>
<td>1122</td>
<td>1201</td>
<td>1477</td>
<td>1301</td>
<td>1734</td>
<td>1963</td>
</tr>
<tr>
<td>The differences between Incomes and expenditures paid from the state</td>
<td>-844</td>
<td>-1045</td>
<td>-1120</td>
<td>-1407</td>
<td>-1447</td>
<td>-1642</td>
<td>-1223</td>
</tr>
<tr>
<td>Number of rural pensioners</td>
<td>157.2</td>
<td>156.2</td>
<td>161.1</td>
<td>165.9</td>
<td>169.3</td>
<td>174.2</td>
<td>177.2</td>
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</table>

From the above table, it results that for 1999 the income from contributions of 740 thousands leke of the self-employed in agriculture covered about 40% of the expenditure of 1,963 leks on benefits, such as maternity benefits and pensions. The dependency of the social insurance system from the state budget from 1993-1999 is increased considerably. The financial support from the state for agricultural self-employed has therefore been bigger than it was initially envisaged. This temporary political solution, aiming at supporting the farmers in the course of the transitional period, could not bring about the expected results relevant to an increase in the number of the insured persons. It was anticipated that under the conditions of a great variety of social problems, the establishment of the new scheme would make the individual much more active and responsible, which means less dependency from the state. Unfortunately, quite contrary to what has been expected, self-employed farmers have become more and more dependent and indifferent.

The social insurance system will have no chances to further develop and be self-financing, in the event that the rural scheme can not take steps forwards. Self-reliance is the fundamental principle upon which the compulsory scheme is set up. On the basis of the statistics, the following conclusions might be drawn: the number of pensions in the rural areas granted under the preceding legislation is growing and not declining.

Having in mind that the last co-operatives were set up as early as 1967, all the persons who in 1991 aged 38, have acquired the necessary insurance period to be eligible for either a full or a partial pension. In other words, all insured persons who were born prior to 1954 and have worked in ex-agricultural co-operatives are entitled to benefits.
Chapter 4. How do self-employed experience social insurance system?

Knowing the problems of the field could help in making the necessary legislative and administrative changes of the relevant schemes. Management of contributions collection is a difficult undertaking for the SII, because it lacks experience in this regard, exact statistics at national level and what is more important, there is no co-operation with other similar institutions. In the group of self-employed people is people working on their own account, either with their family members or not and employers. This is a general definition, which the new social insurance legislation is based upon. As a new category, they are running into a lot of difficulties and facing several unknown situations. The legal obligation to be insured under the social insurance system is one of them. With the view to drawing conclusions, which could enhance the SII activity, it is important to take into account some general opinions collected from the survey of the self-employed in some communes of Albania.

Considering the responses, it results that the majority of the questioned people had another income resource, besides the rural activity, such as another job, pension, social assistance benefit and emigration was the most important income resource. A fact that strikes one’s eyes is that the questioned people getting income from emigration belonged to the age-group 25-35 (young economically active people) and had either middle or high level of education. Also, middle and high-level educated self-employed were engaged in a second economic activity, which in most of the cases was performed out of the village. The low-level educated self-employed were mainly engaged in an agricultural activity.

The reform undertaken in Social Insurance Institute (SII) enabled the establishment of it as a public administrative body, with a separated budget from the state budget. It is headed by a three-partite Administrative Council. These transformation aims at making the participating subjects consider the scheme to be theirs, and, as such it should be supported as much as possible. In addition, we have to admit that there are no representatives from rural insured people, because they are not organised yet. This fact may influence in their lower awareness on the advantageous of social insurance and in their faithless in the social insurance. It becomes more evident, once you listen to responses of the type “The Social Insurance Institute (SII) is a state institution”, “It is the state that profits from the contributions”, etc.

When these social insurance systems were set up for the first time in Germany and Austria last century, they were based on a mutual solidarity situation in those countries. While in our country the contributory principle was introduced to the social insurance after 50 years under a centralised state system. That is why it is so hard for the people to get rid of the psychology that the state wants to profit at their contributions. It will take time to change the Albanian mentality and convince people that separation of the social insurance system from the state is indispensable. In some cases people agree with the idea
of separation of social insurance from the state, but lack of autonomy and self-action on
the part of the administrative structures at local level have an inverse impact.

