

Informality in Albania: Current state and perspectives

Brunilda Kosta (PhD.Cand)

Policy Round Table:
Tackling Undeclared Work and Hidden Economy in Southeast Europe:
Improving Governance and Prosperity

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Content

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Components of the hidden economy

Three components of the hidden economy, which have been identified as most harmful to economic and social development:

1. **The business environment**, which is the broadest gauge of opportunities for economic prosperity;
2. **Hidden employment**, which creates risks of the exclusion of sizable shares of the workforce from the rule of law;
3. **Tax evasion**, which is made possible, among other things, by bribery and inefficiency in the tax authorities.

BUSINESS ENVIRONMENT

- The business environment in Albania **was slightly improved**, based on various national and international reports;
- Albania improved its position this year *vis-a-vis* **doing business** (58 compared to 90 last year);
- Procedures for market entry were further streamlined and business registrations improved, but the **new bankruptcy law has yet to be adopted**;
- Efforts were made to facilitate doing business and improve government communication with enterprises, but they have yet to produce **tangible results** on the ground;

BUSINESS ENVIRONMENT (cont.)

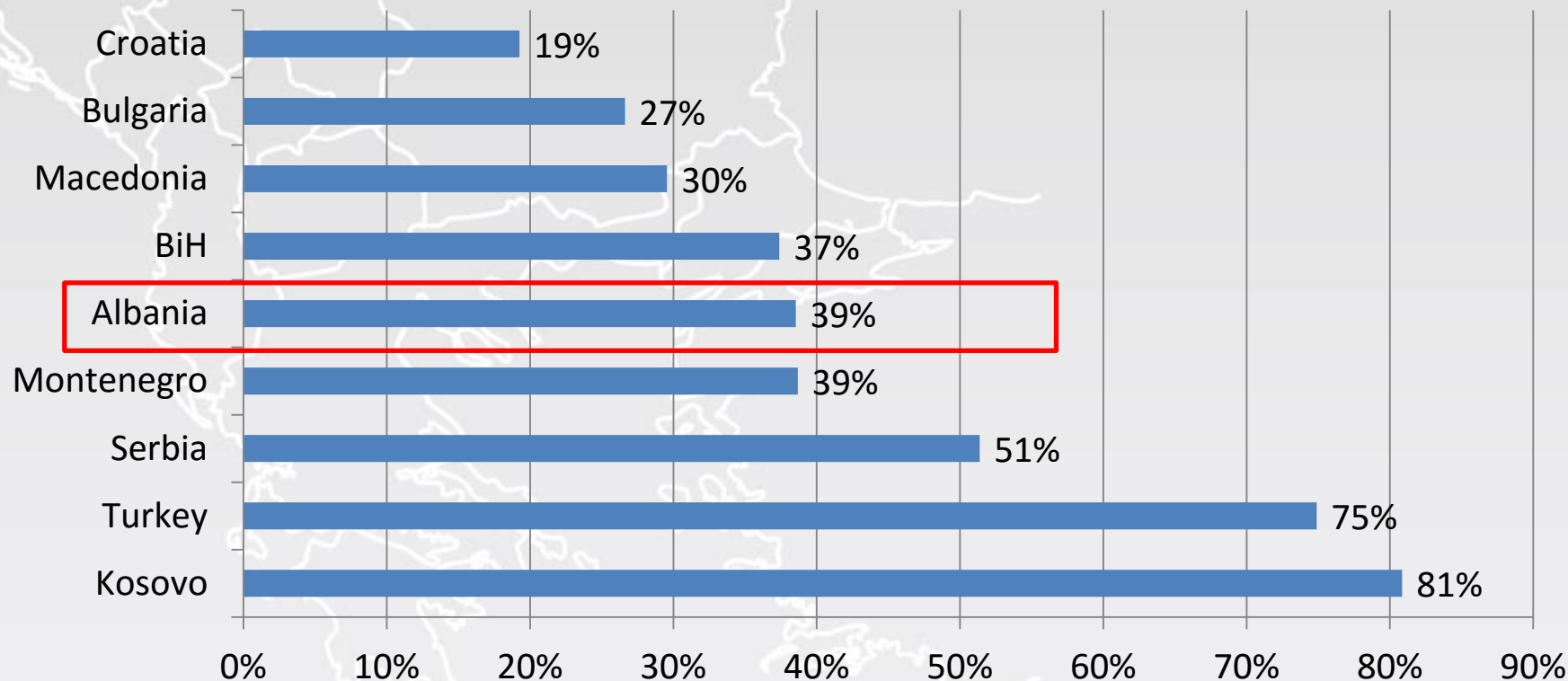
- The **administration of taxes remains cumbersome** with lack of sophistication in addressing specific business characteristics;
- **Changing regulations** due to emerging problems still happens haphazardly in Albania, within the year without any consultation, thus undermining the predictability of the business environment in general;
- In Albania, **state capture** is considered a **serious issue** concerning the procurement system, privatisation, and economic monopolies in strategic sectors of the economy.

