

**EMPLOYMENT SECTOR
2002/8**

*Working Paper on
the Informal Economy*

**Federation of Trade Unions
of Macedonia**

CCM

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Employment Sector
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Foreword

This report is the first of a series of papers that were commissioned under the auspices of the ILO Inter-Sectoral Task Force on the Informal Economy in preparation for the general discussion on the informal economy at the 90th International Labour Conference (ILC) in Geneva in June 2002. The papers in this series include studies of regional trends, selected country level studies and thematic investigations at the global level. Most of them seek to identify new trends and patterns that have emerged over the last several years and to go into more depth regarding the factors underlying the continuing growth of the informal economy, not only in developing countries, but also in advanced countries and countries undergoing transition. Particular attention has been paid to the impact of globalization, liberalization, privatisation, migration, industrial reorganization and macro-economic policies prompting these trends.

The present paper, “Federation of Trade Unions of Macedonia and the Informal Sector”, has been prepared by Liljana Jankulovska, Federation of Trade Unions of Macedonia. Originally prepared for a sub-regional meeting of trade unions, the ILO arranged for translation of the paper into English. The objective was to understand how the trade union movement perceived the employment situation, particularly in some of the poorest of the newly independent countries, and how they proposed to address the situation. The paper highlights the close relationship between high levels of unemployment and the emergence of an informal sector which includes both legal and illegal activities. Nearly three fourths of those unemployed are under the age of 40 years, and unemployment levels are considerably higher among ethnic minorities than ethnic Macedonians. The paper calls for a tripartite debate on unemployment and the informal sector and the development of a national employment programme.

The reader will observe that nearly all of the papers in this series attempt to tackle the problem of conceptualising the informal sector. The development of a conceptual framework for the International Labour Conference report was carried out at the same time as the production and finalization of the papers included in this series. As such it was not possible to agree in advance upon a single concept for use by the authors of these papers.

This paper was prepared under the supervision of Andrea Singh, International Focus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED). It has been funded under the IFP/SEED Programme.

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1. Introduction

Unemployment is a common phenomenon in all the Central and Eastern European countries in transition. The Republic of Macedonia (Macedonia) is no exception, having the highest unemployment rate among countries in this region.

The informal sector is an increasingly present reality in this region. Other expressions describing the informal sector include “informal economy” and “shadow economy”. The term itself - informal sector - first appeared in the 1970s and has since been increasingly in use. Now the informal sector has become an integral part of each developing country in transition.

The following material (1) addresses the issue of unemployment and the informal sector, which is a very complex problem, and (2) presents an overall picture of the situation in Macedonia, from the informal workers’ point of view, as well as the situation in some other countries in transition. This paper represents an attempt to speak out about unemployment and the informal sector as the most pressing problem in Macedonia.

Macedonia is a country in transition, where, over a long period of time, major social and economic changes and reforms in many different and significant fields have taken place. In addition, Macedonia has the highest unemployment rate in Europe. Unemployment has long been a painstaking problem in Macedonia. Unfortunately, the country still hasn’t adopted a national programme or strategy for alleviating this problem, nor has it started tackling the problems that the informal sector brings with it.

The problems of unemployment and the emergence of the informal sector are directly related. Statistical indicators provide the best starting point in attempting to analyze these problems. The following sources of statistical data provide the basis for this analysis: (1) the Bureau of Payment Operations, (2) the National Employment Bureau, and (3) 1996 to 2000 work force surveys from the Bureau of Statistics for Macedonia. The aim of this research is to collect data concerning the size, structure, and features of the work force in Macedonia, according to international standards.

2. Employment

The situation of workers in Macedonia can be considered and analyzed on the basis of many sources. However, based on the above administrative sources and the work force surveys, the situation is as follows:

1996		1997		1998		1999		2000	
ad.sou*	wfs**	ad.sou	wfs	ad.sou	wfs	ad.sou	wfs	ad.sou	wfs
348984	537591	331525	512301	315525	539762	313647	554222	311717	549846

* administrative source: National Employment Bureau

** Work force survey.

Based on data provided by the National Employment Bureau, employment has continually decreased, reaching a total of 311,770 employees in 2000. Alternatively, the data based on the work force surveys from the Bureau of Statistics, show that in 2000, total employees in the country numbered 549,846, with 493,264 on unlimited-term job contracts and 56,582 on fixed-term job contracts.

