



Employment and Social Affairs Platform

Recommendations for Tackling Undeclared Work in Albania

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1 Background Context

This report lays out comprehensive recommendations to tackle undeclared work in Albania.

A brief background context is provided which describes and reviews the extent, character and drivers of the undeclared economy in Albania, followed by the current organisation of the fight against undeclared work and the current policy approach. This then provides the foundation for the strategy and individual policy recommendations in section 2 and the Action Plan in section 3.

1.1 Extent, character and drivers of the undeclared work in Albania

Undeclared work is a widespread phenomenon in Albania. SELDI (2016) conducted a survey in Albania with 1,050 households and found that 39 percent of respondents were employed in the undeclared economy while 40 percent were without written contracts. 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 contract.¹

Recently, advances have been made in explaining undeclared work. Every society has institutions which prescribe, monitor and enforce the “rules of the game” regarding what is socially acceptable. These are of two types: formal institutions prescribe “state morality” about what is socially acceptable (i.e. laws and regulations), and informal institutions prescribe “citizen morality” (i.e. the unwritten socially shared rules). Studies reveal that undeclared work arises when formal and informal institutions are not aligned. In the last few years, multiple studies have identified that undeclared work is more prevalent 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, there will be a need to continue to:

- improve the level of GDP per capita;
- improve governance and reduce public sector corruption;
- maintain and improve the levels of expenditure on labour market interventions to help the most vulnerable groups from its current relatively low base level;
- persist with increasing social expenditure; and couple this with:
- developing more effective social transfer systems that reduce the levels of income inequality and levels of severe material deprivation in Albanian society.

¹ SELDI (2016), “Hidden Economy and Good Governance in Southeast Europe Regional Assessment Report,” http://seldi.net/fileadmin/public/PDF/Publications/HIDDEN_ECONOMY_06.pdf.

Besides addressing these structural determinants, there are many additional organisational and policy initiatives that can be pursued to tackle the undeclared economy. What is fundamental in Albania is that the government should give back to its citizens in the form of public services all taxes collected for this purpose. One of the key reasons that taxpayers/citizens do not comply is because they do not believe that they receive sufficient public services in return for the taxes they pay.

1.2 Current organisation of the fight against undeclared work

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 of different segments of the 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. Hence, a more coordinated response is required. Interviews with various stakeholders considered the relocation of the State Labour Inspectorate 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 tackling undeclared work. The preliminary efforts are being put in place for these institutions to better coordinate their activities on tackling undeclared work but the results are yet 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.

1.3 Current policy approach

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 to repair the social contract between the state and its citizens 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 business community and economic experts. The Albanian government is “fighting” undeclared work haphazardly. It is imperative that every action taken should be based on an evidence-based approach. In addition, there is no common methodology used to measure undeclared work. Different stakeholders use different measures for the size of undeclared work based on different methodologies. These different measures employed and lack of consensus 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 imperative that a reliable and consensual measure of the extent and nature of undeclared work is developed.

2 Policy Recommendations

2.1 Strategic management initiatives

Albania has not adopted a holistic approach to tackling undeclared work. There is a separation of responsibilities among State Labour Inspectorate which deals with labour law violations while the tax non-compliance responsibility remains under the tax administration, and social security and insurance fraud violations with the social insurance bodies. There is no single institution that coordinates the fight against undeclared work. Instead, the organisation of the fight against undeclared work (in terms of strategy, operations and data mining, sharing and analysis) is distributed across a range of ministries, departments, sub-divisions and agencies which are working to some extent in “isolation”. An effective tackling of undeclared work requires coordination and a cooperative approach at the level of strategy, operations and data mining, sharing and analysis.

Indeed, the European Commission’s European Platform Tackling Undeclared Work views the development of a holistic approach as the cornerstone of any modern approach towards tackling the undeclared economy. This is where national governments use a whole government approach to tackle undeclared work, by joining-up on the level of both strategy and operations the policy fields of labour, tax and social security law, and involve and cooperate with social partners and other stakeholders. This approach involves using the full range of *direct* and *indirect* policy measures available to enhance the power of, and trust in, authorities respectively. The objective is to transform undeclared work into declared work in an effective manner.



Recommendation 1	A holistic integrated strategic approach towards tackling undeclared work
Goal	To increase the effectiveness and efficiency to facilitate the transition from undeclared to declared economy by increasing coordination through enforcement authorities at the level of strategy, operations and data mining, sharing and analysis.
Implementation	Establish a coordinating body to take responsibility for joining up the strategies, operations and data mining, sharing and analysis of all state agencies and social partners involved in tackling undeclared work.
Responsible Institutions	Cross-government, including Ministry of Finance and Economy, the State Labour Inspectorate, Tax Administration, Social Security Institute, Albanian Compulsory Health Care Insurance Fund, Albanian National Employment Service, Ministry of State for the Protection of Entrepreneurship, Ministry of Tourism and Environment, Border Police, INSTAT, National Business Center, Customs, plus social partners.
Outcomes	A coordinated national approach towards undeclared work on the level of strategy, operations and data mining, sharing and analysis.
Indicators of achievement	<ul style="list-style-type: none"> • Production of shared cross-cutting strategic objectives and key performance indicators (KPIs) across bodies responsible for tackling undeclared work. • Greater proportion of operations and inspections conducted on joint/shared basis. • Implement a joint strategic plan on data mining, sharing and analysis to tackle undeclared work.

It is now widely accepted that the aim of governments is not to eradicate the undeclared economy, but to move undeclared work into the declared economy. In article 1 of Decision (EU) 2016/3441 establishing the European Platform Tackling Undeclared Work, it is stated “tackling”, which in relation to undeclared work means preventing, deterring and combating undeclared work as well as promoting the declaration of undeclared work. However, Albanian enforcement authorities have been mostly focused on deterrence measures rather than preventive measures. Ergo, the government should shift from a deterrence approach (i.e. increasing penalties and improving the risks of detection) to putting more emphasis on a preventative approach in order to motivate the shift from undeclared to declared work. Hence, additional strategic objectives on transforming undeclared work into declared work, and offering formalisation support and advice is proposed. It is imperative that these strategic objectives are SMART (Specific, Measurable, Achievable,

Relevant and Time-bound). In most cases, responsible institutions in Albania have not adopted such SMART objectives which are specific, measurable, achievable, relevant and time-bound.

Recommendation 2	Modernise the State Labour Inspectorate's (SLI) and Tax Administration's (TA) strategic objectives and KPIs in relation to undeclared work
Goal	Broaden the responsibilities of the State Labour Inspectorate and Tax Administration to include a preventative approach towards undeclared work.
Implementation	Include "transformation of undeclared work into declared work" as a strategic objective of the SLI and TA.
Responsible Institutions	State Labour Inspectorate and Tax Administration at a minimum.
Outcomes	<ul style="list-style-type: none"> • Adopt additional KPIs associated with transforming undeclared work into declared work, and preventative measures, which are related to: <ul style="list-style-type: none"> ○ the number of start-up businesses offered advice and/or support on how to operate legitimately, the success of which is measured by the level of customer satisfaction (grouped by the type of support and advice provided, with the first year used to produce a baseline figure for future years). ○ the number of existing businesses offered formalisation advice and/or support, the success of which is measured by the level of customer satisfaction (grouped by the type of support and advice provided, with again the first year used to produce a baseline figure for future years). ○ X percent of legitimised labour relations resulting from the total number of controlled labour relations (with the first year used to establish a baseline figure). • These objectives should be SMART (Specific, Measurable, Achievable, Relevant and Time-bound).
Indicators of achievement	<ul style="list-style-type: none"> • The number of start-up businesses offered advice and/or support by the SLI and TA on how to operate legitimately. • The number of existing businesses offered formalisation advice and/or support by the SLI and TA.



There is also a need to improve the performance measurement of the agencies involved in the fight against undeclared work. This requires that there is a transparent and forward-looking management-by-objectives strategy with clearly described responsibilities. Information on the results regarding achieving its KPIs is then shared in a fixed and easily understood format and in accordance with an agreed time interval. The Investment Council (platform of Albanian government) shared at the end of 2017 the results of a survey covering 146 businesses on the impact of recurrent actions undertaken by the tax administration. This kind of measurement should be developed for other institutions as well dealing with undeclared work, with a bigger representative sample. In addition, various channels should be utilised to communicate the results of its performance on achieving its KPIs, including reports and face-to-face information given at an individual or team level. This should serve to validate the results and ask for feedback.