HIDDEN EMPLOYMENT

Patterns of hidden employment:

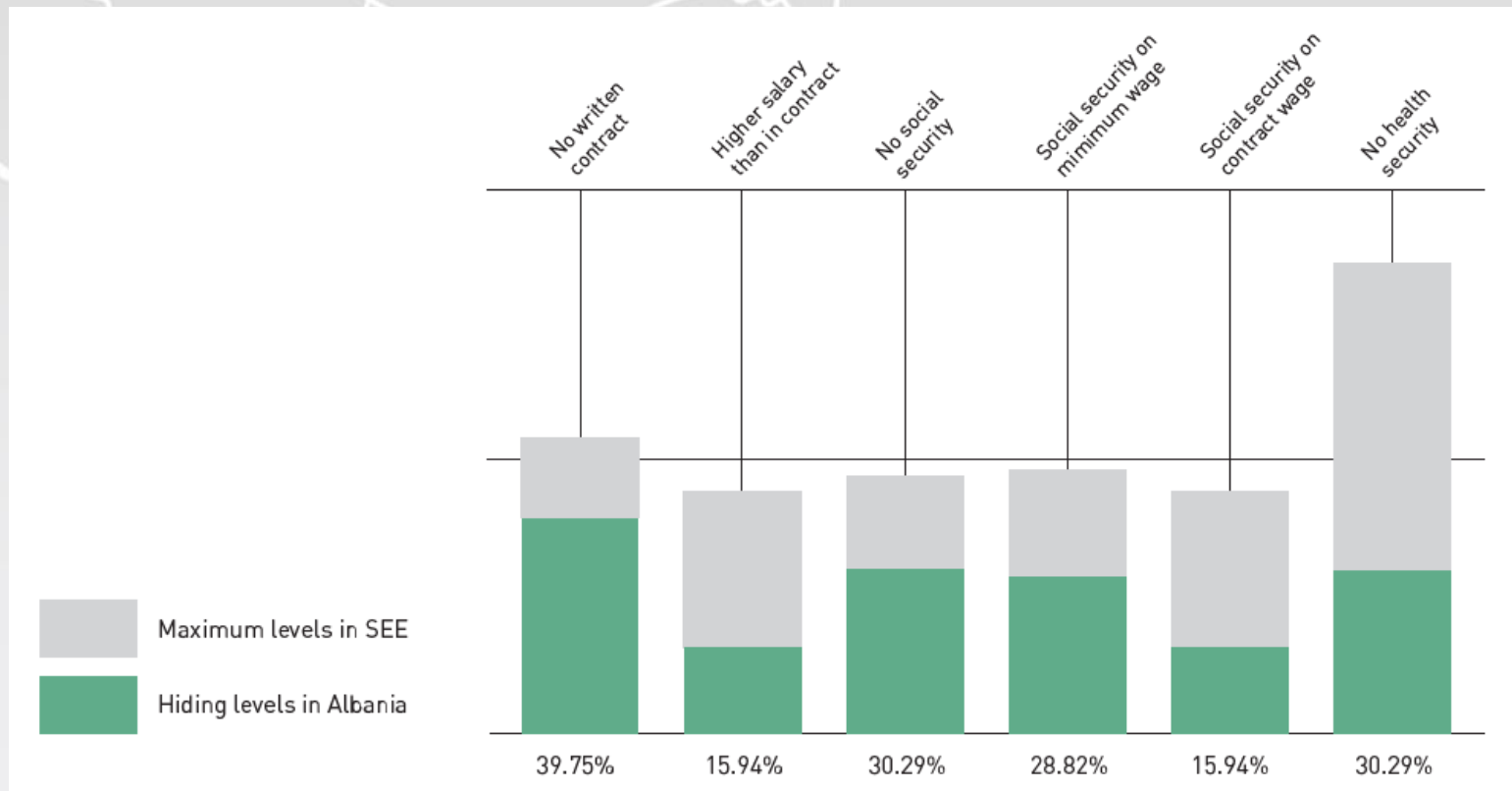
- No written contract with the employer on the main job;
- The actual remuneration for the month preceding the survey was higher than the one written in the contract with the main employer, but was agreed verbally with him/her;
- There is no social security on the main job;
- The base for the social security paid is at the minimum wage, although the actual salary is higher;
- The base for the social security paid is the amount written in the contract and not the actual received, which is higher;
- There is no health insurance on the main job.

