



Employment and Social Affairs Platform

**Diagnostic Report on undeclared
work in Albania**

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List of abbreviations

ALMP	Active Labour Market Policies
ATA	Albanian Tourism Association
CCI	Tirana Chamber of Commerce and Industry
CoM	Council of Ministers
EEA	European Economic Area
EU	European Union
EV	Enterprise Vouchers
GDP	Gross Domestic Product
GDT	General Directorate of Taxation
ILO	International Labour Organization
IMF	International Monetary Fund
INSTAT	Albanian Institute of Statistics
MIMIC	Multiple Indicators Multiple Causes
NAES	National Agency of Employment and Skills
NES	National Employment Service
NLC	National Labour Council
OECD	Organisation for Economic Co-operation and Development
PBWA	Professional and Business Women Association
POS	Point-of-Sale
RTD	Regional Tax Directorates
SELDI	Southeast Europe Leadership for Development and Integrity
SII	Social Insurance Institute
SLI	State Labour Inspectorate
SV	Social Vouchers
TI	Transparency International
VAT	Value Added Tax



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Executive summary

This diagnostic report evaluates the extent, nature and drivers of the undeclared economy in Albania. Based on desk-research and interviews with various stakeholders, this report sets the scene for a strategy and action plan for tackling undeclared work in Albania, presented in a separate document.

Extent and nature of the undeclared economy in Albania

The estimate size of undeclared economy varies depending on the measurement methodology used. The Albanian Institute of Statistics (INSTAT, 2002) concludes that the Albanian undeclared economy as a share of gross value-added is at 27.9 percent. The Organisation for Economic Co-operation and Development (OECD, 2004) estimated the size of the undeclared economy as a share of gross value-added at 26.6 percent in 2002 and 26.0 percent in 2001.

Muco *et al.* (2004), drawing on different estimation methods (electricity method, monetary method, national accounts method), concludes that the undeclared economy in Albania varies from 30 to 60 percent of Gross Domestic Product (GDP). In 2015 the Albanian government disclosed that the undeclared economy made up 50 percent of GDP. As a result, in September 2015, the Albanian government placed the priority of tackling undeclared work higher on its agenda and undertook diverse actions to mitigate its effects.

Medina and Schneider (2018) measure the size of undeclared economy as a proportion of GDP using the Multiple Indicators Multiple Causes (MIMIC) and on average it accounts for 26.21 percent of GDP.

In terms of workers in the undeclared economy, a few statistics could be drawn to elaborate on the size and nature. Southeast Europe Leadership for Development and Integrity (SELDI, 2016) conducted a survey in Albania with 1,050 households and the results revealed that 39 percent of respondents participated in undeclared work. The same survey uncovered that 39.75 percent of employees declare not to have a written contract with their employer; 30.29 percent of employees declare that they do not pay for social and health security benefits, while 28.82 percent of employees declare to pay social security on minimum wage and 18.9 percent receive higher remuneration than in contracts.

Other studies measure undeclared work based on inspections conducted by the labour inspectorate. The Albanian State Labour Inspectorate (SLI, 2017) inspected 7958 enterprises and reported that 706 employees were without security while 1,575 employees were without any written contract.

The National Business Forum (NBF, 2015) conducted a survey with 400 businesses in Albania and found that businesses do not report to the tax authorities 29 percent of their labour force. Businesses that do report the actual number of their employees use other manoeuvres to remain paying less taxes such as paying envelope wages.



The International Labour Organization (ILO, 2016) Labour Force Survey reported that in 2016 the share of informal employment in the non-agricultural sector was 31.9 percent, a decrease compared to 2015 when it was at 34.1 percent.

The Albanian economy is characterised by high levels of self-employment and a large share of micro and small enterprises. This is related to the widespread presence of undeclared economy. It was brought to the government attention in 2017 that micro and small businesses need to be motivated to emerge from the shadows. According to the Results of Structural Survey of Economic Enterprises conducted by INSTAT (2016), micro (1-4 employees), small (5-9 employees) and medium enterprises (10-49 employees) constitute 99 percent of all businesses in Albanian economy. In addition, they employ 60 percent of the Albanian labour force. This structural feature of the Albanian economy certainly helps to understand the prevalence of undeclared work.

Drivers of the undeclared economy in Albania

In the past few years, advances have been made in understanding the determinants of undeclared work by a new institutional approach. To explain undeclared work, it asserts that every society possesses institutions which prescribe, monitor and enforce the “rules of the game” regarding what is socially acceptable. In all societies, these institutions are of two types: formal institutions that prescribe “state morality” about what is socially acceptable (i.e. laws and regulations), and informal institutions which prescribe “citizen morality” (i.e. socially shared rules, usually unwritten).

Undeclared work, from this institutional perspective, is explained as arising when the failings of formal institutions lead to state morality being different to citizen morality. These formal institutional failings are of four types: (i) formal institutional voids, such as a weak welfare “safety net” which forces citizens into undeclared work to survive; (ii) formal institutional inefficiencies, or resource misallocations by formal institutions; (iii) formal institutional uncertainty; and/or (iv) formal institutional weaknesses and instability. These failings result in citizens viewing as socially acceptable what is deemed illegal by the state. Undeclared work arises, therefore, due to the failings of formal institutions which lead citizen morality not to be aligned with that of the state.

Analysing the evidence of formal institutional failings being significantly associated with the growth of undeclared work, the last few years have seen multiple studies which reveal that undeclared work is more extensive in those nations when there is: 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.

To tackle the undeclared economy in Albania, therefore, the following formal institutional failings will have to be addressed:

- Increase the GDP per capita;



- Improve governance and further reduce public sector corruption, which although gradually improving, is still poor with Albania ranked 91st out of 180 nations globally on public sector corruption;
- Pursue greater expenditure on labour market interventions to help the most vulnerable groups;
- Persist with increasing social expenditure, although to be successful in tackling undeclared work, this needs to be coupled with developing more effective and targeted social transfer systems that reduce the widening levels of income inequality and ever increasing levels of severe material deprivation.

Unless these failings of formal institutions are addressed, the asymmetry between state and civic morality will persist, and consequently so will the prevalence of undeclared work.

Organisation of the fight against undeclared work: institutional framework

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. Responsibility for tackling undeclared work is distributed across a range of institutions. Each of them is in charge for different segments of undeclared economy. Labour law violations are mostly under the responsibility of the STI, tax non-compliance responsibility is under the tax administration, and social security and insurance fraud violations are under social insurance bodies. There is currently little coordination in the fight against undeclared work across the multifarious institutions in strategic, operational or data-sharing terms, and no common cross-cutting strategic objectives or targets are available. Hence, a more coordinated response is required. Interviews with various stakeholders considered the relocation of the SLI under the Ministry of Finance and Economy in 2017 as positive. This way, a more effective coordination is expected to take place with the tax administration on common issues such as undeclared work. The rudimentary efforts are taking place from these institutions to better coordinate their activities in tackling undeclared work but the results are still to come. In terms of the role of Albanian social partners in tackling undeclared work, it continues to remain weak. An effective tackling of undeclared work requires an active participation of social partners. This is especially important in sensitive sectors such as mining, manufacturing and garment and footwear industry.

Current policy approach and measures: an evaluation

There is a range of tools for transforming undeclared work into declared work. Direct tools ensure that the rational economic decision is to engage in declared work. This is accomplished either by using deterrence measures to increase the costs of non-compliance (“sticks”) and/or by making the conduct of declared work more beneficial and easier (“carrots”). Indirect tools shift away from using “sticks” and “carrots” and instead focus on dealing with the formal institutional failings so as to repair the social contract between the state and its citizens in order



to foster a high trust high commitment culture.

In Albania, a relatively narrow deterrence approach is currently adopted with a focus on 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 (e.g. by facilitating procedural and redistributive justice and fairness, and pursuing wider economic and social policies).

The current situation is best described by the in-depth interviews conducted with representatives of the business community and economic experts. They confirm that the Albanian government is “fighting” undeclared work haphazardly. It is imperative that an evidence-based approach should be adopted towards policy formulation. In addition, currently there is no common methodology pursued to measure undeclared work. Different stakeholders use different measures for the size of undeclared work using different methodologies. Different measures employed and various conclusions on the determinants and nature of undeclared work call into question the real situation in Albania and might cause the wrong approach from the government and social actors to tackling the undeclared work. So, it is indispensable to move towards a reliable measure of this phenomenon through the employment of a prominent and widely-accepted methodology.



1 Introduction: background context

Albania is making significant efforts to abide by the obligations of the Stabilisation and Association Agreement signed between the European Union (EU) and the Albanian Government in June 2006. Albania has been experiencing a gradual economic growth due to both domestic demand and foreign trade. Annual GDP growth in real terms increased from 3.4 percent in 2016 to 3.8 percent in 2017.¹ Fundamental reforms to improving the business environment were initiated. However further efforts are required in this regard, especially to tackle the undeclared economy and informal employment.

In 2015 the Albanian government disclosed that the informal economy accounted for 50 percent of GDP. The Albanian government has struggled to integrate the undeclared sector into the economy for many years. The undeclared economy moved into the spotlight in August 2015 when Albania's Prime Minister publicly announced that the government would make it a priority but failed to provide a timeline or specific details on how to do so. Following this announcement, Albania's Minister of Finance explained their desire to address undeclared work but did not lay out a public strategy. In April 2016, the Minister of Finance announced the next action, a strategy designed in collaboration with the International Monetary Fund (IMF); however, the strategy remained vague and never got published. The business community and economic experts argued that these actions were taken haphazardly and with the purpose of increasing government revenues. The third phase was launched in September 2017 and went into effect at the beginning of October the same year. The government announced that it will spare no efforts to "eradicate" undeclared work. These recurrent actions produced encouraging outcomes such as additional revenues and an increased number of registered businesses and employees. Nevertheless, all actions undertaken produced negative outcomes as well, which showed that sometimes the government was not pursuing the most effective approach.

This diagnostic report seeks to facilitate the delivery of a national action plan by setting out an integrated and holistic approach. The current business climate in Albania is characterised by relatively high under-reporting rates, as well as a relatively high share of undeclared work. This, coupled with the high level of unemployment (13.7 percent), has undermined the collection of tax revenue and social security contributions.² Undeclared work negatively affects the economy of Albania. Apart from this, undeclared work implies risks for individual workers, including lack of social security, protection of rights and opportunities for career advancement.

Tackling the undeclared economy is increasingly seen as a major economic and social challenge in Albania. Despite all of the actions put in place by the Albanian government, undeclared work continues to be a challenge. The latest European Commission (EC) report about Albania recommends that "*Albania should pay particular attention to reduce the informal economy, including undeclared work*".³ To sum it up, the undeclared economy in Albania is being tackled

¹ International Monetary Fund, "Country Report No. 18/123," May 2018, www.imf.org/~media/Files/Publications/CR/2018/cr18123.ashx.

² INSTAT (2017), <http://www.instat.gov.al/media/3978/njoftim-per-media-tregu-i-punes.pdf>.

³ EC (2018), Commission Staff Working Document Albania, Strasbourg, 17.4.2018, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-albania-report.pdf>.



to some extent by fighting tax evasion and promoting tax compliance, but undeclared work is not being addressed in a holistic manner. Hence, fundamental efforts should be made towards building a holistic strategic approach to tackling the undeclared economy. This is where national governments use a whole-of-government approach to tackle undeclared work, by joining up the policy fields of labour, tax and social security law on the level of both strategy and operations, and involve and cooperate with social partners and other stakeholders. This approach involves using the full range of available direct and indirect policy measures to enhance the power of and trust in authorities respectively. The objective is to transform undeclared work into declared work in an effective manner.

The aim of this report is therefore to investigate the main determinants of undeclared economy 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 this report are to answer the following questions:

- What is the extent and nature of undeclared work in Albania?
- What are direct and indirect policy approaches to tackling undeclared work in Albania?
- What are the institutional set-ups for tackling undeclared work using direct and indirect policy approaches?
- What are the barriers preventing the adoption of a wider range of direct and indirect policies?
- What are the identified needs which will further foster more effective formalisation of undeclared work using direct and indirect policy approaches?

This report therefore provides support to the Albanian government and social partners in tackling undeclared work by identifying the causes, circumstances and forms of undeclared work in Albania. This has been achieved through a multi-stakeholder diagnostic of the situation involving the meetings listed in Annex A, along with a desk-based review of the current situation. In addition, all the gathered information paves the way to design a comprehensive policy action plan with the purpose of enabling the transformation of undeclared work into declared work.

Although there is no official universal definition of “undeclared work”, it is widely accepted across the European Union that this covers “productive activities that are lawful as regards their nature, but are not declared to the public authorities, taking into account the differences in their regulatory systems between Member States” (European Commission, 2007a: 2). Besides the various adjectives (45) and nouns (10) used to denote this activity (e.g. “informal”, “shadow”, “black” and “underground” sector/economy/work), we use the undeclared economy throughout this report. Indeed, the definition used aligns closely with the definition of the “shadow economy” adopted by Schneider and Enste (2000, 79), which views it as including all legal production and provision of goods and services that are deliberately concealed from public authorities for the following four reasons:



- (i) to avoid payment of income, value added or other taxes;
- (ii) to avoid payment of social security contributions;
- (iii) to avoid having to meet certain legal standards, such as minimum wages, maximum hours, safety standards, etc.; and
- (iv) to avoid compliance with certain administrative procedures, such as completing statistical questionnaires or other administrative forms. Although such a definition intimates that undeclared work might be a voluntary decision not to comply with legal obligations, to assume this would be to ignore that economic units and individuals may not be able to abide by the law, for instance, due to inappropriate legislation or lack of awareness. This has been taken on board in this report and its action plan.

The ILO (2015a: 6) Recommendation 204, moreover, provides a broader concept of informal economy of which undeclared work is part, which (a) refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements; and (b) does not cover illicit activities, in particular the provision of services or the production, sale, possession or use of goods forbidden by law, including the illicit production and trafficking of drugs, the illicit manufacturing of and trafficking in firearms, trafficking in persons, and money laundering, as defined in the relevant international treaties. As such, the only difference between declared and undeclared work in this report is that it is not declared to the authorities for tax, social security and labour law purposes when it should be. If other differences exist, it is not undeclared work. For example, if the goods and services provided are illegal, it is part of the wider criminal economy, whilst if there is no monetary payment, it is part of the unpaid sphere.

2 Undeclared work: an analytical and policy framework

2.1 Analytical framework

By definition, undeclared work refers to all activities not declared to the authorities. There are different methods that seek to measure the size of undeclared work and describe its characteristics. In this regard, the European Commission (2007a: 4) states: “*Undeclared work can be measured both directly and indirectly. Indirect methods are based on the comparison of macroeconomic aggregates (such as national accounts, electricity consumption, cash transactions). Indirect (especially monetary) methods often over-estimate the level of undeclared work and say little about its socio-economic characteristics. Direct methods, on the contrary, are based on statistical surveys and have advantages in terms of comparability and detail, but tend to under-report the extent of undeclared work*”.

It is consensually accepted that indirect methods are used to measure the size of the undeclared economy while to reveal the characteristics of this phenomenon, direct methods are suggested. (Eurofound, 2013; Williams and Schneider, 2016). This approach will be pursued in this report.



Uncovering the drivers of the undeclared economy is fundamental in effectively tackling this phenomenon. Recently efforts have been made to understand the determinants of undeclared work by adopting an institutional perspective (Godfrey, 2015; Webb *et al.*, 2009, 2013; Williams and Franic, 2016; Williams and Horodnic, 2015a, b, c; Williams et al, 2015a). Institutions, or governance mechanisms, which prescribe, monitor and enforce the ‘rules of the game’ regarding what is socially acceptable, are seen to exist in every society (Baumol and Blinder, 2008; North, 1990; Scott, 1995). These institutions are of two types: formal institutions that prescribe “state morality” about what is socially acceptable (i.e. laws and regulations), and informal institutions which prescribe “citizen morality” (i.e. socially shared rules, usually unwritten) (Helmke and Levitsky, 2004).

Considering the institutional perspective, undeclared work is prevalent when the failings of formal institutions lead to state morality being different to citizen morality. As Webb and Ireland (2015) outline, these formal institutional failings are of four types:

- (i) formal institutional voids, such as no social protection or a welfare “safety net” which forces citizens into undeclared work to survive;
- (ii) formal institutional inefficiencies, or resource misallocations by formal institutions, such as when formal institutions seek to protect or maximise economic rents for elites, or when state capture occurs by such elites, resulting in the majority not receiving a fair share in return for their contributions, or suffering from overly burdensome taxes, registration and licensing regulations and costs;
- (iii) formal institutional uncertainty, such as when there is fear regarding the future of specific formal institutions, or when technology and socio-cultural change outpaces the ability of formal institutions to accommodate new domains of activity (e.g. “the sharing economy”), and/or
- (iv) formal institutional weaknesses and instability, manifested in their lack of capacity and capability to enforce legislation (Webb *et al.*, 2009) and/or there are continuous changes in the formal “rules of the game” about what is acceptable, which leads citizens to reject the continuously changing formal rules of the game in favour of their own more stable unwritten socially shared rules.

Undeclared work arises, therefore, due to these failings of formal institutions producing a situation in which the formal “rules of the game” (state morality) differ to what citizens view as socially acceptable (citizen morality). The greater is the non-alignment of state morality and citizen morality, the greater is the prevalence of the undeclared economy.

When we talk about formal institutional failings, we refer to three competing theories, each identifying different formal institutional failings as the cause of more extensive undeclared economies. Firstly, “*modernisation theory*” has argued that undeclared work is rife in societies which are under-developed economically (i.e. with lower levels of GDP per capita) and where the formal institutions of governance are not modernised, displayed by the existence of, for example, higher levels of public sector corruption and lower qualities of governance. Secondly,



“*state over-interference*” theory has argued that undeclared work is a resistance practice voluntarily pursued and a rational economic response to high tax rates and too much state interference such as over-burdensome rules and regulations (e.g. Becker, 2004; De Soto, 1989, 2001; London and Hart, 2004; Nwabuzor, 2005; Sauvy, 1984; Small Business Council, 2004). Thirdly and finally, “*state under-intervention*” theory views undeclared work as a direct by-product of too little, rather than too much, state intervention in work and welfare arrangements. In this approach, undeclared work is viewed as an inherent and integral component of contemporary capitalism and a key facet of the sub-contracting, downsizing and outsourcing arrangements that are emerging in advanced capitalism and enable enterprises to achieve profit through flexible production and cost reduction (Meagher, 2010; Taiwo, 2013). Consequently, undeclared work is depicted as unregulated, insecure and low paid employment conducted out of necessity by marginalised populations excluded from the declared economy and conducted as a last resort when no other options are available to them (Ahmad, 2008; Castells and Portes, 1989). As such, undeclared work is seen to result from a lack of social protection for workers and the remedy is greater state intervention in work and welfare provision to protect workers from poverty (Davis, 2006; Gallin, 2001; Slavnic, 2010).

The findings of several studies that evaluate these theories are the same. Whether one measures the size of the undeclared economy using Schneider’s MIMIC estimates (Williams, 2014d) or using direct surveys (Williams, 2014a,b,c, 2015a,b, 2016; Williams and Martinez-Perez, 2014) and whether one compares the 28 member states of the European Union (Williams, 2014c; 2016; Williams and Horodnic, 2016), post-socialist transition economies (Williams, 2014a, 2015b) or countries across the developing world (Williams, 2014b, 2015a, c, d), the finding is that there is no evidence to support the state over-interference thesis. Instead, the prevalence of the undeclared economy is positively associated with the tenets of the modernisation and state under-intervention theses.

Hence, tackling undeclared work requires a focus on:

- increasing GDP per capita;
- improving the quality of governance and reducing corruption;
- increasing expenditure on labour market interventions to help the most vulnerable groups;
- increasing social expenditure, and
- developing more effective social transfer systems so as to reduce the level of inequality and severe material deprivation, which includes improving the efficiency of collection.

If these formal institutional failings are not tackled, then undeclared work will persist. For example, Williams and Horodnic (2016) examine the formal institutional failings that are associated with higher levels of under-declared work (i.e. the illegal employer practice of under-reporting employees’ salaries) in the EU-28 using data from the 2013 Eurobarometer survey of 11,025 employees. Rather than an individual criminal act that increasing the risk of detection can tackle, they reveal that this is a symptom of systemic problems. They show that under-declared work is concentrated in countries with:



- lower levels of economic development and less modernised state bureaucracies;
- greater income inequality;
- higher rates of severe material deprivation;
- less effective redistribution via social transfers, and
- lower levels of labour market interventions to protect vulnerable groups in the labour market.