Recommendation 3	Improvements in performance measurement
Goal	To improve the management-by-objectives approach within the enforcement agencies responsible for tackling undeclared work.
Implementation	<ul style="list-style-type: none"> • Systems should be put in place to share whether the enforcement agency achieves its KPIs in a fixed and easily understood format. Different channels should be used to communicate the results of its performance (e.g. reports and face-to-face information) for different audiences (e.g. staff, the public). • This should be followed up by a cascaded system of top-down and bottom-up dialogues. In doing so, all relevant members of staff and stakeholders are involved, and the main characteristics of these dialogues are: respect and fairness, open dialogue, empowerment, reward and recognition. Decisions taken in the dialogue are implemented, monitored, assessed and (if necessary) revised. • Implementing a system of financial appreciation; ALL x for every executed proposal of a staff member. • This should be coupled with a staff satisfaction survey conducted on a regular annual or bi-annual basis, with evaluation and feedback mechanisms for actions taken.
Responsible Institutions	State Labour Inspectorate, Tax Administration.

Outcomes	<ul style="list-style-type: none"> • Better communication of performance both internally within the enforcement agency and to wider stakeholders. • Greater dialogue on the KPIs and management-by-objectives. • Evaluation of staff satisfaction integrated into the management process to improve human resource management within the enforcement agencies. • Objective staff performance evaluation.
Indicators of achievement	<ul style="list-style-type: none"> • Provision of reports and face-to-face information on performance results. • Evidence of top-down and bottom-up dialogues with staff. • Evidence that decisions taken in the dialogue are implemented, monitored and assessed. • Conducting staff satisfaction survey which evaluates effectiveness of the performance measurement system and dialogue, and displays actions taken in response to feedback received.

2.2 Policy measures to deter undeclared work

Deterrence measures detect and punish non-compliance. This is achieved by firstly, raising the perceived or actual likelihood of detection and/or secondly, increasing the penalties and sanctions for those caught. The evidence-base is that penalties do not significantly reduce the likelihood of undeclared work among either citizens or businesses, but that increasing the perceived or actual risk of detection does reduce the likelihood of undeclared work among businesses (but not citizens). In this regard, several policy measures could be employed in Albania. One area where improvements can be made is on the proportionality of fines.

Recommendation 4 Amend the Criminal Code in relation to undeclared work	
Goal	To allow proportionate treatment of undeclared work.
Implementation	Review and increase the punishment in the Criminal Code, in case of undeclared work detection. Currently, in case an informal employee is detected, the Criminal Code provides a penalty of ALL 10,000 or 1 year imprisonment. It is recommended to increase the amount of fine and the time of imprisonment in the Criminal Code. The criminal code of France could be considered as an example.
Responsible Institutions	Ministry of Justice, Ministry of Finance and Economy.



Outcomes	Offences are punished with the comparable sanctions.
Indicators of achievement	Reduction in the detection of undeclared work.

One of the improvements that could be made and is considered a deterrent measure is ensuring that being caught acts as a deterrent. This could be achieved by establishing a public register and listing offenders.

Recommendation 5 Register of employers fined for undeclared work	
Goal	To allow the labour inspectorate, state bodies, employees, and companies to check whether an employer was penalised for undeclared work.
Implementation	<ul style="list-style-type: none"> • To create a public register and to develop criteria for listing offenders. • To list offenders for a certain period of time. • To consider other implications resulting from listing in the register.
Responsible Institutions	State Labour Inspectorate, Tax Administration.
Outcomes	Increases the deterrence impact and gives persons, employees and companies the opportunity to decide whether they want to do business with persons or companies listed in the register.
Indicators of achievement	Use of register for due diligence purposes by the public.

Another area that needs to be more robust is data mining, sharing and analysis. There is a lack of full data sharing across the multiple data systems. This is not wholly a technical technocratic but also an organisational problem, and needs to be resolved. To resolve this, these electronic systems could be integrated organisationally and under one coordination body. The Albanian government might establish an “Undeclared Work Information Unit” and this could serve as a point the electronic system could be moved to. The Grey Economy Information Unit in Finland is a good practical example of data mining integrated into a single national body.

Recommendation 6 Improve the effectiveness of electronic systems for data mining, the interoperability of databases and data sharing	
Goal	To improve the perceived and actual risk of detection of businesses engaged in undeclared work.



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Implementation	<ul style="list-style-type: none"> • A single centralised database should be created where requests for information on individual businesses or sectors could be sent. • The first step is to arrange a study visit to the Grey Economy Information Unit in Finland to gather information on how it works so that this good example could be replicated in Albania. • A plan can then be prepared detailing how such a unit would operate.
Responsible Institutions	Ministry of Finance and Economy, Albanian National Employment Service, State Labour Inspectorate, Albanian Social Security Institute, Albanian Compulsory Health Care Insurance Fund, Tax Administration, INSTAT.
Outcomes	<ul style="list-style-type: none"> • Join up various datasets and enable more effective data mining, sharing and analysis across government. • Inspectors will receive better information to plan more effective inspections. • Inspectors will be able to develop segmentation strategies that focus resources where the risks are the greatest.
Indicators of achievement	Improved rate of detection of undeclared work.

Not all forms of undeclared work can be detected using inspections. There is a share of formal employees that receive not only an official declared wage but also an additional undeclared (“envelope”) wage from their formal employer. Such under-declared employment is difficult to detect using inspections. Instead, data mining is required. To use data mining in a preventative and curative manner, businesses perceived to be potentially engaging under-declared workers (e.g. with below average wage rates for their sector or size, or for the occupation) should be sent friendly normative notification letters to “nudge” them towards legitimacy. In order for this to be effective, strategies should be sector-based. In Albania there are specific sectors that need urgent interventions while other sectors could require another approach. The Albanian Tax Administration has already started such an initiative in the tourism sector but this should be revised regarding its impact and should be extended to other sectors as well. This use of normative notification letters should also be replicated by the State Labour Inspectorate.

Recommendation 7	Normative notification letters (using data mining)
Goal	To improve the perceived and actual risk of detection of businesses engaged in under-declared employment.

Implementation	<p>Databases should be used to detect businesses perceived to be potentially engaging under-declared workers by identifying “outliers” who have below average wage rates for their sector or size, or occupations employed. These “outliers” should be sent friendly normative notification letters so as to “nudge” them towards legitimacy. The selection of suitable cases should be done by executive personnel and supported by selection guidelines.</p> <p>This should be initially implemented as a pilot study in a particular sector, industry or location, and various kinds of notification letters should be used to evaluate which types work and which do not.</p>
Responsible Institutions	State Labour Inspectorate and Tax Administration.
Outcomes	<ul style="list-style-type: none"> • Businesses paying “envelope wages” will be encouraged to put their affairs in order in a cost-effective manner. • Widens tax base due to the increase of social contributions and personal income tax.
Indicators of achievement	<ul style="list-style-type: none"> • Proportion of businesses contacted that improved their compliance and reported increased wage levels. • Data on the increase of: <ul style="list-style-type: none"> - Wage fund; - Social contributions; - Personal income tax.

At present, enforcement agencies such as the State Labour Inspectorate spend much of their time responding to reports of violations. This reduces their ability to adopt a more targeted and effective approach towards inspections. By introducing a desk-based points-based system for assessing the validity of reported violations, and whether an inspection should take place, greater time could then be spent on a more effective and strategic targeted approach towards inspections. At present, inspections are not necessarily targeted at those sectors and businesses in which undeclared work is rife. According to the Head of Labour Inspectorate, they identify businesses with a high risk of working undeclared based on data from other inspections they conducts. A more targeted approach (when combined with various incentives listed below) would enable a more effective approach to be pursued towards enforced compliance.

Recommendation 8	Targeting and planning inspections
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Goal	To improve the perceived and actual risk of detection of businesses engaged in undeclared work.
Implementation	<ul style="list-style-type: none"> • Develop a points-based system for assessing the validity of reported violations, and whether an inspection should take place, supported by data mining. • Use the inspectors' time freed from following up on reported violations by developing a strategic targeted approach towards inspections based on those sectors and business types in which undeclared work is more prevalent. • Coordinate inspections between various enforcement authorities targeting the same business, which would increase impact and be more business-friendly.
Responsible Institutions	State Labour Inspectorate.
Outcomes	<ul style="list-style-type: none"> • Improved rate of detection of labour law violations, tax non-compliance and social insurance fraud. • Set a target of conducting x percent of inspections based on a more strategic and targeted approach. • Set a target of conducting x percent of inspections as joint inspections with other inspectorates.
Indicators of achievement	<ul style="list-style-type: none"> • To increase by x percent p.a. the number of inspections which are targeted inspections and to decrease the overall percentage of inspections which are responses to reports of violations. • X percent of inspections to be conducted as joint inspections.

