

Tackling the Undeclared Economy in FYR Macedona

A Baseline Assessment

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Sofia, 4 September 2014

Contents

1. Socio-economic context and extent of undeclared work.
2. Causes of undeclared work and barriers to formalisation.
3. Policy approach and measures to tackle undeclared work.

Socio-economic context

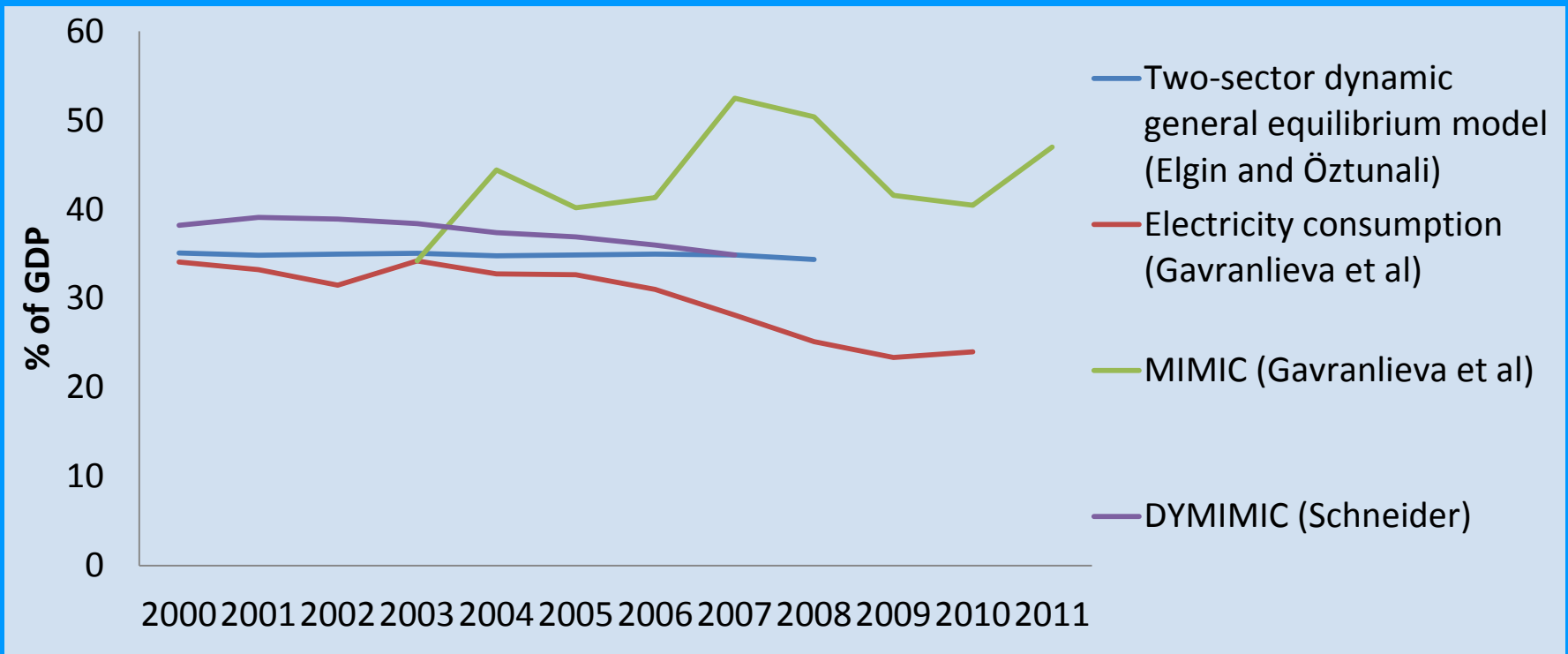
- Independence from Yugoslavia in 1991.
- Low levels of foreign direct investments (FDIs), particularly in the 1990s.
- In 2012, the EC launched a High Level Accession Dialogue (HLAD) with Macedonia.
- The World Bank defines FYR Macedonia as an 'upper middle income' country with a GNI per capita of \$4,6201. The unemployment rate in the first quarter of 2014 was 28.4%, having declined since 2012 when it stood at 31% (State Statistical Office, 2014).
- The EU Progress Report on FYR Macedonia (EC, 2013) highlights the maintenance of financial stability as a positive development, but stresses the need to address the underlying reasons for high unemployment and improvements of the business environment, which is “negatively affected by corruption, as well as lengthy and costly market exit procedures”.