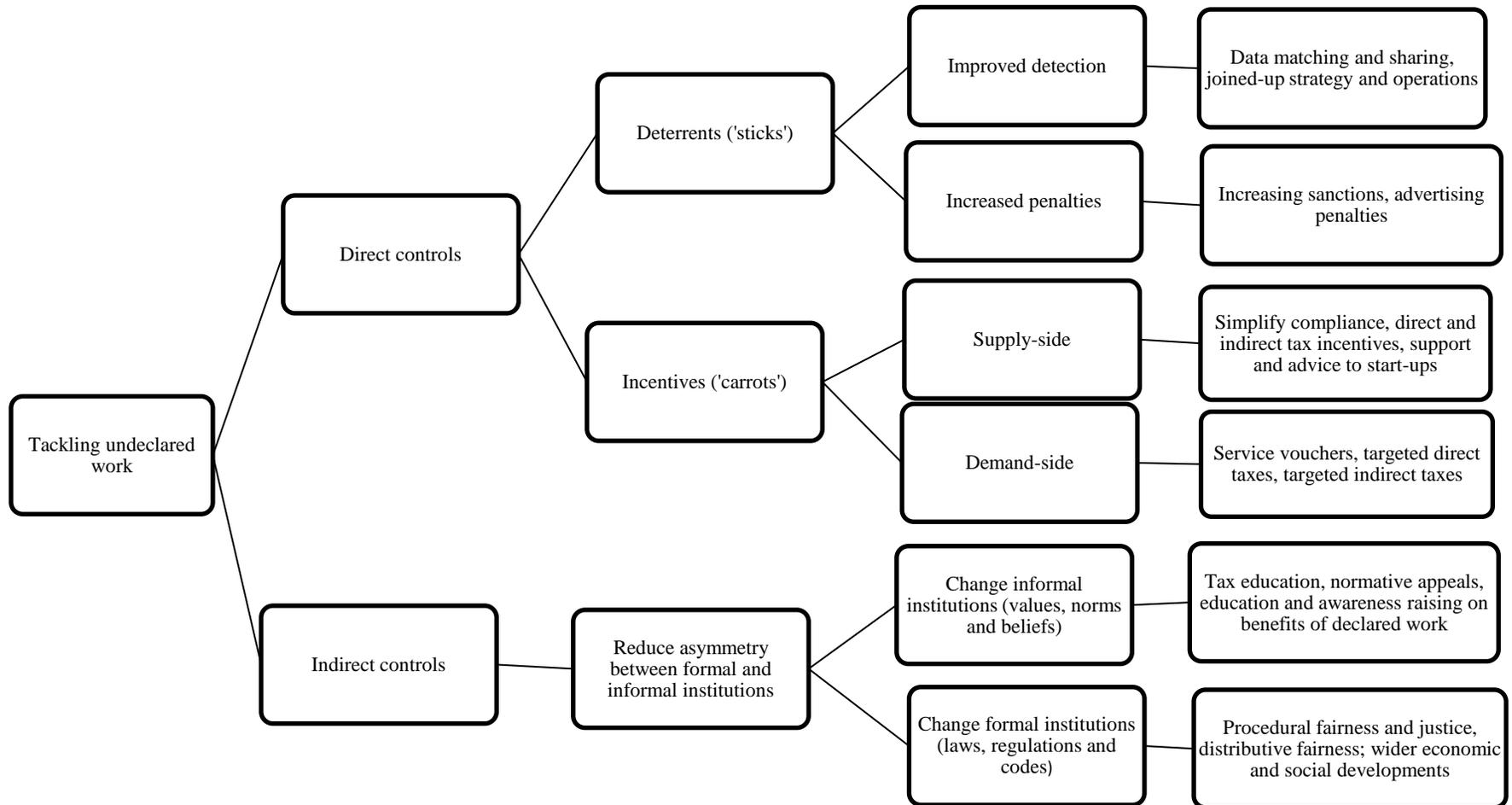
In addition, they uncover no significant association between increasing the perceived risk of detection and the likelihood of participating in under-declared work, when other variables are held constant. But, under-declared work is significantly associated with the non-alignment of state morality and citizen morality. To this end, to reduce under-declared work, the conventional approach of improving detection seems ineffective. Instead, if under-declared work is to be resolved, policy measures are required that tackle formal institutional failings that lead to an asymmetry between the formal “rules of the game” and citizen morality.

2.2 Policy approaches towards undeclared work

Nowadays governments aim not to eradicate the undeclared work but to shift undeclared work into the declared economy (Dekker *et al.*, 2010; Eurofound, 2013; European Commission, 2007a; ILO, 2015b; Small Business Council, 2004; Williams, 2014; Williams and Nadin, 2012a, b, 2013, 2014). To do so, governments and social partners can employ different tools (see Figure 1) which transform undeclared work into declared work. These can be divided into direct and indirect policy measures.



Figure 1: Policy approaches and measures for tackling undeclared work





Direct controls aim to reduce the costs and increase the benefits of operating on a declared basis (OECD, 2008). Viewing the non-compliant as rational economic actors who engage in undeclared work when the pay-off is greater than the expected cost of detection and punishment, the objective is to change the cost/benefit ratio facing those participating or considering participation in undeclared work (e.g. Allingham and Sandmo, 1972; Hasseldine and Li, 1999; Richardson and Sawyer, 2001). This can be achieved using two main measures. *Deterrence measures* that seek to detect and punish non-compliant (“bad”) behaviour (i.e. undeclared work). This can be achieved by raising the perceived or actual likelihood of detection and/or increasing the penalties and sanctions for those caught.

Incentive measures seek to make it easier to undertake, and reward, compliant (“good”) behaviour (i.e. declared work). To achieve this, one can use either:

- Preventative measures to stop people moving into the undeclared economy in the first place; or
- Remedial measures to incentivise workers and businesses to make the transition to the declared realm. These can be either (a) supply-side incentives targeting businesses and workers in the undeclared economy or (b) demand-side incentives targeting their customers with rewards for using declared goods and services.

Indirect controls aim to tackle the formal institutional failings and repair the social contract between the state and its citizens so as to create a high trust high commitment culture (Alm *et al.*, 1995; Torgler, 2003; Wenzel, 2002). This requires a voluntary commitment to compliant behaviour rather than force citizens to comply using threats, harassment and/or incentives (Kirchler, 2007; Torgler, 2007, 2011).

To tackle undeclared work, therefore, there is a need to address the formal institutional failings and repair the social contract and this requires to:

Change the informal institutions - to change the norms, values and beliefs of citizens regarding the acceptability of undeclared work, so that these are in symmetry with the laws and regulations, one can use awareness raising campaigns and educational initiatives about the costs of undeclared work and benefits of declared work.

Change the formal institutions – this is particularly important in societies in which there is a lack of trust in government, such as due to public sector corruption (European Commission, 2014) or in societies where citizens do not believe that they receive back from government what they expect. This can involve either:

- Changes in the internal *processes* of the formal institutions to improve the perception amongst citizens that there is procedural and distributive fairness and justice, and/or
- Change in the *products* of formal institutions by pursuing wider economic and social developments (e.g. increased social expenditure levels, more effective social transfers).

Several studies reveal that the most effective way to tackle the undeclared work is to combine direct and indirect tools (Williams, 2014a; Williams and Renooy, 2013). The main question is how to combine these tools. Two contrasting approaches exist for doing this:



- *Responsive regulation* - this envisages a regulatory pyramid, sequenced from the least intrusive indirect controls at the bottom and used first, to the most intrusive direct controls at the top.
- *Slippery slope framework* - this argues that citizens abide by the law either because they fear detection and fines due to the power of authorities (enforced compliance) or because they feel a commitment to be honest because they have trust in the authorities (voluntary cooperation). When there is effective enforced compliance as well as high voluntary cooperation (i.e. both power and trust), undeclared work is absent. When there is ineffectively enforced compliance and little voluntary cooperation, undeclared work is extensive (Alm and Torgler, 2011; Alm *et al.*, 2012; Kastlunger *et al.*, 2013; Khurana and Diwan, 2014; Kirchler *et al.*, 2008; Kogler *et al.*, 2015; Muehlbacher *et al.*, 2011a,b; Prinz *et al.*, 2013).

This recognition that both effectively enforced compliance and high voluntary cooperation are essential for tackling undeclared work is now being seriously considered by authorities in various countries (OECD, 2013).

Indeed, the European Commission's European Platform Tackling Undeclared Work has referred to this slippery slope framework as a "full policy operationalisation model". This is seen as a model for implementing the holistic approach that combines the range of policy approaches and measures available (and uses all measures concurrently). This approach asserts that the most effective approach is to concurrently implement direct measures (e.g. workplace inspections) to enhance the power of authorities as well as indirect measures (e.g. awareness raising) to enhance trust in authorities (Williams, 2016). This approach is based on evidence that a high trust high power approach is the most effective in tackling undeclared work.

Indeed, it is this analytical framework and policy approach that is the basis for this report. With this analytical framework and policy approach in hand, attention now turns to an analysis of undeclared work in Albania and what needs to be done.

3 Extent and nature of the undeclared economy in Albania

3.1 Magnitude of the undeclared economy

The undeclared economy witnessed some growth with the fall of the communist regime in 1991 when the private sector flourished. The rapid pace of privatisation process during 1991-1994 transformed 70 percent of the economy into the private sector. This fast transformation associated with the weak role of the state to design an effective regulatory, legal and institutional framework, further fuelled this phenomenon. The private sector emerged with an anti-state mindset and a snub of state regulations.⁴ Along with the transition, the undeclared economy was evolving too, while manifesting itself in various patterns. While the undeclared economy was emerging, scholars were attracted to study and make proxy estimations of its

⁴ Ruli, G. (2003) "Characteristics of Informal Sector Development in Albania", Chapter 13 in Belev, B. [ed.] The Informal Economy in the EU Accession Countries: Size, Scope, Trends and Challenges to the Process of EU Enlargement, Center for the Study of Democracy, Sofia.



size. Different direct and indirect measurements methods were exploited by academics and policy-makers to estimate the size of the undeclared economy.

The Albanian Centre for Economic Research (ACER, 1999) conducted a survey which displayed these results: about 75 percent of the companies admitted that fiscal evasion is “very frequent”, 73 percent of the interviewed businesses stated that they hide their real profits (20 percent on average of the profits before taxes), while in some sectors such as construction this number reached up to 50 percent.⁵

Schneider (2002), using the currency demand, the physical input and DYMIMIC approach, reckoned the Albanian undeclared economy was about 33.4 percent of Gross National Product (GNP) in 1999/2000.⁶

According to Ruli (2003), *“The most disturbing manifestation of informality in the fiscal area lays in small and medium enterprises even large ones, which are legally registered but hide their incomes, their profits, and the number of employees and the real level of salaries. These businesses represent the majority of economic activities: trade (especially the retail), transport (passenger and freight), with services (bars and restaurants), construction and manufacturing activities which are highlighted and underlined as particularly important in terms of the informal economy”*.

INSTAT made some efforts to calculate the size of the undeclared economy. INSTAT (2002) concluded that the Albanian undeclared economy as a share of gross value-added is 27.9 percent.⁷

OECD (2004) estimated the size of the undeclared economy as a share of gross value-added at 26.6 percent in 2002 and 26.0 percent in 2001. This goes in line with INSTAT estimation.⁸

Christie and Holzner (2004) estimated that the undeclared household income as a share of GDP in 2001 was 52 percent.⁹ Muco *et al.* (2004), drawing on different estimations methods (electricity method, monetary method, national accounts method), concluded that the undeclared economy in Albania varies from 30 to 60 percent of GDP.¹⁰

Boka and Torluccio (2013) examined the national accounts discrepancies method and found that over the period 1996-2012 the undeclared economy averaged 36.2 percent of GDP. Using the Kaufmann-Kaliberda method (electricity consumption method) the average size of the undeclared economy for the period 1996-2012 accounted for 37.1 percent of GDP.

The Albanian undeclared economy was estimated employing the MIMIC approach developed by Medina and Schneider (2018). Figure 2 displays the size of shadow economy in Albania using MIMIC model for the period 1991-2015. The average size of the undeclared economy accounts for 26.21 percent. Generally, there is a declining trend of the size of the undeclared

⁵ Albanian Center for Economic Research (1999), “Informal economy in Albania: study of hidden employment and tax evasion,” Tirana, Albania.

⁶ Schneider, F (2002), “Size and measurement of the informal economy in 110 countries around the world,” http://www.amnet.co.il/attachments/informal_economy110.pdf.

⁷ OECD - Investment Compact for the Ministry of Economy of Albania, (2004) “The Informal Economy in Albania: analysis and policy recommendations.”

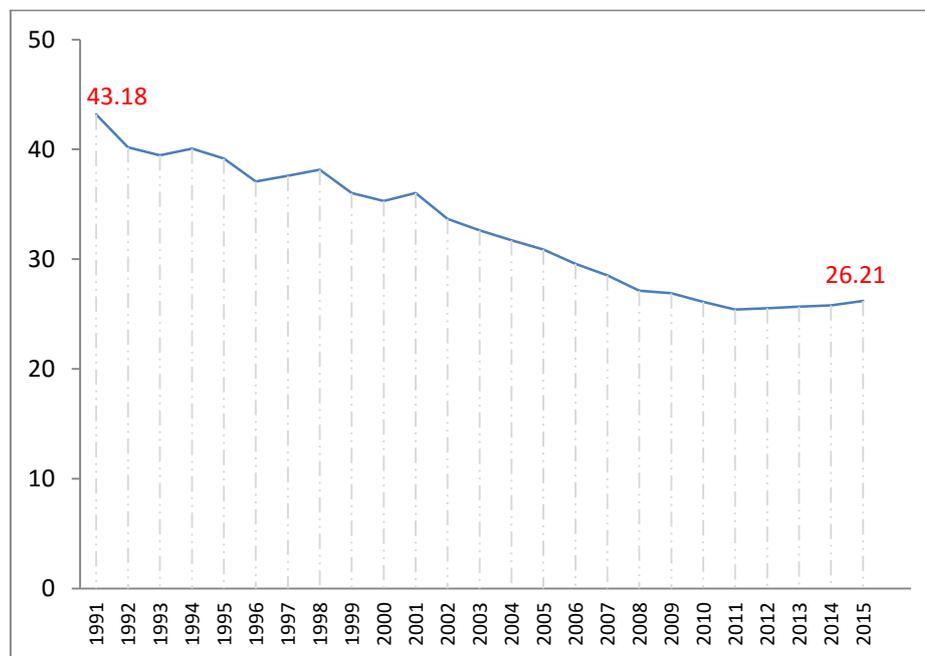
⁸ Ibid.

⁹ Christie, E. and Holzner, M. (2004) “Household Tax Compliance and the Shadow Economy in Central and Southeastern Europe,” <https://wiiw.ac.at/household-tax-compliance-and-the-shadow-economy-in-central-and-southeastern-europe-dlp-3282.pdf>.

¹⁰ Muço, M. *et al.*, (2004) “Private Sector and Labour Market Developments in Albania: Formal versus Informal,” <https://wiiw.ac.at/private-sector-and-labour-market-developments-in-albania-formal-versus-informal-dlp-3281.pdf>.

economy since the privatisation of the economy began. However, this method identifies this trend across all economies globally.

Figure 2: Size of undeclared economy in Albania, 1991-2015, percent of official GDP



Source: Medina and Schneider (2018)

In 2015, the Albanian government disclosed that the undeclared economy made up 50 percent of GDP. In 2015, the Albanian government increased its focus on undeclared work and undertook diverse actions to mitigate its size. The General Directorate of Taxation (GDT) which was the main body leading the fight against undeclared work, produced a report in 2015 which comprises some figures that illustrate the level of undeclared work. According to this report, in 2015, 37,371 businesses were newly registered, with an increase of 188 percent compared with 2014. Not surprisingly 98 percent of these newly registered businesses started up during August-December 2015, when the first campaign against undeclared work took place.¹¹

Other direct methods have displayed estimations of different patterns of the undeclared economy in Albania. SELDI (2016) conducted a survey in Albania with 1,050 households and the results revealed that 39 percent of respondents were employed in the undeclared sector while 40 percent were without written contract. The same survey uncovered that 39.75 percent of employees declare not to have a written contract with their employer, 30.29 percent of employees declare that they do not pay for social and health security benefits while 28.82 percent of employees declare to pay social security on minimum wage and 18.9 percent receive higher remuneration than in contracts.¹²

¹¹ GTD (2015), Annual report, Tirana, Albania.

¹² SELDI (2016), "Hidden Economy and Good Governance in Southeast Europe Regional Assessment Report," http://seldi.net/fileadmin/public/PDF/Publications/HIDDEN_ECONOMY_06.pdf.

Other studies measure undeclared work based on inspections conducted by the SLI. During 2017, SLI inspected 7,958 enterprises and reported that 706 employees were without security while 1,575 employees were without any written contract.¹³

The National Business Forum (2015) conducted a survey with 400 businesses in Albania and revealed that businesses in their sector hide 31 percent of their annual sales. They exploited even an artificial increase of their annual expenses with 33 percent so as to escape a higher profit tax amount. In terms of undeclared work, the same survey revealed that businesses do not report to the tax authorities 29 percent of their labour force. Businesses that do report the actual number of their employees use other manoeuvres to remain paying less taxes such as paying envelope wages.¹⁴

INSTAT (2017) reported that in 2016 the share of unregistered employment in the non-agricultural sector is 31.9 percent, a decrease compared to 2015 when this value was at 34.1 percent.¹⁵

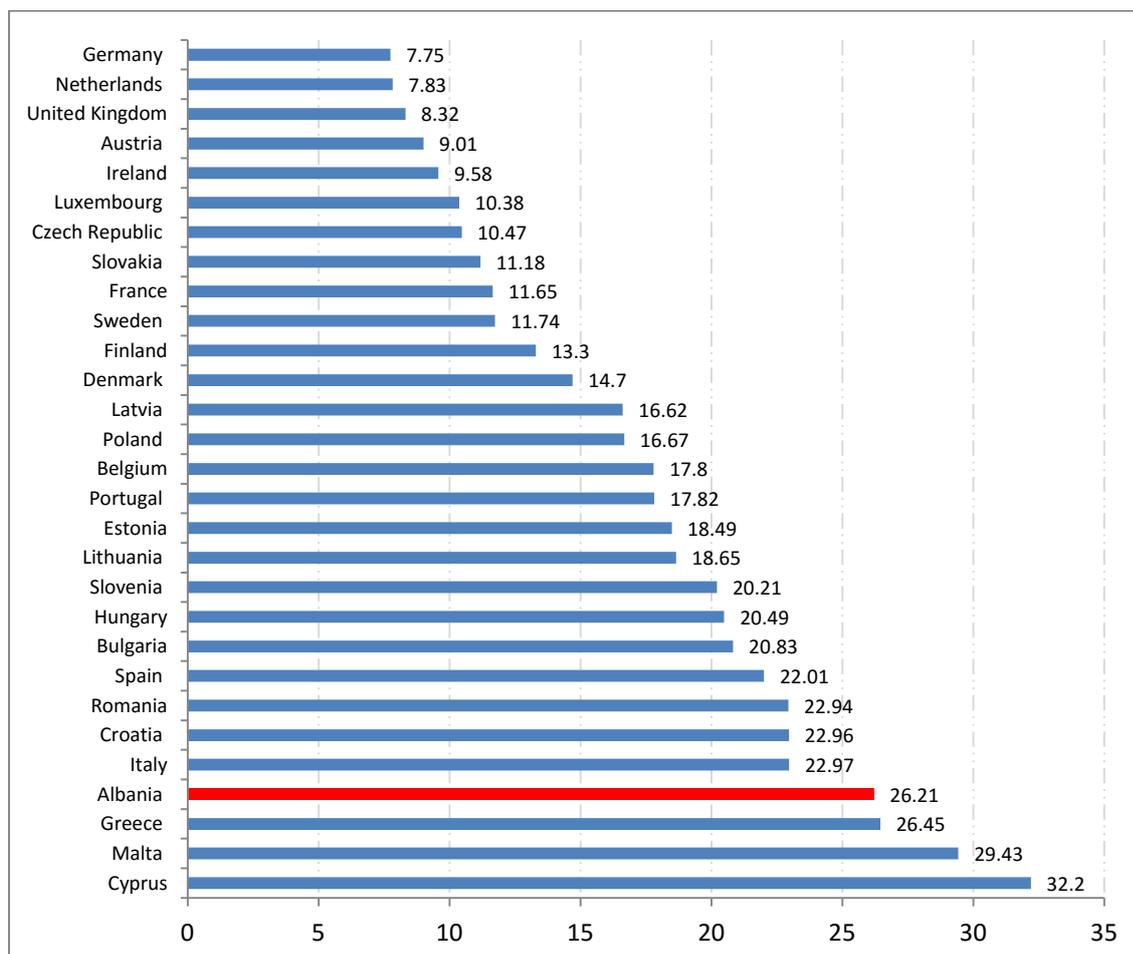
Figure 3 provides an estimate of the size of the Albanian undeclared economy relative to the EU-28.

Figure 3: Size of undeclared economy in Albania versus EU 28 as percentage of GDP, using MIMIC approach, by country, 2015

¹³ Albanian State Labour Inspectorate (2017), Annual report, Tirana, Albania.

¹⁴ Kosta, B. (2016), "National Business Forum perspectives on the issue of informality in Albania," https://www.researchgate.net/publication/323116733_NATIONAL_BUSINESS_FORUM_PERSPECTIVES_ON_THE_ISSUE_OF_INFORMALITY_IN_ALBANIA.

¹⁵ INSTAT (2016), Labour Market, <http://www.instat.gov.al/media/1914/tregu-i-pun%C3%ABs-2016.pdf>.



Source: Medina and Schneider (2018)

The World Bank Enterprise Survey is a prominent direct method used to estimate some patterns of the undeclared economy. Business owners and top managers in 360 firms in Albania were interviewed from March 2013 through July 2013. Formal (registered) companies with 5 or more employees were targeted for interview and the results are displayed in Table 1. Besides the fact that the percentage is lower than globally (but a little bit bigger than Europe and Central Asia), it is worth noting that Albanian formal businesses consider as a constraint competing against unregistered or informal enterprises.

Table 1: Prevalence and impacts of informal enterprises in Albania, 2013

Indicator	Albania	Europe and Central Asia	All Countries Globally
Percent of firms formally registered when they started operations in the country	99.1	98	88.7
Number of years operated without formal registration	0	0.3	0.7
Percent of firms competing against unregistered or informal firms	40.2	38.1	54.3
Percent of firms identifying practices of competitors in the informal sector as a	19.9	19.5	28.3



major constraint			
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Source: World Bank Enterprise Survey 2013,

<http://www.enterprisesurveys.org/data/exploreeconomies/2013/albania#informality>

3.2 Characteristics of the undeclared economy

Albania is distinguished by high levels of self-employment and a large share of micro and small enterprises. Accordingly, this helps facilitate the widespread presence of undeclared economy. This argument was brought to government attention in 2017 and urged them to employ mechanisms that motivate/oblige micro and small businesses to emerge from the shadows.¹⁶ According to the Results of Structural Survey of Economic Enterprises conducted by INSTAT (2016), micro (1-4 employees), small (5-9 employees) and medium-sized enterprises (10-49 employees) constitute 99 percent of businesses in the Albanian economy.¹⁷ In addition, they employ 60 percent of the Albanian labour force. To make a comparative analysis with the EU-28, we should revise the numbers accordingly. Hence, if we categorise the Albanian businesses according to their size based on EU standards (1-9 micro, 10-49 small, 50-249 medium, 250 + big), 99.9 percent of Albanian businesses consist of small and medium-sized enterprises and only 0.1 percent are big businesses, compared with 99.8 percent in the EU-28. In terms of the share of employees, micro, small and medium-sized enterprises (SMEs) (up to 250 employees) employ 81 percent of labour force while big businesses employ 19 percent of labour force in Albania (INSTAT, 2016). In comparison with EU-28, in 2016 SMEs employed 67 percent of the labour force. Indeed, micro enterprises with 1-9 employees represent 95 percent of all enterprises in Albania, employing 41 percent of the labour force (whilst in the EU-28 this is below 30 percent).¹⁸ Albania also has a very high percentage of self-employed people at a rate of 34.9 percent, compared with 14 percent across the EU-28.¹⁹ This structural feature of the Albanian economy certainly helps understand the prevalence of undeclared work. Other features exist, however, that need to be also recognised.