Public works contracts are contracts over which the government has control and the inclusion of clauses in contracts is possible. A means of increasing the risk of detection is to introduce a clause in public works contracts that the firm to which the contract is awarded undertakes not to engage any undeclared workers and will put in place measures to ensure that any sub-contractors engaged will not employ undeclared workers. Including such a clause will place a substantial obligation on main contractors to whom contracts are awarded to abide by tax, social security and labour legislation and importantly, to ensure that any sub-contractors they employ will not employ undeclared workers. In addition, it would help to make the submission of bank guarantees obligatory for (i) ensuring that salaries and (ii) social security will be paid. The main contractor has to declare (i) the assignment of a maximum three levels of sub-contractors, (ii) his/her liability for



non-paid tax and social insurance contribution for the staff of the sub-contractor, (iii) his/her duty of proof for the lawful employment of the employees of the sub-contractors.

Recommendation 9	Introduce supply chain responsibility in public works contracts
Goal	To improve the perceived and actual risk of detection of businesses engaged in undeclared work.
Implementation	<ul style="list-style-type: none"> • Introduce a clause in the public works contracts certifying that the winning firm undertakes not to engage any undeclared workers and will put in place measures to ensure that any sub-contractors engaged will not employ undeclared workers. Otherwise, it will be excluded from public work contracts for a period of 3-5 years. • Pilot study within a selected Ministry in relation to public contracts in a relatively well-defined sector in which undeclared work is considered prevalent. This could be piloted for instance in construction sector when the number of employees and sub-contractors is bigger.
Responsible Institutions	Selected Ministry.
Outcomes	<ul style="list-style-type: none"> • If the main contractors are found by the state inspectorates to have engaged undeclared workers in their supply chain, then a ban on bidding for public works contracts could be imposed for a period of 3-5 years. • Reduces opportunities for undeclared work. • Shifts detection of undeclared work beyond solely a state responsibility by involving private businesses in the active detection of undeclared work.
Indicators of achievement	Pilot study introduces this clause in public works contracts and inspections are used in order to reveal if it is effective in preventing undeclared work in the supply chain.

2.3 Incentives to formalise: supply-side policy measures

Incentive measures seek to make it easier to undertake, and reward, compliant behaviour (i.e. declared work). To achieve this, these incentives can be either: *preventative measures* to stop



people moving into the undeclared economy in the first place; or *curative 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. Until now, although deterrents have been widely used, incentive measures to prevent and cure participation in undeclared work have not been pursued. Here, several supply-side incentive measures are recommended to change the cost/benefit ratio confronting businesses and workers when considering participation in undeclared work.

A huge burden in Albania that fosters intentional and unintentional non-compliance are the barriers to formalisation which are mostly related to red tape and not-easy to understand procedures.

Recommendation 10	Take measures for removing barriers to formalisation where appropriate
Goal	Reduce barriers to formalisation.
Implementation	To continue to simplify compliance in the realms of tax, labour and social security legislation so as to make it easier to be compliant.
Responsible Institutions	Ministry of Finance and Economy, Tax Administration, State Labour Inspectorate, Tax Council, National Labour Council, social partners.
Outcomes	<ul style="list-style-type: none"> • Reduces both intentional and unintentional non-compliance. • Reduces the administrative costs for public administration and businesses. • Conduct a survey to evaluate the improvement in this regard.
Indicators of achievement	<ul style="list-style-type: none"> • The level of procedural simplification. • Less steps for tax and labour compliance.

A supply-side incentive that encourages businesses to formalise is to provide free marketing. For example, the “Business walking routes” of the Hellenic Confederation of Commerce and Entrepreneurship (ESEE), co-financed by Greek and European funds, provides maps to citizens and visitors of six walking routes in the city centre of Athens, each themed for specific goods. Only businesses which are formally registered and have no compliance issues outstanding are included. This provides an incentive for businesses to operate on a declared basis by providing



them with free marketing for their business, and could be replicated in Albania and applied to various districts and sectors.

Recommendation 11	“Business Walking Routes” leaflet for tourists and/or “service providers leaflet” in sectors where undeclared work is prevalent
Goal	Provide incentives for business to formalise.
Implementation	<ul style="list-style-type: none"> • In Tirana, a “Business Walking Routes” leaflet for tourists could provide free marketing for businesses that operate formally (and are on the “white list”) by advertising their services to tourists so as to increase opportunities for trade. • This could be extended to leaflets for citizens providing information on service providers in sectors where it is known that undeclared work is prevalent (e.g. home repair services, electricians, plumbers) in order to provide an incentive for businesses to operate on a formal basis using the ‘carrot’ of free advertising and marketing. • Conduct pilot study in a specific location and sector, and evaluate its feasibility. • Another alternative would be to develop a Smartphone app. Given that the development of this application is costly constable, university IT students could be invited to develop such a Smartphone app as part of their course.
Responsible Institutions	Ministry of Finance and Economy, Ministry of State for Protection of Entrepreneurship, Ministry of Tourism and Environment, municipalities.
Outcomes	<ul style="list-style-type: none"> • Provides an incentive and benefit for firms that operate legitimately by providing them with free marketing. • Incentivises declared work.
Indicators of achievement	<ul style="list-style-type: none"> • Evidence that businesses wish to be included in these leaflets in pilot study in a specific location and sector. • Successful production and distribution of leaflets in pilot study in specific location and sector.

A sectorial initiative could be employed for the tourism sector. The phenomenon of undeclared work is widespread in this sector. It is not the first time that the representatives of tourist 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 this situation are currently ineffective.

Recommendation 12	Setting up visible signs to private houses that offer accommodation services and establish a register of these private houses
Goal	Reduce unfair competition.
Implementation	<ul style="list-style-type: none"> • This could be started first in Durres region as a pilot. • All houses that offer accommodation services will not be taxed as hotels but they need a different treatment (monthly fee) by the local government. • The local government should collaborate with the central government to design a sectorial plan in this regard. • All houses with the visible sign are not subject to inspection by labour or tax inspectors. • Leaflets to promote these houses (with addresses and photos) should be distributed.
Responsible Institutions	Ministry of Finance and Economy, Ministry of Tourism and Environment, local government.
Outcomes	Provides an incentive and benefit for firms that operate legitimately by providing them with free marketing.
Indicators of achievement	The register with number of houses with the visible sign.

To prevent the unemployed starting up businesses unregistered and “test-trading” in the undeclared economy, there is a need to develop initiatives to enable people to make a smooth transition from unemployment to self-employment. The Employment Agency should pay the unemployment benefit for three to six months, if the unemployed person is starting up a business and the economic viability has been proven by the Chamber of Commerce.

Recommendation 13	Incentivise and smooth transition from unemployment to self-employment
Goal	Incentivise participation in declared work.
Implementation	Provide initiatives to encourage unemployed to start up a business.
Responsible Institutions	Ministry of Economy and Finance, Ministry of State for Protection of Entrepreneurship.



Outcomes	<ul style="list-style-type: none"> • Reduces undeclared work. • Facilitates entrepreneurship. • Incentivises declared work.
Indicators of achievement	<ul style="list-style-type: none"> • Number of people moving from unemployment to self-employment through this initiative. • Number of those continuing to be self-employed after 1 and 3 years. • Evaluate tax revenue-to-cost ratio.

2.4 Incentives to formalise: demand-side policy measures

Incentive measures to make it easier to undertake, and reward, compliant behaviour (i.e. declared work) can also be demand-side incentives targeting those who purchase goods and services in the undeclared economy with rewards for using declared goods and services. Until now, such demand-side incentives have been seldom used in Albania.

Recommendation 14	Decrease incentives to use cash and increase incentives to use electronic payments to reduce undeclared work
Goal	Incentivise consumers to purchase declared goods and services.
Implementation	<p>To discourage the use of cash and incentivise an increase in electronic payments so as to reduce the opportunities for undeclared work, Albania should: (1) implement a lower ceiling on cash transactions, (2) consider discouraging easy access to cash, (3) make point-of-sale (POS) terminals available across all sectors, including the mandatory acceptance of digital payments, with a subsidy for the installation of POS terminals in enterprises with an annual turnover of less than x all_operating in sectors with intermediate or high risk of undeclared transactions, (4) central and regional governments to shift more fully towards electronic payments, especially with regard to pension payments, and (5) provide incentives for using cards at the point-of-sale.</p> <p>This might involve:</p> <ul style="list-style-type: none"> - A discount for customers of 1.9 percent of the transaction value for digital payments through POS terminals (payment cards and e-money) for the purchase of goods and services, or; - A refund of 0.8 percent discount for suppliers taking electronic payments through POS terminals for the purchase of goods and services.