Obviously, the conclusion drawn from these different sources varies depending on which data is analyzed. Based on the administrative data, employment in the country has declined annually, while the work force survey data note an increase of the number of working people. However, according to the work force survey data, a person who worked for only a few days prior to the survey is considered employed. Hence, 240,000 workers are considered employed in Macedonia, but their employment is not based on law or collective agreement. These employees are hence treated as employees of the informal sector, which, unfortunately, has been growing from year to year.

As a means of comparison, in 1990 there were a total of 470,000 employees in the economic sector. In 2000, that figure halved and, at present, amounts to a little over 220,000 employees. The year 1990 marks the onset of the transition, and as a result of enterprise restructuring, the declining trend set in in the number of workers in the economic sector.

According to the structure of employees in the economic and non-economic sectors, the situation is as follows:

a) Economic sector

1996		1997		1998		1999		2000	
ad.sou	wfs								
263618	436323	247411	409625	230980	435141	226581	440341	224300	443446

b) Non-economic sector

1996		1997		1998		1999		2000	
ad.sou	wfs								
85,366	101267	84,114	102675	84,545	103916	87,066	103948	87,417	106400

In order to present a more comprehensive overall picture of the work force in Macedonia, according to the survey, as of 2000 the situation, broken down into employment categories, was as follows:

– Industry and mining	148,633
– Agriculture and fishing	116,451
– Forestry	30,520
– Water supply	20,721
– Construction	35,712
– Transportation and communications	27,486
– Trade	52,992
– Catering and tourism	15,740
– Crafts and individual services	13,877
– Housing, utilities, and decoration of space and neighbourhoods	10,627
– Financial, technical and business services	15,677
– Education, science, culture and information	40,312
– Health and social care	31,712

- State authority and local self-management bodies, political parties, social organizations and associations 32,508
- Other 1,868

Of the total employees (549,846), 510,140 employees worked full-time, while 39,706 employees were on half-time contracts, according to work force survey data.

The Bureau of Payment Operations serves as a third source of data for the number of employees in the country. According to this data, employment in Macedonia from 1996 to 1999 was as follows:

1996	1997	1998	1999
414,838	400,484	404,488	428,460

These data are deduced on the basis of the salary that workers receive. From the above data, we see that there are three existing sources of data concerning the number of people who work in the country.

According to ethnic background, the employment situation as presented in the work force survey of 2000 is as follows: Macedonians – 83.5%; Albanians – 9.8%; Vlachs – 0.3%; Roma – 0.7%; Turks – 2.3%; Serbs – 1.3%; and others – 2.1%.

3. Unemployment

Unemployment in Macedonia is characterized by continuous growth from year to year. The following table provides a longitudinal picture of unemployment rates according to the administrative data and the work force surveys.

1996		1997		1998		1999		2000	
ad.sou	wfs								
38.0	31.9	40.6	36.0	44.0	34.5	48.9	34.2	43.0	32.2

According to the latest Employment Bureau data, in December 2000, a total of 366,221 people in the country were registered as unemployed. Of this number, 163,581 were women (44.7%), while 202,630 (55.3%) were men.

An analysis of the age structure of the unemployed, according to the data of the Employment Bureau for 2000, shows the following results:

- Younger than 30 years of age 45%
- Between 30 and 40 years of age 27%
- Between 40 and 50 years of age 17%
- More than 50 years of age 11%.

Given this age structure of the unemployed, over two thirds (72%) of the registered unemployed are younger than 40. This indicates that the most productive and creative

population capable of working is, unfortunately, largely unemployed. Another distressing fact is the increased period of seeking work. For instance, in 2000, 59.4% of the unemployed had been looking for work for more than 4 years, a terrifying statistic that speaks volumes about the seriously difficult position Macedonia is in regarding its economic position and employment possibilities.

According to qualification and education levels, the structure of the unemployed is as follows:

– Unqualified	47.7
– Semi-qualified and elementary school	4.8
– Qualified and highly qualified	18.7
– Secondary school education	23.4
– High education	2.0
– Higher education	3.4.

If we analyze the education and qualification levels of the unemployed in the country according to the Employment Bureau data, we note an increase of the unqualified and a drop in the semi-qualified and those with elementary school education.

According to a national ethnic breakdown of the unemployed, in 2000 most registered unemployed people were Macedonians (68%), followed by Albanians (20%), Turks (4%), Roma (4%), Serbs (1%), and others (3%).

4. The Informal Sector

In order to analyze the informal sector, it is helpful to determine the following: What is the informal sector? What are the reasons for its emergence? What are the areas and forms in which it appears? What rights do workers have in this sector, including the problems they encounter? Finally, what is the unions' attitude towards this sector? These are the issues that need to be scrutinized and answered.