Extent of undeclared work

	Two-sector dynamic general equilibrium model (Elgin and Öztunali, 2012)	Electricity consumption (Garvanlieva, Andonov and Nikolov, 2012)	MIMIC (Garvanlieva, Andonov and Nikolov, 2012)	MIMIC (Schneider, Buehn and Montenegro 2010)
2000	35.10	34.10	-	38.2
2001	34.86	33.23	-	39.1
2002	34.97	31.49	-	38.9
2003	35.06	34.22	34.22	38.4
2004	34.80	32.75	44.44	37.4
2005	34.89	32.67	40.18	36.9
2006	34.97	31.02	41.32	36
2007	34.90	28.14	52.48	34.9
2008	34.39	25.16	50.39	-
2009	-	23.38	41.58	-
2010	-	24.01	40.46	-
2011	-	-	46.99	-

Extent of undeclared work (continued)

A comparison of different estimates of the share of the undeclared economy in the Macedonia, applied in different periods and using different methods. This shows how the estimates produced are highly dependent on the method of applied.



Sources: Elgin and Öztunali (2012); Garvanlieva, Andonov and Nikolov (2012); Schneider, Buehn and Montenegro (2010).

Sectorial and business variations of undeclared work

Sector / firm size	Percent of firms competing against unregistered or informal firms	Percent of firms identifying practices of competitors in the informal sector as a major constraint
By sector		
Manufacturing	66.3	35.5
Retail	54	39.8
Other Services	51.5	31.6
By firm size		
Small (5-19)	52.8	33
Medium (20-99)	75.6	46.8
Large (100+)	35	19.5
By location		
Eastern Macedonia	38.4	18.5
North-West & West Macedonia	60.2	37.6
Skopje	56.7	36.8
South Macedonia	70.7	45.8
By ownership type		
Domestic	58.9	37.1
10% or more foreign ownership	12.1	2.6

Types of undeclared work and socio-economic variations

Types of informal employment in the non-agricultural sector in FYR Macedonia (2010)

	Total	Women	Men	Urban	Rural
<i>In thousands</i>					
Persons in informal employment	65	16	49	34	31
Persons employed in the informal sector	39	5	33	18	20
Persons in formal employment in the informal sector	2	1	1	1	0
Persons in informal employment outside the informal sector	27	11	16	17	11
<i>as % of non-agricultural employment:</i>					
Persons in informal employment	12.6	8.1	15.4	9.5	19.4
Persons employed in the informal sector	7.6	2.5	10.3	5.0	12.5
Persons in formal employment in the informal sector	0.4	0.5	0.3	0.3	0.2
Persons in informal employment outside the informal sector	5.2	5.6	5.0	4.8	6.6