The undeclared economy includes both wholly undeclared work and quasi-formal employment. Undeclared work refers to unregistered employees without a contract who work for a business or a household as family members or private tutors. They may be Albanian citizens, legal immigrants or immigrants with an irregular status. These workers might be secondary or multiple job holders who have social security coverage in their main job but do not contribute in their second job, or they may be pensioners, students, or others not in additional forms of undeclared employment.

Besides undeclared waged employment, there is also undeclared own-account work conducted on a self-employed basis under a civil contract where all or some of their transactions are not declared. Many of these self-employed may well be “dependent self-employed” in that they are self-employed officially but possess all the characteristics of an employee.

¹⁶ In 2018, the Albanian government decided to reduce the VAT threshold thus to include into the scheme as many businesses as possible (most of them SME).

¹⁷ The size of the businesses is according to the number of employees (0-4 micro; 5-9 small; 10-49 medium; 50+ big), <http://www.instat.gov.al/media/3777/asn-sbs-2016.pdf>.

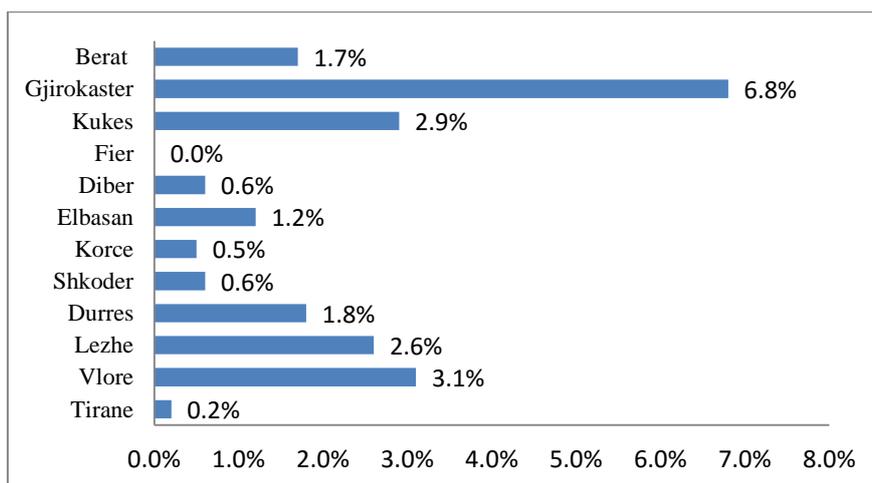
¹⁸ INSTAT (2016), <http://www.instat.gov.al/media/3840/rezultatet-e-sme-nga-asn-2016-vs.pdf>.

¹⁹ INSTAT (2016), <http://www.instat.gov.al/al/temat/tregu-i-pun%C3%ABs-dhe-arsimi/pun%C3%ABsimi-dhe-papun%C3%ABsia/publikimet/2017/njoftim-p%C3%ABr-media-tregu-i-pun%C3%ABs-2016/>.

Quasi-formal employment, meanwhile, here refers to the illegal employer practice of salary under-reporting, including the practice of formal employers paying their formal employees two salaries: (a) an official salary declared for tax, social security and labour law purposes, and (b) an additional undeclared remuneration received “under the table” or by “envelope”. Another typology of quasi-formal employment is where businesses employ a person on a part-time contract, but they work full-time. Authorities find it difficult to track this kind of employment.

For example, Figure 4 underlines the regional variations of employees without any contract in Albania during 2017. These rates (the number of employees without contract divided by the total number of inspected employees per each region) range from 0 percent to 6.8 percent. It is to be noted that these statistics presented by the labour inspectorate on the number of employees without any written contract are not representative of the population as they are not based on a representative or random sample of businesses. Hence, conclusions on the population cannot be drawn from these figures.

Figure 4: Employees per region without any written contract, 2017



Source: State Labour Inspectorate, annual report 2017

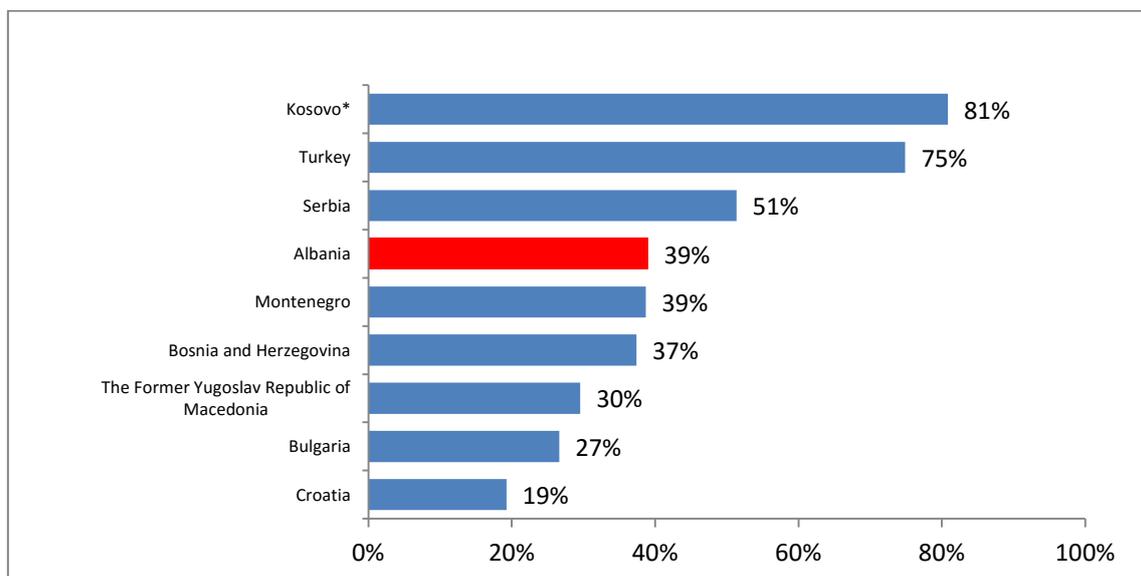
The lack of representative statistics in Albania impedes understanding of the nature of undeclared work. Some national representative surveys are carried out which provide some interesting indicators that describe the nature of undeclared work. One of the most prominent surveys was conducted in January and February 2016, in the framework of SELDI.²⁰ The sample size was 1,050 household and the instrument was in Albanian language.

Figure 5: Employed in the Hidden Economy

(Percentage of the employed in a main paid job, for which at least one of the below was true)²¹

²⁰ Southeast Europe Leadership for Development and Integrity (SELDI) is an anti-corruption and good governance coalition created in November 2012 by 17 likeminded CSOs in Southeast Europe, involving partners from nine countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo*, The Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey). More information could be found here: <http://seldi.net/home/>. Kosovo*- This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

²¹ Definition of Hidden Employment is at least one of the following: No written contract with the employer at the main job; the actual remuneration received last month was higher than the one written in the contract with the main employer; no social security was paid on the main job; the base for the social security paid was at the minimum wage level, although the actual salary was higher; the base for the social



Source: Center for the Study of Democracy (CSD)/SELDI Hidden Economy Survey, 2016

Analysing the types of undeclared work undertaken by participants in the 12 months prior to the survey in 2016, it was revealed that 39.75 percent of employees declare not to have a written contract with their employer, 30.29 percent of employees declare that they do not pay for social and health security benefits and 28.82 percent of employees declare to pay social security on minimum wage.

Having a comprehensive understanding of the nature of the undeclared economy requires reliable and representative sources of data. In Albania, there are few official sources worth referring to. Nevertheless, some think tanks have conducted national surveys with households and business community and try building a clear landscape of the nature of this phenomenon. One of the most prominent representative surveys conducted in Albania on the characteristics of the undeclared economy is the World Bank Enterprise Survey conducted in 2013. Business owners and top managers in 360 firms were interviewed from March 2013 through July 2013, through face-to-face method in the national language using a stratified random sampling methodology.²²

Among the results that should be singled out is the percentage of firms competing against unregistered or informal firms. 40.2 percent of surveyed businesses accept that they do compete with unregistered/informal businesses, which is a bigger number compared to Europe and Central Asia. Manufacturing firms are more likely to compete against unregistered or informal firms, followed by service sector businesses (41.2 percent compared with 39.7 percent). The same is true when it comes to the percentage of firms identifying practices of competitors in the informal sector as a major constraint. A higher percentage of manufacturing firms (23.4 percent) consider other informal businesses as a major constraint compared to the service sector firms (18.1 percent).

Table 2: Prevalence and impacts of the undeclared economy: by sector

security paid was the amount written in the contract but the actual amount received was higher; no health insurance was paid on the main job.

²² World Bank, Enterprise Survey, <http://www.enterprisesurveys.org/data/exploreeconomies/2013/albania>.

Indicator	Albania	Europe and Central Asia	All Countries Globally
% of firms formally registered when they started operations in the country	99.1	98	88.7
<i>All Manufacturing</i>	99.6	97.8	87.1
<i>All services</i>	98.8	98.1	89.3
Number of years operated without formal registration	0	0.3	0.7
<i>All Manufacturing</i>	0	0.4	0.9
<i>All Services</i>	0	0.2	0.6
% of firms competing against unregistered or informal firms	40.2	38.1	54.3
<i>All Manufacturing</i>	41.2	36.1	53.3
<i>All Services</i>	39.7	39.1	54.7
% of firms identifying practices of competitors in the informal sector as a major constraint	19.9	19.5	28.3
<i>All Manufacturing</i>	23.4	18.2	28.4
<i>All Services</i>	18.1	20.3	28.2

Source: World Bank Enterprise Survey 2013,

<http://www.enterprisesurveys.org/data/exploreconomies/2013/albania#informality--sector>

Turning to how the prevalence and impacts of the undeclared sector vary by firm size, Table 3 reveals that smaller formal businesses were more likely to have started up unregistered than larger firms. Not surprisingly, there is a higher percentage of small businesses that consider practices of competitors in the undeclared sector as a major constraint. It is similarly the case that the percentage of small businesses competing against unregistered/informal businesses is bigger compared to medium and large businesses.

Table 3: Prevalence and impacts of the undeclared economy: by firm size

Indicator	Albania	Europe and Central Asia	All Countries Globally
% of firms formally registered when they started operations in the country	99.1	98	88.7
<i>Small (5-19)</i>	98.8	97.8	87.3
<i>Medium (20-99)</i>	100	98	91
<i>Large (100+)</i>	100	98.8	92.9
Number of years operated without formal registration	0	0.3	0.7
<i>Small (5-19)</i>	0	0.2	0.7
<i>Medium (20-99)</i>	0	0.3	0.7
<i>Large (100+)</i>	0	0.7	0.9

% of firms competing against unregistered or informal firms	40.2	38.1	54.3
<i>Small (5-19)</i>	45.7	39.4	56.5
<i>Medium (20-99)</i>	24.9	37.7	51.9
<i>Large (100+)</i>	26.3	30.2	45.5
% of firms identifying practices of competitors in the informal sector as a major constraint	19.9	19.5	28.3
<i>Small (5-19)</i>	23.5	20.3	29.8
<i>Medium (20-99)</i>	10.3	19.1	26.6
<i>Large (100+)</i>	2.3	16.1	23.2

Source: World Bank Enterprise Survey 2013,

<http://www.enterprisesurveys.org/data/exploreeconomies/2013/albania#informality--size>

Table 4 examines whether there are regional variations in the prevalence and impacts of the undeclared economy within Albania. The results indicate profound variations on regional basis, especially when it comes to the percentage of firms identifying practices of competitors in the undeclared sector as a major constraint. 51 percent of businesses operating in Fier and Vlora consider the practices of competitors in the undeclared sector as a major constraint, followed by 27.3 percent of Durres and Shkodra, Tirana with 17.4 percent and Elbasan and Korca with 11.5 percent.

In terms of formal businesses competing against unregistered/informal ones, businesses operating in Durres and Shkoder consider themselves least likely to compete with this category.

Table 4: Prevalence and impacts of the undeclared economy: by region

Indicator	Albania	Europe and Central Asia	All Countries Globally
% of firms formally registered when they started operations in the country	99.1	98	88.7
<i>Tirana</i>	99.1		
<i>Elbasan and Korca</i>	100		
<i>Durres and Shkoder</i>	97.7		
<i>Fier and Vlore</i>	100		
Number of years operated without formal registration	0	0.3	0.7
<i>Tirana</i>	0		
<i>Elbasan and Korca</i>	0		
<i>Durres and Shkoder</i>	0		
<i>Fier and Vlore</i>	0		
% of firms competing against unregistered or informal firms	40.2	38.1	54.3

<i>Tirana</i>	35.8		
<i>Elbasan and Korca</i>	60.3		
<i>Durres and Shkoder</i>	27.6		
<i>Fier and Vlore</i>	72.5		
% of firms identifying practices of competitors in the informal sector as a major constraint	19.9	19.5	28.3
<i>Tirana</i>	17.4		
<i>Elbasan and Korca</i>	11.5		
<i>Durres and Shkoder</i>	27.3		
<i>Fier and Vlore</i>	51		

Source: World Bank Enterprise Survey 2013,

<http://www.enterprisesurveys.org/data/exploreeconomies/2013/albania#informality--location>

Table 5 reveals whether the prevalence and impacts of the undeclared economy vary by whether firms export or not. This reveals that non-exporting formal businesses were more likely to have started up unregistered than businesses that directly export 10 percent or more of their sales. It also reveals that non-exporting businesses are more likely to witness competition from unregistered or informal firms. In addition, they are more likely to state that the practices of competitors in the undeclared sector are a major constraint.

Table 5: Prevalence and impacts of the undeclared economy: by export propensity

Indicator	Albania	Europe and Central Asia	All Countries Globally
% of firms formally registered when they started operations in the country	99.1	98	88.7
<i>Direct exports are 10% or more of sales</i>	100	97.7	90.09
<i>Non-exporter</i>	99	98.1	88.4
Number of years operated without formal registration	0	0.3	0.7
<i>Direct exports are 10% or more of sales</i>	0	0.5	0.7
<i>Non-exporter</i>	0	0.3	0.7
% of firms competing against unregistered or informal firms	40.2	38.1	54.3
<i>Direct exports are 10% or more of sales</i>	16.3	31.3	47.6
<i>Non-exporter</i>	41.3	39.6	55.3
% of firms identifying practices of competitors in the informal sector as a major constraint	19.9	19.5	28.3
<i>Direct exports are 10% or more of sales</i>	7.8	16.5	22.6
<i>Non-exporter</i>	19.5	20.2	28.9

Source: World Bank Enterprise Survey 2013,

<http://www.enterprisesurveys.org/data/exploreeconomies/2013/albania#informality--exporter-type>

Table 6 reveals whether the prevalence and impacts of the undeclared economy vary by the gender of the manager. This reveals that formal businesses in which the top manager is female were more likely to have started up unregistered than businesses where the top manager is a man. Females are more likely to consider themselves competing against unregistered/informal businesses while reversely males are more likely to state that practices of informal businesses constitute a major constraint.

Table 6: Prevalence and impacts of the undeclared economy: by gender of manager

Indicator	Albania	Europe and Central Asia	All Countries Globally
% of firms formally registered when they started operations in the country	99.1	98	88.7
<i>Top manager is female</i>	98.9	98.6	88.7
<i>Top manager is male</i>	99.1	97.8	88.6
Number of years operated without formal registration	0	0.3	0.7
<i>Top manager is female</i>	0	0.2	0.6
<i>Top manager is male</i>	0	0.3	0.7
% of firms competing against unregistered or informal firms	40.2	38.1	54.3
<i>Top manager is female</i>	56	34.5	53.6
<i>Top manager is male</i>	38.4	39.1	54.6
% of firms identifying practices of competitors in the informal sector as a major constraint	19.9	19.5	28.3
<i>Top manager is female</i>	17.8	19.2	30
<i>Top manager is male</i>	20.3	19.5	28.1

Source: World Bank Enterprise Survey 2013,

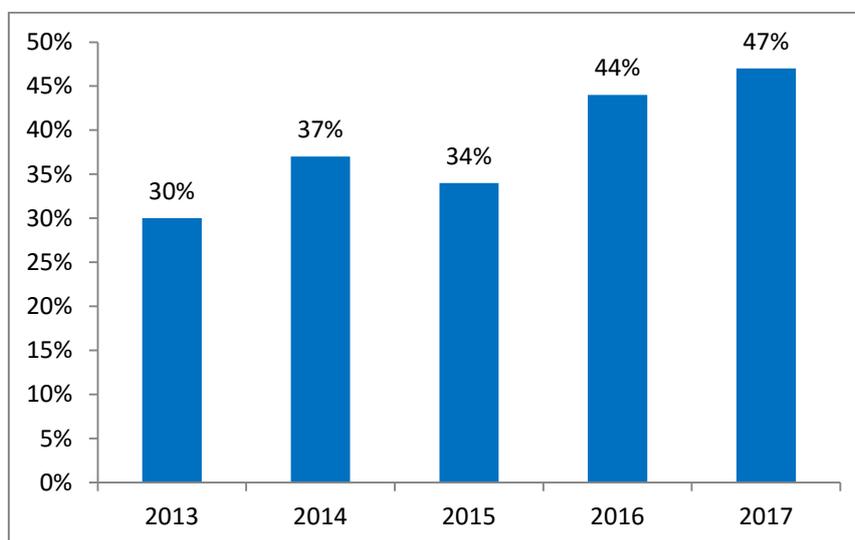
<http://www.enterprisesurveys.org/data/exploreconomies/2013/albania#informality--gender-of-top-manager>

4 Barriers to formalisation in Albania: Drivers of the undeclared economy

As the analytical framework in section 2.1 highlighted, undeclared work arises when the failings and imperfections of formal institutions result in an asymmetry between state morality (the laws and regulations) and citizen morality (citizens' norms, values and beliefs regarding the acceptability of these laws and regulations). In Figure 6, an indication is provided of the degree to which state morality and citizen morality appear not to be aligned in Albania by examining the level of citizens' trust in the Albanian government. Due to the lack of historical data on this indicator, the figure below displays five years only. The percentages indicate the share of the surveyed people that have trust in government. It seems that in 2014 citizens trusted the Albanian government more than in 2013 and 2016. This is when the new government took over in 2013 and undertook a set of reforms in 2014. This is reflected in the

increase of citizens' trust in the government. In 2015 the trust of citizens in the government decreased.

Figure 6: Trust in Albanian government, 2013-2015.



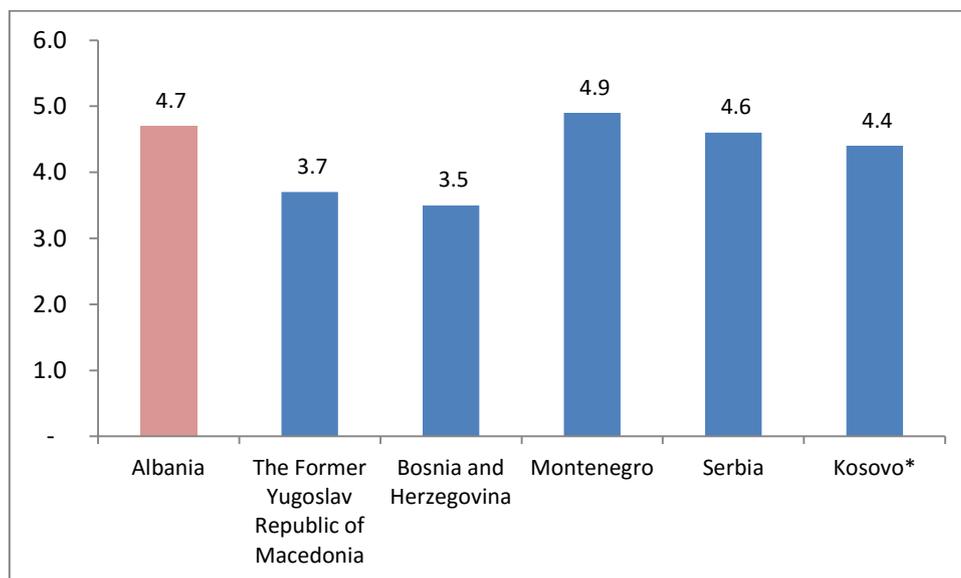
Source: IDM, 2013, 2014, 2015, 2016, 2017²³

In a recent comparative study conducted by INFORM, households are asked “*Based on your own experience, what is your trust in state institutions in our country (like courts, police, government)?*”.²⁴ This is measured using the Likert scale where 1 means no trust at all while 10 signifies complete trust. The results reveal that Albanians have almost an average trust in the state institutions.

Figure 7: Trust in state institutions

²³ Available at http://www.al.undp.org/content/dam/albania/docs/misc/Factsheet_opinion_poll_eng.pdf, http://idmalbania.org/wp-content/uploads/2016/02/Opinion-Poll_trust-in-government_2015.pdf, <http://idmalbania.org/public-opinion-poll-trust-in-governance-2016/>, <http://idmalbania.org/wp-content/uploads/2018/03/IDM-OpinionPoll-2017-EN-web.pdf>.

²⁴ This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No. 693537.



Source: INFORM, 2017

A robust theoretical framework would help to shed light on the institutional failings that result in the non-alignment of citizen morality with that of the state which gave rise to the widespread prevalence of undeclared economy. There is plethora of cross-national studies revealing that the failings and imperfections in the formal institutions that result in an asymmetry between state morality and citizen morality, and therefore the prevalence of undeclared work, are:

- lower GDP per capita;
- higher corruption and lower quality of governance;
- lower expenditure on labour market interventions to help the most vulnerable groups;
- lower levels of social expenditure, welfare provision and higher levels of poverty.

Considering each of these theoretically widely accepted formal institutional failings, the following pages set out data that describe trends and potential policy interventions for transforming undeclared work into declared work.