4.1 The informal sector and black employment

Speaking about the “shadow” economy suggests a range of economic activities contrary to existing relevant legal provisions. The principal goal of such an economy is evasion of taxation and labour legislation in order to maximize profits. However, if we consider this notion in wider terms, illegal acts such as drug smuggling, illegal financial transactions, smuggling, and prostitution, among others, although not integrally part of the shadow economy, have an indisputable influence in undermining the existing legal regulations.

The International Labour Organization defines the informal sector in the following terms:

The urban informal sector can be characterized as a range of economic units in urban areas mainly owned or managed by individuals, mostly alone or with a household member, employing one or several people on continuing base, as supplement to unpaid family workers or irregular (temporarily) employed. Usually these are small business units, with a low organizational level, with a small or insignificant division between labour and capital. They

are mostly present in the production and distribution of products and services with the main goal of increasing employment and the income of the people working with them.

According to ILO data, around 300 million workers are employed in the informal sector in the developing countries. Such a figure cannot by any means be disregarded.

Black employment most often assumes work that a person does for an employer without any legal permissible basis or compliance with the law. If the main reasons for black employment are the inability to find formal employment, poverty, low family income and low salaries, then the basic motif for creating such unregistered work is providing better income necessary for existence.

There are many institutional, economic and political elements which determine the difference between workers engaged in the informal sector and those in the formal sector in terms of taxation and working regulations, employment status, social protection, productivity, and special needs and problems. The informal sector includes unorganized and unpaid workers engaged in uncertain and often suspicious businesses that are often unregulated or outside state control. In Macedonia, according to the Federation of Trade Unions of Macedonia, the number of workers in the informal sector who have been working for months or years without a job contract is higher than 150,000.

4.2. What are the reasons for the emergence of the informal sector?

Without intending to analyze or provide a comprehensive list of all the reasons that have led to the emergence of the expanding informal sector, the following list provides some of the reasons:

- Economic problems connected to economic growth;
- Transition and implementation of the market economy;
- Privatization;
- Increasing unemployment;
- Implementation of reforms;
- Incomplete enforcement of laws and inefficient application of labour legislation;
- Desire for higher profits by enterprise owners;
- Creation of competition through non-payment of taxes and contributions;
- Poverty;
- Low and late payment of salaries; and
- Bankruptcies and redundancies.

It would take a separate analysis to determine which and how these reasons influence the emergence and growth of the informal sector. The most important issues for the trade union are those factors which stimulate informal employment and thus the informal sector, including the influence of the living standard on the population, poverty, unemployment, loss of workplaces, and low and irregular salaries.

In the course of the transformation process, dynamic changes in Macedonia are taking place in the structure of income and expenditures of the population. Specifically, at the beginning of the transition, according to statistical data, in 1999 total household income was largely comprised of income from work (69.4%), but in 2000 this figure dropped to 55.5%.

As income from salaries dropped, the amount of social transfers increased from 11.5% in 1999 to 22% in 2000.

Most living expenditures (44.3%) in 1999 were earmarked for food, while the expenses for shoes and clothing, household equipment, and educational, cultural and leisure needs decreased. These indicators point to the conclusion that living standards are continually declining in Macedonia. As a result, the impoverishment of the population is spreading at the same time that poverty is deepening. Poverty in the State was 19% in 1997, 20.7% in 1998, 21% in 1999, and 22.3% in 2000. Hence, Macedonia has seen a sustained incremental growth in poverty for the last four years. The depth of poverty has also grown from 4.6% in 1997 to 5.7% in 1999 and 6.0% in 2000.

Poverty is deep-rooted and highest among the unemployed (32.6%), people younger than 40 (28.8%), and people between the ages of 40 and 59 (23.3%). Aside from the unemployed, the most vulnerable group are households with children younger than 10 years of age.

“The Social Discrepancy and Quality of Life in the Transition – 2000”, a study carried out by the Institute for Sociological, Political and Legal Research, concludes that 23.1% of the population in Macedonia does not have enough money for food, while 38.4% can afford to buy food but has difficulty buying shoes and clothing. In other words, 61.5% of the population in Macedonia is faced with basic problems of subsistence. Moreover, the expenses of food, clothing, equipment, school supplies, etc., additionally burden their minimal budgets. Only 1% of the population in the country can afford to buy almost anything it wants. Thus, the poor are getting poorer, while the middle class slides towards the poverty level, and a very small percentage is getting richer.