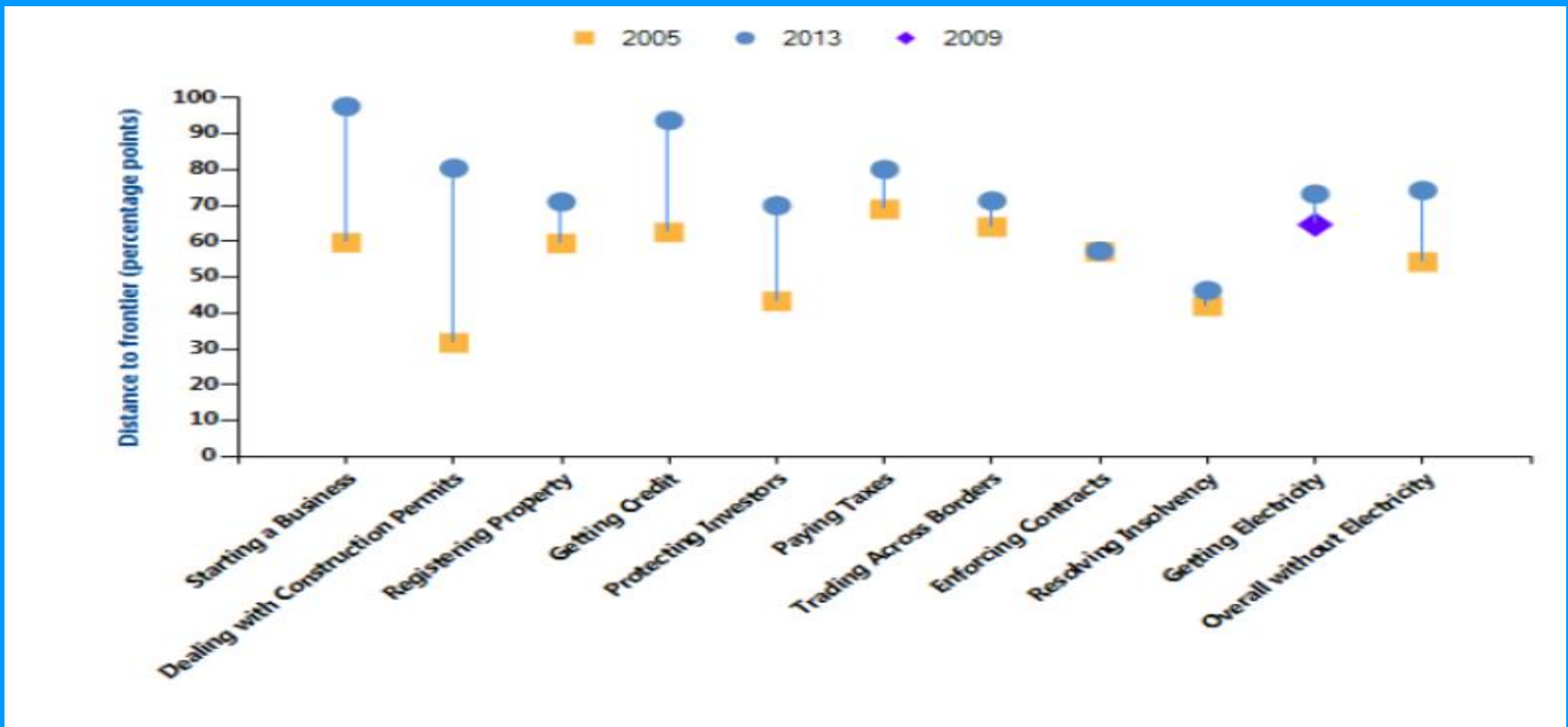
Causes of undeclared work and barriers to formalisation

Barriers to formalisation from the perspective of business

- High degree of uncertainty as a result of too frequent changes in legislation.
- Weak and inefficient public administration.
- Poor performance of inspections, which are prone to political influence.
- Inefficient and corrupt judicial system.

Barriers to formalisation from the perspective of business (2)

Figure 1. Progress of FYR Macedonia in the areas measured by Doing Business (2005-2013)



Source: World Bank (2013)

Unemployment

According to a national survey of 1,200 respondents conducted in 2011 (Stankovic and Stankovic, 2012), if offered an undeclared job:

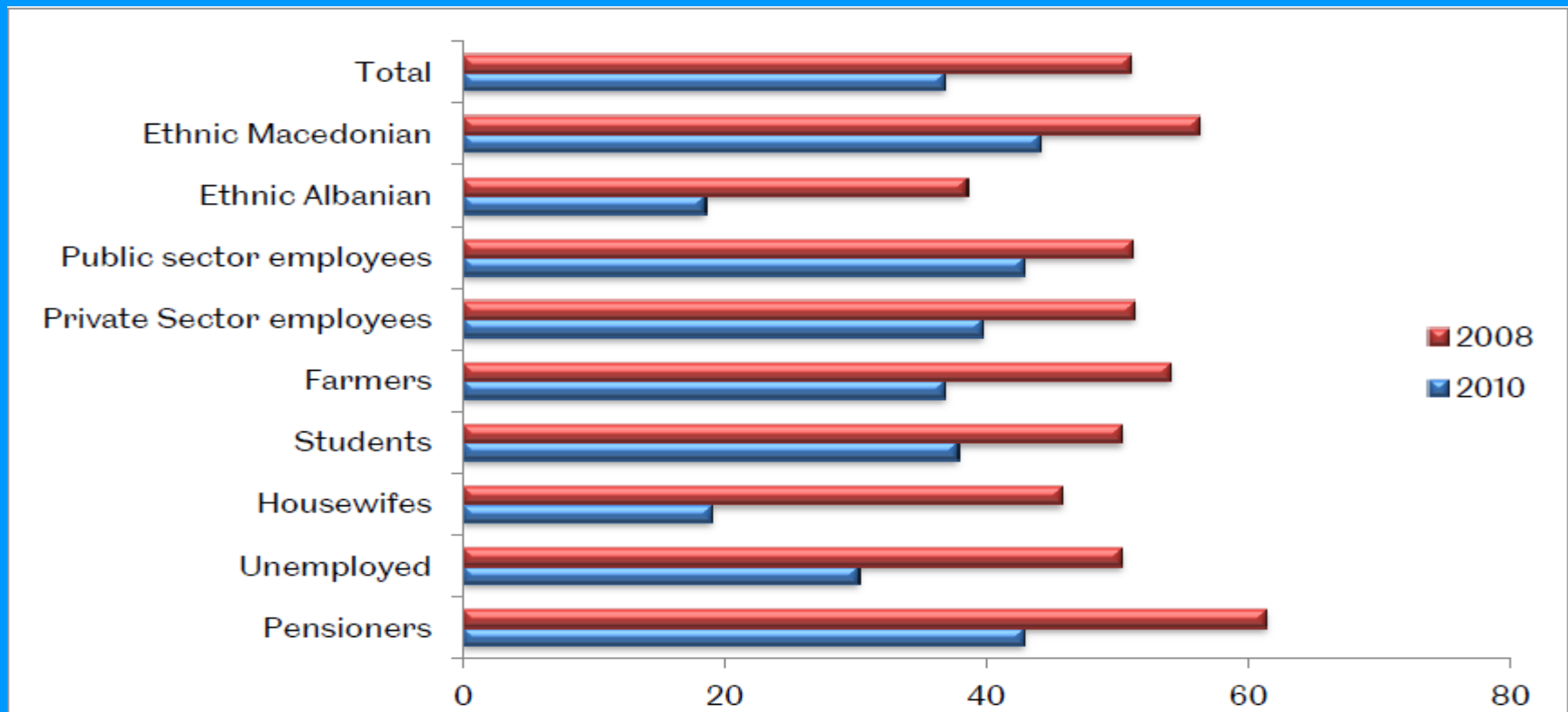
- 48% of Macedonians would keep silent to retain the job,
- 20% would report the employer,
- only 15% would reject/quit the job.