Responsible Institutions	Banks, financial institutions, all government departments, social partners.
Outcomes	<ul style="list-style-type: none"> • Tax revenues increase with the growth of the use of payment cards. It is estimated that a discount for customers of 1.9 percent of the transaction value for digital payments through POS terminals (payment cards and e-money) for the purchase of goods and services, would yield 1 percent net increase in budget revenues. • Subsequently, as the electronic payment targets are met, and the use of digital payments consolidates as part of the consumer habits, incentives can be gradually withdrawn, resulting in an increase in the fiscal benefit.
Indicators of achievement	Decreased use of cash and increased use of electronic payments.

In Albania, people are not motivated to ask for receipts. To encourage them, a lottery was developed in 2015 but it was not successful. Another incentive that could encourage citizens to ask for receipts is to award them at the end of the year, with some bonuses. This is described below.

Recommendation 15	Encourage citizens to ask for the receipt
Goal	Incentivise consumers to purchase goods and services accompanied with a receipt.
Implementation	To encourage citizens to buy goods and services accompanied with a receipt, citizens could be equipped with a card and awarded a bonus every end of the year based on the total amount purchased above a specific amount. In order to channelize every transaction through the bank system, the bonus would be awarded only to those that have a bank account.
Responsible Institutions	Banks, all government departments.
Outcomes	Tax revenue increase due to the growth of the distribution of tax receipts.
Indicators of achievement	The increase of tax revenues.

Another incentive that could be replicated in Albania is encouraging homeowners with a tax rebate



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when they employ registered workers. This will encourage homeowners to engage declared persons to provide such services. Tax rebate schemes for domestic services, and home repair and renovation, have been demonstrated in several EU Member States (for example: Denmark, Germany, Belgium, Sweden) to be a major incentive to engage declared workers and reject undeclared workers. The tax rebate does not need to be high - normally it applies to the cost of the labour only and consists of a relatively small percentage of the costs of labour (e.g. 20 percent) although some countries go up to 50 percent rebate of labour costs.

Recommendation 16	Introduce a tax rebate incentive scheme for (i) home owners to receive a rebate of tax when they employ domestic workers and (ii) registered building contractors or registered tradespeople who provide house repair and renovation services
Goal	Incentivise consumers to use declared goods and services.
Rationale	A pilot study should be undertaken in a particular region for a limited range of activities, to be evaluated after 24 months.
Responsible Institutions	Ministry of Finance and Economy, Tax Administration.
Outcomes	<ul style="list-style-type: none"> • Offers an incentive to citizens to employ declared workers and raises awareness of the negative effects of employing undeclared workers. • It has a two-fold benefit in increasing income opportunities for registered builders and tradespersons and it raises the quality of housing repair and maintenance.
Indicators of achievement	Survey of pilot study to evaluate whether purchasers would have used undeclared work previously to get the work done.

Another incentive that could facilitate the shift from undeclared to declared work is using service vouchers. This initiative has never been implemented in Albania before but has proven to produce positive results in other countries.

Recommendation 17	Use service vouchers in household and personal services
Goal	Incentivise purchase of declared goods and services.
Rationale	<ul style="list-style-type: none"> • A pilot study of service vouchers in a particular sector (e.g. household cleaning) in a specific location should be conducted, and evaluated in terms of its impacts on undeclared and declared work. • Evaluation should be done through a representative sample survey of

		purchasers of the substitutive effect of this scheme (i.e. is it replacing regular employment or undeclared work?).
Responsible Institutions		Ministry of Finance and Economy.
Outcomes		<ul style="list-style-type: none"> • Transfer of undeclared work into the declared economy. • Better regulation.
Indicators of achievement	of	Evaluate pilot study in terms of whether the service voucher purchasers would have used undeclared work previously to get the work done.

2.5 Changing citizens' values, norms and beliefs

The problem with using solely the above deterrents and incentive tools is that those operating on an undeclared basis are not always purely rational economic actors calculating the costs and benefits. They can also often be social actors who engage in undeclared work because there is a lack of alignment between their own morality and the laws and regulations, such as due to a lack of trust in the state and what it is seeking to achieve.

There is therefore a need to repair the social contract between the state and its citizens. Undeclared work occurs where formal institutional failings lead to citizens' norms, values and beliefs differing to the laws and regulations, meaning that what formal institutions deem illegal is seen as socially legitimate in the eyes of citizens. To tackle undeclared work, therefore, there is a need to repair the social contract. To align citizen morality with that of the state, one option is 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 option is to organise a public awareness campaign on the benefits of declared work to increase the level of voluntary compliance.

Recommendation 18	Launch a Public Awareness Campaign on the Benefits of Declared Work
Goal	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work.
Implementation	<ul style="list-style-type: none"> • Target younger people who are more likely to view undeclared work as socially acceptable, as well as perhaps professional groups such as doctors, lawyers and accountants. The media used and messages need to be tailored to these selected groups. • Ministry of Finance and Economy, Tax Administration, Labour



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	<p>Inspectorate website use - landing page as part of ministry's website.</p> <ul style="list-style-type: none"> • Materials uploaded to these websites. • Materials uploaded to the social media (FB, YouTube, etc.) • Stimulate the dialogue through roundtables with representatives of the above listed stakeholders. • Ensure full awareness about the tax administration/labour inspectorate competencies vis-à-vis detection of undeclared work and related consequences on individuals.
Responsible Institutions	Ministry of Finance and Economy, State Labour Inspectorate, Tax Administration, Customs, Ministry of State for Protection of Entrepreneurship, social partners.
Outcomes	<ul style="list-style-type: none"> • Reducing the tolerance of undeclared work will result in lower levels of undeclared work. • The percentage of citizens engaged in undeclared work will fall. • There will be an increase in the number of reports of non-compliance to inspectorates. • It will widen the tax base. • More transparency.
Indicators of achievement	<ul style="list-style-type: none"> • Decrease in number of reports of non-compliance to inspectorates. • Reduction in tolerance of undeclared work. • Decrease in undeclared work.

Most employees in Albania only consider “take home pay”. There is little understanding of “gross pay” and thus the value of paying taxes. A campaign to educate citizens about the tax system and tax morale is therefore required.

Recommendation 19	Educating citizens about the tax system and tax morality
Goal	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work.
Implementation	<ul style="list-style-type: none"> • Send an annual letter to all tax payers which set out what portion of their taxes is spent on which public goods and services. • Introduce 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. This conveys a clear message to the public that their taxes are being used to pay for these

	public goods and services.
Responsible Institutions	Ministry of Finance and Economy, State Labour Inspectorate, Tax Administration, Customs, Ministry of State for Protection of Entrepreneurship, social partners.
Outcomes	Improved citizens understanding about the relationship between paying taxes and the public goods and services received.
Indicators of achievement	<ul style="list-style-type: none"> • Resultant reduction in undeclared work. • Greater awareness that taxes pay for public goods and services.

Tolerance of undeclared work is highest among younger age groups. In many countries, such as Canada, young people have therefore been targeted to educate them about the benefits of declared work before they enter the workforce.

Recommendation 20	Educate schoolchildren and university students about the benefits of declared work
Goal	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work.
Implementation	<ul style="list-style-type: none"> • Introduce lessons in the civic education curriculum on why people pay tax, the benefits of social insurance and declared work, and the costs of undeclared work. • Introduce a national Undeclared Work Week, addressing school children and explaining the benefits of compliance and the costs of being non-compliant. • Involve sportspeople, singers or actors in order to have “celebrity endorsement” for a large social media campaign addressed to young people on the benefits of declared work.
Responsible Institutions	Ministry of Education, Sports and Youth in close cooperation with the Ministry of Finance and Economy and other line ministries (Ministry of State for Protection of Entrepreneurship, Tax Administration/Customs, etc.)
Outcomes	<ul style="list-style-type: none"> • Improved understanding of children and students about the benefits of paying taxes and social insurance, and working declared. • Resultant peer pressure on parents from children will reduce undeclared work.
Indicators of	Greater awareness of benefits of declared work and costs of undeclared



achievement	work among younger people
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An effective approach for changing values, norms and beliefs is to encourage citizens to reflect and to consider for themselves why paying taxes/working declared is important rather than be told why they should do so. Such reflexive self-learning is far more effective than information campaigns at embedding knowledge and understanding.