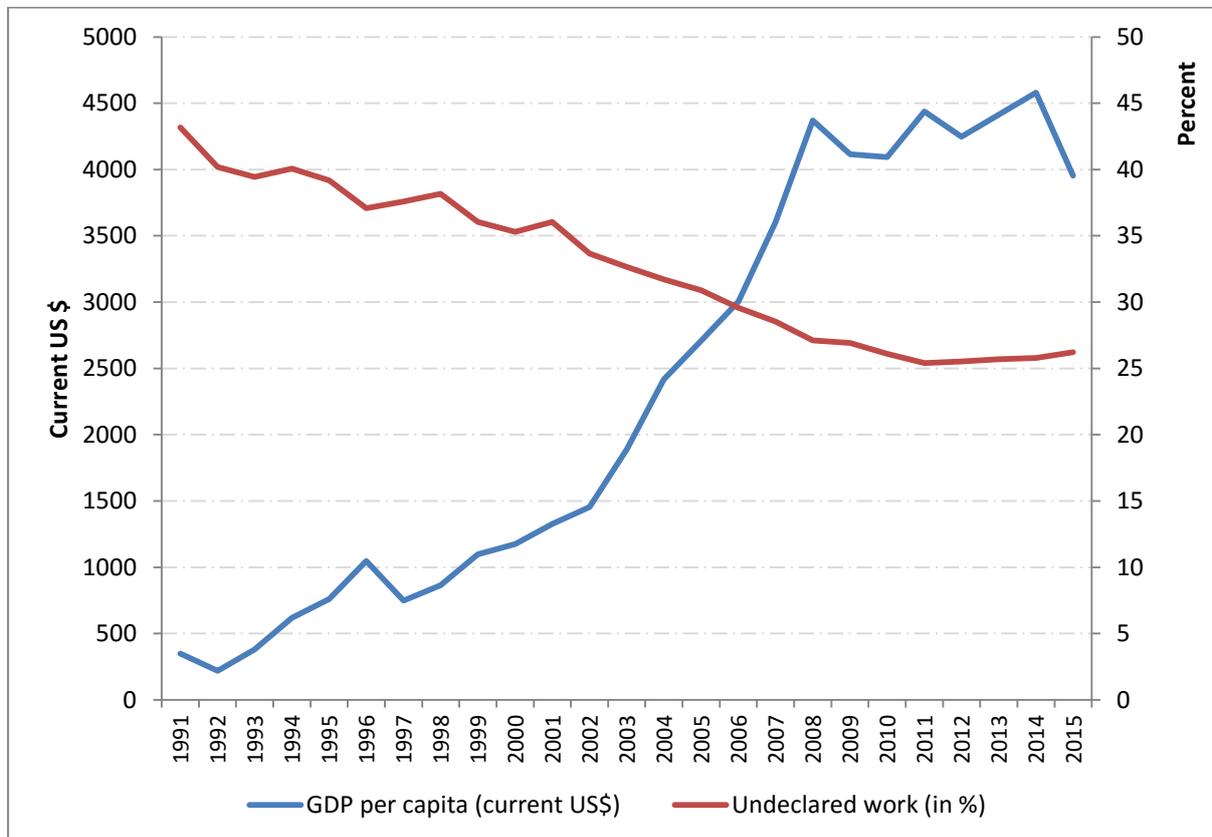
Figure 8 examines the trends in GDP per capita (in current US dollars) in Albania, which has been widely identified as strongly correlated with the size of the undeclared economy; the lower the GDP per capita, the larger the undeclared economy (ILO, 2013; Williams 2014a,b,c,d, 2015a,b, 2016; Williams and Horodnic, 2016).

This is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars. Figure 8 shows that GDP per capita in Albania has been generally growing since 1991. This should result in a decline in undeclared economy which is already confirmed by the MIMIC estimates on the size of undeclared economy in Albania. Nevertheless, the decline of GDP per capita starting from 2014 gave cause for concern that there might have been a recent growth in the size of the undeclared economy. However, Albanian public officials claimed that there is a decrease in undeclared economy due to the



campaign against undeclared work which started in September 2015 but without any specific measurement to illustrate this accepted reduction.

Figure 8: GDP per capita in current US dollars and undeclared work measured using MIMIC estimation method



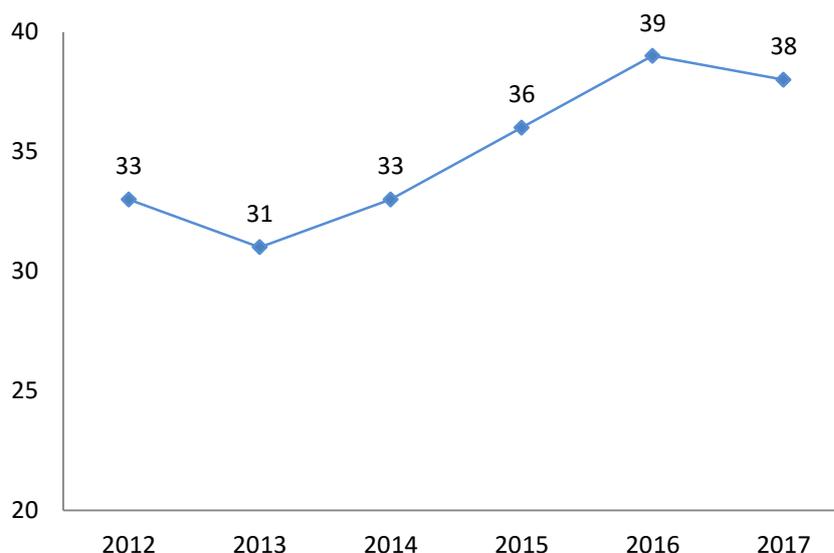
Source: World Bank for the GDP per capita and Medina & Schneider for the level of undeclared work.

Lower GDP per capita is not the only formal institutional failing which results in a higher level of undeclared economy. Another key determinant is the perceived level of corruption and quality of governance. The higher the perceived level of corruption and the lower the perceived quality of governance, the more prevalent is the undeclared economy (see section 2.1). Transparency International (TI) produces the Corruption Perceptions Index which scores countries on a scale from 0 (highly corrupt) to 100 (very clean) (TI, 2017). In the last five years, Albania experienced some improvements with the adoption of a ground-breaking judicial reform package – the first of its kind in the region. This milestone may be attributed to the recent European Union enlargement strategy and its efforts. In 2017, Albania was ranked 91st out of 180 nations globally (and equal with Bosnia and Herzegovina). As showcased in Figure 9, the rating has steadily improved from 33 in 2012 to 39 in 2016, followed by a one point drop (worsening) in 2017.

Reducing the level of undeclared work would primarily require policy interventions to fight the phenomenon of corruption and improvement of the quality of governance. This could be achieved by further advancement on the implementation of the judiciary reform in Albania, getting rid of clientelist relations of politicians with their electorate, enforcing the institutional and legal framework to combat corruption, etc. From this angle, the phenomenon of the undeclared economy and its reduction in the long-run is nothing more than a social

development issue. Thus, the government campaign against undeclared work should not be purely economic or fiscal but a comprehensive social policy. As elaborated in SELDI report (2016), policies tackling the undeclared economy should be blended with intervention policies to reduce the corruption level and enhance law enforcement.²⁵

Figure 9: Corruption perceptions index for Albania



Source: Transparency International dataset

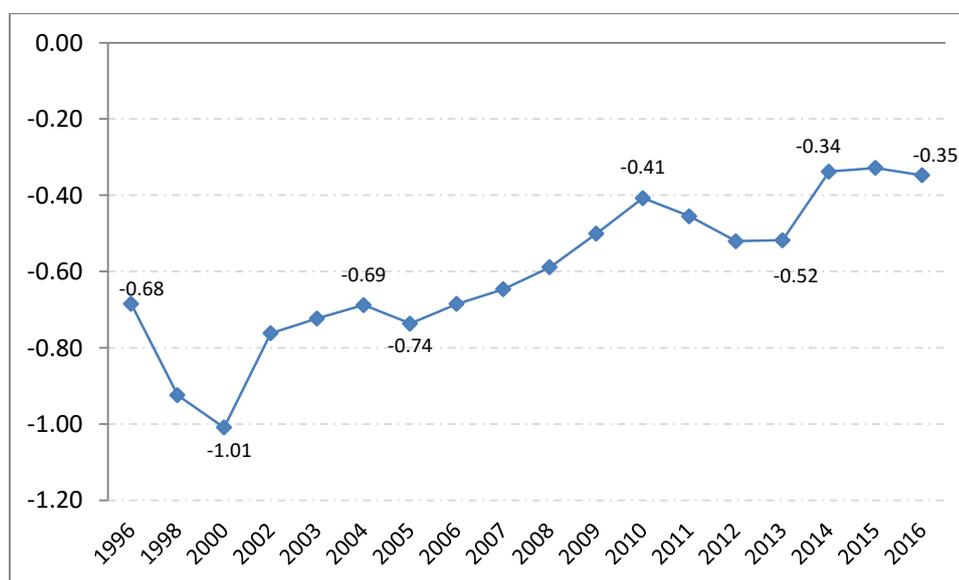
Many stakeholders in several studies have argued that the high tax rates are to blame for the level of undeclared work in Albania. However, a multitude of studies reveal that there is little, if any, evidence that higher tax rates are significantly correlated with higher levels of undeclared work (Friedmann et al., 2000; Ihrig and Moe, 2000; Kuehn, 2007; Schneider, 2002; Williams, 2014a,b,c,d, 2015a,b, 2016; Williams and Martinez-Perez, 2014; Williams and Horodnic, 2016). For example, Vanderseypen *et al.* (2013) in the European Commission's annual *Economic and Social Developments in Europe 2013*, examined the relationship between undeclared work and various tax rate variables, namely the implicit tax rate on labour, the share of labour wages in total taxes, and the tax wedge on labour. They found no statistically significant correlation between the prevalence of undeclared work and tax rates. So, tax reductions that have been taking place in Albania and have been implemented without any prior consultation or impact analysis are not the way forward. Instead, the situation is more complex. On the one hand, in societies where citizen morality and state morality are aligned, tax rates can be high since citizens realise that taxes are the price they pay for a civilised society. Tax rates, therefore, are not the problem. It is the lack of trust in the state and belief that they do not receive appropriate public goods and services for the taxes they pay. This was also admitted by various stakeholders during the in-depth interviews.

²⁵ SELDI (2016), "Hidden Economy and Good Governance in Southeast Europe Regional Assessment Report," http://seldi.net/fileadmin/public/PDF/Publications/HIDDEN_ECONOMY_06.pdf.

The quality of governance is measured using various indicators estimated by the World Bank. They include rule of law, control of corruption, regulatory quality and government effectiveness.

One helpful token indicating the asymmetry between state morality and citizen morality is the rule of law. The rule of law mirrors perceptions of confidence level in and abiding by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence (World Bank). This indicator, which ranges between -2.5 (stands for a weak governance performance) to 2.5 (stands for a strong governance performance), establishes the foundation for measuring the Albanian institutional asymmetry and how vertical trust (i.e. lack of citizen trust in the state) has been varying. Considering the values between 1996 and 2016, as clearly showcased in Figure 10, there has been a general improvement of the Albanians' confidence level in the rule of law, with some fluctuations especially in 2010. Nevertheless, the slight decline after 2015 should be considered cautiously. Kirchler (2007), Torgler (2007) Williams and Horodnic (2017) theoretically argue that this determinant is a key reason for the prevalence of undeclared work and the fiscal authorities being unable to meet their tax receipt goals, the labour inspectorate witnessing labour law violations and the social insurance bodies witnessing social insurance non-payment.

Figure 10: Rule of Law in Albania

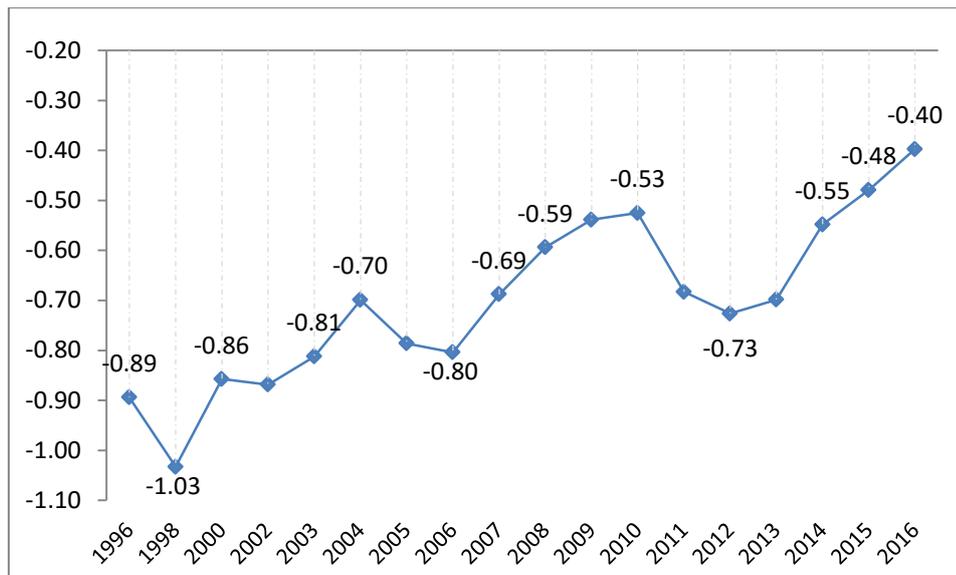


Source: The Worldwide Governance Indicators dataset

Control of corruption reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as capture of the state by elites and private interests (World Bank, 2017). This indicator's value varies between -2.5 (weak) and 2.5 (strong) for governance performance. Figure 11 displays its variations over the last twenty years. It is obvious from the graph that the control of corruption saw improvement, but still its values remain negative. Thus, the Albanian government should continue working to better and effectively control the corruption. Obviously, the judiciary

reform, law enforcement, strengthening of institutional framework, etc. would yield an improvement of this indicator. This would produce further reduction of the undeclared economy.

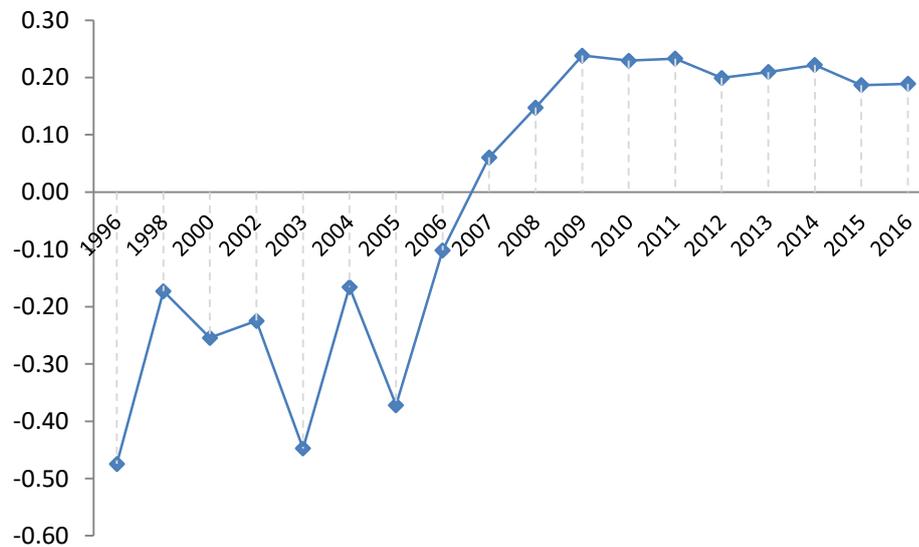
Figure 11: Control of Corruption in Albania



Source: The Worldwide Governance Indicators dataset

Another indicator that captures the quality of governance is regulatory quality. Figure 12 provides an estimate of regulatory quality in Albania which reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development (World Bank, 2017). The estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, ranging from approximately -2.5 (weak) to 2.5 (strong) and estimates the governance performance. Obviously, Albanians' perceptions on the regulatory quality have vastly improved over the last twenty years. Nevertheless, there is a slight decrease of this indicator in 2014.

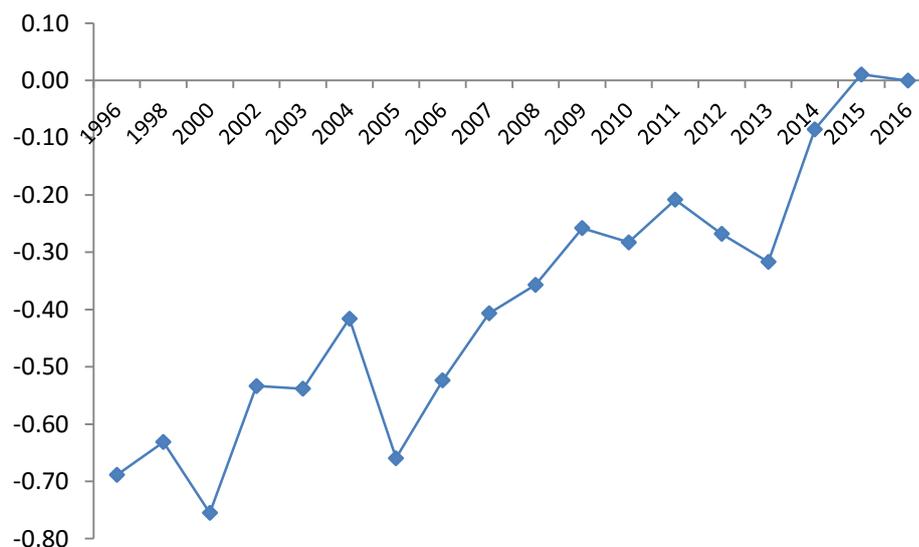
Figure 12: Regulatory Quality in Albania



Source: The Worldwide Governance Indicators dataset

A further measure of the quality of governance is the measure of government effectiveness. Figure 13 captures perceptions of the quality of public services, the quality of civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of government's commitment to such policies. Estimates give the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5. Figure 13 indicates an improvement of government effectiveness over the last twenty years.

Figure 13: Government effectiveness

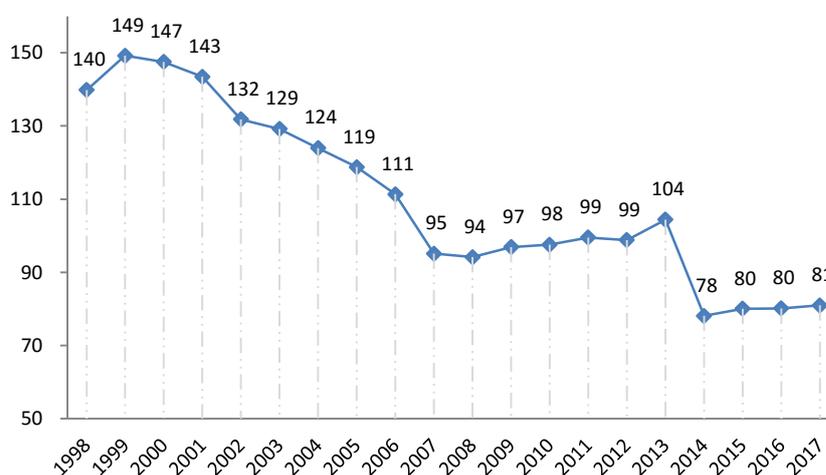


Source: The Worldwide Governance Indicators dataset



Another factor that determines the prevalence of undeclared work includes government social expenditure and the level of inequality (see section 2.1). The lower the level of social expenditure, the greater is the prevalence of the undeclared economy (Eurofound, 2013; Vanderseypen *et al.*, 2013; Williams, 2014 a, b, c, d, 2015 a, b, 2016). The greater the level of inequality, the greater is the prevalence of the undeclared economy. Figure 14 provides a proxy indicator of the level of social expenditure. Figure 14 examines the number of family members for whom public social assistance has been assigned. This reveals a decrease in recent years. If this continues, the prevalence of undeclared economy will increase.

Figure 14: Total number of families that receive social assistance, 1998-2017 (in thousands)



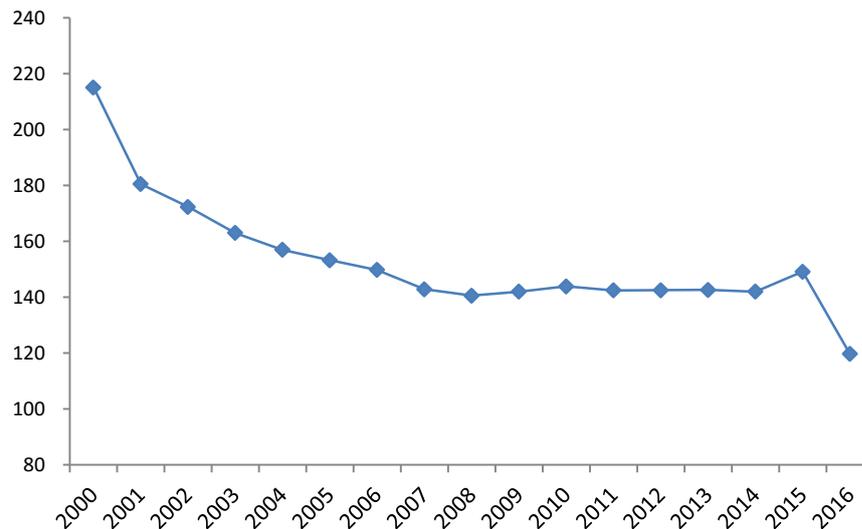
Source: INSTAT, 2018

Indeed, as Figure 15 reveals, the declining number of persons looking for a job provides some reinforcement for the supposition that the increase in the number of persons receiving social allowances marks a shift towards a more comprehensive “welfare safety net”. The EC report specifically states that the narrow coverage of active labour market policies and the weakness of employment services are coupled with limited links with passive social schemes. There is still no comprehensive approach to addressing the high level of undeclared work. The



share of active labour market policy beneficiaries increased to 5.5 percent in 2017. However, this happened due to a more stringent application of the legislation targeting non-active jobseekers.²⁶

Figure 15: Registered unemployed job seekers (in thousands)

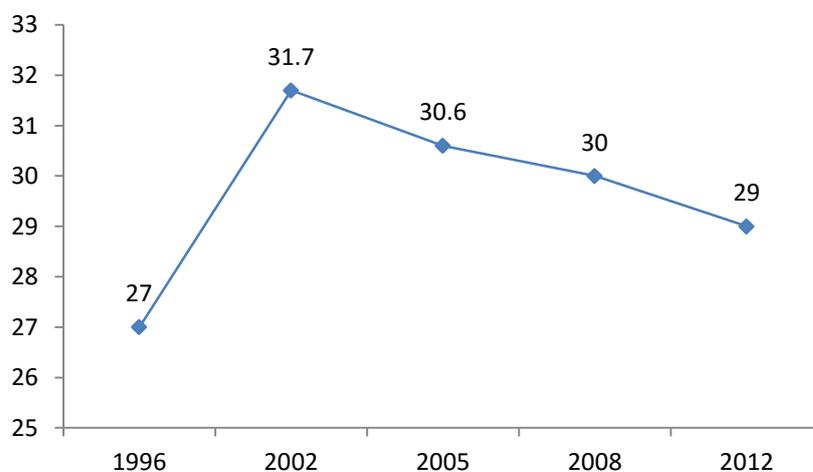


Source: INSTAT, 2018

Reviewing the literature on the determinants of the prevalence of the undeclared economy, it is revealed that the lower the level of inequality, the lower is the prevalence of the undeclared economy (Williams, 2014 a, b, c, d, 2015 a, b, 2016; Williams and Martinez-Perez, 2014; Williams and Horodnic, 2016). The Gini coefficient is a measure of statistical dispersion intended to represent the income or wealth distribution of a nation's residents, and is the most commonly used measurement of inequality. Its values vary between 0 (complete equality) to 1 (complete inequality). World Bank provides estimates of the Gini index for Albania and its respective values are displayed in Figure 16. The level of inequality has been improving over time (1996-2012). However, due to the lack of data after 2012, an up-to-date analysis cannot be provided.

