

# Diagnostic Report on undeclared work in Albania: Key findings

**Tackling Undeclared Work in Albania: Current Situation and the Way Forward**

**National Workshop**

**Date: 21 December 2018, Tirana**

Brunilda Kosta

University of Tirana, Albania

# Content

- Introduction
- Extent and nature of the undeclared economy & undeclared work in Albania
- Drivers of the undeclared work
- Organisation of the fight against undeclared work: institutional framework
- Current policy approach and measures: an evaluation

# Introduction


- **Purpose:** Analyze the extent and investigate the main determinants of the undeclared work and to provide appropriate and efficiently integrated policy frameworks and the associated policy guidelines to introduce incentives to enable the transition from undeclared to declared work.
  
- To achieve this, the **objectives** of these reports are to answer the following questions:
  - What is the extent and nature of undeclared economy/work?
  - Barriers to formalisation in Albania: Drivers of the undeclared work?
  - What are the institutional set-ups for tackling undeclared work?
  - What are the measures so far to tackle undeclared work?

# Extent and nature of the undeclared economy/work in Albania

# Extent of the undeclared economy

75 % - fiscal evasion is “very frequent”, 73 % - hide their real profits.

**ACER (1999)**



The Albanian undeclared economy as a share of gross value-added is 27.9 percent

**INSTAT (2002)**




The undeclared economy in Albania varies from 30 to 60 percent of GDP (electricity method, monetary method, national accounts method).

**Muco *et al.* (2004)**



Undeclared economy as a share of gross value-added at 26.6 percent in 2002 and 26.0 percent in 2001.

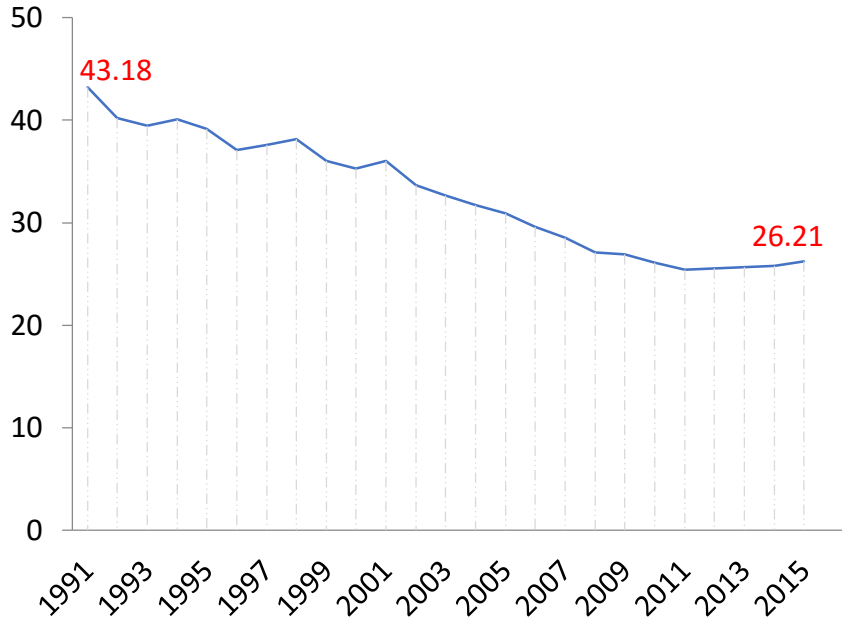
**OECD (2004)**



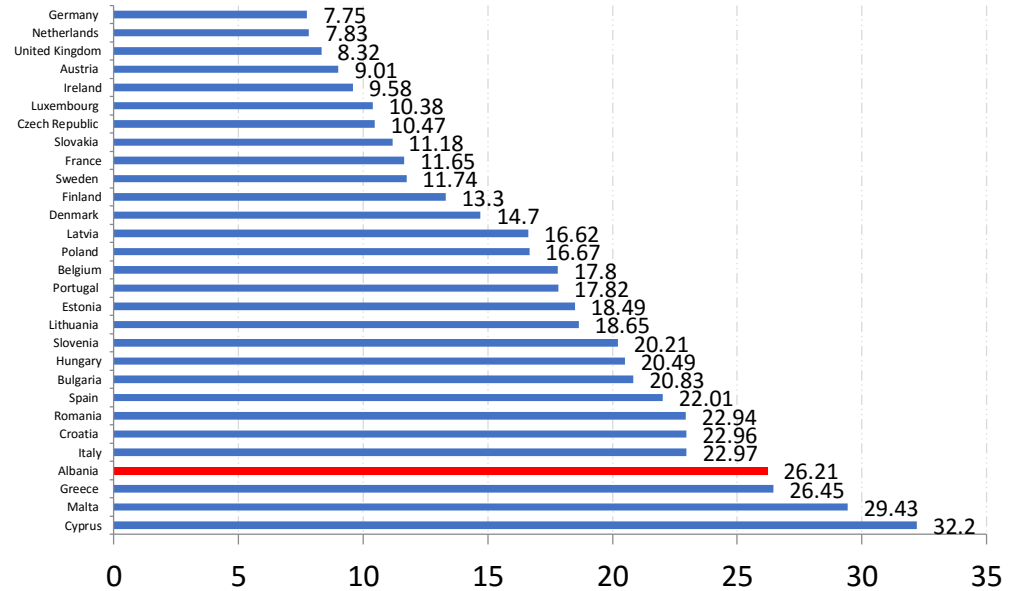
Average size of the undeclared economy (1996 – 2012) using (electricity consumption method): 37.1 % of GDP.