Recommendation 21	National competition on why pay your taxes/why work declared
Goal	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work.
Implementation	<ul style="list-style-type: none"> • Use a celebrity role model to make a social media video on ‘why pay your taxes’ or ‘why reject envelope wages’ or ‘why work declared’ so as to use appropriate role models for the target group for celebrity endorsement. • This video will be used to launch a competition for people to make their own video on the subject of “why pay your taxes”. A prize fund of €10,000 (for 1st, 2nd, 3rd place, etc.) would be awarded for the best social media (e.g. you tube) video on this subject of “why pay your taxes”/“why reject envelope wages”/“why work declared”. • An additional option is to integrate this competition with the above recommendation to introduce this issue in the civic education curriculum. If this is done, schoolchildren can produce such videos in their civic education classes. • The sequencing of such a competition with other policy measures below is important. It should be run following, rather than prior to, public institutional reforms to be effective.
Responsible Institutions	Ministry of Education, Sports and Youth in close cooperation with the Ministry of Finance and Economy and other line ministries (Ministry of State for Protection of Entrepreneurship, Tax Administration/Customs, etc.)
Outcomes	<ul style="list-style-type: none"> • Encourages self-reflection by a wide segment of the target population (e.g. young people) to consider the advantages of paying taxes and disadvantages of failing to do so. • Rather than preach messages, it encourages self-reflection and self-education.

Indicators of achievement	Reduced tolerance of participation in undeclared work by the target group.
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2.6 Reforming formal institutions

Given that values, norms and beliefs are not aligned with the formal rules due to the failings of formal institutions, it is difficult to change citizens' norms without changing the formal institutions. 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).

Recommendation 22	Strengthening social dialogue
Goal	Improve the participation of social partners in tackling the undeclared work.
Rationale	<ul style="list-style-type: none"> • To improve the participation of all social partners in the fight against undeclared work, there is a need to get a consensus of the main labour market institutions and particularly the social partners. • To enhance tripartite capacities to tackle undeclared work. • As self-employment is extensive and one of the key structural characteristics resulting in the prevalence of the undeclared economy, bipartite social dialogue should be used to deal particularly with bogus self-employment and measures to effectively deal with it. • Progress on this issue should be monitored annually and supported with data. • Pilot into a single sector. For example, mining where this issue remains a big challenge.
Responsible Institutions	All social partners.
Outcomes	<ul style="list-style-type: none"> • Broadening of involvement. • Improved governance.

Indicators of achievement	<ul style="list-style-type: none"> • The number of social partners in the dialogue platforms. • Collective bargaining in the selected sectors.
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Recommendation 23	Increase the number of labour inspectors and train them
Goal	Increase the percentage of enterprises covered by labour inspectors and produce more effectively trained labour inspectors.
Rationale	<ul style="list-style-type: none"> • Currently there is a small number of labour inspectors in Albania who cover 5 percent of total registered enterprises. • There is limited official training for labour inspectors on tackling undeclared work. • The SLI should make use of the ILO toolkit for the training of labour inspectors in tackling undeclared work.
Responsible Institutions	Ministry of Finance and Economy, State Labour Inspectorate, ILO trainers.
Outcomes	<ul style="list-style-type: none"> • Improved efficiency and effectiveness of inspectors in tackling undeclared economy. • Capacity-building of the inspectorate. • Facilitates organisational culture change towards a more customer-friendly approach. • Monitor via annual staff satisfaction survey.
Indicators of achievement	<ul style="list-style-type: none"> • Improvements in productivity of staff in achieving KPIs.

2.7 Improving the involvement of social partners

Improving detection does not have to be solely a responsibility of the state authorities. Social partners can also play a role in detecting undeclared work in cooperation with the state.

To achieve this, a voluntary employer-led initiative to rid the supply-chain of undeclared work could be implemented. Either the employer at the top of the supply-chain will take responsibility for ensuring that this is the case, or an initiative based on joint liability could be adopted. This would involve social partners in detecting and eradicating undeclared work in the supply chain, and also provide a clear incentive for smaller businesses further down in the supply chain to be compliant so that they receive contracts from larger firms.

Recommendation 24	Introduce employer-led voluntary supply chain responsibility initiative
Goal	Greater involvement of social partners in the fight against undeclared work.
Implementation	<ul style="list-style-type: none"> • In this voluntary employer-led initiative, firms in the supply-chain could be requested to show those higher in the supply chain that they comply with tax and social security obligations through external auditors and/or refer to the absence of wage, tax and social insurance arrears, and sanctions imposed in recent years. • This might be conducted as a pilot initiative by 10-15 larger employers under the auspices of their Corporate Social Responsibility (CSR) Strategy.
Responsible Institutions	Chambers of Commerce, Business Associations.
Outcomes	<ul style="list-style-type: none"> • Increases detection of undeclared work by involving social partners in its detection. • Reduces opportunities for undeclared work. • Provides a clear ‘demonstration effect’ to smaller firms that larger employers take compliance seriously and that they need to similarly do so. • Shifts detection of undeclared work beyond solely a state responsibility by involving private businesses in the active detection of undeclared work.
Indicators of achievement	Successful implementation among a selection of larger employers in Albania.

A broader social partner led initiative is to use local “role models” organised by, for example, chambers of commerce to act as mentors to nascent entrepreneurs starting up businesses.

Recommendation 25	Provision of one-to-one formalisation advice and support
Goal	Greater involvement of social partners in the fight against undeclared work.
Implementation	<ul style="list-style-type: none"> • Use local role models/mentors by developing a “buddy system” whereby legitimate entrepreneurs buddy with younger nascent entrepreneurs to help them legitimise, and provide support and

	<p>advice on legitimate business development.</p> <ul style="list-style-type: none"> • Technical assistance could be sought to secure EU funds for this awareness raising initiative.
Responsible Institutions	Chambers of Commerce, Business Associations.
Outcomes	<ul style="list-style-type: none"> • Enables business start-ups to do so legitimately. • Enables business operating on a partially undeclared basis to receive advice on how they can put their affairs in order.
Indicators of achievement	Successful implementation of mentoring system for younger nascent entrepreneurs.

To raise awareness among businesses of the benefits of declared work (and costs of undeclared work) so as to increase the level of voluntary cooperation, and reduce the need for enforced compliance, social partners could also run (with support from the State Labour Inspectorate and/or Tax Administration) awareness campaigns.

Recommendation 26	Awareness raising campaign among business community on the benefits of declared work
Goal	Greater involvement of social partners in the fight against undeclared work.
Implementation	<ul style="list-style-type: none"> • Roadshow via local branches of Chambers of Commerce and Business Associations. • Ensure establishment of strong network for cooperation, exchange of information, full awareness about the Ministry of Finance and Economy, Tax Administration, State Labour Inspectorate competencies vis-à-vis detection of undeclared work and necessity to increase social fairness. Support material/presentations for these roadshows could be provided by the Tax Administration and/or State Labour Inspectorate.
Responsible Institutions	<ul style="list-style-type: none"> • Tirana Chamber of Commerce, other chambers and business associations in close cooperation with Ministry of Finance and Economy, Labour Inspectorate, Albanian National Employment Agency, other line ministries, Tax Administration, Customs, Ministry of State for the Support of Entrepreneurship.
Outcomes	<ul style="list-style-type: none"> • Reducing the tolerance of undeclared work will result in lower levels of undeclared work.



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	<ul style="list-style-type: none"> • The percentage engaged in undeclared work will fall. • There will be an increase in the number of reports to inspectorates. • It will widen the tax base. • Increase in transparency.
Indicators of achievement	<ul style="list-style-type: none"> • Implementation of roadshow via local branches of Tirana Chamber of Commerce and branches of other business associations. • Number of meetings held and number of participants attending.



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3 Recommended Actions for Tackling Undeclared Work

No.	Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date and duration
STRATEGIC MANAGEMENT INITIATIVES							
1.	A holistic integrated strategic approach towards tackling undeclared work.	To increase the effectiveness and efficiency to facilitate the transition from informal to formal economy by increasing coordination through enforcement authorities at the level of strategy, operations and data mining, sharing and analysis.	Establish a coordinating body to take responsibility for joining up the strategies, operations and data mining, sharing and analysis of all state agencies and social partners involved in tackling undeclared work.	Cross-government, including Ministry of Finance and Economy, the State Labour Inspectorate, Tax Administration, Social Security Institute, Albanian Compulsory Health Care Insurance Fund, Albanian National Employment Service, Ministry of State for the Protection of Entrepreneurship, Ministry of Tourism and Environment, Border Police, INSTAT, National Business Center,	A coordinated national approach towards undeclared work on the level of strategy, operations and data mining, sharing and analysis.	<ul style="list-style-type: none"> • Production of shared cross-cutting strategic objectives and key performance indicators (KPIs) across bodies responsible for tackling undeclared work. • Greater proportion of operations and inspections conducted on joint/shared basis. • Implement a joint strategic plan on data mining, sharing and analysis to tackle undeclared work. 	Q1 2019 (ongoing)