Figure 16: Gini Index

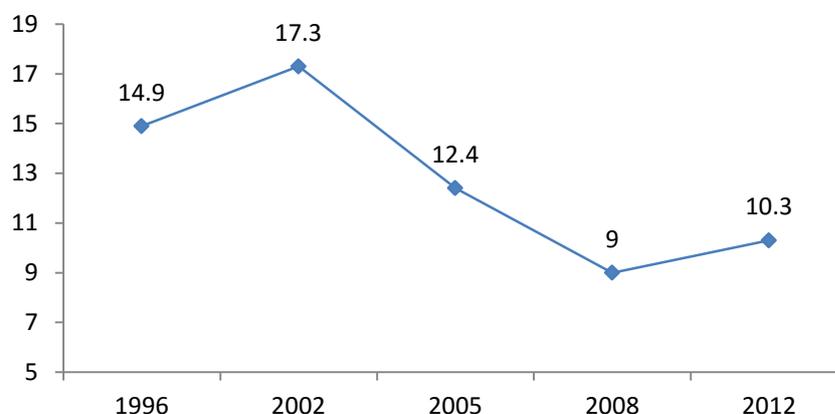
²⁶ EC (2018), Commission Staff Working Document Albania, Strasbourg, 17.4.2018, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-albania-report.pdf>.



Source: World Bank database

It is not only the level of inequality that determines the prevalence of undeclared economy, but also the level of poverty. Most participants in the undeclared economy are driven out of necessity into this area as a means of livelihood and as a last resort (ILO, 2016). Figure 17 provides a measure of poverty using an indicator of the poverty gap at \$5.50 a day (2011 PPP), which is the mean shortfall in income or consumption from the poverty line of \$5.50 a day (counting the non-poor as having zero shortfall), expressed as a percentage of the poverty line. This measure reflects the depth of poverty as well as its incidence. It is found to have markedly dropped in Albania between 2002 and 2008, although the rise in 2012 does provide cause for concern.

Figure 17: Poverty gap at \$5.50 a day (2011 ppp) (% of population)



Source: World Bank database

A final determinant of the prevalence of the undeclared economy is the level of expenditure on active labour market policies, especially to help vulnerable groups, as a percentage of GDP. This facilitates active labour market policies and a policy of employment-centred social inclusion. However, 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.²⁷ Drawing on the recent report of the EC, *active labour market policies are small in scope and employment services are weak, making their impact on the labour market low. The budget for active labour market policies is stagnating and no new measures have been implemented. 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.*²⁸

In sum, to tackle the undeclared economy 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.

It is important to highlight that many stakeholders identified some or all of these drivers during interviews with them. Given this identification of the drivers of undeclared economy,

²⁷ Analitika – Center for Social Research (2016), “Weak Labour Markets, Weak Policy Responses: Active Labour Market Policies in Albania, Bosnia and Herzegovina and Macedonia,” Sarajevo, <http://www.balkanfund.org/publib/thinkandlink/Weak-Labour-Markets-PRINT.pdf>.

²⁸ EC (2018), Commission Staff Working Document Albania, Strasbourg, 17.4.2018, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-albania-report.pdf>.

attention now turns to the organisation of the fight against the undeclared economy in Albania and an evaluation of the policy approach and measures being pursued.

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

5.1 Responsibilities of national authorities

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. Responsibility for tackling undeclared work is distributed across a range of institutions. Each of them is in charge for different segments of undeclared economy. Labour law violations are mostly under the responsibility of the State Labour Inspectorate, tax non-compliance responsibility is under tax administration and social security and insurance fraud violations are under social insurance bodies. There is currently little coordination in the fight against undeclared work across the multifarious institutions in strategic, operational or data-sharing terms, and no common cross-cutting strategic objectives or targets are available.

The following institutions deal directly/indirectly with the undeclared work in Albania.

Ministry of Finance and Economy

In 2017, the Ministry of Finance and the Ministry of Economic Development, Tourism, Trade and Entrepreneurship merged under the name of the Ministry of Finance and Economy; while the Ministry of Tourism was singled out and included the environment component (this ministry is called the Ministry of Tourism and Environment).²⁹ Considering the structural changes after 2017 elections, new responsibilities were assigned to the Ministry of Finance and Economy. Thus, the Council of Ministers adopted the Decision number 503, dated 13 September 2017 on “Defining the state responsibilities of the Ministry of Finance and Economy” drawing on Article 100 of the Constitution, item 2 and Article 5 of the law no. 90/2012 “On the organisation and functioning of public administration”.³⁰ Item three of this Decision outlines the areas of responsibilities of the Ministry and number 11 specifically states “Labour (employment) area”.

When examining item 4, it specifically describes that this Ministry is, among others, responsible for:

- Number 9: Development of state policies in the field of employment, in the field of immigration and labour immigration;
- Number 11: Development of policies in the field of labour relations, inspection, safety and health at the workplace;

²⁹ When the Socialist Party took over the second mandate in June 2017.

³⁰ Decision No. 503, dated 13.9.2017 “Determining responsibilities of the Ministry of Finance and Economy,” <http://qbz.gov.al/Botime/Akteindividuale/Janar%202017/Fletore%20166/VKM%20nr.%20503.%20date%2013.9.2017.pdf>.



- Number 12: Development and monitoring of policies, legislation and activities related to social security, as well as the process of co-ordination of work for social protection schemes with other countries;
- Number 17: Creating a supportive business climate and legislative-institutional environment through business promotion and market liberalisation, reducing administrative barriers and business costs for getting rid of undeclared work and corruption, relying on ongoing public-private partnerships.

The mandate of the Ministry of Finance and Economy was broadened to include (partially) the mandate of the former Ministries of Economy, Labour, and Employment. Such reorganisation mirrored only an increase from 293 to 323 staff members in the new Ministry.³¹

With regards to tackling undeclared work, the Ministry of Finance and Economy has under its jurisdiction the General Directorate of Taxation and the State Labour and Social Services Inspectorate (in this report it is referred to as the State Labour Inspectorate). Moving the SLI under the Ministry of Finance and Economy is positively seen by various stakeholders as increasing the efficiency with which undeclared work is tackled. During the in-depth interviews, it was admitted that a higher level of cooperation between the tax administration and the labour inspectorate is expected.

The State Labour and Social Services Inspectorate

The State Labour and Social Services Inspectorate was established in 1993 and now operates based on the Law number 9634, dated 30 October 2006 and amended in 2017, “Labour Inspection”. The overarching goal of SLI is to control all juridical and physical entities regarding the implementation of labour and social insurance legislation.

In accordance with Article 6, item 2 of the law no. 9634/2006, as amended, SLI is responsible to:

- Ensure implementation of legal provisions on working conditions and safety of workers at the workplace, duration of working hours, salaries, insurance, sanitation and welfare, employment of children, minors and women, as well as on other issues, closely related to them, to the extent to which labour inspectors are in charge of guaranteeing the implementation of these provisions;
- Provide technical data and advice to the employer and the employee;
- Notify the responsible authority of the deficiencies and abuses not specifically covered by the legal provisions in force, and propose means and instruments necessary for improvement of the situation.

It reports to the Ministry of Finance and Economy so as to ensure a unified policy for monitoring the implementation of labour legislation. SLI has the authority to freely enter all workplaces in the private and public sector, at any time of the day or night, even without prior notification.³² It carries out necessary examinations, monitoring or investigations of all

³¹ EC (2018), Commission Staff Working Document Albania, Strasbourg, 17.4.2018, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-albania-report.pdf>.

³² Article 13 of the law.



types, with a view to determining whether the provisions of labour legislation are being observed. It can temporarily suspend operation of the whole or part of an enterprise if the labour inspectors deem that workers' safety and health are directly at risk.³³ The total staff of SLI is 155 employees, of whom 98 are inspectors, 12 are heads of regional inspectorates and 45 are employees dealing with administration of the SLI or the office located in the Albanian capital Tirana.³⁴

During the in-depth interview with the Head of SLI, he admitted that labour inspectors lack professional capacities. Hence, he has established an internal group to provide training to the inspectors.

SLI responds to grievances and targets certain sectors or enterprises for inspections. Inspections are sometimes carried out jointly with Tax Administration. The head of SLI stressed that this institution is facing several problems which are related to limited resources (inspectors use their own cars and gasoline at their own expense because the institution cannot afford to have cars for inspectors) and very low number of inspectors. With the current number of inspectors this institution covers only 5 percent of the total registered enterprises. The Labour Inspection Law was amended in March 2017, but labour inspection is struggling with poor financial and human capacities.³⁵

SLI cooperates with the GDT to exchange information on registered entities. The GDT information should include, inter alia, data on the number of employees declared with the tax administration for each entity on a case-by-case basis, as well as the change in the number of declared employees.³⁶ Except for the action undertaken in the framework of the fight against undeclared work, there is usually no planned or coordinated cooperation between these two institutions, although they have overlapping competencies. Both institutions may, in parallel, even on the same day, decide to sanction a business for the same offense.³⁷

The current SLI philosophy is to see the business as a partner rather than as an enemy. Currently this inspectorate is working to launch a new website which will better serve to business needs.

Tax Administration

Tax Administration consists of the central tax administration, including the GDT, regional directorates and other units and local tax administration, including tax offices which are under the authority of local government. The central tax administration is a central institution, subordinated to the Ministry of Finance.³⁸ Based on Law No. 9920, dated 19 March 2008 "On Tax Procedures in the Republic of Albania", as amended, the Central Tax Administration consists of the General Directorate of Taxation and the Regional Tax Directorates (RTD). The GDT is the only central tax authority in Albania that implements and administers national taxes, public payments and collection of contributions.³⁹ This institution is responsible for drafting, monitoring and implementing operational strategies and

³³ Article 35 of the law.

³⁴ Albanian State Labour Inspectorate (2017), Annual report, Tirana, Albania.

³⁵ EC (2018), Commission Staff Working Document Albania, Strasbourg, 17.4.2018, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-albania-report.pdf>.

³⁶ Decision No.753, dated 8.9.2010 on the Cooperation of the State Labor Inspectorate with Institutions under the Ministry of Finance.

³⁷ Institute for Democracy and Mediation (2016), Labour Standards in Albania, http://idmalbania.org/wp-content/uploads/2017/02/IDM_Standardetpunes.pdf.

³⁸ Article 13: Tax Administration Organisation.

³⁹ Organisational Structure, <https://www.tatime.gov.al/c/8/42/50/struktura-organizative>.

policies. At the regional level, the institution has 14 RTDs. The Albanian tax administration has total of 1,569 employees, making the tax administration as one of the most important law enforcement institutions in the country.⁴⁰

The National Employment Service in Albania

The implementation of public employment services in the labour market in Albania is performed by the National Employment Service (NES) established by the Council of Ministers (CoM) decision *No. 42 (17.01.1998)* “On the approval of the status of the National Employment Service” amended by CoM Decision No. 263 (25.05.2000), amended by CoM Decision No. 17 (10.01.2003), and further amended by CoM Decision No.107 (23.02.2018) and Order No. 247 (18.10.2006) “On the approval of the structure and organigram of the National Employment Service” and Law No. 152/2013 on civil servants, amended by Law No. 178/2014 and Law No. 41/2017. NES is under the Ministry of Finance and Economy and its highest decision-making body is the tripartite administrative council which consists of 11 members and is chaired by the Minister of Finance and Economy.⁴¹

NES is an independent public body that aims to ensure exercise of the right of all resident citizens in Albania to vocational training, job retraining, and lucrative employment through employment services and participation in state labour market programmes. In particular, NES is responsible for information on the labour force and the unemployed, for professional orientation of the labour force, delivery of technical education and training, facilitating the link between labour demand and supply, and payment of benefits such as that for unemployment. The NES vision is defined in the National Strategy for Employment and Skills 2014-2020. With this focus, the National Employment and Skills Strategy 2014-2020 is centred on four strategic objectives: (i) encouraging decent work opportunities through productive labour market policies; (ii) provision of quality education and training for young people and adults; (iii) encouraging social inclusion and territorial cohesion; (iv) strengthening the governance of the labour market and qualification systems. The National Employment and Skills Strategy 2014-2020 aims at regulating active labour market policies, improving the education and vocational training system, reforming social protection systems and strengthening labour market management.⁴²

NES services (employment services and labour market programmes) are delivered through regional and local employment offices. NES delivers its services to all districts in Albania through 36 employment offices out of which 12 operate at district and 24 at local level. Today, the NES system functions in three levels: It includes the General Directorate, regional employment directorates, which are 12, and local offices. Regional offices have between 12 and 18 employees and local offices have 3 to 6 employees. 285 employees or 66 percent of total NES staff work in all the offices. NES Regional Directorate in Tirana is the largest in number, currently with 45 employees due to the size and the problems the labour market faces in this region. The General Directorate has 38 employees, accounting for 8.8 percent of

⁴⁰ GTD (2017), Annual report, <https://www.tatime.gov.al/c/8/42/49/strategjia-dhe-raporte>.

⁴¹ Available at

<http://www.qbz.gov.al/Botime/Akteindividuale/Janar%202018/Fletore%2027/VKM%20nr.%20107.%20date%2023.2.2018.pdf>.

⁴² Ministry of Social Welfare and Youth, Republic of Albania (2014), Employment and Skills Strategy 2014-2020- Higher skills and better jobs for all women and men, http://www.seeceel.hr/UserDocsImages/Documents/EMP-SKILLS-STRATEGY_Albania.pdf.



total staff. There are 10 Public Vocational Training Centres across the country, which have 110 employees or 25 percent of NES staff.

NES does not have any offices in rural areas.⁴³ This impedes wide participation of wide range of unemployed job-seekers, albeit they could visit the local offices. NES is responsible for maintaining the registry of unemployed in Albania. NES database is connected with the tax administration, from which they draw data on taxpayers.

In terms of undeclared work, NES is adversely impacted by this phenomenon and the difficulty to track this category makes the problem worse. NES endeavours to match the market needs with the appropriate demand for skills. Hence, it delivers trainings for specific categories of registered job-seekers at their offices. When NES provides employment options to people registered as unemployed, roughly 50 percent of them refuse them. This leaves room to think this category might be employed in the undeclared economy while at the same time receiving the unemployment benefit. If they accept the job offered, they would no longer receive this benefit. By the end of 2017, 47 percent of unemployed jobseekers registered at the employment offices were beneficiaries of unemployment benefit.⁴⁴ This is one of the biggest burdens for NES that prevents its effective operation. Furthermore, self-employed people who are not registered anywhere is another concern. According to the same source, the problem with self-employed people (include those people that farm their land in villages) is that they work without appearing in any data sets.

NES staff in 2017 was the same as in 2014 when the Strategy was drafted. The NES staffing ratio for registered jobseekers is low. This ratio has remained unchanged in the period 2008-2017 at the level of 0.25 percent.⁴⁵

Drawing on information outlined above and the in-depth interview with the NES representative, the following concerns could be highlighted: (i) access to employment services by the unemployed is not equal. Today, NES has only 36 Business Offices operating in the main municipalities of Albania. Despite the fact that access to rural area services is not limited by the law, distance of the offices makes it difficult for unemployed in these areas to get the relevant services; (ii) limited staff in local employment offices and lack of personnel dedicated to specific groups makes work with these groups difficult. There have been no changes in NES staff since 2014; (iii) the quality of services provided so far is measured through statistical manual monitoring. There is a lack of a strategy for setting objectives and performance measurement mechanisms for each employment office.

Social Insurance Institute

The mission of Social Insurance Institute (SII) is administration of social insurance in general, and of pension policies in particular, placement of insured persons and of enhanced services for them in the focus of organisation's activity, coverage of population with social insurance elements everywhere and at any time where this right arises, increase in the number of contributors and collection of incomes from farmers and voluntary contributions. Law no. 7703, dated 11 May 1993 On Social Insurance in the Republic of Albania, amended, regulates the SII management and administration. Under this law, social insurance in Albania

⁴³ Interview with NES representative (4 June 2018)

⁴⁴ Interview with NES representative (4 June 2018)

⁴⁵ Interview with NES representative (4 June 2018). See also page 103, <http://www.kerkojpune.gov.al/wp-content/uploads/2015/04/EPPAlbania-Final-Report-Alb-Final.pdf>.

is managed and administered by SII, which is an independent public institution, whose organisation and operation is regulated by this Law.

Contributions paid for social insurance in health insurance, maternity and pension funds are as follows:

- a) for employers 13.8 percent of the gross wage;
- b) for the employed person 9.5 percent of their total (gross) salary.

The contribution is calculated and paid on the gross wage, within the minimum wage limits (24,000 All) at national level and the maximum wage (105,850 All) for social security contribution. The minimum contribution paid by the employed person, the employer and the self-employed is equal and is calculated on the basis of the minimum wage at national level (24,000 All). Self-employed persons in agriculture pay a pension and maternity allowance, calculated on the minimum wage in the country. The payment of contributions is done quarterly.⁴⁶

A problem with social insurance contributions in Albania is that employees do not see the benefits. Young people, seasonal or contingent workers need many working years before they can enjoy pension rights.

Role of other Ministries

Beyond the Ministry of Finance and Economy, and social insurance institutions, there are various other ministries responsible for tackling various aspects of undeclared economy. These include:

- **Ministry of State for Support to Entrepreneurship**, which focuses on designing friendly policies in supporting business climate.
- **Ministry of Agriculture and Rural Development**, which focuses on undeclared economy in the agricultural sector.
- **Ministry of Tourism and Environment**, which focuses on undeclared economy in the tourism industry.
- **Ministry of Culture**, with a minor interest in undeclared economy in the cultural sectors.
- **Ministry of Infrastructure and Energy** which focuses on undeclared economy in this sector.

5.2 The role of social partners

Albania is characterised by a weak social dialogue in both the private and public sector. Regarding tripartite social dialogue, Albania has a National Labour Council (NLC) which brings together employers' and employees' organisations. The new members were appointed in March 2018.⁴⁷ However, fundamental efforts are needed to transform it into an effective social dialogue forum, aiming to improve collective bargaining. Intensification of bipartite social dialogue, in particular at local and company level is also needed.

⁴⁶ Retrieved from <http://www.qbz.gov.al/botime/Permbledhese%20e%20Sigurimeve%20perf..pdf>.

⁴⁷ Decision No. 129, dated 7.3.2018 on "Determining Employees and Employers Organizations at the National Council of Labour," <http://www.qbz.gov.al/Botime/Akteindividuale/Janar%202018/Fletore%2034/VKM%20nr.%20129.%20date%207.3.2018.pdf>.



At regional level, the decision on a tripartite Regional Consultative Council, consisting of representatives of employers' organisations, trade unions and representatives of state structures, is still pending adoption.^{48/49}

There are two main Albanian employee confederations (third level unions): United Independent Albanian Trade Unions and Confederation of Trade Unions. Both organisations are affiliated at the EU level – they are members of ETUC Balkans Trade Union Forum. In terms of employers' organisations in Albania, there are a number of national, regional and sectorial employers' organisation. The main include: Tirana Chamber of Commerce and Industry, Professional and Business Women Association, Confindustria, Albanian Tourism Association, Business Albania, etc. In addition to these listed organisations, there is plethora of other theoretically existent employers' organisations but without any results in effectively representing the voice of business community. The ones trying to do some work still lack financial and professional capacities.

5.3 Towards a common strategic approach

As shown, there is little or no coordinated strategy across government so far as the fight against undeclared work is concerned. Instead, a departmental “silos” approach is adopted with each Ministry and agency working separately on the issue with no joint strategic approach. There are neither common cross-cutting targets nor goals. Rather, these are fragmented. Consideration, therefore, needs to be given to a common strategic approach which might involve one single agency being responsible for tackling undeclared work (given its importance nationally). Whether this body is implemented or not, there is a need for more coordinated government efforts, where common shared targets are set at the level of strategy and operations. There is also a need to consider how governance is coordinated, such as the extent to which employer federations, trade unions, private and voluntary sector organisations, as well as local government, are involved as partners at every level in this coordinated governance.

6 Current policy approach and measures: evaluation

To evaluate the current policy approach and measures adopted in Albania, both desk-based research was conducted and meetings held with a wide array of stakeholders during the period May-June 2018 in Albania (see Appendix A for a list of actors with whom meetings were held). Table 7 summarises the current policy measures employed in Albania and compares this with the range of policy measures pursued in the European Economic Area (EEA) as reported by Dekker *et al.* (2010). This reveals that Albania focuses on using deterrence measures to stamp out undeclared work. Only a narrow range of incentive measures are currently being used in Albania, in contrast to EEA countries which are changing the “benefits” side of the equation by adopting measures to make it easier and more beneficial to operate in the declared economy. Moreover, while in some EEA countries there is a shift from purely “direct controls” (enforced compliance) approach which changes the cost/benefit ratio faced by suppliers and purchasers towards an “indirect controls”

⁴⁸ Amended with the Law No. 136/2015, dated 5.12.2015.

⁴⁹ EC (2018), Commission Staff Working Document Albania, Strasbourg, 17.4.2018, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-albania-report.pdf>.