Employed in the Hidden Economy



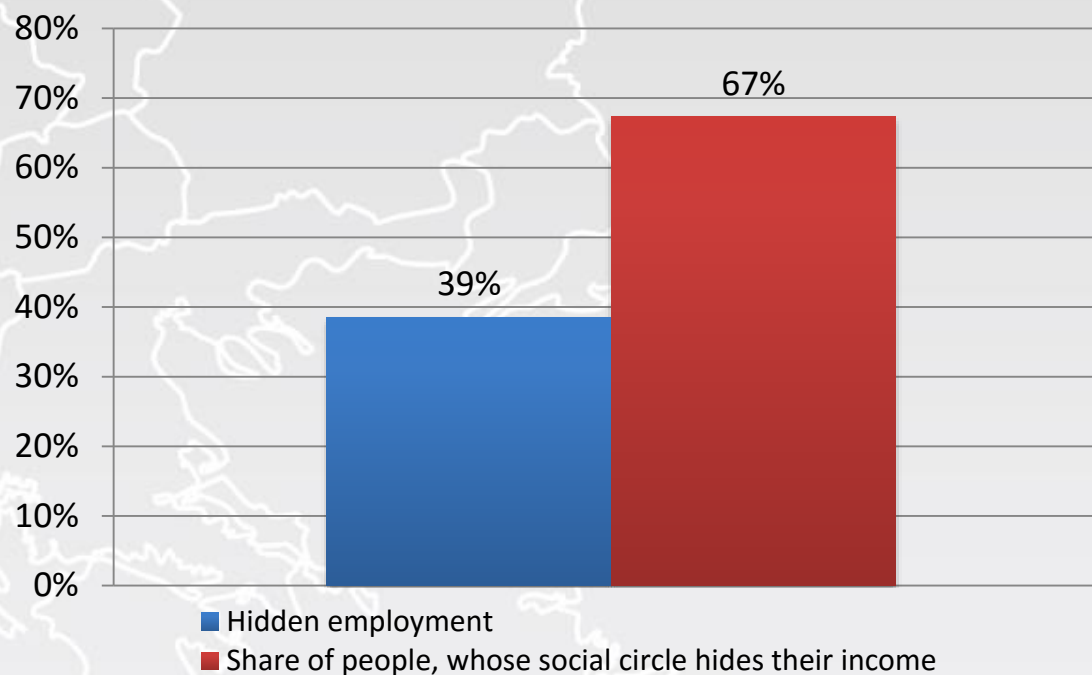
Source: Hidden Economy Survey, 2016