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No.	Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date and duration
				Customs, plus social partners.			
2	Modernise the State Labour Inspectorate's (SLI) and Tax Administration's (TA) strategic objectives and KPIs in relation to undeclared work	Broaden the responsibilities of the State Labour Inspectorate and Tax Administration to include a preventative approach towards undeclared work.	Include as a strategic objective of the SLI and TA to "transform undeclared work into declared work".	State Labour Inspectorate and Tax Administration at a minimum.	<ul style="list-style-type: none"> • Adopt additional KPIs associated with transforming undeclared work into declared work, and preventative measures, which are related to: <ul style="list-style-type: none"> -the number of start-up businesses offered advice and/or support on how to operate legitimately, the success of which is measured by the level of customer satisfaction" (grouped by the type of support and advice provided, with the first year used to produce a baseline figure for future years). -the number of existing businesses offered formalisation advice and/or support, the success of which is measured by the level of customer satisfaction" (grouped by 	<ul style="list-style-type: none"> • The number of start-up businesses offered advice and/or support by the SLI and TA on how to operate legitimately. • The number of existing businesses offered formalisation advice and/or support by the SLI and TA. 	Q1 2019 (3 months)



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No.	Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date and duration
					<p>the type of support and advice provided, with again the first year used to produce a baseline figure for future years);</p> <p>- x percent of legitimized labour relations resulting from the total number of controlled labour relations (with the first year used to establish a baseline figure).</p> <ul style="list-style-type: none"> • These objectives should be SMART (Specific, Measurable, Achievable, Relevant and Time-bound). 		
3	Improvements in performance measurement	To improve the management-by-objectives approach within the enforcement agencies responsible for tackling undeclared work.	<ul style="list-style-type: none"> • Systems should be put in place to share whether the enforcement agency achieves its KPIs in a fixed and easily understood format. Different channels should be used to communicate the results of its 	State Labour Inspectorate, Tax Administration.	<ul style="list-style-type: none"> • Better communication of performance both internally within the enforcement agency and to wider stakeholders. • Greater dialogue on the KPIs and management-by-objectives. • Evaluation of staff satisfaction integrated into 	<ul style="list-style-type: none"> • Provision of reports and face-to-face information on performance results. • Evidence of top-down and bottom-up dialogues with staff. • Evidence that decisions taken in the dialogue are implemented, monitored and assessed. 	Q2 2019 (ongoing)



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No.	Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date and duration
			<p>performance (e.g. reports and face-to-face information) for different audiences (e.g. staff, the public).</p> <ul style="list-style-type: none"> • This should be followed up by a cascaded system of top-down and bottom-up dialogues. In doing so, all relevant members of staff and stakeholders are involved, and the main characteristics of these dialogues are: respect and fairness, open dialogue, empowerment, reward and recognition. Decisions taken in the dialogue are implemented, monitored, assessed and (if necessary) revised. • Implementing a system of financial 		<p>the management process to improve human resource management within the enforcement agencies.</p> <ul style="list-style-type: none"> • Objective staff performance evaluation. 	<ul style="list-style-type: none"> • Conducting staff satisfaction survey which evaluates effectiveness of the performance measurement system and dialogue, and displays actions taken in response to feedback received. 	



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No.	Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date and duration
			<p>appreciation; ALL x for every executed proposal of a staff member.</p> <ul style="list-style-type: none"> This should be coupled with a staff satisfaction survey conducted on a regular annual or bi-annual basis, with evaluation and feedback mechanisms for actions taken. 				
POLICY MEASURES TO DETER UNDECLARED WORK							
4	Amend the Criminal Code in relation to undeclared work	To allow proportionate treatment of undeclared work.	Review and increase the punishment in the Criminal Code, in case of undeclared work detection. Currently, in case an informal employee is detected, the Criminal Code provides a penalty of ALL 10,000 or 1 year imprisonment. It is recommended to increase the amount of	Ministry of Justice, Ministry of Finance and Economy.	Offences are punished with the comparable sanctions.	Reduction in the detection of undeclared work.	Q4 2019



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No.	Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date and duration
			fine and the time of imprisonment in the Criminal Code. The criminal code of France could be considered as an example.				
5	Register of employers fined for undeclared work	To allow the labour inspectorate, state bodies, employees, and companies to check whether an employer was penalised for undeclared work.	<ul style="list-style-type: none"> • To create a public register and to develop criteria for listing offenders. • To list offenders for a certain period of time. • To consider other implications resulting from listing in the register. 	State Labour Inspectorate, Tax Administration.	Increases the deterrence impact and gives persons, employees and companies the opportunity to decide whether they want to do business with persons or companies listed in the register.	Use of register for due diligence purposes by the public.	Q2 2019
6	Improve the effectiveness of electronic systems for data mining, the interoperability of databases and data sharing	To improve the perceived and actual risk of detection of businesses engaged in undeclared work.	<ul style="list-style-type: none"> • A single centralised database should be created where requests for information on individual businesses or sectors could be sent. • The first step is to arrange a study visit to the Grey Economy 	Ministry of Finance and Economy, Albanian National Employment Service, State Labour Inspectorate, Albanian Social Security Institute, Albanian Compulsory Health	<ul style="list-style-type: none"> • Join up various datasets and enable more effective data mining, sharing and analysis across government. • Inspectors will receive better information to plan more effective inspections. • Inspectors will be able to develop segmentation 	Improved rate of detection of undeclared work.	Q2 2019 (ongoing)



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No.	Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date and duration
			<p>Information Unit in Finland to gather information on how it works so that this good example could be replicated in Albania.</p> <ul style="list-style-type: none"> • A plan can then be prepared detailing how such a unit would operate. 	Care Insurance Fund, Tax Administration, INSTAT.	strategies that focus resources where the risks are the greatest.		
7	Normative notification letters (using data mining)	To improve the perceived and actual risk of detection of businesses engaged in under-declared employment.	Databases should be used to detect businesses perceived to be potentially engaging under-declared workers by identifying ‘outliers’ who have below average wage rates for their sector or size, or occupations employed. These ‘outliers’ should be sent friendly normative notification letters so as to ‘nudge’ them towards legitimacy. The selection of suitable cases should be done by executive personnel and	State Labour Inspectorate and Tax Administration.	<ul style="list-style-type: none"> • Businesses paying ‘‘envelope wages’’ will be encouraged to put their affairs in order in a cost-effective manner. • Widens tax base due to the increase of social contributions and personal income tax. 	<ul style="list-style-type: none"> • Proportion of businesses contacted that improved their compliance and reported increased wage levels. • Data on the increase of : <ul style="list-style-type: none"> - Wage fund; - Social contributions; - Personal income tax. 	Q2 2019 (4 months for pilot study and evaluation)



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No.	Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date and duration
			supported by selection guidelines. This should be initially implemented as a pilot study in a particular sector, industry or location, and various kinds of notification letters should be used to evaluate which types work and which do not.				
8	Targeting and planning inspections	To improve the perceived and actual risk of detection of businesses engaged in undeclared work.	<ul style="list-style-type: none"> • Develop a points-based system for assessing the validity of reported violations, and whether an inspection should take place, supported by data mining. • Use the inspectors' time freed from following up on reported violations by developing a strategic targeted approach towards inspections based on those sectors and business types in which undeclared work is more prevalent. 	State Labour Inspectorate.	<ul style="list-style-type: none"> • Improved rate of detection of labour law violations, tax non-compliance and social insurance fraud. • Set a target of conducting x percent of inspections based on a more strategic and targeted approach. • Set a target of conducting x percent of inspections as joint inspections with other inspectorates. 	<ul style="list-style-type: none"> • To increase by x percent p.a. the number of inspections which are targeted inspections and to decrease the overall percentage of inspections which are responses to reports of violations. • X percent of inspections to be conducted as joint inspections. 	Q3 2019 (ongoing)



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No.	Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date and duration
			<ul style="list-style-type: none"> Coordinate inspections between various enforcement authorities targeting the same business, which would increase impact and be more business-friendly. 				
9	Introduce supply chain responsibility in public works contracts	To improve the perceived and actual risk of detection of businesses engaged in undeclared work.	<ul style="list-style-type: none"> Introduce a clause in the public works contracts certifying that the winning firm undertakes not to engage any undeclared workers and will put in place measures to ensure that any sub-contractors engaged will not employ undeclared workers. Otherwise, it will be excluded from public work contracts for a period of 3-5 years. Pilot study within a selected Ministry in relation to public contracts in a relatively 	Selected Ministry.	<ul style="list-style-type: none"> If the main contractors are found by the state inspectorates to have engaged undeclared workers in their supply chain, then a ban on bidding for public works contracts could be imposed for a period of 3-5 years. Reduces opportunities for undeclared work. Shifts detection of undeclared work beyond solely a state responsibility by involving private businesses in the active detection of undeclared work. 	Pilot study introduces this clause in public works contracts and inspections are used in order to reveal if it is effective in preventing.	Q2 2019 (12 months for pilot study and evaluation)