Even though, after reorganisation of the SII administrative structures in the process of
decentralisation of the system administering, the regional directorates and local agencies
were empowered with new competencies, in practice not everything has been easily
going. Much attention should be focused on proactive functions, for instance contacts
with the clients, etc. All the advantages of the new social insurance system should be
made clear to the clients. There is not enough information especially for the group of
agricultural self-employed. It is precisely the lack of information that explains the
indifferent statements of the self-employed towards the social insurance scheme. Thus, it
is important to seek for adequate methods of public information, particularly for this
category of people.

About half of the questioned people were aware that the social insurance scheme is
compulsory. The other half thought that it was voluntary. Nearly all the questioned
people had another job, besides being self-employed. They considered contribution
payment compulsory, but it was not clear to them for which income they had to pay
contributions. The latter group had obtained the information on the SII through TV and
newspapers, which seem to be the most believable sources of information. The people
responding that the schemes were voluntary pertained mainly to the category of people
whose only income resource was their activity as self-employed. During direct talks with
contributions' inspectors, it was even noted that they were not still conscious of the new
social role assigned to them under the conditions of the new social insurance scheme. The
new role as a social worker is connected with introduction of the principles of the new
scheme to the clients and collection of their suggestions and opinions as regards problems
emerging in the process of the implementation of the relevant legislation.

In addition, in the response to the question about taxation, contributions and other
liabilities, most of the questioned people made present their opinion according to which
taxes and contributions represented a hard burden to be carried by their extremely weak
shoulders. This fact represents a significant reason for not paying contributions. Another
reason is lack of faith in the social insurance system, no matter that the Act clearly
stipulates: the state budget shall be liable to cover the expenditure of the rural social
insurance scheme. This is due to lack of information on functioning of the social
insurance system and state’s liability to cover the rural scheme costs. No matter how
much the state contributes to the scheme, the contributing subjects still pretend to have a
reduction of the contribution amount. Moreover, the beneficiaries expect to be granted
higher benefits. One point is to be made clear to all interested groups: the more subjects
enter the scheme, the lower the contribution amount will be and the higher the benefit
amount will be. The SII has to focus on the low rural pension amount. The contribution
amount does not depend upon the land quantity, or other assets, but on the individual
contributions. Minimum living standard will be taken into account while designing the
minimum pensions. The Minister of Labour and Social Affairs has legally the right to
declare official minimum living standard in the country, which till now is not declared.
Chapter 5. Alternatives for the future development of the rural social insurance

First alternative

A further implementation of the compulsory scheme for the rural self-employed according the existing legislation framework. This alternative is based on the government program, which aims at a wider participation of the farmers in social insurance. Also, this conclusion is drawn after the analyses of the following indicators.

Tendency of urban employment will be prevailing among youngsters. Bearing this fact in mind, it might be concluded that about 25% of the ex-agricultural co-operative members, who have reached the pension age, as a requirement to be entitled to a minimum pension under the actual social insurance Act, will be employed in different enterprises and consequently acquire some insurance periods upon the contributions he/she will pay. Thus, they will be eligible for a state pension. The number of these people is calculated to be about 32,000 persons.

From the economic point of view of the interests of the citizens is seen the indifference of farmers to the compulsory social insurance scheme. Farmers that pay contributions are treated differently from other persons, receiving the higher amount of the benefits, according their contributions. Thus, the pension amount constitutes in two parts, a basic pension and a supplement based on the contributions. The farmer who have “accumulated” rights received a pension under the old legislation, which is evidently lower in amount and not comparable to the new pension amount of a farmer who actually is contributing to the insurance system. These are the ones who in a future time will receive the same pension like the urban self-employed, as it was presented in the following table.

To incentive the agricultural self-employed to pay contributions, it was sanctioned by the Decision of the Council of Ministers this formulation:

“Rights acquired under the co-operative farmers’ scheme (1972) are preserved under the new scheme, provided the farmer
a) is insured under the Social Insurance Act on the date he/she claims pension and”

b) has contributed from the date of coming on the force of this Act, (01.01.1994)”.

There will be no newly awarded pensions under the old system for the farmers. So, farmers that do not pay contributions will lose this privilege of conserving acquired rights. If they meet the means-tested criteria, they will have to obtain support under the scheme of social assistance (ndihma ekonomike).
The evasion of social insurance contributions in agricultural self-employed.