Different types of hidden employment in Albania



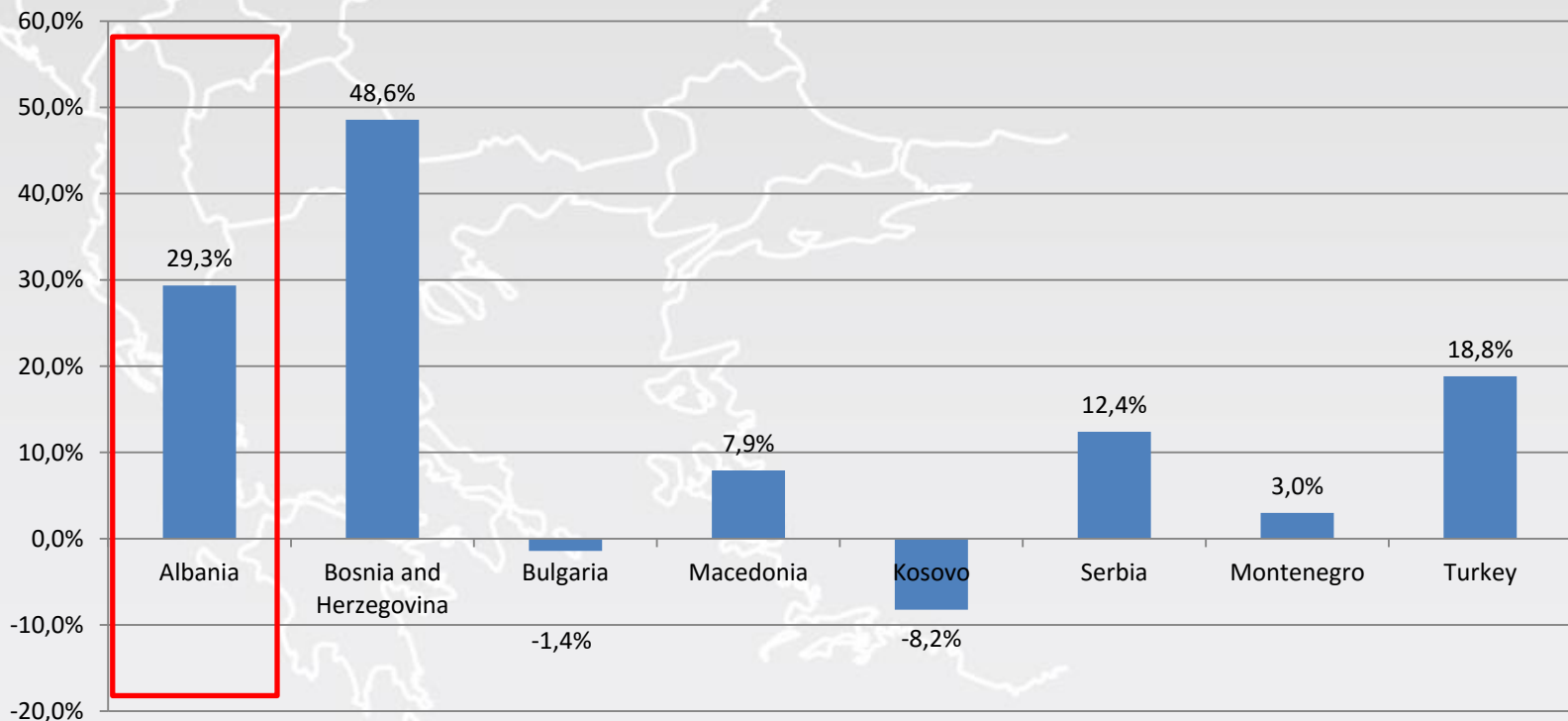
Source: SELDI Hidden Economy Survey, 2016