Corruption

- One quarter of the population see bribe-taking as a common practice in public institutions (UNODC, 2011).
- One in ten had a recent experience with bribery in interaction with public officials.
- Those were mainly for speeding up a procedure (50%), followed by finalising a procedure (12%) and receiving a better treatment (11%).

Trust in the Government

Figure 3. Trust in the Government, 2008 and 2010, in %



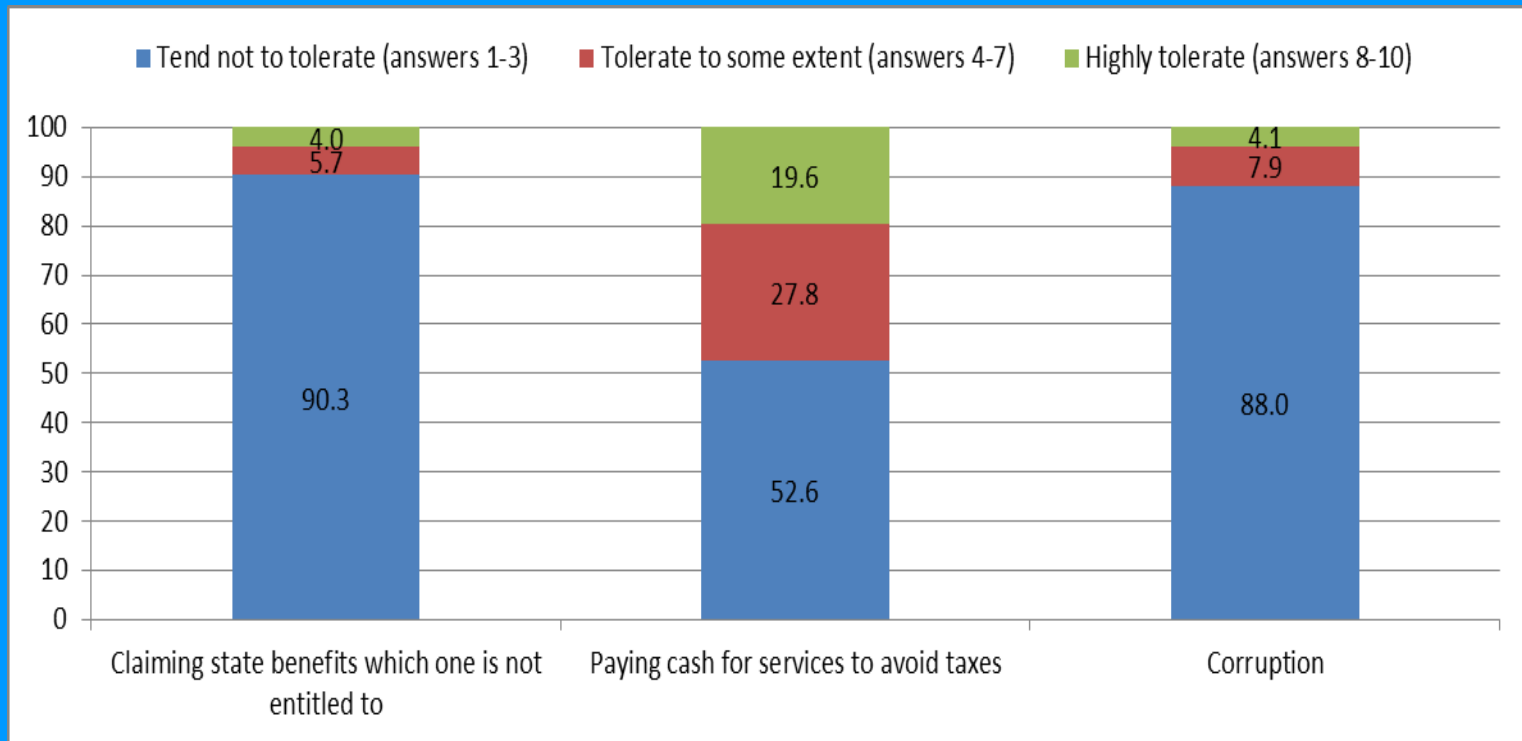
Klekovski, Nuredinoska, and Stojanova (2010)