(voluntary cooperation) approach that seeks to engender a commitment to operating on a declared basis, this is only in its nascent phase in Albania.

Table 7: Policy measures used in Albania and 31 other European countries to tackle undeclared work

Policy	Use in Albania	% of EEA nations	% EEA stakeholders stating measure is:		
			Effective	Neutral	Ineffective
DIRECT CONTROLS					
Deterrence					
<i>Penalties:</i>					
Administrative sanctions for purchasers/companies	√	93	50	45	5
Administrative sanctions for suppliers/employees		87	46	49	6
Penal sanctions for purchasers/companies	√	83	41	59	0
Penal sanctions for suppliers/employees		74	59	33	8
<i>Measures to improve detection:</i>					
Data matching and sharing		52	53	42	5
Workplace inspections	√	100	64	34	2
Registration of workers prior to starting work or on first day of work	√	83	72	25	2
Coordinating strategy across government		100	75	17	8
Certification of business, certifying payments of social contribution and taxes	√	74	74	23	3
Use of peer-to-peer surveillance (e.g. telephone hotlines)	√	57	56	44	0
Coordination of operations across government	√	65	62	33	5
Coordination of data sharing across government		39	20	80	0
Mandatory ID in the workplace	√	61	64	36	0
Enabling compliance:					
<i>Preventative measures:</i>					
Reduce regulations		48	56	38	6
Simplify compliance procedures		87	62	38	0
Technological innovations (e.g. certified cash registers)	√	43	73	27	0
New categories of work (e.g. for small or mini-jobs)		35	59	33	8
Direct tax incentives (e.g. exemptions, deductions)		61	57	33	10
Social security incentives		35	62	15	23
Ease transition from unemployment into self-employment		65	29	63	8
Ease transition from employment into self-employment		44	15	77	8
Changing minimum wage upwards		48	24	59	18
Changing minimum wage downwards	√	9	0	50	50
Training and support to business start-ups		61	50	46	4



Micro-finance to business start-ups		52	48	52	0
Advice on how to formalise	√	61	33	67	0
Connecting pension schemes to formal labour		61	47	41	12
Introducing supply chain responsibility		17	78	0	22
Restricting free movement of (foreign) workers		43	29	53	18
<i>Curative measures:</i>		64	61	35	4
<i>Stimulate purchasers to buy declared:</i>					
Service vouchers		26	58	42	0
Targeted direct tax incentives	√	61	65	29	6
Targeted indirect taxes	√	17	63	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	√	17	43	43	14
Free record-keeping software to businesses		13	50	50	0
Fact sheets on record-keeping		22	57	43	0
Free advice/training on record-keeping		22	57	43	0
Gradual formalisation schemes		13	67	33	0
INDIRECT CONTROLS:		69	44	52	4
Change values, norms and beliefs					
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		61	50	40	10
Campaigns to inform users of undeclared work of the benefits of declared work		52	35	59	6
Use of normative appeals to people to declare their activities		52	33	67	0
Measures to improve tax/social security/labour law knowledge	√	65	50	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



6.1 Direct controls: deterrence measures

Citizens abide by the law either (1) because they fear detection and fines due to the power of authorities (enforced compliance) or (2) because they feel a commitment to be honest and have trust in the authorities (voluntary cooperation). In Albania, much of the emphasis until now has been on pursuing enforced compliance. Moreover, enforced compliance has been largely sought not by providing incentives to operate in the declared economy but by increasing the perceived and/or actual costs of working in the undeclared economy. This has been achieved firstly by raising the penalties and sanctions for engaging in undeclared work and secondly by increasing the perceived and/or actual risk of detection.

6.1.1 Penalties and sanctions

Analysing the actual penalties and sanctions for undeclared work, the past years have seen steady increases.⁵⁰ With the purpose of reducing the high level of undeclared work, in 2015 the Albanian government initiated some changes in the tax legislation which defined that in case the businesses do not declare their employees or they do not declare the actual salary of their employees, the sanctions would be as high as 500,000 new ALL (around €3,500).⁵¹ After a prolonged debate between the business community and the government on the very high penalties and not proportional ones, the Constitutional Court considered most of the penalties not to be in compliance with the Constitution. Hence, in September 2016, the government approved some changes to the ‘Law on tax procedure in the Republic of Albania, thus revising most of the fines. The changes included, among other, reduction of penalties, as specifically stated in Article 119:

1. In case of verification and control of the business results showing that the taxpayer has not declared newly employed workers, at least one calendar day prior to the commencement of work, except for the obligation to pay the tax liabilities and social and health insurance contributions, fines will be issued for each undeclared employee:
 - a) Taxpayers subject to value added tax and profit tax, with a fine of 200,000 (two hundred thousand) ALL;
 - b) Other taxpayers, with a fine of 50,000 (fifty thousand) ALL.
2. If the verification and control show that the taxpayer has hidden and has not declared the actual salary earned by the employee, the taxpayer-employer, except for the obligation to pay the tax liabilities and social and health security contributions calculated for the entire period of violation, is punishable by a fine of 100 percent of the tax liability and calculated contribution. (Amended by Law no. 112/2016, dated 03 November 2016, published in the Official Gazette No. 219, dated 15 November 2016)’’.⁵²

The Law no. 9634, dated 30 October 2006 on Labour Inspections (amended with the Law number 24/2013, dated 14 February 2013 and Law No. 57/2017, dated 20 April 2017), includes a definition of the undeclared work. Specifically, Article 2, item 10 states: “*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*

⁵⁰ Starting from September 2015 when the government started the first action against informality.

⁵¹ Law No. 99/2015 on amendments to the law no. 9920, dated 19.05.2008 on Tax Procedures in the Republic of Albania as amended. On 21 September 2016, on the proposal to the draft law on Amendments to the Law No.9920, dated 19.5.2008, on Tax Procedures in the Republic of Albania, as amended.

⁵² Law on tax procedures, <https://www.tatime.gov.al/c/6/69/procedurat-tatimore>.



benefit from his [sic] rights deriving from these laws".⁵³ With this Law the level of minimum penalties issued by the inspectors has been clarified by specifying: "the labour inspector imposes a fine from 10 times to 50 times of the minimum wage, according to the principle of proportionality, in accordance with the Law on Inspection".

The Labour Code prescribes one of the following sanctions for the violation of labour legislation : a warning, according to Article 32, item 1 of this labour inspection law; fine, according to Article 32, paragraph 2 and Article 33 of the same law; and suspension of work.⁵⁴ A novelty introduced by the Albanian Labour Code is the obligation of having a written contract between employer and employee which used to be facultative before.⁵⁵ In case that during an inspection the labour inspector reveals the absence of a written contract between employer and employee, the business will be penalised with a fine of up to thirtyfold of the minimum monthly wage (Article 202).⁵⁶ The absence of a clear definition of a minimum fine leaves broad decision-making discretion to labour inspectors for their issuance and create opportunities for arbitrariness.⁵⁷

Another concern raised during the in-depth interviews is the fact that the Criminal Code has not been amended (in terms of undeclared work) during the last 15 years. Specifically Article 170/a considers illegal employment but the content is related to the types of undeclared work "*Employment without registration in the competent authorities or without guaranteeing the employee's security according to the rules, when preliminary given an administrative measure, constitutes criminal contravention and is punishable by a fine of up to ALL 10,000 per case or by imprisonment of up to 1 year*". During the interviews economic experts stressed that the Criminal Code (specifically Article 170) should be revised.

During the visit, some stakeholders (business representatives) argued that such penalties are too harsh for the offense (besides the fact that they have changed during the last years), or have a disproportionate impact on the firm, because inspections in small firms may result in an end to their business activity. This is not necessarily a desired outcome if transforming undeclared work into the declared economy is the goal. However, to reduce such penalties would negate the power of authorities and thus the ability of the state to pursue enforced compliance. Rather than reduce penalties and thus the power of authorities, what is perhaps instead required is for more emphasis to be given to improving trust in authorities and therefore voluntary compliance. Measures to achieve this will be discussed later in this section.

Most countries' legislation, including Albania, foresees fines in a wide range between the minimum and the maximum for breach of labour legislation. The prediction of fixed fines for violations of labour legislation does not help differentiating violations; damages occurred and do not seem to be a viable option to be implemented. The wide range of fines should be properly interpreted to enable adequate punishment of violations proportionally to their importance and nature and not as an arbitrary tool for inspectors. For this purpose, continuous training of labour inspectors remains a necessity.

⁵³ Retrieved from http://www.qbz.gov.al/Ligje.pdf/punesim/Ligj_9634_30102006_perditesuar_2017.pdf.

⁵⁴ Retrieved from http://www.qbz.gov.al/Ligje.pdf/punesim/Ligj_9634_30102006_perditesuar_2017.pdf.

⁵⁵ Labour Code amended, <http://www.qbz.gov.al/botime/Kodi%20i%20Punes-2016%20i%20azhurnuar.pdf>.

⁵⁶ Idem.

⁵⁷ Investment Council (2017), On the sanctions provisions in the Labour Code, Albania, <http://www.investment.com.al/wp-content/uploads/2017/06/On-Labour-Code-Penalties-Eng-1.pdf>.



In sum, although there have been concerns about the level of penalties, it is here argued that penalties are not in need of change. On the one hand, if reduced, this might negate the power of authorities and thus the ability of the state to pursue enforced compliance. On the other hand, and more importantly, there is no association between the perceived penalties and the likelihood of participating in undeclared work.

Overall, therefore, altering the sanctions and penalties should not be the focus of attention of a national action plan for tackling undeclared work. The perceived risk of detection, however, is significantly correlated with the likelihood of participation (albeit only amongst those who have poor tax morality).

6.1.2 Detection measures

Another measure focused on improving the detection is being increasingly used in Albania. The following categories exist, providing an insight into how this is achieved in the country.

Data matching and sharing

It is only recently that the Ministry of Finance and Economy and the Central Bank of Albania made 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 would go to the bank while the false version would go to the GDT).⁵⁸ This agreement envisages combating this phenomenon and endeavours to reduce undeclared work.

The Law on Tax Procedures has clear provisions and requires the tax authorities to use risk assessment in tax inspection. These provisions are outlined primarily in the Law on Tax Procedures and in regulations/rules issued by the Ministry of Finance pursuant to this Law. Regarding the organisational aspect of tax inspections, Article 16 of Law No. 9920 dated 19 May 2008, on Tax Procedures in the Republic of Albania, as amended, in its Article 3, paragraph 16 defines risk management as an operational function. At the same time, the Law on Tax Procedures requires the use of risk assessment when selecting taxpayers for tax inspections.⁵⁹ Likewise, the same law explicitly states that for the purpose of value added tax (VAT) reimbursements, inspections of businesses that require VAT reimbursement should also be performed based on the risk assessment. Despite the fact that the requirement to apply risk analysis in tax inspection was entered into force in 2008, its practical results are not what one would expect. The selection system based on the assessment of risk was initiated in mid-2008, but so far its implementation remains insufficient. Specifically, based on GDT data, only 70 percent of businesses subject to tax inspections were selected based on risk assessment, while the remainder were selected by their regional tax directorates in a random manner (“hand-picked”).⁶⁰

Another novelty is establishment of the e-Inspection portal, which enables labour inspectorate to make online controls and verification. The SLI has some basic access to other databases of other institutions (tax administration, etc.) that help with cross checking. However, the

⁵⁸ Ministry of Finance and Economy, press release, (2017), <http://www.financa.gov.al/al/njoftime/lajme/kompanite-e-biznesit-me-nje-bilanc-te-vetem-ne-banka-dhe-tatime-ne-fillim-2018-rregullore-e-posacme-nga-banka-e-shqiperise-dhe-ministria-e-financave-dhe-ekonomise1512645971>.

⁵⁹ Law 9920 dated 19 May 2008 on Tax Procedures in the Republic of Albania, Article 80, paragraph 4.

⁶⁰ In-depth interview with the Head of Tax Inspection Department in the GDT.

functioning of both systems/databases (tax administration and state labour inspectorate) is in the process of further improvement.⁶¹ Data mining to identify instances of labour law violation, however, does not exist. It lacks a consolidated database, in coordination with other regional and national government agencies that could improve the planning and monitoring function of the labour inspection system.

Coordination of data sharing across government

Despite the development of databases across the bodies responsible for tax, social security and labour law compliance, a fully coordinated approach to data sharing still lacks. There is a lack of will among the relevant bodies to freely share their data with others, and each appears to have a desire for their own information system to be comprehensive. To make progress, therefore, one option is to decide on the system which is to be primarily used to collate data to detect instances of undeclared work. This would resolve the current culture of an apparent lack of willingness to share data.

Another more integrated and comprehensive approach is to create one specialist unit that would gather information and conduct data mining investigations into undeclared work. This unit would produce reports on the undeclared economy and using data mining investigate specific organisations and persons suspected of engaging in undeclared work at the request of other organisations, such as the SLI, Ministry of Finance and Economy and social security institutions. This unit would have the power to obtain information from the authority that requests the compliance report. The unit would not charge for the preparation of compliance reports and would be entitled to obtain the necessary information free of charge. A compliance report can be used only for the requested purpose, although it can be used as a basis for another report requested by the same authority on the same subject (see Box 1).

Box 1 Joining up data mining

Initiative: Grey Economy Information Unit (*Harmaan talouden selvitysyksikkö*), Finland

Aim: To join up the previously fragmented function of data-mining.

Description: In Finland, data mining is the responsibility of the Grey Economy Information Unit (*Harmaan talouden selvitysyksikkö*). Established on 1 January 2011 within the tax administration (in the Ministry of Finance), this specialist unit gathers information and conducts investigations into undeclared work. This unit produces reports on the undeclared economy and investigates specific organisations and persons suspected of engaging in undeclared work at the request of other organisations, such as the police, customs bureau and Finnish Centre for Pensions as well as authorities dealing with work safety, debt recovery and bankruptcies. The unit has the power to obtain information from the authority that requests the compliance report. A compliance investigation can also be a general phenomenon report. The unit does not charge for the preparation of compliance reports and is entitled to obtain the necessary information free of charge. A compliance report can be used only for the requested purpose, although it can be used as a basis for another report requested by the same authority on the same subject. The Grey Economy Information Unit is authorised to keep a database within the meaning of the Data Protection Directive (95/46/EC, 1995), containing information necessary for the preparation of reports. The data controller is the tax administration.

Evaluation: Its budget in 2011, the unit's first year, was €1.6 million and €1.9 million in 2012. Some 20 persons are employed. After a year and a half of operation, the unit completed over 40 information

⁶¹ Interview with the SLI.



gathering and dissemination tasks. It also produced approximately 11,000 compliance reports to other authorities (this mandate started in July 2011). During 2011, 732 tax audits were conducted on information provided, resulting in €42 million of undeclared wages and €65 million in undeclared sales being recovered (Virtanen, 2013).

Targeting of workplace inspections

Further improvements in workplace inspections could be achieved. It is not only the number of labour inspectors that hinders the effectiveness of workplace inspections but also the quality of information systems for data mining to identify targets for inspections. Currently there is not only a lack of necessary resources, but also the tools, procedures and coordination with other relevant authorities to prevent, identify and remedy suspected cases of labour law violation. A further problem is the geography of inspections with fewer taking place in remote geographical areas and very few, if any, in the agricultural sector, the former being due to the fact that labour inspectors must cover transport costs from their own pocket.⁶²

Another method to improve the effectiveness of inspections is to use notification letters that notify businesses that they may be inspected in the near future, so as to encourage voluntary compliance without the need for a workplace inspection, or that they may be audited in future after submitting their tax return. At present, the tax administration has started a sectorial campaign in the tourism sector. The tax administration representatives call businesses in this sector, or pay a visit to the business premises, explaining that they know that businesses in this sector are not fully declared and that they can easily detect this. But, tax administration wants businesses to voluntarily correct themselves. This could be replicated by the labour inspectorate as well. It is important that the enforcement agencies design strategies on a sectorial basis as these have been shown to be more successful in Albania.

There is also a lack of training of inspectors in the realm of tackling the undeclared economy. This applies not only to labour inspectors but also tax and social security inspectors. A national training policy for labour inspection, for example, is not in place. During the in-depth interview with the Head of SLI in Albania, he said that an internal training team was established to train the labour inspectors, especially to increase their professional capacities but also to put emphasis on improving their attitude and communication with businesses. Moreover, the planning and practice of inspection visits should be reassessed to ensure that adequate attention is paid to the incidence of undeclared work, even in situations where visit's primary objective is not to detect undeclared activities.

There is an under-emphasis put on the educational or promotional function of labour inspectorates to increase awareness among businesses and workers about the rules on undeclared work and how such situations can be avoided or regularised. Instead, they are largely viewed as enforcers handing out fines and penalties. The overall balance between preventive and enforcing services is not systematic or based on strategic objectives, even though such a balance is important for promoting a culture of compliance.

A greater focus on the preventative role of the labour inspectorate rather than the enforcement role would therefore be a useful development. This could include the development of educational materials on the benefits of declared work, a FAQ section on their websites and a more customer-friendly approach, all of which would facilitate further development of their

⁶² Confirmed by the Head of SLI during the in-depth interview.

more facilitative preventative role. The GDT website was restructured in 2016 and now better serves the business needs. The SLI has deactivated its current website as they plan to design a new website which will better serve employers and employees.

A better balance between reactive and proactive visits is also required. In a country characterised by SMEs and micro enterprises, the number of labour inspection visits per inspector could be much higher with better planning and a more adequate composition of the inspection teams, taking into account the economic sectors and local realities.

A modern system of management combining strategic objectives, target setting and performance appraisal is not in place in the labour or tax inspectorate. Currently, the SLI does not have a strategy which defines strategic objectives and the respective performance indicators. Recently efforts have been made to develop a document (matrix) that describes the targets of the institutions.⁶³ This enforcement agency made this its 2018 objective in regard to undeclared work “Efficient use of legal measures to identify informal employees and involve them into a scheme with a view to formalising their work and declaring actual salary both in the implementation of related labour contracts and the effect of the social security scheme”. The target is 2 percent more employees with full or partial formalisation (partial is referring to those who do not fully declare their salaries) of the employment relationship.⁶⁴

Coordination of inspections

From a business perspective, joint inspections of the labour and tax inspectorates would be a customer-friendly development. In 2015, when the current government started the first phase of the fight against undeclared work, the GDT and the SLI joined efforts and coordinated joint inspections.⁶⁵ Due to some common objectives these enforcement agencies have, a better and effective coordination is required.

Increasing the potential of detection does not always have to lie with state authorities. Social partners can also play a central role. Some 17 percent of European countries have introduced supply chain responsibility in an attempt to tackle the undeclared economy. In those countries which have done so, 78 percent of stakeholders view this as an effective policy instrument and the remaining 22 percent as ineffective. To see how this operates in practice, a case study is provided of the implementation of supply chain responsibility in Finland (see Box 2).

Box 2 Introducing supply chain responsibility

Initiative: Contractor's Obligations and Liability Act, Finland

Aim: To reduce the presence of undeclared work in supply chains.

Description: The 2006 Contractor's Obligations and Liability When Work Is Contracted Out Act requires that the party responsible for a construction project obtains necessary guarantees that subcontractors fulfil their various obligations. The law has been in effect since 2007, but obligations in construction sector expanded in 2012. The 2006 legislation originally exempted established subcontracting relationships from a background check, but this hampered the enforcement of the legislation. These have now been included, as has the accident insurance been included in the list of items that now need checking. The objective of the original legislation as well as the 2012 amendments has been to combat the undeclared economy and promote fair competition between companies, particularly in the construction sector. Long subcontracting chains lead to situations where

⁶³ In-depth interview.

⁶⁴ Interview with the SLI.

⁶⁵ Albanian State Labour Inspectorate (2015), Annual report, Tirana, Albania.



work is carried out without withholding employee taxes, making VAT payments, making pension payments, or observing conditions laid out in collective bargaining agreements. The legislation placed the responsibility on the users (which tend to be larger businesses) of subcontractors and temporary work agencies that these subcontractors and employment agencies meet their obligations. Contracting parties are required to ask for and obtain documents that verify certain registrations and payment of taxes as well as a reference to applicable collective bargaining agreements or corresponding conditions. Depending on the results of the background check, contracting party may be subject to a penalty. The contracting party must inform its employee representatives of subcontracting or the use of employment agency workers. The act is limited to work taking place on the premises or site of the contracting party by employees of a subcontractor or an employment agency.

Evaluation: An early evaluation of the measure found that the law and its contents were known, although this questionnaire-based evaluation also revealed some companies were unaware of them (predominantly small companies). There was more uncertainty of the law's applicability in different sectors and situations, but most respondents regarded it as useful in raising the issue of employer obligations in contracting decisions so as to avoid undeclared work occurring. One problem identified by the respondents of the early evaluation was the additional work required by contracting companies. So too was getting the required information on foreign companies identified as a problem, the penalties were viewed as too low for some situations and the omission of accident insurance from the documents to be requested was considered a problem. This feedback was taken into account in the 2012 amendments. This set the penalties higher at between €16,000 and €50,000 depending on the size of the contract, included accident insurance on the list of documents to be collected, and dropped existing business relationships from exemption because of the prior difficulties of verifying this. In 2010, there were 872 investigations by the authorities (50 percent in the construction sector). In total, 2541 contracts were examined and half found to contain violations. By March 2011, penalties totalling €302,500 had been imposed based on the 2010 investigations (Alvesalo and Hakamo, 2009; Työ- ja elinkeinoministeriö, 2011).

6.2 Direct Controls: supply-side incentives

All the measures reviewed so far are deterrents which seek to increase the costs of operating in the undeclared economy by increasing the penalties or risks of detection. Another way of changing the cost-benefit ratio confronting those considering participation in undeclared work is to provide incentives for, or increase the benefits of, declared work. These measures can be either supply-side incentives or benefits that encourage people to engage in declared rather than undeclared work, or demand-side incentives that reduce the purchase of undeclared goods and services by providing rewards for purchasing on a declared basis. In this sub-section, the focus is upon supply-side incentives.