The advantages of a further implementation of the compulsory scheme for the rural self-employed are as follows:

1. It takes into account the right of every Albanian citizen for social protection.
2. It retains the positive aspects of the inherited social insurance system.
3. It maintains 60% of the active population in rural areas under the compulsory scheme.
4. It is a legislative support of the financing of actual benefits and index of rural pensions.
5. It reduces the economic assistance cost for persons incapable to work due to either old age (over 55-60 years old), or disability. The rural scheme implementation creates the impression of a voluntary scheme. Thus, legislation should clearly define the strong criteria the scheme to be a compulsory one and specially the criteria of changing a rural pension into a state pension.

The development of the compulsory insurance scheme for agricultural self-employed will have the following results:

Financing the rural scheme without taking in consideration the inflation

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of Beneficiaries</th>
<th>Annual amount of benefit</th>
<th>Annual supplement</th>
<th>Annual reduction</th>
<th>Net supplement</th>
<th>Annual expenses</th>
<th>Number of insured</th>
<th>Number of contributors</th>
<th>Annual contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>177,250</td>
<td>1,843,694</td>
<td>16,117</td>
<td>301,592</td>
<td>13,128</td>
<td>1,963,332</td>
<td>453,000</td>
<td>140,000</td>
<td>14,024</td>
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<td>17,048</td>
<td>331,444</td>
<td>174,123</td>
<td>3,373</td>
<td>2,260,614</td>
<td>453,000</td>
<td>190,000</td>
<td>11,889</td>
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<td>2001</td>
<td>1,843,694</td>
<td>17,747</td>
<td>359,185</td>
<td>159,234</td>
<td>3,373</td>
<td>199,961</td>
<td>453,000</td>
<td>200,000</td>
<td>12,159</td>
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<td>2002</td>
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<td>18,130</td>
<td>381,394</td>
<td>210,134</td>
<td>2,989</td>
<td>2,431,786</td>
<td>453,000</td>
<td>240,000</td>
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<tr>
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<td>18,473</td>
<td>402,553</td>
<td>212,840</td>
<td>3,095</td>
<td>2,621,789</td>
<td>453,000</td>
<td>215,000</td>
<td>12,194</td>
</tr>
<tr>
<td>2004</td>
<td>1,843,694</td>
<td>19,048</td>
<td>431,083</td>
<td>212,766</td>
<td>3,284</td>
<td>2,834,106</td>
<td>453,000</td>
<td>225,000</td>
<td>12,396</td>
</tr>
<tr>
<td>2005</td>
<td>1,843,694</td>
<td>20,130</td>
<td>471,622</td>
<td>225,395</td>
<td>4,042</td>
<td>3,082,542</td>
<td>453,000</td>
<td>235,000</td>
<td>11,116</td>
</tr>
<tr>
<td>2006</td>
<td>1,843,694</td>
<td>21,531</td>
<td>521,614</td>
<td>242,005</td>
<td>4,936</td>
<td>3,361,824</td>
<td>453,000</td>
<td>240,000</td>
<td>14,088</td>
</tr>
<tr>
<td>2007</td>
<td>1,843,694</td>
<td>22,892</td>
<td>572,840</td>
<td>251,517</td>
<td>4,745</td>
<td>3,663,204</td>
<td>453,000</td>
<td>252,000</td>
<td>14,816</td>
</tr>
<tr>
<td>2008</td>
<td>1,843,694</td>
<td>24,722</td>
<td>658,060</td>
<td>287,667</td>
<td>4,544</td>
<td>4,145,857</td>
<td>453,000</td>
<td>275,000</td>
<td>16,058</td>
</tr>
</tbody>
</table>