**Boka and Torluccio (2013)**

**Figure 1: Size of undeclared economy in Albania, 1991-2015, percent of official GDP**



**Figure 2: Size of undeclared economy in Albania versus EU 28 as percentage of GDP, using MIMIC approach, by country, 2015**



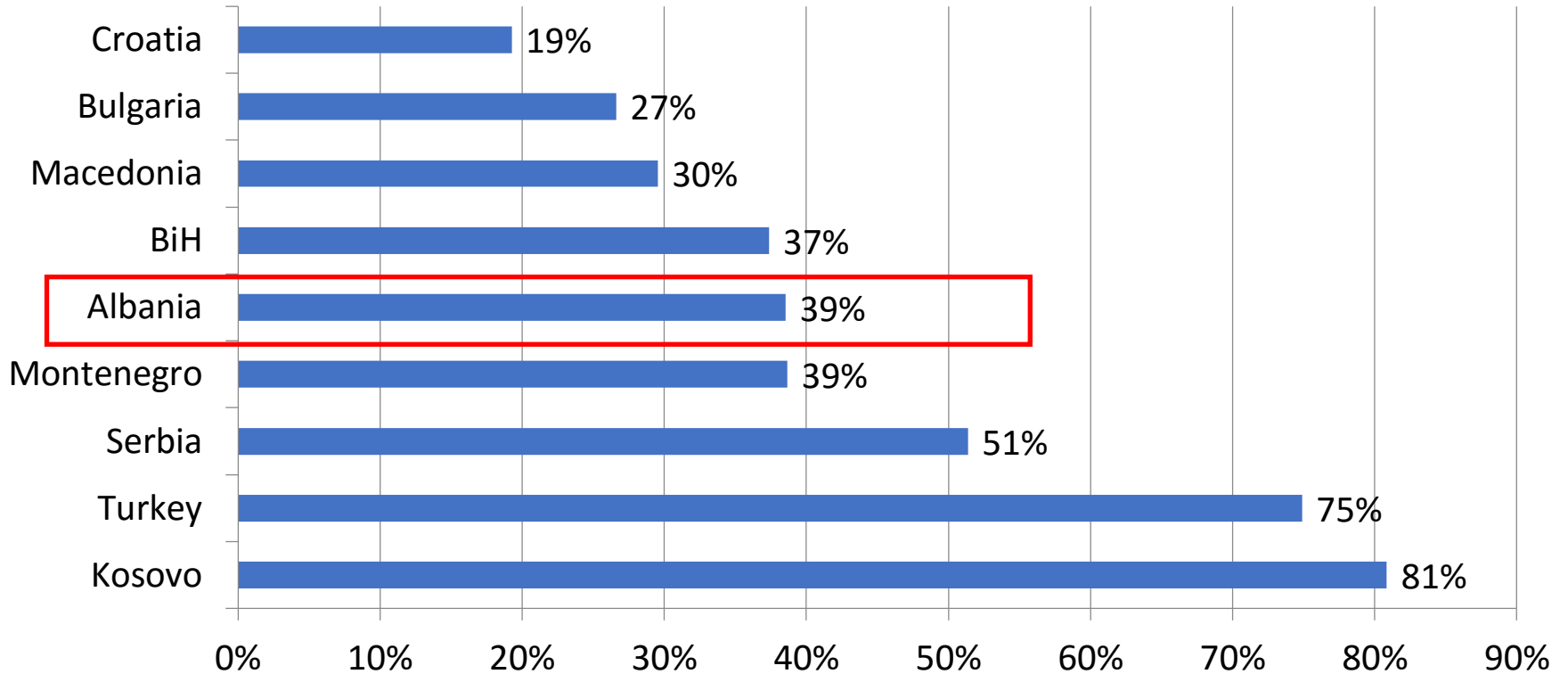
Source: Medina and Schneider (2018)

**Table 1: Prevalence and impacts of informal enterprises in Albania**

Indicator	Albania	Europe and Central Asia	All Countries Globally
<b>% of firms competing against unregistered or informal firms</b>	40.2	38.1	54
Direct exports are 10% or more of sales	16.3	31.3	47.3
Non-exporter	41.3	39.6	54.9
<b>% of firms identifying practices of competitors in the informal sector as a major constraint</b>	19.9	19.5	28.1
Direct exports are 10% or more of sales	7.8	16.5	22
Non-exporter	19.5	20.2	28.8

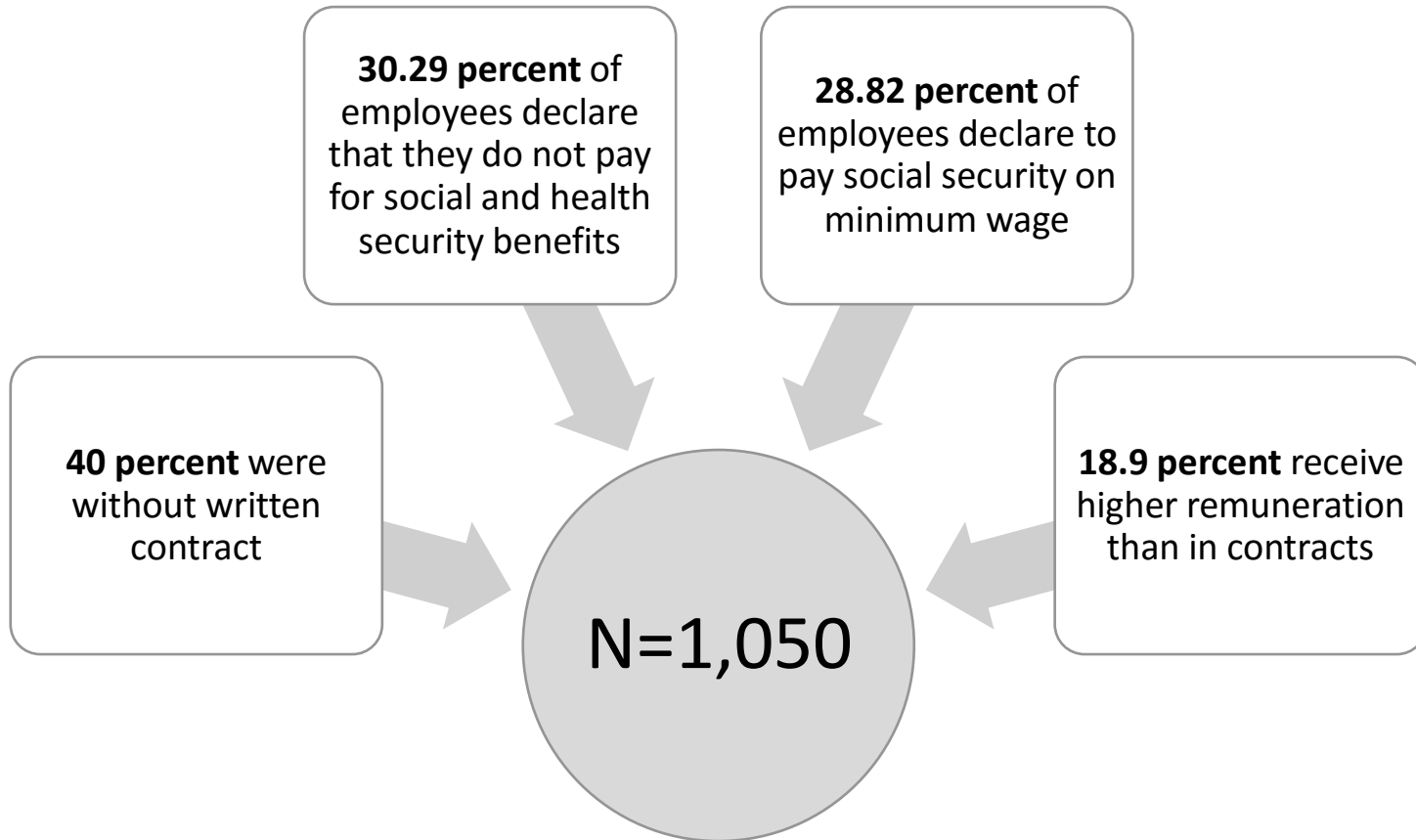
Source: World Bank Enterprise Survey 2013,  
<http://www.enterprisesurveys.org/data/exploreeconomies/2013/albania#informality>