The informal sector exists as a source of income for many workers in other countries as well, especially in the countries in transition. It has become a source of income without which a portion of the population cannot survive. The participation of the informal economy in the nation’s GDP varies from country to country, depending on how developed it is economically. Thus, for example, in Great Britain the participation of the informal sector is 5%, Sweden 7%, Switzerland and Austria around 5%, Spain between 14 and 20%, Israel over 20%, Italy as high as 20%, Canada 10%, and the USA 25%. In Macedonia, the informal sector participation is officially between 33 and 37%, but according to some data, it is much higher, probably between 40 and 50%.

However high the percentage, it will not necessarily lead to economic growth, since that growth is based on small economic activities with low capital accumulation capacities, using outdated technologies and having low production levels. The informal sector alleviates unemployment, but does not offer many possibilities for new forms of productive employment.

The number of unemployed continually grows and, according to various estimates, in Macedonia the percentage ranges from 36 to 49%. This figure points to the difficulty of the situation and the extent to which increasing numbers of people are being pushed into the informal sector.

The following data about annual state/public employment should also be taken into consideration. In Macedonia, between 1961-1971, 7,600 people were employed annually.

Between 1971-1981, this figure rose to 12,000, while between 1981-1994, the annual increase of employment was only by 2,200 people.

The data above indicate that from 1981, the number of people employed in the public sector started decreasing in Macedonia. On the other hand, the supply of the work force in the labour market rises from year to year. Given the fact that the population is aging and the years spent in seeking employment have also increased, according to the findings of a study conducted by the Institute of Economy, the number of people capable of working will begin declining. The decreasing birth rate surely influences this, especially the low birth rate of ethnic Macedonians. Hence, the aging population, the prolonged waiting for employment and migratory trends, all in all, have and will continue to have an influence on the decreasing number of the working population, especially from 2010 onwards.

The payment of low and irregular salaries is also a problem that influences informal sector employment. Bearing in mind that a third of the workers in the country are paid late or not at all, and some 80,000 people are on welfare, then it should come as no surprise that these workers and welfare recipients are involved in the informal sector.

The loss of workplaces due to redundancies or bankruptcies is an additional reason for the growing informal economy. In 1994, with the first wave of redundancies and bankruptcies, some 25,000 workers were laid off. Each year since, a few thousand more have been made redundant or laid off due to bankruptcies.

In December 2000, 35,002 workers received contributions from the Employment Bureau, according to their data. Of this number, 7,542 workers were workers from bankrupt companies; 4,913 were redundant workers from the 25 failing companies who pay contributions until retirement; 1,214 workers were made redundant from 12 other failing companies; 19,899 workers were made redundant from other companies; and 1,395 workers were seasonal. By making a cross-section from the beginning of the year, we can conclude that the number of workers who received unemployment compensation paid by the Employment Bureau increased towards the end of the year: in January 2000, 33,017 workers were compensated and in December 2000, 35,002 workers.

5. Who works in the informal sector, through what forms does it appear, and where is it most present?

Most often workers in the informal sector are:

- Unemployed people;
- Workers who are made redundant;
- Bankruptcy workers;
- Employed workers with low or irregular income, or no income at all;
- Pensioners; or
- Students.

The forms of work in the informal sector are:

- Self-employment;
- Family businesses;

- Outside employers;
- Youth cooperatives;
- Diplomatic or consular offices, humanitarian or international organizations;
- Extra work outside the regular work time (house repairs, repairing electrical appliances, installations, house construction, bookkeeping, selling of goods, advisory services, babysitting, nursing for the elderly, etc.);
- Additional income from room rentals;
- Usury; and
- Work in the farming sector.

The informal economy most often emerges where work is seasonal, and workers have lower qualifications and are paid less. These fall primarily in trade, the textile and leather industry, catering, tourism, craftsmanship, local transportation, agriculture, servicing businesses, etc.

Recently, the informal sector has also started appearing through various forms in places where one does not typically expect to find it. Unfortunately, it has begun occurring in health care, at state ministries and other governmental bodies, and in public enterprises. Most often, “employment” of these workers is done through youth cooperatives.

In the transition process, especially through restructuring ownership of formerly state-owned companies, the private sector was expected to hire more unemployed people. However, the reverse has happened: instead of more employment, many of the workers were made redundant or declared bankruptcy workers, and those who weren't employed could not find work again.

According to the latest data on the structure of the unemployed, around 45% are younger than 30, who waste the best years of their lives seeking employment. Their only alternatives, therefore, are employment in the informal sector, immigration or poverty.