In consequence...

- There is no clear link between tax liabilities and received goods and services from the state.
- Undeclared work has become a socially acceptable phenomenon.
- 25% of Macedonians does not think they are obliged to report violators or should stop buying undeclared products (Stankovic and Stankovic, 2012).

Tax morale

Figure 4. Public tolerance towards non-compliant behaviour, % of respondents



Source: European Values Study (2011)

Policy approach and measures to tackle undeclared work

Institutional framework

- There is no single body responsible for tackling undeclared economic activities.
- Instead, several ministries share the responsibility among themselves.
- The Ministry of Labour and Social Policy (MLSP) took a leading role.

National Action Plan to tackle the undeclared economy (2014) - milestones

- **Enabling regular employment:** regulating seasonal work, subsidising employment of social benefit recipients, supporting formalisation
- **Increasing tax compliance:** raising awareness of the benefits of paying taxes, increasing tax morale through public campaigns, youth education.
- **Labour inspections:** strengthening control on sectorial basis, better cooperation, publishing a 'Black List' of non-compliant taxpayers.
- **Tax revenue collection:** better detection and strengthened control (temporary employment, taxable income of individuals, monitoring of fiscal cashregisters) .
- **Customs duties collection:** strengthened border control.
- **Market regulation:** better control of high-risk activities (green markets, street trade, catering and tourism), product safety, consumer rights.

Policy approach

- The focus is mainly on detection and control.
- Some efforts to prevent entry into the undeclared realm are also starting to emerge.
- On the other hand, measures to enable formalisation of undeclared firms and workers, as well as those to change attitudes, norms and beliefs are particularly scarce.

Repressive measures

- ***Labour relations control:***
 - establishment of a Misdemeanour Body at the MLSP (2009/10).
 - Strengthened rules for registered unemployed, e.g. required verification of job search activity (2012).
- ***Tax revenue collection:***
 - establishment of 'Centre for debt collection', 'Centre for seized goods', 'Tax Academy for training' and a 'Forensic Laboratory' for serious tax fraud at the Public Revenue Office (2011).
 - Electronic data exchange between PRO, the Financial Police and the Financial Intelligence Unit (2012/2013).