One supply-side incentive is to simplify compliance. Simplifying compliance is not the same as de-regulation. The problem in Albania is that the regulatory framework is complex and dynamic. More than 25 percent of surveyed businesses claimed that the business legislation is not sustainable and anticipated.⁶⁶ For instance, 179 articles of the Law No. 9920 on Tax Procedures in the Republic of Albania have been amended since the law entered into force on 19 May 2008.⁶⁷ It is worth noting that SMEs consider the lack of sustainability a burden to their business life compared with big businesses.⁶⁸ Several options could help overcome this

⁶⁶ IDRA (2017), An Enabling Environment for Sustainable Enterprises in Albania, <http://www.idrainstitute.org/files/IDRA%20-BA/Mjedis-Mundesues-per-Sipermarrje-te-Qendrueshme-ne-Shqiperi.pdf>.

⁶⁷ Page 36, https://nbf.al/wp-content/uploads/2018/03/FINAL_NBA_ENGLISH.pdf.

⁶⁸ IDRA (2017), An Enabling Environment for Sustainable Enterprises in Albania, <http://www.idrainstitute.org/files/IDRA%20-BA/Mjedis-Mundesues-per-Sipermarrje-te-Qendrueshme-ne-Shqiperi.pdf>.



concern. One option is provision of advice and support regarding the existing laws, regulations and codes to help them comply (e.g. FAQs on the websites of ministries, or software based on decision-trees that enables a business or citizen to ensure that they are being compliant). Another perhaps more preferable option is to simplify the regulatory compliance framework itself. An example would be to simplify tax administration for small businesses (e.g. the number of tax forms and returns, pursuing an integrated approach to audit with a single visit to inspect records rather than separate inspections) and improve support and education to help firms comply. Simplifying regulatory compliance however needs not solely concern relatively minor administrative changes such as simplifying the number of procedures and forms. A recent change that included a high share of businesses into the VAT system brought fear into the business life due to the anticipated increase of regulations. Nevertheless, the GDT started an informing exercise to update them on the changes. Training sessions were held for 3,520 subjects (36 percent of the total), according to a defined calendar.⁶⁹

Measures might also include fundamental changes. This has already occurred with the Law No. 9920, dated 19 May 2008, amended in 2016. It is now a legal obligation for the GDT to inform, communicate, unify and standardise the law implementation (Article 10). The GDT should continuously update its webpage.⁷⁰ In addition, the new changes promoted voluntary compliance. A significant reformation of the GDT resulted in a new webpage, which was far more helpful compared with the old one.

Given the high level of evasion of direct taxes in Albania, greater emphasis has recently been put on collecting tax revenue via indirect taxes on consumption.

The VAT threshold of ALL 5 million turnover for small businesses resulted in the VAT chain breaking and did not allow the link to the final consumer, which should be the one to pay this indirect tax. A considerable number of experts and businesses considered it as an encouragement of undeclared work and fiscal evasion. The interruption of the VAT chain impeded the inspection of the real turnover of businesses, the possibility to cross check VAT bills, and the verification of inventories and trade of intermediary goods. Meanwhile, there is pressure from businesses that consider themselves small not to receive VAT bills from wholesale sellers and suppliers, so as to avoid inspection and keep the declared turnover under the VAT threshold.⁷¹ To this end, the Albanian government reduced the threshold from ALL 5 million to ALL 2 million.^{72/73}

In addition, the government initiated a sectorial reduction of VAT. The standard value added tax rate in Albania is 20 percent. Since June 2017, a reduced rate of 6 percent is applied to tourism accommodation services. Specifically Article 49, items 3 and 4 of the Law no. 92/2014, as amended, on Value Added Tax define: *The rate of reduced VAT, which is applied for the provision of accommodation services in accommodation structures, according to the categories defined in the legislation regulating the field of tourism, is 6 percent. The conditions, criteria and procedures for the implementation of this item shall be determined by*

⁶⁹ GTD, news, <https://www.tatime.gov.al/d/8/45/0/613/mbi-11700-biznese-te-vogla-jane-kontaktuar-ne-teren-nga-administrata-tatimore>.

⁷⁰ Law No. 9920, dated 19.5.2008 'on Amending Tax Procedure in the Republic of Albania, <https://www.tatime.gov.al/shkarko.php?id=901>.

⁷¹ Secretariat of the Investment Council: Working Document – Informality, A Common Government-Business Challenge, December 2015. <https://www.investment.com.al/wp-content/uploads/2015/08/Working-Documents-on-Informality-A-Common-Government-Business-Challenge-5.pdf>.

⁷² Decision No. 652 dated 11.12.2017 on Some Amendments and Additions to the Decision No. 953, dated 29.12.2014, On Implementation of the Law No. 92/2014, on the Value Added Tax in the Republic of Albania, amended.

⁷³ GTD, news, <https://www.tatime.gov.al/d/8/45/45/419/nga-1-prilli-2018-tatimpaguesit-qe-kane-realizuar-qarkullimin-mbi-2-milione-leke-do-te-zbatojne-shkallen-tatimore-te-tvsh-se-prej-20-per-cdo-shitje-te-krer>.



a decision of the Council of Ministers. The 6 percent value added tax reduction applies to any service provided within a hotel/resort five star, special status accommodation structures, as defined in the relevant legislation and which are holders of an internationally registered and internationally recognised brand name or trademark.

Compared to 2017, the 2018 budget is expected to see an increase in total revenue of 8 percent. Revenues from VAT are expected to rise somewhat faster, partly because the threshold for VAT registration has been lowered to include many small, previously exempt businesses. This is to some degree mitigated by the reduction of VAT rate applied to five-star hotels from 20 percent to 6 percent.⁷⁴ In 2017, VAT generated 32 percent of the total revenues.⁷⁵ In addition to the VAT reduction in tourism sector, the government is exploring the possibilities to reduce it in some other sectors such as in the garment and footwear industry. Still, there is no prior analysis that would “motivate” such reductions.

Tax rates in Albania are generally comparable with neighbouring countries. However, fiscal revenues are low relative to the region, reflecting low efficiency of the country’s tax system. Switching from flat tax to progressive income tax in 2014 and the 2016 exemption of all small businesses from income tax eradicated tax efficiency. A preliminary estimate of the compliance gap for VAT found that Albania loses 34-39 percent of potential VAT revenues on account of low compliance, compared to an average estimate of 15 percent of potential VAT revenues for the EU member states.⁷⁶ The high total VAT gap (VAT gap has increased from 6.1 percent of GDP in 2009 to 8.1 percent of GDP in 2015) represents a compliance gap, reflecting weaknesses in assessments given high undeclared work in the economy. An analysis of tax expenditures estimated a total cost of 1.4 percent of GDP in 2015, largely provided through VAT exemptions and preferential treatment of small businesses and capital income.⁷⁷

Although many of the policy initiatives discussed above have been government-led initiatives, there are many opportunities for both employer and employee representative organisations to develop social security measures to tackle the undeclared economy, as a Romanian measure displays. This seeks to provide social protection for workers so that they do not need to turn to the undeclared economy and at the same time, provides rewards for those workers who operate on a declared basis so as to make work in the declared economy pay better relative to work in the undeclared economy (see Box 3). This could well be applicable and transferable to the Albanian context.

Box 3 Social security incentives

Initiative: Builders’ Social House, Romania

Aim: To introduce incentives to workers to operate in the declared rather than undeclared economy by providing them with social security during the off-season.

Description: In Romania, ‘The Construction Sector Social Agreement for 2007-2009’ (*Acordul Social*

⁷⁴ EC (2018), Commission Staff Working Document Albania, Strasbourg, 17.4.2018,

<https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-albania-report.pdf>.

⁷⁵ Author’s calculations based on the Ministry of Finance and Economy data base. Retrieved from <http://www.financa.gov.al/raportime/e-gdds>.

⁷⁶ IMF Country Report No. 16/142, <https://www.imf.org/external/pubs/ft/scr/2016/cr16142.pdf>.

⁷⁷ IMF Country Report No. 17/373, <https://www.imf.org/en/Publications/CR/Issues/2017/12/13/Albania-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-45468>.



Sectorial Pentru Construcții 2007-2009) estimates that some one-third of active workforce operates in the undeclared economy and highlights the importance of tackling this area. The Builders' Social House (*Casa Socială a Constructorilor*, CSC) is one prominent initiative used to enable this work to take place in the declared rather than undeclared economy. The CSC was established in 1998 as a privately run welfare organisation, to which the representative trade unions and employer organisations in the construction and building materials sector contribute in equal measure. It provides welfare payments during the cold season (1 November - 31 March), when the construction sector slumbers, to workers in registered declared employment and in doing so, provides an incentive for workers to be in the declared economy rather than working in the undeclared economy in the construction and building materials sector. CSC members are construction companies and manufacturers of building materials. Entitlement to welfare payments during these winter months is only available to declared employees, that is, those with employment contracts recorded with the local labour inspectorates, and whose social security contributions due by both the employer and employee have been paid. Corporate contributors pay 1.5 percent of their turnover into the CSC scheme, and employees contribute 1 percent of their gross salary.

Evaluation: In 2008, CSC had 573 member organisations accounting for 40 percent of all declared employment in the construction and building materials industries. During 2007-2008 winter period, 102,387 declared workers benefited from this scheme as recipients of welfare payments (Eurofound, 2013). This is potentially transferable both to other economic sectors where work is largely seasonal, such as agriculture and forestry, and other countries. Importantly moreover, it shows what can be achieved by employer and employee representative organisations working together, and without reliance on governments, so far as implementing policy measures to tackle the undeclared economy are concerned.

A further supply-side incentive to encourage declared work is the provision of support and advice on formalisation both by government and by social partners. At present, the GDT has undertaken a campaign with face-to-face meetings with businesses to inform them about the latest legal changes and the benefits of formalisation. During 2017, 367,132 face-to-face meetings were held. This was to provide assistance and inform on the action against undeclared work. In addition, in 2017 the GDT established a call centre for this campaign. The call centre aims at communicating with the tax-payers to encourage voluntarily compliance. During 2017 only, the GDT reported to have received 9,534 incoming calls, 49,342 outgoing and 5,394 communications through the live chat.⁷⁸ To test if the live chat works, I dropped them a message and no operators were online.

A broader initiative might also include the use of “role models” organised by, for example, chambers of commerce. The use of non-governmental bodies to provide this advice is important so that there is greater willingness and less fear from businesses to approach them for such advice. Some efforts were employed by the National Business Forum (a non-formal network) in 2016 when it drafted a booklet “Why become formal” and distributed it to businesses through the chambers of commerce and businesses associations in the whole country. However, continuous coordinated efforts are indispensable to have positive results.

Another notable initiative that provides an incentive for business to formalise is the “Business walking routes”. This is not yet in place in Albania but could be piloted first in a region of Albania to see the impact. This initiative maps and proposes walking routes to citizens and visitors. The initiative is undertaken in Greece in the city centre of Athens. Only

⁷⁸ GTD (2017), Annual report, Tirana, Albania.



businesses which are formally registered and have no compliance issues outstanding are included. These include:

- Lets go for a gift walk (Plaka area);
- Lets go for a books and music walk (Exarcheia area);
- Lets go for a footwear and leather walk (Ermou street);
- Lets go for a shopping walk (Kolonaki area);
- Lets go for a tasty walk (Omonia Square area);
- Lets go for a Pattision Street walk.

This provides an incentive for businesses to be formal by providing them with free marketing.

A sectorial initiative could be employed for the tourism sector as well. The phenomenon of undeclared work is widespread in this sector. It is not the first time that the representatives of tourism industry raise the issue of informal businesses along the Albanian coastline, specifically, accommodation infrastructure offered to tourists by private households. Private homes with a capacity of about ten rooms are not registered as businesses, which affects registered tourism operators. This demonstrates that the central government's efforts to normalise the situation are currently ineffective. One solution is to create a register of all houses that want to offer accommodation services and put a visible sign on each of them. They cannot be inspected neither by labour inspector nor by tax inspector. All registered houses are obliged to pay a fee to the local government. This initiative involves the local government which has the main role in making its implementation effective.

6.3 Direct Controls: demand-side incentives

Besides providing supply-side incentives to operate in the declared economy, recent years have witnessed the expansion of demand-side incentives to encourage the purchase of declared goods and services. One option is to give straightforward income tax relief, claimed on tax returns, to customers using declared labour to do specific tasks (e.g. roof maintenance, outside painting, domestic cleaning) commonly conducted in the undeclared economy, so that the wage costs of employing workers on a declared basis become equivalent or lower than the wage costs of employing somebody on an undeclared basis (see Box 4).

Box 4 Tackling the demand-side: the use of tax deductions

Initiative: Tax deductions for household work, Sweden

Aim: To use direct tax incentives to bring domestic services provided in the undeclared economy into the declared realm

Description: Since 8 December 2008, Swedish citizens have been able to apply for a tax deduction amounting to 50 percent of the labour cost for the renovation, conversion and extension of homes (ROT), and also for household services (RUT), including cleaning, laundry, basic gardening and babysitting. The maximum annual tax deduction that can be applied for is SEK 50,000 (€6000) for each individual. In the government bill from 2007 where the RUT deduction was proposed, the measure was estimated to cost SEK 1.3 billion per year (€155 million). The ROT-deduction was in the spring budget bill in 2009 and was calculated to cost SEK 13.5 billion per year (€416 million) (Swedish Tax Agency, 2011). As of 1 July 2009, companies performing household services charge the customer the costs of materials and half the labour costs, including VAT. The company performing the work then requests the outstanding sum from the Swedish Tax Agency. As a result,



the customers only pay half of the labour cost at the point of purchase of the service.

Evaluation: Comparing data from 2005 and 2011, the Swedish Tax Agency (2011) showed that undeclared work has decreased by about 10 percent within the categories of jobs covered by the ROT and RUT-deduction. In the autumn of 2011, the Swedish Federation of Business Owners (*Företagarna*) conducted a survey of 2447 construction companies. The results show that nearly 90 percent felt that the ROT-deduction had a positive impact on reducing undeclared work in the sector compared with 78 percent in 2009. In 2010, 1.1 million people bought household services with a tax deduction (RUT and ROT) and the Swedish Tax Agency paid out SEK 1.4 billion (€166 million) in RUT deductions and SEK 13.5 billion (€1.6 billion) in ROT-deductions. This means that around 7.6 million hours of cleaning and household (ROT) services and 53 million hours of renovation work (ROT) were performed using these schemes (Brunk, 2013c).

Initiative: Home-job plan, home-job tax deduction, Denmark

Aim: To use direct tax incentives to bring domestic services provided in the undeclared economy into the declared realm

Description: From 1 June 2011 to the end of 2013, it was possible for each member of the household over 18 years of age to deduct from their taxes up to DKK 15,000 (€2000) of the costs of employing craftspeople and domestic helpers under a pilot project called ‘Home-Job Plan’ (*Bolig-Jobplan*). The major difference compared with the Swedish scheme, therefore, is that whilst Sweden has a maximum tax deduction of €6600, the cap is €2000 in Denmark. The activities covered include cleaning, indoor-outdoor maintenance of the house, gardening and babysitting. The cost to the government is estimated to be DKK 1 billion (€134 million) in 2011 and around DKK 1.75 billion (€234 million) in 2012 and 2013. The expenses and the company involved are informed to the tax authorities digitally by the buyer of the services in a special template, which then deducts 15 percent of the amount in the yearly tax or fiscal income. The action involved for the buyer of these services resembles an ordinary payment transfer, and the system does the rest.

Evaluation: Relative to expectations, the pilot project has so far been a success. Some 270 000 people used the deduction in 2011 and most of the work involved home improvement, maintenance and repair. They have on average reported deductions of DKK 9800 (€1315) per person. The deductions reported constitute total of DKK 2.7 billion (€362 million). The tax value of those deductions is around DKK 900 million (€121 million) (Jørgensen, 2013).

Another option is to use service voucher schemes. This initiative has not been introduced in Albania but can be considered. As the European Platform Tackling Undeclared Work (Williams, 2018) concludes, service voucher schemes can be categorised into two broad types of schemes: social vouchers (SV) which are used by households (Belgium, France, Austria and the new *libretto famiglia* in Italy) and enterprise vouchers (EV) used by companies (Croatia, the old Italian system and the new *contratto di prestazione occasionale* in Italy). It suggests good practice in relation to implementing such service voucher schemes.

- Social Voucher (SV) schemes should:
 - Be used to pay for regular and occasional labour;
 - Be used to formalise household services (including caring services), with service vouchers limited to the specific tasks where undeclared work is prevalent;
 - Allow the direct employment of a private individual by a household, as well as establish authorised provider organisations which employ service voucher workers.
- Enterprise voucher (EV) schemes should:
 - Only be used to pay for occasional labour;
 - Target the agricultural sector and only be used in other sectors if they protect workers’ rights.



- Both Social Voucher (SV) and Enterprise Voucher (EV) schemes should:
 - Target only areas where undeclared work is prevalent;
 - Target areas where labour inspection is difficult (e.g. households);
 - Set a limit on the number of service vouchers an employer can purchase, not on the level of income of a service voucher worker;
 - Allow users to acquire and submit vouchers online;
 - Be costed at the minimum price an employer pays for one hour's work;
 - Conduct prior research to decide on the price of service voucher for a user (and level of subsidy required) so that they are competitively priced compared to using undeclared work;
 - Enable workers to gain access to key social security benefits comparable to those held by people employed, and cover unemployment benefits, accident insurance, pension benefits, sickness benefits, maternity leave and health benefits.

Moreover, when implementing service voucher schemes pilot initiatives should be used in a particular locality/ies, or specific tasks/sectors where undeclared work is prevalent, and ex-ante and ex-post evaluations should be conducted.

The two key indicators of the success of a service voucher scheme should be:

- The extent to which the service voucher scheme reduces undeclared work/transforms undeclared work into declared work;
- That they do not substitute for permanent formal employment contracts.

Given that a large proportion of payments for work in the undeclared economy is in the form of cash, one way forward is to incentivise electronic payments and in doing so, shift away from cash payments. To transfer from cash to electronic payments, the first option is for government to introduce a ceiling for cash transactions. This has been set at ALL 150,000 in Albania (Article 59, item 1).⁷⁹ The second option is to make point-of-sale (POS) terminals available across all sectors, such as bars and taxis. Introducing them can reduce the use of cash. This is not largely implemented in Albania. The third option is for governments to shift more fully towards electronic payments. The fourth option is to discourage easy access to cash. The fifth and final option is to provide incentives for using cards at the point-of-sale. Many day-to-day transactions remain cash-based. Developing incentives for individuals to use cards is a way forward. Argentina, for example, offers a 5 percent VAT discount on debit card transactions and 3 percent on credit card purchases.⁸⁰

Another phenomenon in Albania is that many businesses do not give a receipt and the citizens, on their side, do not ask for receipts. To motivate citizens to request the receipt, a lottery was organised in 2015.⁸¹ Based on the data from the Ministry of Finance, it resulted in an increase of the number of receipts but in general this incentive was not successful for two reasons. First, citizens did not trust this due to the lack of trust in the government and the way the lottery was developed. Second, this measure was isolated and not accompanied by other measures *vis-à-vis* tackling undeclared work. It created an experience as to how this incentive would look like in the context of Albania but that is all. Hence, such incentives should at the same time be accompanied with other measures.

⁷⁹ Law No. 9920, dated 19.5.2008 on Tax Procedures in the Republic of Albania 2013, amended, <https://www.tatime.gov.al/shkarko.php?id=901>.

⁸⁰ Williams, C. Demetriades, D. Patra, E. (2016), Diagnostic Report on undeclared work in Greece.

⁸¹ Retrieved from <http://www.llotariashqiptare.al/index.html>.



In addition to the lottery, another incentive to encourage citizens to require a receipt is awarding bonuses depending on the amount calculated from the receipts. Citizens could be equipped with a card and every end of year awarded a bonus based on the total amount purchased above a specific amount. In order to channelize every movement through the bank system, the bonuses would be awarded only to those that have a bank account.

6.4 Indirect controls

Until now, all the measures proposed have been direct controls which seek to change the cost/benefit ratio faced by businesses and citizens when considering participation in undeclared work either by increasing the costs of undeclared work or the benefits of declared work. As shown in section 2.2 however, business and citizens are not always simply rational economic actors. They are also often social actors who do not comply because they either lack trust in the state, or do not understand or believe in what the state is seeking to achieve (i.e. they lack vertical trust), or they believe that many others are operating undeclared so see no reason why they should operate on a declared basis (i.e. they lack horizontal trust).

To tackle undeclared work, the root causes that lead to the values, norms and beliefs of citizens not being aligned with the laws and regulations, needs to be tackled. This is what indirect controls seek to achieve by dealing with the formal institutional imperfections and failures that lead to the decision to engage in the undeclared economy. Until now, Albania has paid little if any attention to such indirect controls as a means of tackling the undeclared economy. No strategy has been developed to foster trust in government and to align the norms, values and beliefs of citizens regarding compliance with the codified laws and regulations. Two sets of initiatives are required to achieve this. Firstly, initiatives can be pursued to alter the norms, values and beliefs of citizens so that they align with the laws and regulations and secondly, in order for this to be achieved, it is also necessary to deal with the formal institutional failings and imperfections so as to foster greater self-compliance in the population.

6.4.1 Altering informal institutions: awareness raising campaigns

Many citizens do not fully understand why they pay their taxes and/or what these taxes are used for by governments; they do not fully make the connection between the public goods and services they receive (e.g. hospitals, schools, transport infrastructure) and the taxes they pay. Until now, governments have generally undertaken very little marketing to help citizens make this connection. However, if the norms, values and beliefs of many in the population are to become better aligned with the codified laws and regulations of formal institutions and voluntary cooperation is to ensue, educating citizens about this is important. The advantage of pursuing voluntary cooperation, rather than enforced compliance, is that this is potentially a far cheaper, more effective and sustainable means of tackling violations of tax, social security and labour law related to undeclared work than having an army of inspectors to police non-compliant behaviour and using incentives to effectively “bribe” the population to operate on a declared basis.

To achieve such voluntary cooperation, two broad forms of education are required. On the one hand, and to prevent unintentional non-compliance, citizens need to be educated and



informed about what the current system requires of them. On the other hand, and more broadly, citizens need to be educated about the benefits and value of paying tax and being compliant with labour law and social insurance regulations, by educating them about the benefits of paying taxes and social insurance contributions, and complying with labour law, in order to develop their intrinsic motivation to do so and facilitate greater self-regulation.

The first type of education requires the provision of easily understood information regarding their responsibilities with regard to the tax, social security and labour law. A significant portion of non-compliance is unintentional, arising from the complexity of the compliance system as well as a lack of knowledge, misunderstanding and ambiguous interpretation of tax and labour law (Hasseldine and Li, 1999; Natrah, 2013). In consequence, one way forward is to provide greater information to citizens.