**Figure 3: Extent of undeclared work**





**Figure 4: Patterns of undeclared work**



Source: SELDI/ACER, 2016

# Other figures on undeclared work

N=400  
business  
(ACER/NBF  
, 2015)

29 percent of their  
labour force is not  
reported

Envelope wages

7,958  
enterprises  
inspected  
(SLI, 2017)

706 employees  
were without  
security

1,575 employees  
were without any  
written contract

NSTAT  
(2017)

26.8 % of employed  
females and 15.1 % of  
employed males are  
contributing family  
workers.

The share of informal  
employment in the  
non-agricultural  
sector is 30.3 %,  
decreasing compared  
to 2016 by 1.6  
percentage points.

# Conclusion

Different stakeholders use different measures on the size of undeclared work using different methodologies.

Different measures employed and various conclusions on the determinants and nature of undeclared work put a question mark on the real situation in Albania and might cause the wrong approach from the government and social actors to tackling the undeclared work.

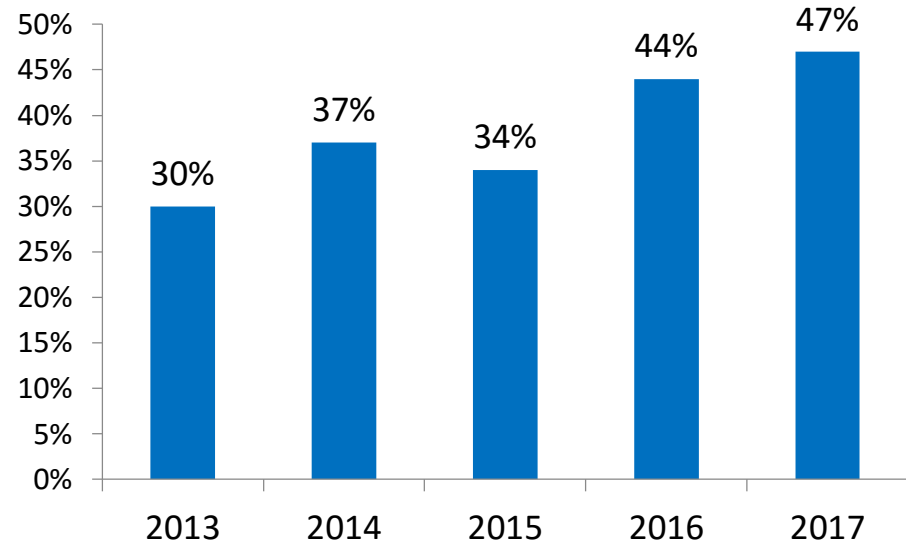
# Barriers to formalisation in Albania: Drivers of the undeclared work

# Drivers of undeclared work

Undeclared work is more extensive in those nations when there is:

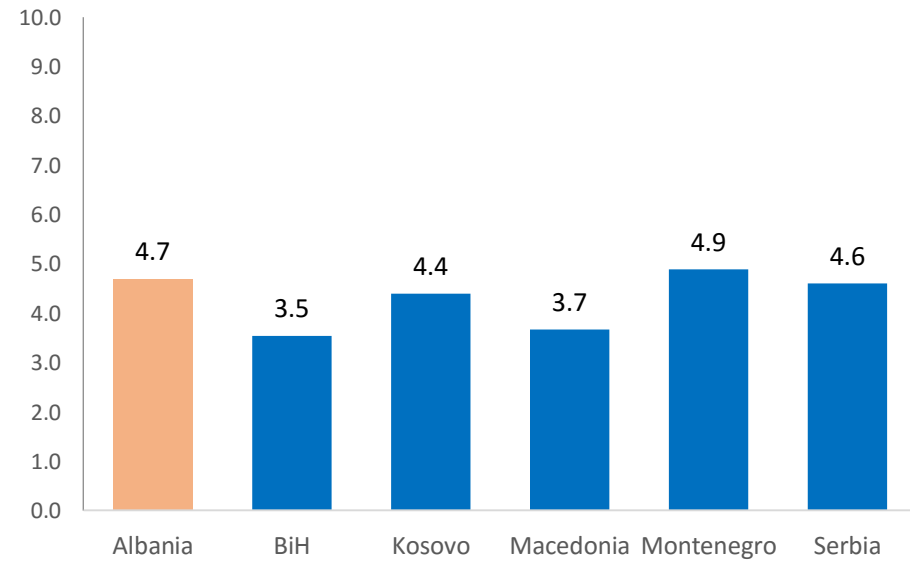
- Lower trust in state institutions;
- Lower GDP per capita;
- Higher public sector corruption and lower quality governance;
- Lower expenditure on labour market interventions to help the most vulnerable groups;
- lower social expenditure, and social transfer systems that are ineffective in reducing the level of inequality and severe material deprivation.