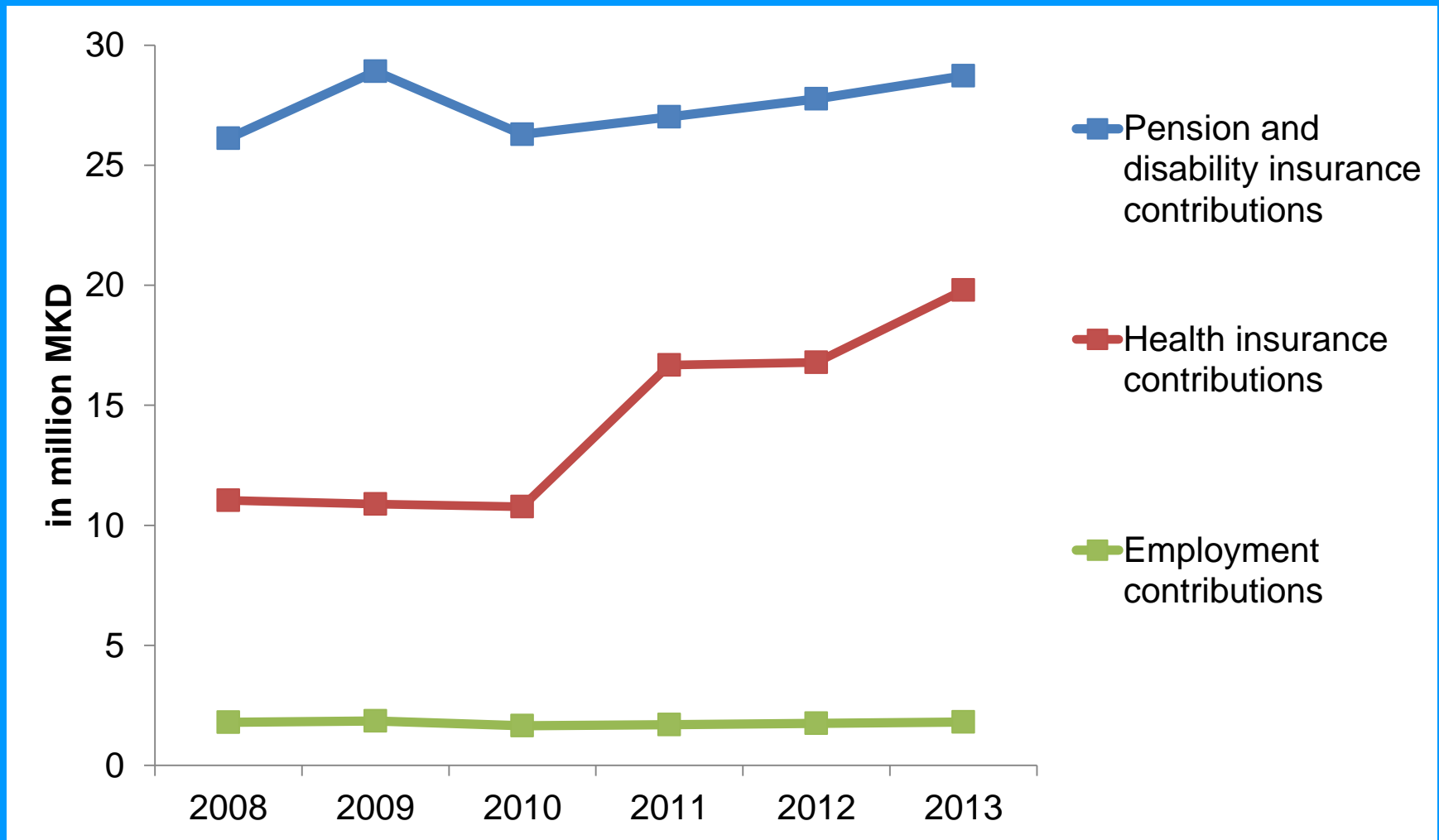
Preventative measures

- ‘One-stop-shop’ system for company registration (2009).
- Electronic submission of tax returns (2013)
- Local ‘Service Points’ for tax services and payments (2011).
- ‘Minimum Wage Law’ (2012).
- Decrease in the maximum period of remuneration for unemployment from 60 to 18 months (2012).

Curative / stimulating measures

- 'Flat-tax rate' – 10% (2008).
- Tax rate of 1.5 % on total income for small businesses with an annual turnover of up to 3 million MKD (2008).
- Lower tax base for registered individual farmers (20% of the national average net wage) (2008).
- Farmers with an annual income <300,000 MKD exempted from paying an income tax (2008).
- Progressive reduction in the compulsory social contribution rate from 32% to 26.5% (2011) and the pension contribution rate from 21.2% to 18% of the gross wage (2010).

Tax revenues from social contributions 2008-2013



Source: Public Revenue Office of the FYR Macedonia

Fostering commitment

- Awareness raising campaigns in agriculture and construction (benefit of formalisation, decent working conditions)
- Awareness raising campaign targeted at youths to promote successful transition from school to decent work.
- Checklist for employers and employees of their respective legal rights and obligations (website of the State Labour Inspectorate).

Thank you for listening

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