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No.	Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date and duration
			well-defined sector in which undeclared work is considered prevalent. This could be piloted for instance in construction sector when the number of employees and sub-contractors is bigger.				
INCENTIVES TO FORMALISE: SUPPLY-SIDE POLICY MEASURES							
10	Take measures for removing barriers to formalisation where appropriate	Reduce barriers to formalisation.	To continue to simplify compliance in the realms of tax, labour and social security legislation so as to make it easier to be compliant.	Ministry of Finance and Economy, Tax Administration, Labour Inspectorate, Tax Council, National Labour Council, social partners.	<ul style="list-style-type: none"> • Reduces both intentional and unintentional non-compliance. • Reduces the administrative costs for public administration and businesses. • Conduct a survey to evaluate the improvement in this regard. 	<ul style="list-style-type: none"> • The level of procedural simplification. • Less steps for tax and labour compliance. 	Q2 2019-(ongoing-12 months later conduct a survey to measure the impact)
11	“Business Walking Routes” leaflet	Provide incentives for business to formalise.	<ul style="list-style-type: none"> • In Tirana, a “Business Walking Routes” leaflet for tourists could 	Ministry of Finance and Economy, Ministry of State for	<ul style="list-style-type: none"> • Provides an incentive and benefit for firms that operate legitimately by providing 	<ul style="list-style-type: none"> • Evidence that businesses wish to be included in these leaflets in pilot 	Q2 2019 (9 months for pilot)



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No.	Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date and duration
	<p>for tourists and/or “service providers leaflet” in sectors where undeclared work is prevalent</p>		<p>provide free marketing for businesses that operate formally (and are on the ‘white list’) by advertising their services to tourists so as to increase opportunities for trade.</p> <ul style="list-style-type: none"> • This could be extended to leaflets for citizens providing information on service providers in sectors where it is known that undeclared work is prevalent (e.g. home repair services, electricians, plumbers) in order to provide an incentive for businesses to operate on a formal basis using the “carrot” of free advertising and marketing. • Conduct pilot study in a specific location and sector, and evaluate its feasibility. 	<p>Protection of Entrepreneurship, Ministry of Tourism and Environment, municipalities.</p>	<p>them with free marketing.</p> <ul style="list-style-type: none"> • Incentivises declared work 	<p>study in a specific location and sector.</p> <ul style="list-style-type: none"> • Successful production and distribution of leaflets in pilot study in specific location and sector. 	<p>study and evaluation)</p>



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			<ul style="list-style-type: none"> An alternative would be to develop a Smartphone app. In order to be cost free, the university IT students could develop such a Smartphone app as part of their course. 				
12	Setting up visible signs to private houses that offer accommodation services and establish a register of these private houses	Reduce unfair competition	<ul style="list-style-type: none"> This could be started first in Durrresi region as a pilot. All houses that offer accommodation services will not be taxed as hotels but they need a different treatment (monthly fee) by the local government. The local government should collaborate with the central government to design a sectorial plan in this regard. All houses with the visible sign are not subject to inspection by labour or tax 	Ministry of Finance and Economy, Ministry of Tourism and Environment, local government.	Provide an incentive and benefit for <i>firms</i> that operate legitimately by providing them with free marketing.	The register with number of houses with the visible sign.	Q2 2019 (ongoing)



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			inspectors. • Leaflets to promote these houses (with addresses and photos) should be distributed.				
13	Incentivise and smooth transition from unemployment to self-employment	Incentivise participation in declared work.	Provide initiatives to encourage unemployed to start up a business.	Ministry of Economy and Finance, Ministry of State for Protection of Entrepreneurship.	<ul style="list-style-type: none"> • Reduces undeclared work. • Facilitates entrepreneurship. • Incentivises declared work. 	<ul style="list-style-type: none"> • Number of people moving from unemployment to self-employment through this initiative. • Number of those continuing to be self-employed after 1 and 3 years. • Evaluate tax revenue-to-cost ratio. 	Q4 2019/ Q4 2020 (evaluate Tirana pilot study)



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INCENTIVES TO FORMALISE: DEMAND-SIDE POLICY MEASURES							
14	Decrease incentives to use cash and increase incentives to use electronic payments to reduce undeclared work	Incentivise consumers to purchase declared goods and services.	<ul style="list-style-type: none"> To discourage the use of cash and incentivise an increase in electronic payments so as to reduce the opportunities for undeclared work, Albania should: (1) implement a lower ceiling on cash transactions, (2) consider discouraging easy access to cash, (3) make point-of-sale (POS) terminals available across all sectors, including the mandatory acceptance of digital payments, with a subsidy for the installation of POS terminals in enterprises with an annual turnover of less than x all operating in sectors with intermediate or 	Banks, financial institutions, all government departments, social partners.	<ul style="list-style-type: none"> Tax revenues increase with the growth of the use of payment cards. It is estimated that a discount for customers of 1.9% of the transaction value for digital payments through POS terminals (payment cards and e-money) for the purchase of goods and services, would yield 1% net increase in budget revenues. Subsequently, as the electronic payment targets are met, and the use of digital payments consolidates as part of the consumer habits, incentives can be gradually withdrawn, resulting in an increase in the fiscal benefit. 	Decreased use of cash and increased use of electronic payments.	Q1 2019 (ongoing)



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			<p>high risk of undeclared transactions, (4) central and regional governments to shift more fully towards electronic payments, especially with regard to pension payments, and (5) provide incentives for using cards at the point-of-sale.</p> <p>This might involve:</p> <ul style="list-style-type: none"> • A discount for customers of 1.9% of the transaction value for digital payments through POS terminals (payment cards and e-money) for the purchase of goods and services, or; • A refund of 0.8% discount for suppliers taking electronic payments through POS terminals for the purchase of goods and 				



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			services.				
15	Encourage citizens to ask for the receipt	Incentivise consumers to purchase goods and services accompanied with a receipt.	To encourage citizens to buy goods and services accompanied with a receipt, citizens could be equipped with a card and awarded a bonus every end of the year based on the total amount purchased above a specific amount. In order to channelise every transaction through the bank system, the bonus would be awarded only to those that have a bank account. This will encourage citizens to ask for a receipt.	Banks, all government departments.	Tax revenue increase due to the growth of the distribution of tax receipts.	The increase of tax revenues.	Q1-Q4 2019
16	Introduce a tax rebate incentive scheme for (i) home owners to receive a rebate of tax when they employ	Incentivise consumers to use declared goods and services.	A pilot study should be undertaken in a particular region for a limited range of activities, to be evaluated after 24 months.	Ministry of Finance and Economy, Tax Administration.	<ul style="list-style-type: none"> • Offers an incentive to citizens to employ declared workers and raises awareness of the negative effects of employing undeclared workers. • It has a two-fold benefit in increasing income opportunities for registered builders and tradespersons 	Survey of pilot study to evaluate whether purchasers would have used undeclared work previously to get the work done.	Q3 2019 (24 months for pilot study and evaluation)



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	domestic workers and (ii) registered building contractors or registered tradespeople who provide house repair and renovation services.				and it raises the quality of housing repair and maintenance.		
17	Use service vouchers in household and personal services	Incentivise purchase of declared goods and services.	<ul style="list-style-type: none"> • A pilot study of service vouchers in a particular sector (e.g. household cleaning) in a specific location should be conducted, and evaluated in terms of its impacts on undeclared and declared work. • Evaluation should be done through a representative sample survey of purchasers of the substitutive effect of this scheme (i.e. is it replacing regular employment or 	Ministry of Finance and Economy	<ul style="list-style-type: none"> • Transfer of undeclared work into the declared economy. • Better regulation. 	Evaluate pilot study in terms of whether the service voucher purchasers would have used undeclared work previously to get the work done.	Q3 2019 (24 months for pilot study and evaluation)



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			undeclared work?).				
CHANGING CITIZENS VALUES, NORMS AND BELIEFS							
18	Launch a Public Awareness Campaign on the Benefits of Declared Work	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work.	<ul style="list-style-type: none"> • Target younger people who are more likely to view undeclared work as socially acceptable, as well as perhaps professional groups such as doctors, lawyers and accountants. The media used and messages need to be tailored to these selected groups. • Ministry of Finance and Economy, Tax Administration, State Labour Inspectorate website use - landing page as part of ministry's website. • Materials uploaded to these websites. • Materials uploaded to the social media (FB, 	Ministry of Finance and Economy, State Labour Inspectorate, Tax Administration, Customs, Ministry of State for Protection of Entrepreneurship, social partners.	<ul style="list-style-type: none"> • Reducing the tolerance of undeclared work will result in lower levels of undeclared work. • The percentage of citizens engaged in undeclared work will fall. • There will be an increase in the number of reports of non-compliance to inspectorates. • It will widen the tax base. • More transparency. 	<ul style="list-style-type: none"> • Decrease in number of reports of non-compliance to inspectorates. • Reduction in tolerance of undeclared work. • Decrease in undeclared work. 	Q4 2019