Social embeddedness of hidden employment



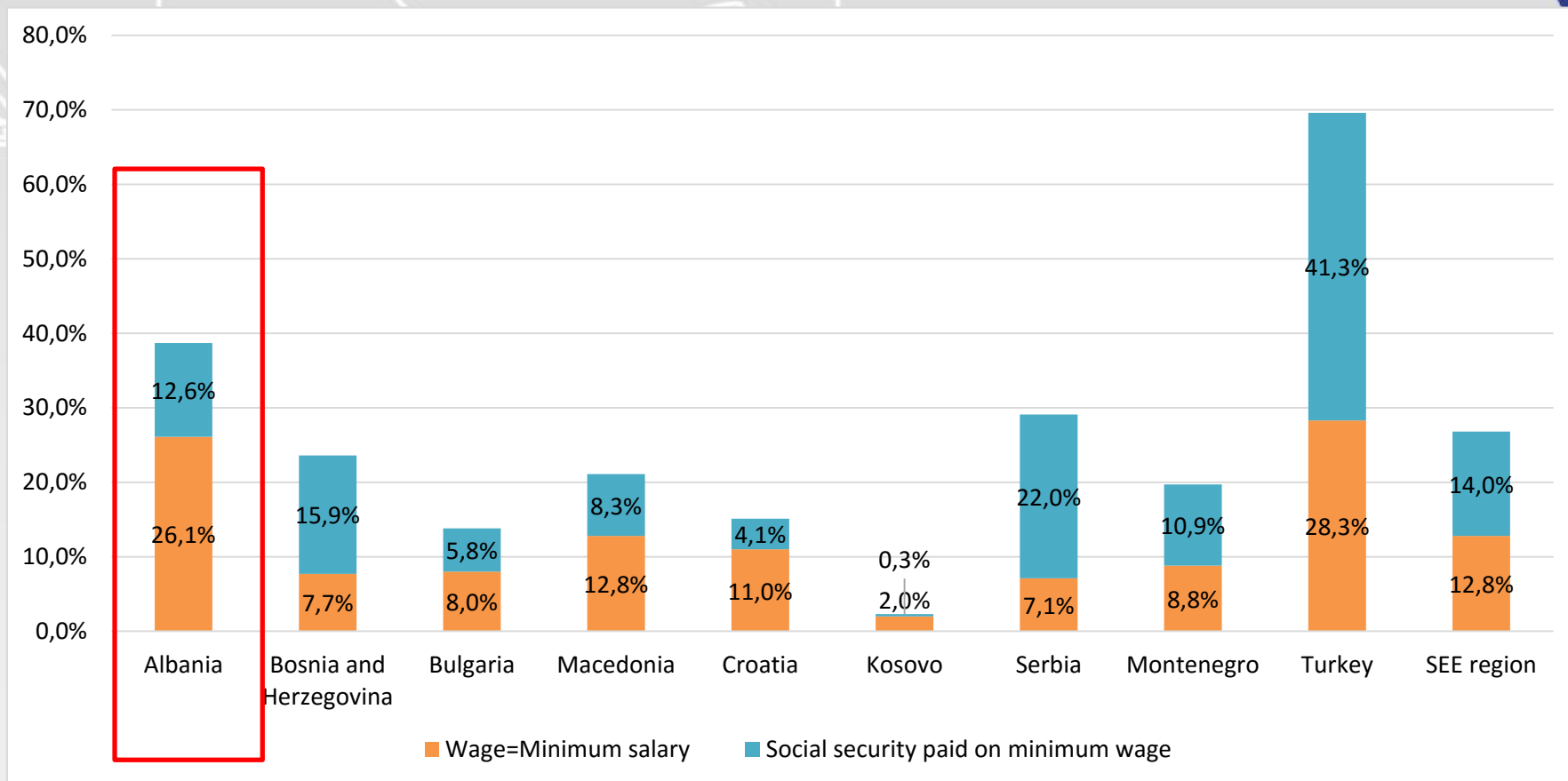
Source: SELDI Hidden Economy Survey, 2016