**Figure 5: Trust in Albanian government, 2013-2015**



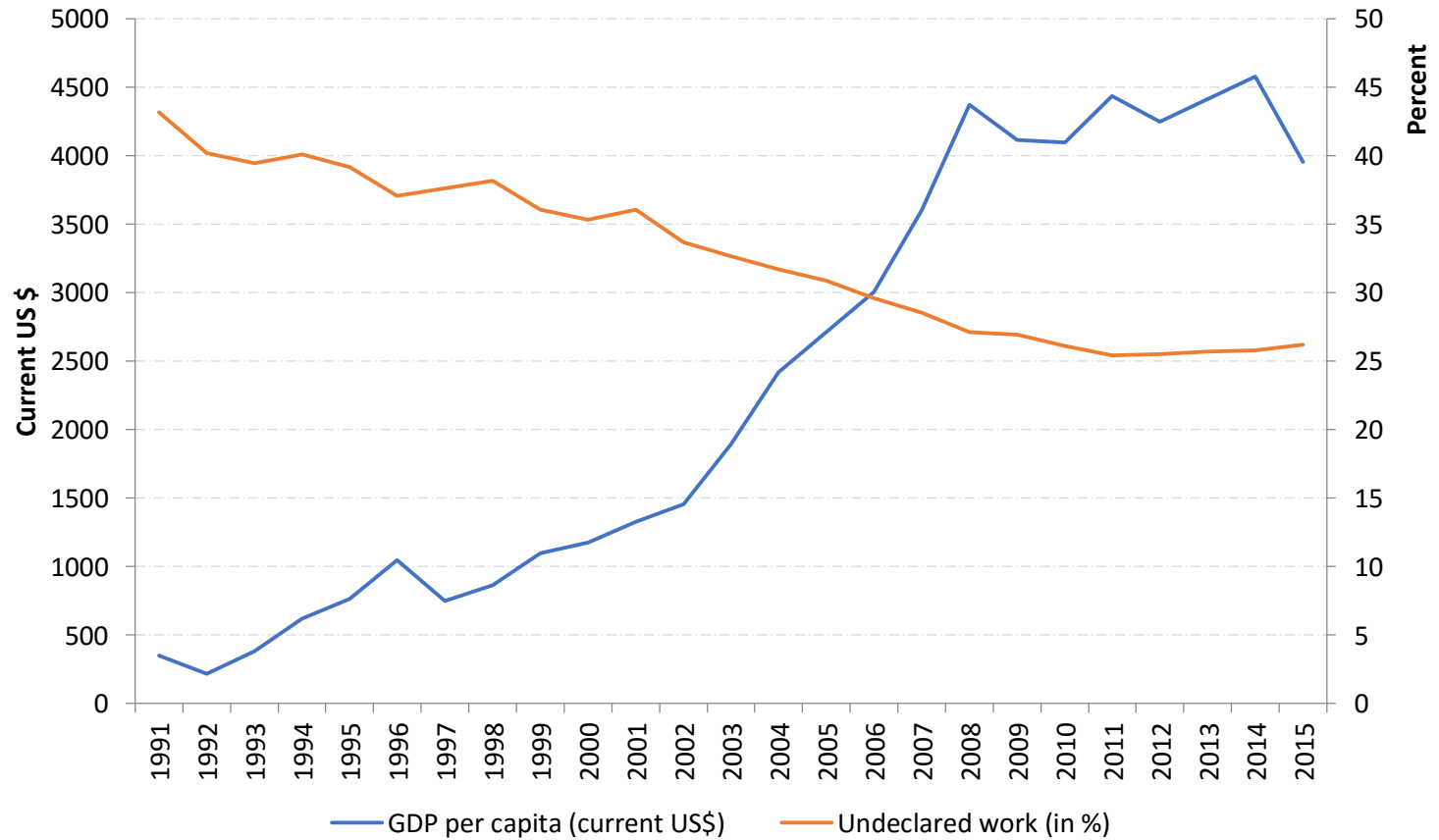
Source: IDM, 2013, 2014, 2015, 2016, 2017