Financing the rural scheme taking in consideration the 10 percent inflation

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of Beneficiaries</th>
<th>Expenses, no-indexing</th>
<th>Expenses, with 10%-indexing</th>
<th>Number of Contributors</th>
<th>Annual contribution</th>
<th>Gradual development of contribution’s amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>180,298</td>
<td>1,963,332</td>
<td>2,159,665</td>
<td>140,000</td>
<td>15,426</td>
<td>1,270</td>
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<tr>
<td>2000</td>
<td>183,340</td>
<td>2,100,652</td>
<td>2,310,718</td>
<td>175,000</td>
<td>15,204</td>
<td>1,270</td>
</tr>
<tr>
<td>2001</td>
<td>186,713</td>
<td>2,260,614</td>
<td>2,486,679</td>
<td>215,000</td>
<td>15,088</td>
<td>1,270</td>
</tr>
<tr>
<td>2002</td>
<td>189,062</td>
<td>2,431,876</td>
<td>2,667,064</td>
<td>250,000</td>
<td>15,375</td>
<td>1,270</td>
</tr>
<tr>
<td>2003</td>
<td>192,777</td>
<td>2,621,789</td>
<td>2,883,968</td>
<td>215,000</td>
<td>15,414</td>
<td>1,270</td>
</tr>
<tr>
<td>2004</td>
<td>196,041</td>
<td>2,834,106</td>
<td>3,117,517</td>
<td>250,000</td>
<td>15,856</td>
<td>1,270</td>
</tr>
<tr>
<td>2005</td>
<td>200,053</td>
<td>3,082,332</td>
<td>3,390,565</td>
<td>250,000</td>
<td>14,428</td>
<td>1,270</td>
</tr>
<tr>
<td>2006</td>
<td>204,119</td>
<td>3,361,882</td>
<td>3,698,070</td>
<td>240,000</td>
<td>15,409</td>
<td>1,270</td>
</tr>
<tr>
<td>2007</td>
<td>208,864</td>
<td>3,683,204</td>
<td>4,051,525</td>
<td>252,000</td>
<td>16,077</td>
<td>1,270</td>
</tr>
<tr>
<td>2008</td>
<td>213,770</td>
<td>4,037,464</td>
<td>4,441,211</td>
<td>265,000</td>
<td>16,759</td>
<td>1,270</td>
</tr>
<tr>
<td>2009</td>
<td>218,314</td>
<td>4,415,857</td>
<td>4,857,443</td>
<td>275,000</td>
<td>17,663</td>
<td>1,270</td>
</tr>
</tbody>
</table>
Second Alternative

If this arrangement does not work, nothing is spoiled; there is always time to make the system voluntary. A voluntary insurance alternative scheme for the agricultural self-employed could create these possibilities.

- Sets up a new legal basis to insure the rights of a considerable number of citizens; the “acquire rights” will extinguish gradually till the year 2024. Thus, the state has to cover the costs of some ten billion leks.
- Puts the citizens into an active position for resolving their own problems, decreasing their dependency on the state. But a voluntary scheme would destroy the principle of solidarity of the generations.
- Contributive financing of the state budget to the rural self-employed account is calculated to be about on billion leks per year. In the future it will be a burden for the state budget to insure self-employed in agriculture each year, providing the same benefit amount as that given to the other self-employed. In the case of a voluntary scheme, the state would not contribute to increase the insurance period for the self-employed in agriculture.
- Reduces the actual administrative cost of Social Insurance Institute, to nearly 60 million leks per year. Reduces its general dependence on the state budget.

The new self-employed in agriculture might pay the same contribution amount as the other self-employed. Consequently, in the coming years they shall be entitled to a state pension. The other persons with an employment period in the co-operatives or state farms less than 19 years shall be staged according to procedures and criteria clearly determined in the voluntary scheme.

From the legal point of view, the Parliament was given the right to draw a new legislative framework for social insurance of the self-employed in agriculture. Under current circumstances we propose a law in which is going to clearly define the criteria upon which, the acquired rights will be preserved, (some transitional amendments for a period till the year 2025) they will be transferred into the new voluntary system. This new legislation will be associated also with appropriate administrative structures to implement it.

If we see the problem from the viewpoint of the economic interest of the citizens, a voluntary social insurance scheme will preserve their right to take the benefits. If we see the problem from the viewpoint of the economic interest of the state, we can say that actually the Government pays the cost of the program for farmers anyway. The payment of the contribution from the state on behalf of the self-employed in agriculture will be transferred to the budget of the social assistance (Ndihma ekonomika). So, the means testing would be applied and the money will be targeted to the poor farmers. The rich farmers in the lowlands will no longer receive subsidy from the state and the unfair transfers will be ended.
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