6. The informal sector and "rights" of workers

Bearing in mind that most informal employment is work done for an employer without any legal basis or legally permissible grounds, we can therefore determine that such work does not provide any legal protection for these workers.

Employers often do not register these workers, or do so, but soon after falsely report their departure from the company to the Employment Bureau. Very often workers are legally employed by signing a job contract, but also at the same time sign a termination of work statement, according to which the employer is entitled to fire them at his or her discretion. However, often the worker continues working with the same employer even after termination of the job contract.

Given the data at our disposal, workers' salaries in the informal sector most often range between MKD¹ 100 and 200, although on rare occasions it is somewhat higher - between MKD 300 and 400. There are no contributions or taxes paid from the salary, which is paid in cash or through a bank account when a worker is hired through a youth cooperative. Very often, workers receive their salary in goods. As for pension or health care benefits, informal

¹ One Macedonia denar (MKD) equaled 0.0150 US\$ in May 2002.

workers are not insured at all, and even during the time workers are legally registered, these contributions are paid at the lowest possible levels.

Almost as a rule, the working hours of informal workers are not fixed, most often between 10 and 14 hours. They usually work Sundays, while holiday leave is very often out of the question. Unfortunately, these workers are compelled to accept any behaviour from their employer since their very subsistence is at stake.

In some sectors, such as the textile industry, there are often job announcements seeking workers. However, often an insufficient number of workers apply for these jobs because they know that the salaries are not commensurate with the amount of work required. In these sectors, work hours are far higher than the legally permitted limit, and workers are without rights to holiday leave and under constant threat of being fired for the slightest offense.

But there are also workers in the informal sector whose profession is currently desirable (interpreters, computer scientists, other experts) who refuse to get a steady formal job because they make more money by working informally. These are, above all, young people who are able to acquire and use their knowledge and skills effectively, and very often plan for their future lives abroad.

7. The trade union and the informal sector

In discussing the role of the trade unions, the following question arises at the forefront: should the union tackle the issues of unemployment and the informal sector, i.e. the informal economy, and if so, how?

This question would have been easier to answer when Macedonia had less informal employment and when unemployment was around 10%. But now, when the official unemployment rate is 36% (48% according to the work force survey) and when economic growth is at a standstill, the union cannot stand aside from this phenomenon or from the unprotected workers.

The trade unions in Central and Southeast European countries perceive this problem in different ways, depending on the level of unemployment in the particular country.

Position of the Federation of Trade Unions of Macedonia regarding the informal sector

In view of the above data and according to the work force survey, we conclude that the informal sector not only exists, but is growing in Macedonia, with a tendency towards long term duration, starting, above all, from the economic situation in the country and the conditions for the persistence of the informal sector.

The position of the Federation of Trade Unions of Macedonia regarding unemployment and the informal sector is as follows:

? There must be a debate between social partners on unemployment and the informal sector, and on finding joint measures and activities for resolving the problems of unemployment and the informal sector.

Thereby, the Federation of Trade Unions of Macedonia proposes the following measures:

- In the Republic of Macedonia, in order to resolve the problems of unemployment and increasing “employment” in the informal sector, a national employment programme has to be urgently adopted;
- Informal employment has to be regulated in compliance with legal regulations;
- Legal possibilities must be created for recognition of today’s informal work as work experience, with the possibility that employers will pay informal workers’ contributions and taxes retroactively at an agreed-upon rate;
- Improved circumstances must be provided for the self-employed to alleviate the burden of paying taxes and making contributions; and
- Inspection controls must be more active in preventing and eradicating informal employment.

List of Employment Sector Papers on the Informal Economy*

"Decent Work in the Informal Economy: Abstracts of working papers".

1. "Globalization and the Informal Economy: How Global Trade and Investment Impact on the Working Poor", by Marilyn Carr and Martha Alter Chen.
2. "Supporting workers in the Informal Economy: A Policy Framework", by Martha Alter Chen, Renana Jhabvala and Frances Lund.
3. "International Labour Standards and the Informal Sector: Developments and Dilemmas", by Charlotta Schlyter.
4. "The informal sector in Asia from the decent work perspective", by Nurul Amin.
5. "Towards decent work in the informal sector: The case of Egypt", by Alia El Mahdi (available in electronic form only).
6. "Good practice study in Shanghai: Employment services for the informal economy", by Jude Howell.
7. "Decent work in the informal sector: CEE/CIS region", by Bettina Musiolek (available in electronic form only).
8. "Federation of trade unions of Macedonia", by Liljana Jankulovska (available in electronic form only).

* For electronic publications, please see the informal economy website: www.ilo.org/infeco