**Figure 6: Trust in state institutions**



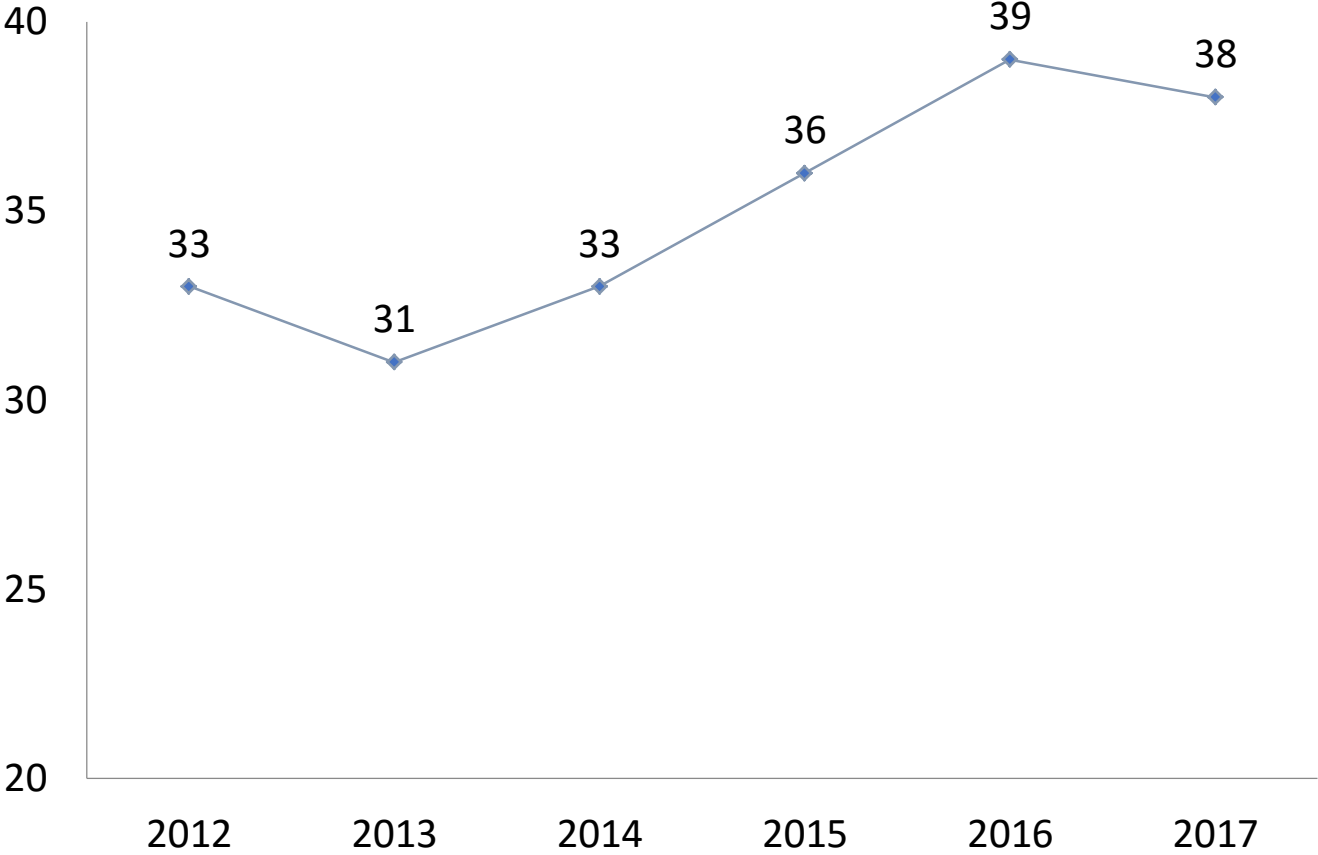
Source: INFORM, 2017

**Figure 7: GDP per capita in current US dollars and undeclared work measured using MIMIC estimation method**



Source: World Bank for the GDP per capita and Medina & Schneider for the level of undeclared work.

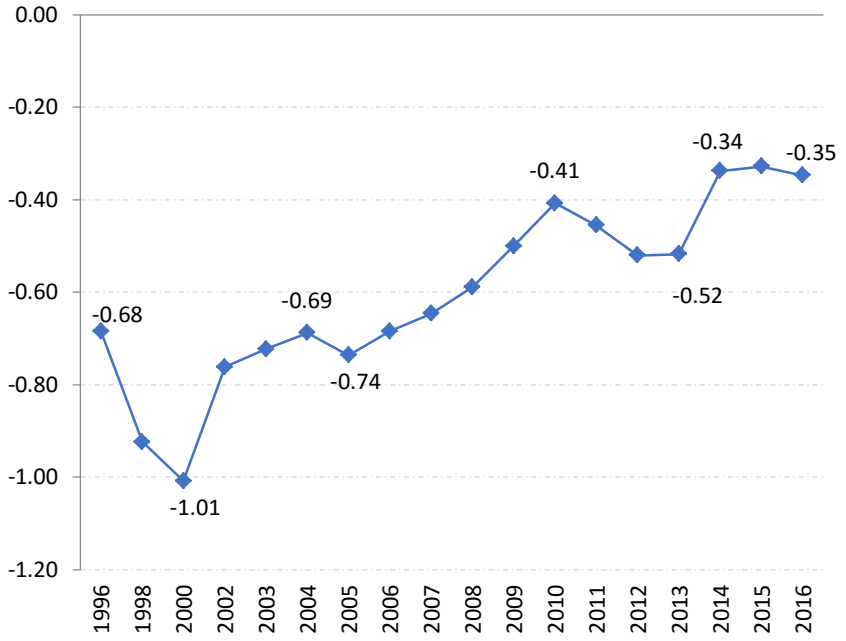
**Figure 8: Corruption perceptions index for Albania**



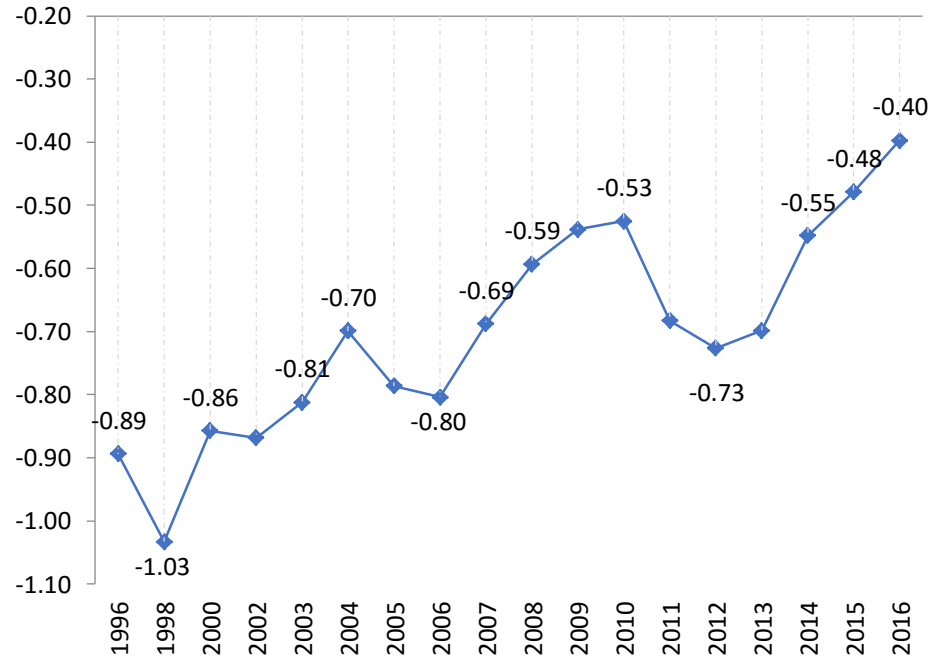
Source: Transparency International dataset