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			<p>YouTube, etc.).</p> <ul style="list-style-type: none"> • Stimulate the dialogue through roundtables with representatives of the above listed stakeholders. • Ensure full awareness about the tax administration/labour inspectorate competencies vis-à-vis detection of undeclared work and related consequences on individuals. 				
1 9	Educating citizens about the tax system and tax morality	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work.	<ul style="list-style-type: none"> • Send an annual letter to all tax payers which sets out what portion of their taxes is spent on which public goods and services. • Introduce signs such as ‘your taxes are paying for this’ on public construction projects (e.g. new roads), on ambulances, in doctor’s 	Ministry of Finance and Economy, State Labour Inspectorate, Tax Administration, Customs, Ministry of State for Protection of Entrepreneurship, social partners.	Improved citizens understanding about the relationship between paying taxes and the public goods and services received.	<ul style="list-style-type: none"> • Resultant reduction in undeclared work. • Greater awareness that taxes pay for public goods and services. 	Q4 2019 (ongoing)



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			waiting rooms, in hospitals and schools. This conveys a clear message to the public that their taxes are being used to pay for these public goods and services.				
20	Educate schoolchildren and university students about the benefits of declared work	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work.	<ul style="list-style-type: none"> • Introduce lessons in the civic education curriculum on why people pay tax, the benefits of social insurance and declared work, and the costs of undeclared work. • Introduce a national Undeclared Work Week, addressing school children and explaining the benefits of compliance and the costs of being non-compliant. • Involve sportspeople, singers or actors in order to have 	Ministry of Education, Sports and Youth in close cooperation with the Ministry of Finance and Economy and other line ministries (Ministry of State for Protection of Entrepreneurship, Tax Administration/Customs; etc.).	<ul style="list-style-type: none"> • Improved understanding of children and students about the benefits of paying taxes and social insurance, and working declared. • Resultant peer pressure on parents from children will reduce undeclared work. 	Greater awareness of benefits of declared work and costs of undeclared work among younger people.	Q4 2019



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			“celebrity endorsement” for a large social media campaign addressed to young people on the benefits of declared work.				
21	National competition on why pay your taxes/why work declared	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work.	<ul style="list-style-type: none"> • Use a celebrity role model to make a social media video on “why pay your taxes” or “why reject envelope wages” or ‘why work declared’ so as to use appropriate role models for the target group for celebrity endorsement. • This video will be used to launch a competition for people to make their own video on the subject of “why pay your taxes”. A prize fund of €10,000 (for 1st, 2nd, 3rd place, etc.) would be awarded for the best social media (e.g. you tube) video on 	Ministry of Education, Sports and Youth in close cooperation with the Ministry of Finance and Economy and other line ministries (Ministry of State for Protection of Entrepreneurship, Tax Administration/Cust oms; etc.)	<ul style="list-style-type: none"> • Encourages self-reflection by a wide segment of the target population (e.g. young people) to consider the advantages of paying taxes and disadvantages of failing to do so. • Rather than preach messages, it encourages self-reflection and self-education. 	Reduced tolerance of participation in undeclared work by the target group.	Q3 2019



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			<p>this subject of “why pay your taxes”/“why reject envelope wages”/“why work declared”.</p> <ul style="list-style-type: none"> • An additional option is to integrate this competition with the above recommendation to introduce this issue in the civic education curriculum. If this is done, schoolchildren can produce such videos in their civic education classes. • The sequencing of such a competition with other policy measures below is important. It should be run following, rather than prior to, public institutional reforms to be effective. 				



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REFORMING FORMAL INSTITUTIONS							
2 2	Strengthening social dialogue	Improve the participation of social partners in tackling the undeclared work.	<ul style="list-style-type: none"> • To improve the participation of all social partners in the fight against undeclared work, there is a need to get a consensus of the main labour market institutions and particularly the social partners. • To enhance tripartite capacities to tackle undeclared work. • As self-employment is extensive and one of the key structural characteristics resulting in the prevalence of the undeclared economy, bipartite social dialogue 	All social partners.	<ul style="list-style-type: none"> • Broadening of involvement. • Improved governance. 	<ul style="list-style-type: none"> • The number of social partners in the dialogue platforms. • Collective bargaining in the selected sectors. 	Q 4 2019



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			<p>should be used to deal particularly with bogus self-employment and measures to effectively deal with it.</p> <ul style="list-style-type: none"> • Progress on this issue should be monitored annually and supported with data. • Pilot into a single sector. For example, mining where this issue remains a big challenge. 				
2 3	Increase the number of labour inspectors and train them	Increase the percentage of enterprises covered by labour inspectors and produces more effectively trained labour inspectors.	<ul style="list-style-type: none"> • Currently there is a small number of labour inspectors in Albania who cover 5 percent of total registered enterprises. • There is limited official training for labour inspectors on tackling undeclared work. • The SLI should make use of the ILO toolkit for the training of labour inspectors in 	Ministry of Finance and Economy, State Labour Inspectorate, ILO trainers.	<ul style="list-style-type: none"> • Improved efficiency and effectiveness of inspectors in tackling undeclared economy. • Capacity-building of the inspectorate. • Facilitates organisational culture change towards a more customer-friendly approach. • Monitor via annual staff satisfaction survey 	Improvements in productivity of staff in achieving KPIs.	Q1 2019



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			tackling undeclared work.				
IMPROVING THE INVOLVEMENT OF SOCIAL PARTNERS							
24	Introduce employer-led voluntary supply chain responsibility initiative	Greater involvement of social partners in the fight against undeclared work.	<ul style="list-style-type: none"> In this voluntary employer-led initiative, firms in the supply-chain could be requested to show those higher in the supply chain that they comply with tax and social security obligations through external auditors and/or refer to the absence of wage, tax and social insurance arrears, and sanctions imposed in recent years. This might be conducted as a pilot initiative by 10-15 larger employers under the auspices of their Corporate Social 	Business Associations and Chambers of Commerce.	<ul style="list-style-type: none"> Increases detection of undeclared work by involving social partners in its detection. Reduces opportunities for undeclared work. Provides a clear 'demonstration effect' to smaller firms that larger employers take compliance seriously and that they need to similarly do so. Shifts detection of undeclared work beyond solely a state responsibility by involving private businesses in the active detection of undeclared work. 	Successful implementation among a selection of larger employers in Albania.	Q2 2019



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			Responsibility (CSR) Strategy.				
25	Provision of one-to-one formalisation advice and support	Greater involvement of social partners in the fight against undeclared work.	<ul style="list-style-type: none"> • Use local role models/mentors by developing a ‘buddy system’ whereby legitimate entrepreneurs buddy with younger nascent entrepreneurs to help them legitimise, and provide support and advice on legitimate business development. • Technical assistance could be sought to secure EU funds for this awareness raising initiative. 	Chambers of Commerce, Business Associations.	<ul style="list-style-type: none"> • Enables business start-ups to do so legitimately. • Enables business operating on a partially undeclared basis to receive advice on how they can put their affairs in order. 	Successful implementation of mentoring system for younger nascent entrepreneurs.	Q1 2019
26	Awareness raising campaign among business community on the benefits of declared work	Greater involvement of social partners in the fight against undeclared work.	<ul style="list-style-type: none"> • Roadshow via local branches of Chambers of Commerce and Business Associations. • Ensure establishment of strong network for cooperation, exchange of information, full 	Tirana Chamber of Commerce, other chambers and business associations in close cooperation with Ministry of Finance and Economy, State	<ul style="list-style-type: none"> • Reducing the tolerance of undeclared work will result in lower levels of undeclared work. • The percentage engaged in undeclared work will fall. • There will be an increase in the number of reports to 	<ul style="list-style-type: none"> • Implementation of roadshow via local branches of Tirana Chamber of Commerce and branches of other business associations. • Number of meetings held and number of 	Q4 2019



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			<p>awareness about the Ministry of Finance and Economy, Tax Administration, Labour Inspectorate competencies vis-à-vis detection of undeclared work and necessity to increase social fairness. Support material/presentations for these roadshows could be provided by the Tax Administration and/or State Labour Inspectorate.</p>	<p>Labour Inspectorate, Albanian National Employment Agency, other line ministries, Tax Administration, Customs, Ministry of State for the Support of Entrepreneurship.</p>	<p>inspectors.</p> <ul style="list-style-type: none"> • It will widen the tax base. • Increase in transparency. 	<p>participants attending.</p>	