The second and perhaps more important type of education is that which seeks to educate citizens about the benefits and value of being compliant with labour, tax and social insurance regulations. One potential and partial remedy, therefore, is to educate citizens about the activities on which their taxes are spent, and the value of pensions and abiding by labour law. If citizens are informed and knowledgeable about the current and potential public goods and services which they are receiving for their money, and the value of having a pension, they may be more willing to pay their taxes and social contributions. 67 percent of surveyed businesses accepted that they would fully comply with tax regulations in case that tax payments are used to fund important services.⁸²

One direct way of doing this is to provide information to tax payers regarding where their taxes are being spent and how much they are contributing to which activities of government. This sets out what portion of their taxes is spent on which public goods and services. Another simple way of doing this is to display signs such as “your taxes are paying for this” on public construction projects (e.g. new roads), on ambulances, in doctor’s waiting rooms, in hospitals and schools, which convey a clear message to the public that the taxes they pay are being used to provide these public goods and services.

In Canada for example, the Tax System Learning Unit provides information about the tax system as well as how the government spends the tax dollars collected. This Unit has until now targeted junior and high school students so as to educate citizens before they start participating in the tax system. While the initiative has enjoyed success in getting participation from education institutions, its impact on compliance has not been measured, since there is no mechanism to track the compliance behaviour of those taking the modules against a control group who have not. Austria has adopted a similar initiative targeted at schools whereby tax officials provide training on future responsibilities for compliance, as have the Internal Revenue Service in the USA (Internal Revenue Service, 2007).

Although information and advice is provided by telephone, email or during inspection visits, no concerted awareness raising campaign has been launched about the costs of undeclared work and benefits of declared work. It is more information on obligations that is provided by the tax, labour and social security bodies. An awareness raising campaign, meanwhile, can either: inform those working in the undeclared economy of the costs and risks of doing so; inform potential users of undeclared labour of the risks and costs; inform those working in the undeclared economy of the benefits of being legitimate, and/or inform potential users of

⁸² Kosta, B. (2016), National Business Forum perspectives on the issue of informality in Albania, https://www.researchgate.net/publication/323116733_NATIONAL_BUSINESS_FORUM_PERSPECTIVES_ON_THE_ISSUE_OF_INFORMALITY_IN_ALBANIA.



undeclared labour of the benefits of formal labour. In terms of the awareness campaigns developed so far by the GDT, during the in-depth interviews business representatives claimed that it did not have any impact on their members. In addition, a small share of businesses is being informed.⁸³

There is tentative evidence that emphasising the benefits of working declared rather than the costs and risks of engaging in undeclared work is more effective. As Thurman *et al.* (1984) explain publicising the adverse consequences of engaging in undeclared labour is ineffective because those working in the undeclared economy tend to neutralise their guilt, such as by seeing themselves as small players with little impact compared to the big players. If an awareness raising campaign does decide to focus on the costs of undeclared work, it will need to ensure that these rationalisations are not available to participants in the undeclared economy, such as by advertising the average level of non-compliance so that people will not view their own activity as minor compared to others.

For a campaign to be effective, however, it has to use tailored advertisements that will need to vary in form and content depending on the audience targeted. The language, media used, word style and slogans that will be effective for one population group, such as younger people, will not be effective for another group, such as the elderly. Similarly, effective media for one target group, such as newspaper adverts for older people, will not be effective for the internet-oriented younger generation. As shown in other realms of advertising, harnessing the power of celebrities can also be effective in influencing the target audience. If celebrities and/or opinion leaders are used by administrations, then as Lessing and Park (1978) identify, it is necessary to differentiate three types of campaign. These are firstly, information campaigns where citizens lacking knowledge refer to opinion leaders for information, such as highly respected economic experts via television commercials, talk shows and newspaper articles; secondly, utilitarian campaigns when citizens are motivated by hearing about others rewarded or punished, such as when names are published of those who pay taxes and those who do not; and thirdly and finally, value-expressive campaigns when citizens are encouraged to associate themselves with positive role models, such as by publicising the tax payments of famous television and movie stars, athletes, scientists, politicians and business tycoons, holding them up as role models for the law-abiding citizen to follow.

Moreover, it does not always have to be governments leading such awareness raising campaigns. It can also be social partners such as employer or employee representative organisations either independently or in cooperation with the state. In Sweden, for example, employers have led campaigns to tackle the undeclared economy and undeclared labour in both the construction industry and the taxi-driving sector. The Bulgarian Industrial Association, meanwhile, has run an “In the Light” (www.nasvetlo.net) campaign since 2007 and sought to encourage greater awareness of the negative implications of the undeclared economy and undeclared labour, whilst in Canada, a national awareness advertising campaign, “Get it in Writing”, to inform purchasers of undeclared labour of the risks involved in dealing with home repair and maintenance contractors has been developed in partnership between the tax administration and the Canadian Home Builders’ Association.

⁸³ Interview with business representatives.

6.4.2 *Reforming formal institutions*

There is little point in seeking to change norms, values and beliefs, however, unless one addresses the formal institutional failings that cause the non-alignment of citizen morality with that of the state, and thus the prevalence of undeclared work. To tackle these formal institutional failings so that citizens become more committed to being compliant, therefore, two broad approaches are required. On the one hand, the processes of formal institutions need to be changed. On the other hand, the products of formal institutions need to be addressed. These are related to tackling formal institutional voids (e.g. a lack of welfare protection). Here, each is considered in turn, starting with the processes of formal institutions.

Changing the processes of formal institutions addresses two key types of formal institutional failures. On the one hand, changing the processes of formal institutions tackles formal institutional inefficiencies, or resource misallocations by formal institutions, such as when formal institutions seek to protect or maximise economic rents for elites, or when state capture occurs by such elites, resulting in the majority not receiving a fair share in return for their contributions, or suffering from overly burdensome taxes, registration and licensing regulations and costs. On the other hand, changing the processes of formal institutions tackles formal institutional weaknesses and instability, manifested in their lack of capacity and capability to enforce legislation and/or there are continuous changes in the formal ‘rules of the game’ about what is acceptable, which leads citizens to reject the continuously changing formal rules of the game in favour of their own more stable unwritten socially shared rules. These malfunctions lead to a non-alignment between state morality and citizen morality. To change this, processes need to be altered to ensure that there is procedural justice, procedural fairness and distributive fairness. This net result will be a shift in public institutions away from a ‘cops and robbers’ approach towards a more customer-friendly orientation. Each is here considered in turn.

Procedural justice. The extent to which citizens perceive government to treat them in a respectful, impartial and responsible manner significantly effects whether citizens engage in voluntary cooperation (Hartner et al, 2008; Murphy *et al.*, 2009; Torgler and Schneider, 2007). Leventhal (1980) formulated the following six rules regarding procedural justice:

- (i) consistency rule - procedures should be consistent across people and time; nobody should be favoured or disadvantaged;
- (ii) bias suppression rule - egoistic intentions and prejudice on the part of the decision-makers should be avoided;
- (iii) accuracy rule - all relevant sources of information should be exhausted in order that decisions are based on well-founded information;
- (iv) correctability rule - the possibility of the adjustment or revision of decisions made;
- (v) representativeness rule - the opinions and interests of all parties should be considered; and
- (vi) ethicality rule - procedures should align with the prevailing moral and ethical values.

Leventhal’s rules deal primarily with the decision-making process. However, Bies and Moag (1986) argue that it is also important to consider interpersonal interactions and whether there is respectful and fair treatment (i.e. interactional fairness). Compliance is significantly higher



when citizens perceive there to be interactional fairness. Being treated politely, in a dignified manner and with respect, being given a say, and having genuine respect shown for one's rights and social status all improve compliance (Gangl et al., 2013; Hartner *et al.*, 2008). Consequently, it is necessary for the state to move towards a customer-oriented service approach that treats citizens with respect and dignity. This shift from a coercive to cooperative approach seeks to reduce the need for enforced compliance. The more regulatory interactions are grounded in trust, the greater is the likelihood of self-regulation or voluntary compliance.

Procedural fairness. People who receive procedurally fair treatment by an organisation will be more likely to trust that organisation and will be more inclined to accept its decisions and follow its directions (Murphy, 2005). If one citizen caught violating the law pays no fines, but others caught have to pay, s/he will view themselves as being treated unfairly. Fairness is one of the most important determinants of compliance (Hartner et al., 2011; Kirchgässner, 2010, 2011; Molero and Pujol, 2012). If citizens feel that they are not receiving fair treatment, non-compliance increases (Bird *et al.*, 2006). Where grievance exists either in absolute terms (e.g. those who feel that taxes are too high, those who feel that public funds are wasted) or in relative terms (e.g. the suspected level of others' tax evasion), the result is greater non-compliance. Indeed, and as shown above, citizens can justify their own non-compliance in the perceived non-compliance of others. If the undeclared economy is perceived as extensive, then this justifies citizens engaging in non-compliant behaviour themselves. This obviously has implications for administrations. If the authorities advertise that the undeclared economy is extensive, then they create the conditions for widespread grievance and for greater participation in the undeclared economy of those who might not have otherwise done so. Similarly, if an offender believes that administrations are communicating disapproval to them through disrespect or stigmatising them, such as by labelling them with negative identities (e.g. thief, tax cheat), re-offending results since the individual externalises the blame and feels alienated (Murphy and Harris, 2007).

Distributive fairness. Whether a citizen adheres to the codified laws and regulations and does not engage in the undeclared economy is heavily determined by whether they believe that they receive the goods and services they deserve given the taxes they pay (Richardson and Sawyer, 2001). Taxes, after all, are prices for the public goods and services provided by the government. If citizens view their interests as properly represented in formal institutions and they receive what they view as appropriate public goods and services for the taxes they pay, their identification with the state increases and their willingness to contribute is greater.

6.4.3 Changing the products of formal institutions

It is not purely changes in the processes of formal institutions which are required to increase voluntary compliance. As outlined in section 2.1 and section 4, broader work and welfare regimes influence the size of the undeclared economy in a country. Larger undeclared economies are associated with lower levels of GDP per capita, a low quality of bureaucracy and higher levels of perceived public sector corruption, lower levels of expenditure on social protection, less effective social transfer systems and greater inequality and deprivation. Tackling undeclared economy, therefore, is not solely about changing the penalties and risks of detection, or providing incentives to work in the declared economy. It also requires changes in the macro-level economic and social conditions, if it is to be reduced. Unless this



is achieved, there will continue to be an asymmetry between the informal and formal institutions in a country and undeclared work will remain rife.

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ANNEXES

Annex A: key stakeholders consulted

Meetings were held with the following key stakeholders.

Ministries

Mrs. Dajna Sorensen, Deputy Minister, Ministry of Finance and Economy

Enforcement agencies under the Ministry of Finance and Economy

Mrs. Iris Ago, Head of Tax Inspection Department, General Directorate of Taxation
Mrs. Pranvera Selgjakaj, Specialist at Risk Department, General Directorate of Taxation
Mr. Arben Seferaj, Head of the State Labour and Social Services Inspectorate

Social partners

Employers' organisation

Mr. Gjergji Gjika, Chairman of Facon Chamber
Mr. Albana Laknori, General Secretary, Tirana Chamber of Commerce and Industry
Mrs. Flutura Xhabija, Executive Director, Professional and Business Women Association
Mr. Ilir Hebovija, Executive Director, Construction Association
Mr. Zak Topuzi, Board member, Albanian Tourism Association

Workers' organisation

Mr. Nikoll Doci, Specialist, Confederation of Trade Unions in Albania

Other

Mrs. Vilma Rakipi, Head of Tax Administration and Customs Administration Training Centre
Elira Demiraj, Head of National Employment Agency (NES)
Etleva Gjelaj, National Employment Agency (NES)
Eduart Gjokutaj, Economic Expert
Elona Sevrani, Director, National Accounts, INSTAT
Elirjeta Pepaj, Director, Real Sector Statistics, INSTAT
Zef Preci, Executive Director, Albanian Center for Economic Research (ACER)
Artur Papajani, Former Director of Taxpayers Service Department, General Taxation Directorate
Ornela Liperi, Editor in Chief, Monitor magazine
Esmeralda Ballesha, Coordination Unit, National Business Forum

Note: An e-survey was conducted. Only 30 stakeholders filled out the questionnaire. The instrument was distributed to a database of around 70 stakeholders (experts, government



representatives, employers and employee organisations, economic experts, research centres, etc.).



Annex B: checklist for meetings

Background information about you

1) Name of respondent completing questionnaire and contact details:

Name:: _____

Email:: _____

2) Name of your department/organisation:

3) Function of your department/organisation:

Tick all that apply

Labour Inspectorate

Ministry of Labour

Tax/Revenue Administration

Social Security/Insurance department

Customs

Immigration office

Other, namely: _____

4) On which types of undeclared work does your organisation focus?

Tick all that apply

Work not declared to the authorities for tax purposes

Work not declared to the authorities for social security/insurance purposes

Work not declared to the authorities for labour law purposes

Other, namely: _____

Budget allocation and human resources

5) Is your enforcement agency:

a. Labour Inspectorate

b. Tax administration

c. Other

6) What is the annual budget allocation for your enforcement agency and how is this allocated such as between investments (e.g. cars, ICT), staff (management staff, labour inspectors, administrative staff), etc.?

7) Has the annual budget allocation to your enforcement agency changed over the past three years?

And how has this affected the size of the allocations to investments, staffing (management staff, labour inspectors, administrative staff), etc.?

8) How many staff are employed in your enforcement agency nationally? And of these, how many are inspectors involved in tackling undeclared work?

9) How has the total number of staff, and total number of inspectors involved in tackling undeclared work, employed in your enforcement changed over the past three years?



10) How many inspections are conducted annually? [If you have a breakdown by either sector, firm size or geography, please include]. How has this changed over the past three years?

11) How many detected cases of undeclared work are identified annually? [If available, please again provide a breakdown, including any sanctions/penalties applied, and collected]. Has the number of detected cases changed over the past three years?

12) What are the major types of undeclared work detected during inspections? And has this changed over the past three years?

Role of social partners

13) Please describe whether there is a tripartite organisational model when tackling undeclared work in your Member State. What is the level of involvement, and role, of social partners when tackling undeclared work?

14) Have there been any important changes related to how social partners are involved in the fight against undeclared work during the last two years and why?
Please provide a short description. If there are several changes, please focus on the three most important.

Target-Setting and Key Performance Indicators (KPIs)

- 15) How are the national targets for tackling undeclared work in your Member State best described?
- a. Common: There is one set of national targets for tackling undeclared work that is common across the whole of government
 - b. Shared: Some government departments/agencies have shared targets
 - c. Separate: Each government department/agency has its own targets

Answer:

If a to Q15

If there are 'common targets' across the whole of government, please provide the targets and/or KPIs that relate to tackling undeclared work:

If b or c to Q15

If government departments have shared or separate targets, please provide the targets and/or KPIs that relate to tackling undeclared work in each government department involved in tackling undeclared work:

Name/role of department 1 (e.g. 'labour inspectorate'):



If b or c to Q15

Targets and/or KPIs related to tackling undeclared work:

If b or c to Q15

Name/role of department 2 (e.g. ‘tax administration’):

If b or c to Q15

Targets and/or KPIs related to tackling undeclared work:

If b or c to Q15

Name/role of department 3 (e.g. ‘social insurance’):

If b or c to Q15

Targets and/or KPIs related to tackling undeclared work:

If b or c to Q15

Name/role of department 4 (e.g. ‘customs authority’):

If b or c to Q15

Targets and/or KPIs related to tackling undeclared work:

16) Have there been any important changes related to the above targets and/or KPIs during the last two years and why?

Please provide a short description of (i) name of department where change occurred and (ii) specify the change in targets and/or KPIs. If there are numerous changes, please focus on those you consider to be the three most important changes

Measures to tackle undeclared work

17) Please complete the Table below on: (i) which policy measures are used in your country; and (ii) who is primarily responsible for each policy measure.

DETERRENCE MEASURES

Penalties

	Policy measures used in your	The department primarily responsible for each policy measure
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	country								
	Yes	No	the one single compliance agency	tax/revenue administration	labour inspectorate	social insurance/security institution	customs authority	other ministry	social partners
Use of penalties and fines for companies									
Use of penalties and fines for purchasers									
Use of 'blacklists'	—	—	—	—	—	—	—	—	—

Measures to improve detection

	Policy measures used in your country		The department primarily responsible for each policy measure						
	Yes	No	the one single compliance agency	tax/revenue administration	labour inspectorate	social insurance/security institution	customs authority	other ministry	social partners
Data matching and sharing									



Workplace inspections									
Registration of workers prior to starting work or on first day/week of work									
Coordination of strategy on undeclared work across government departments									
Coordination of operations across government departments (e.g. joint operations/w workplace inspections)									
Data mining									
Use of peer-to-peer surveillance (e.g. telephone hotlines to inform about abuses/cases)									
Certification of business, certifying payments of social contributions and taxes									
Use of mandatory ID in the workplace									
Supply chain									



responsibility									
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Incentives

Supply-side measures (i.e. to stimulate suppliers to operate declared)

	Policy measures used in your country		The department primarily responsible for each policy measure						
	Yes	No	the one single compliance agency	tax/revenue administration	labour inspectorate	social insurance/security institution	customs authority	other ministry	social partners
Simplify procedures for complying to existing regulations (e.g. easier registration procedures; simplify forms; reduce duplication)									
Society-wide amnesties									
Individual-level amnesties for voluntarily disclosing undeclared activity									
'Formalisation'									



advice to start-ups									
'Formalisation' support services to existing businesses									
Direct tax incentives (e.g. exemptions, deductions)									
Targeted VAT reductions									
Provide free record-keeping software to businesses									
Provide fact sheets on record-keeping requirements									
Provide free advice/training on record-keeping									
Gradual formalisation schemes									
Initiatives to ease transition from									



unemployment into self-employment									
Initiatives to ease transition from employment into self-employment									
Providing businesses with access to free marketing (e.g. at trade fairs)									

Demand-side measures (i.e. to encourage purchasers to buy declared goods and services)

	Policy measures used in your country		The department primarily responsible for each policy measure						
	Yes	No	the one single compliance agency	tax/revenue administration	labour inspectorate	social insurance/security institution	customs authority	other ministry	social partners
Service vouchers	—	—	—	—	—	—	—	—	—
Targeted direct tax incentives (e.g. income tax reduction/su									



bsidy)									
Targeted indirect taxes (e.g. VAT reductions)									
Initiatives for customers to request receipts (e.g. lottery for receipts)									

INDIRECT MEASURES

	Policy measures used in your country		The department primarily responsible for each policy measure						
	Yes	No	the one single compliance agency	tax/revenue administration	labour inspectorate	social insurance/security institution	customs authority	other ministry	social partners
Campaigns to inform suppliers of undeclared work of the risks and costs of working undeclared									
Campaigns to inform suppliers of undeclared work of the benefits of formalising their work									



(e.g. informing them about where their taxes are spent)									
Campaigns to inform users of undeclared work of the problems of purchasing goods and services from the undeclared economy									
Campaigns to inform users of undeclared work of the benefits of declared work (e.g. informing citizens of the public goods and services they receive with the taxes collected)									
Normative appeals to businesses to operate on a declared basis									
Measures to improve the degree to which customers of enforcement agencies									



believe they have been treated in a respectful, impartial and responsible manner									
Measures to improve tax/social contributions /labour law knowledge									

**18) What are the dominant policy measures used to tackle undeclared work in your country?
Please rank from 1st (most dominant), 2nd, 3rd, 4th, 5th to 6th (least dominant)**

	1	2	3	4	5	6
Deterrence: Penalties						
Deterrence: Measures to improve detection						
Incentives to operate in the declared economy: supply-side						
Incentives to operate in the declared economy: demand-side						
Indirect measures: awareness raising campaigns						
Indirect measures: changing formal institutions (e.g. customer-friendly practices)						

19) What set of policy measures are in your view most effective in tackling undeclared work in your economy?

Please rank from 1st (most effective) , 2nd, 3rd, 4th, 5th to 6th (least effective)

	1	2	3	4	5	6
Deterrence: Penalties						



Deterrence: Measures to improve detection						
Incentives to operate in the declared economy: supply-side						
Incentives to operate in the declared economy: demand-side						
Indirect measures: awareness raising campaigns						
Indirect measures: changing formal institutions (e.g. customer-friendly practices)						

The following questions are about your enforcement agency

20) Can you provide any examples of where you have undertaken:

Prior (ex-ante) evaluation of a policy initiative?

1) _____

2) _____

After-the-event (ex-post) evaluation of a policy initiative?

1) _____

2) _____

21) Can you provide any examples of pilot studies undertaken:

1) _____

2) _____

3) _____

Use of Databases/Digital Tools



22) Does each Ministry/enforcement body involved in tackling undeclared work have access to a database that allows it to detect potential instances of undeclared work?

- a. Yes
- b. No

23) Please describe the digital tools available in each Ministry/enforcement body involved in tackling undeclared work that allows it to detect potential instances of undeclared work.

24) In your enforcement agency, do you have access to a database that allows you to detect potential instances of undeclared work?

- a. Yes
- b. No

25) Is the data available to all relevant levels of your organisation, including inspectors?

- a. Yes
- b. No

26) Is the design and the architecture of the ICT-infrastructure directly related to your targets and KPIs for tackling undeclared work?

- a. Yes
- b. No

27) How is the database used to improve the performance of your enforcement agency? (e.g. is it used to identify targets for inspections?)

28) Is the database inter-operable with other Ministries databases who are also involved in tackling undeclared work?

- a. Yes
- b. No

29) With whom do you share data?

30) Is the data shared with other government departments?

- a. Yes
- b. No

If a to Q30

Please state which departments.

If b to Q 30

What are the reasons for not doing so?

31) Are you involved in any cross-border data sharing?

- a. Yes
- b. No

If a to Q 31

Please describe:



32) What is needed to improve the effectiveness of your databases/digital tools?

33) What development plans, if any, do you have for improving the databases/digital tools available to you?

34) Have there been any important changes related to the use of databases/digital tools during the last two years and why?

(short description with keywords; if there are several changes, please focus on the three most important changes)

35. What are the major barriers preventing you from tackling undeclared work more effectively?

36. What, if anything, are you doing to address these barriers?

Thank You!