**Figure 9: Rule of law in Albania**

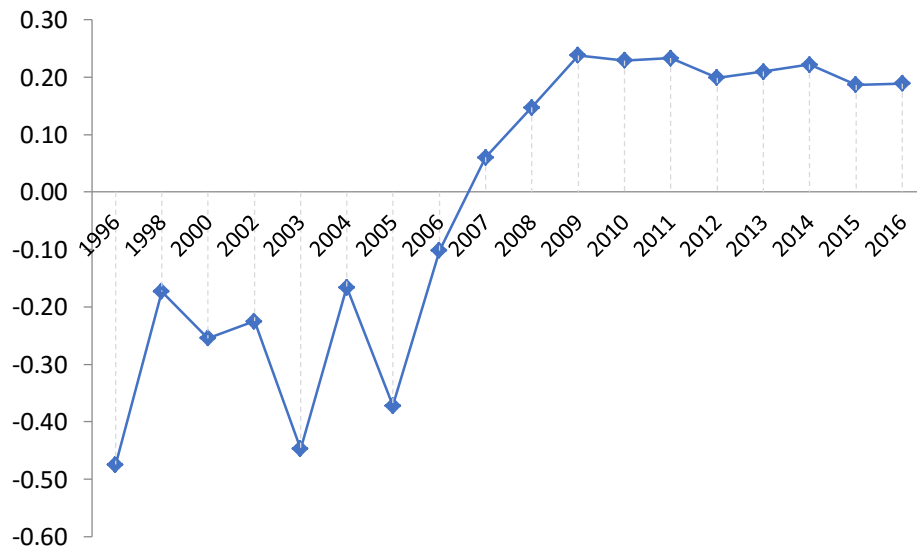


**Figure 10: Control of Corruption in Albania**

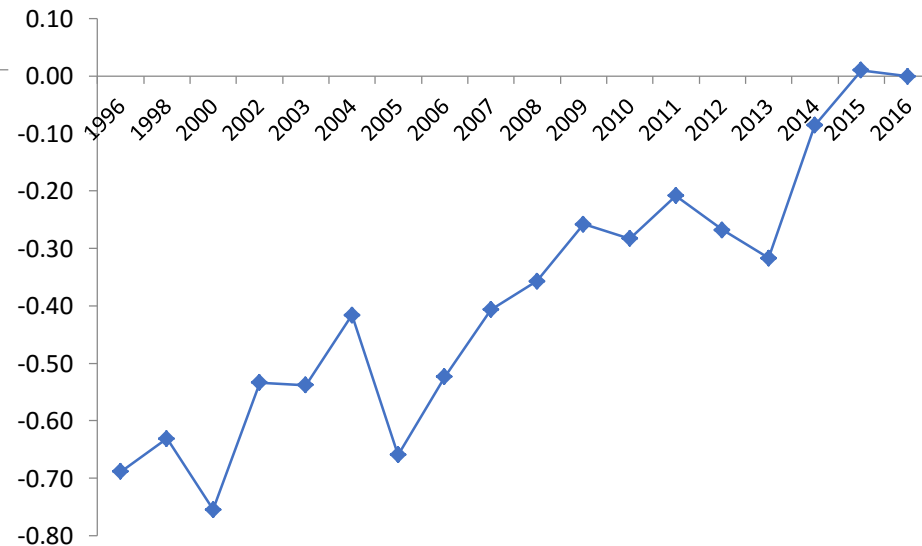


Source: The Worldwide Governance Indicators dataset

**Figure 11: Regulatory Quality in Albania**

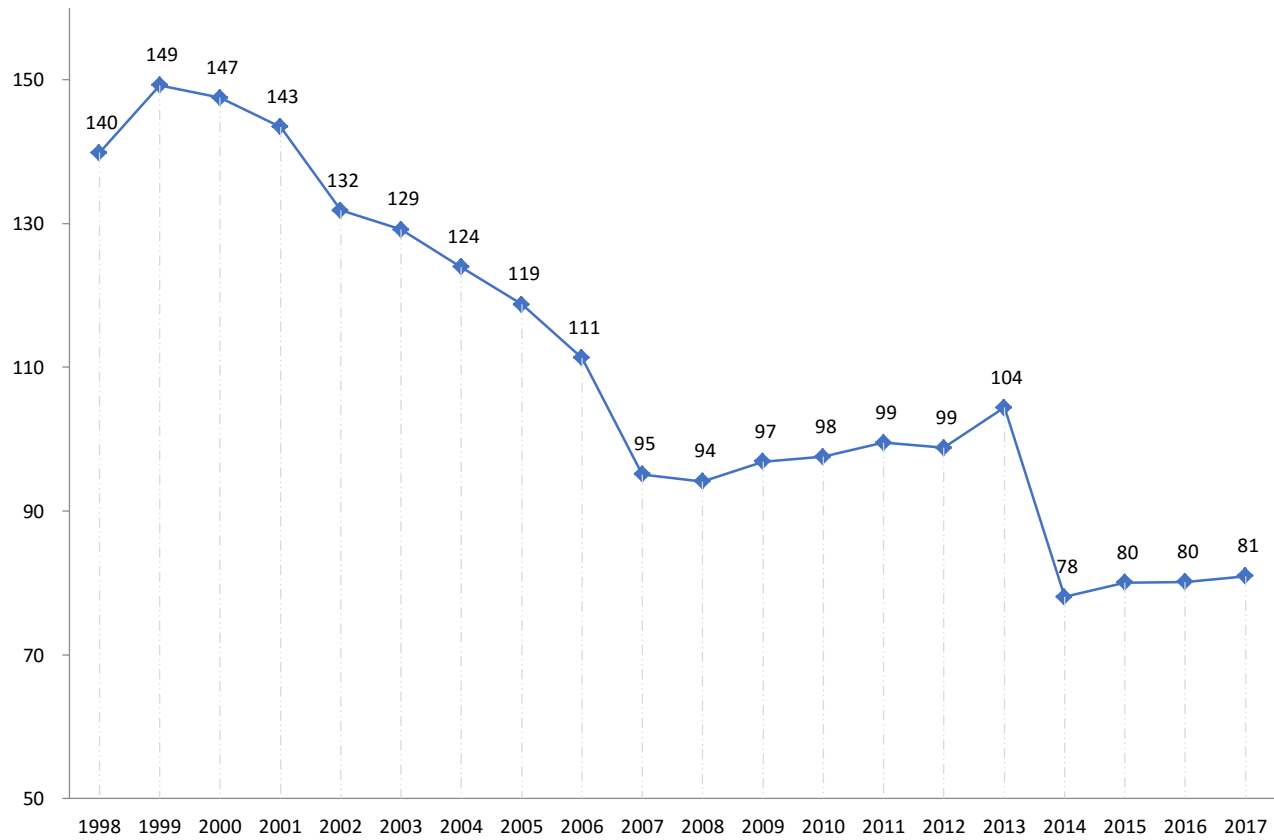


**Figure 12: Government effectiveness**



Source: The Worldwide Governance Indicators dataset

**Figure 13: Total number of families that receive social assistance, 1998-2017 (in thousands)**



Source: INSTAT, 2018

# Expenditure on active labour market policies

- In Albania, the level of expenditure on active labour market policies (ALMP) is very low. In 2015 the public expenditure on ALMPs in Albania was approximately 0.05 percent of the country's GDP.
- The share of active labour market policy beneficiaries increased to 5.5 percent in 2017. However, this was mainly a consequence of more stringent application of the legislation targeting non-active jobseekers.

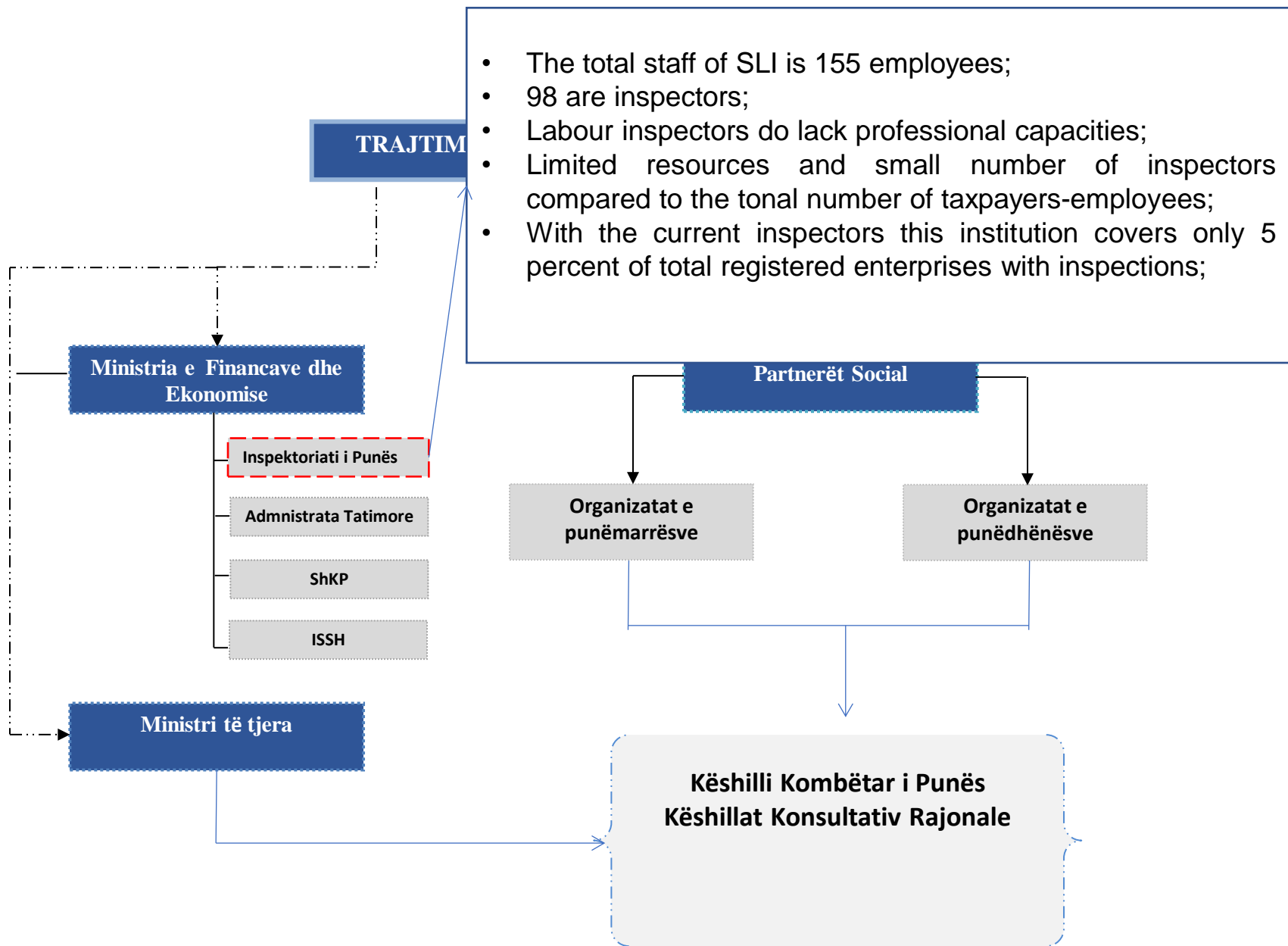
# Conclusions

To tackle the undeclared economy/work in Albania, there is also a need to change the macro-level economic and social conditions which result in the prevalence of the undeclared economy.

## **These include:**

- Increasing GDP per capita;
  - Improving governance and reducing public sector corruption;
  - Improving the levels of expenditure on labour market interventions to help the most vulnerable groups;
  - Persisting with increasing social expenditure, but coupling this with;
  - Developing far more effective social transfer systems that reduce income inequality and poverty in Albania.
- 
- **Besides addressing these structural determinants, there are many additional organisational and policy initiatives that can be pursued.**

**Organisation of the fight  
against undeclared work in  
Albania: institutional  
framework**



# Conclusion

- Albania has neither a single agency responsible for the fight against undeclared work, nor a central body to ensure better coordination across departments involved in tackling undeclared work. Instead, a more fragmented approach exists.
- There is little coordination in the tackling undeclared work across the multifarious institutions in strategic, operational or data-sharing terms, and no common cross-cutting strategic objectives or targets.
- Interviews with various stakeholders considered as positive the relocation of the State Labour Inspectorate under the Ministry of Finance and Economy in 2017. However, SLI lacks professional capacities.
- The role of Albanian social partners in tackling undeclared work remain weak.



# Policy approach and measures: an evaluation

Policy	Aksionet e qeverisw, qw prej Shtatorit tw vitit 2015. Aksionet pwrgrjatw periudhws sw sezonit tw verws.	% EEA stakeholders stating measure is:
<b>DIRECT CONTROLS</b>		
<b>Deterrence</b>		
<i>Penalties:</i>		
<b>Administrative sanctions for purchasers/companies</b>	√	87
Administrative sanctions for suppliers/employees		83
Penal sanctions for purchasers/companies	√	74
Penal sanctions for suppliers/employees		52
<i>Measures to improve detection:</i>		
Data matching and sharing		10
Workplace inspections	√	83
Registration of workers prior to starting work or on first day of work	√	10
Coordinating strategy across government		74
Certification of business, certifying payments of social contributions		57
Use of peer-to-peer surveillance (e.g. telephone hotlines)		
Coordination of operations across government	√	61
Coordination of data sharing across government		64
Mandatory ID in the workplace		50
		0
<b>Enabling compliance:</b>		
<i>Preventative measures:</i>		
Reduce regulations		48
Simplify compliance procedures		56
Technological innovations (e.g. certified cash registers)		38
New categories of work (e.g., for small or mini-jobs)		6
Direct tax incentives (e.g., exemptions, deductions)		87
Social security incentives		62
Ease transition from unemployment into self-employment		38
Ease transition from employment into self-employment		0
Changing minimum wage upwards		27
Changing minimum wage downwards	√	0
Training & support to business start-ups		33
Micro-finance to business start-ups		8
Advice on how to formalise	√	33
Connecting pension schemes to formal labour		10
Introducing supply chain responsibility		15
Restricting free movement of (foreign) workers		23
		63
		8
		77
		8
		59
		18
	√	9
		0
		50
		50
		61
		50
		46
		4
		52
		48
		52
		0
	√	61
		33
		67
		0
		61
		47
		41
		12
		17
		78
		0
		22
		43
		29
		53
		18

Aksionet e qeverisw, qw prej Shtatorit tw vitit 2015. Aksionet pwrgrjatw periudhws sw sezonit tw verws.

% EEA stakeholders stating measure is:

Law no. 9634, "On Labour Inspections" does comprise a definition on the undeclared work. Specifically: "Informal employment is an employment relationship that is not subject, both legally and in practice, to labour law requirements and the law on tax procedures and where the employee does not benefit from his [sic] rights deriving from these laws". With this law, the level of penalties regarding the minimum limit applied by the inspectors has been clarified by specifying: "**the labor inspector imposes a fine from 10 times to 50 times of the minimum salary, according to the principle of proportionality, in accordance law on inspection.**" - discretionary

Registration of workers prior to starting work or on first day of work

GTD ka njw sistem vlerwsimi risku ndwrsa SLI nuk a akoma njw sistem pikwzimi. Ka njw vullnet pwr tw koordinuar aksionet e pwrbashkwtw kundwr informaliteit.

It is a novelty on the Albanian Labour Code that put the written contract as compulsory between employer-employee. It was facultative before.

The Ministry of Finance and Economy and the Central Bank of Albania did an agreement which specifically obliges all businesses to keep one single balance sheet (so far businesses use to prepare several different balance sheets for different institutions). Basically, the real balance sheet goes to bank while another false version goes to the GDT).

<i>Curative measures:</i>		64	61	35	4
<i>Stimulate purchasers to buy declared:</i>					
Service vouchers				42	0
Targeted direct tax incentives				29	6
Targeted indirect taxes				25	13
<i>Stimulate suppliers to formalise:</i>					
Society-wide amnesties		9	10	0	0
Individual-level amnesties for voluntary disclosure		17	75	25	0
Formalisation advice to business	√	30	44	56	0
Formalisation support services to businesses		30	57	29	14
Targeted VAT reductions				43	14
Free record-keeping software to businesses				50	0
Fact sheets on record-keeping				43	0
Free advice/training on record-keeping				43	0
Gradual formalisation schemes		13	67	33	0
<b>INDIRECT CONTROLS:</b>		<b>69</b>	<b>44</b>	<b>52</b>	<b>4</b>
<b>Change values, norms &amp; beliefs</b>					
Campaigns to inform undeclared workers of risks and costs of working undeclared		61	64	36	0
Campaigns to inform undeclared workers of benefits of formalising their work		57	43	47	10
Campaigns to inform users of undeclared work of the risks and costs				40	10
Campaigns to inform users of undeclared work of the benefits of declared work				59	6
Use of normative appeals to people to declare their activities				67	0
Measures to improve tax/social security/labour law knowledge				50	0
Campaigns to encourage a culture of commitment to declaration		39	29	64	7
Reform formal institutions					
Measures to change perceived fairness of the system		26	25	75	0
Measures to improve procedural justice of the system (i.e., degree to which people believe government has treated them in a respectful, impartial and responsible manner)		17	60	40	0
Adoption of commitment rather than compliance approach (e.g., 'responsive regulation')		30	50	40	10

Llotaria

Reduktimi i TVSH pwr turizmin dhe heqja e TVSH wr nwnkontraktorwt e sektorit tw fasonit

Janw bwrw disa pwrpjekje nga GTD dhe nga organizatat e biznesit.

# Conclusions

- Nuk ka strategji të mirëfilltë për trajtimin e informalitetit dhe punës informale (ka plane veprimi).
- Lack of evaluations on the actions undertaken.
- In Albania, a relatively narrow deterrence approach is currently adopted with a focus upon deterring participation in undeclared work by increasing the penalties and risks of detection.
- Little emphasis is put on improving the benefits of and incentives for declared work, or more indirect preventative tools, such as awareness raising campaigns and dealing with the imperfections and failings of formal institutions.

Thank you for listening