Wage premium in the formal economy vs. the hidden economy



Source: SELDI Hidden Economy Survey, 2016

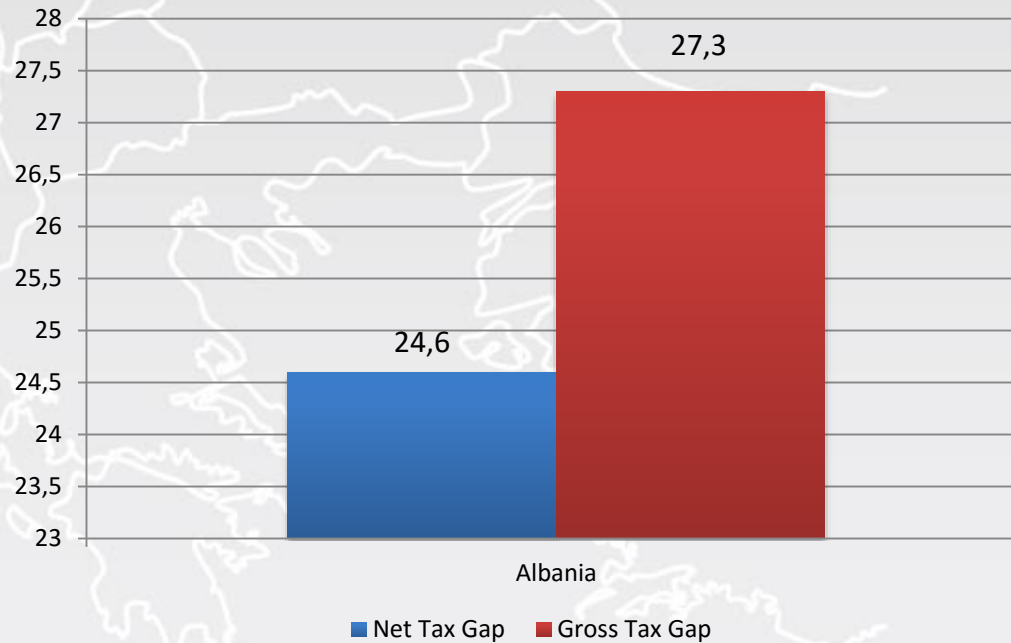
The role of minimum wage



Source: SELDI Hidden Economy Survey, 2016

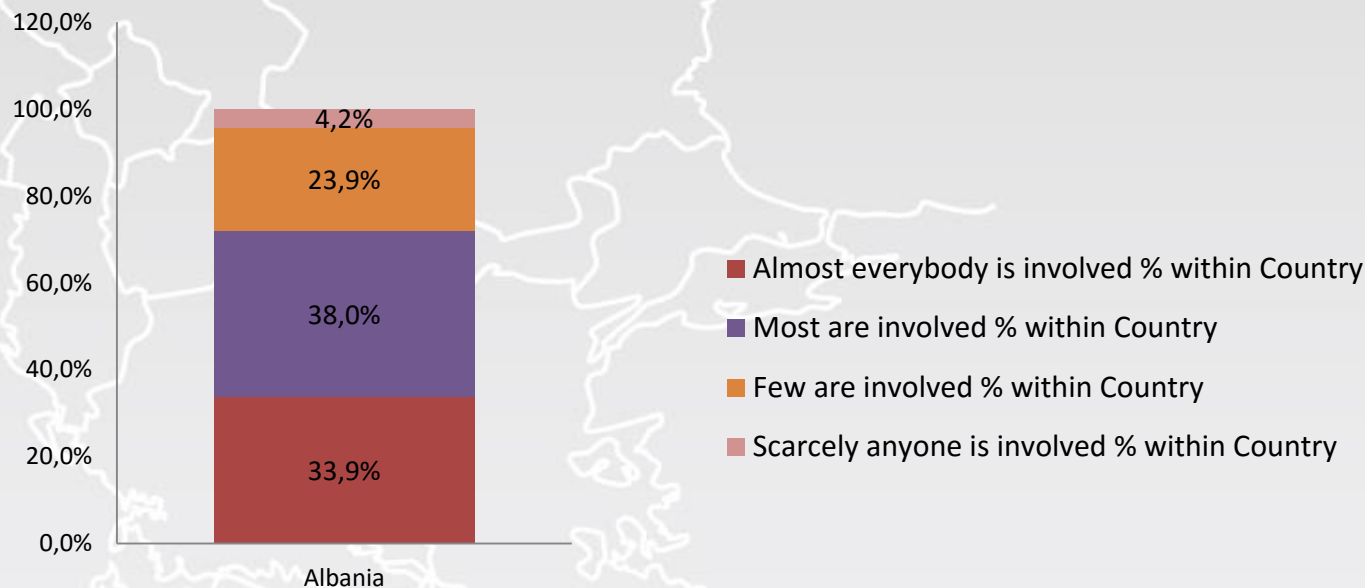
TAX COMPLIANCE AND EVASION

Tax gap estimates in Albania, 2013



Source: Albanian Taxation Association, 2014.

Corruption among tax officials



Source: SELDI Corruption Monitoring System, 2016 and SELDI Hidden Economy Survey, 2016

Policy recommendations

- To date, the government **does not appear with a clear strategy on reducing the level of informality**. There are no any official documents which includes the action plan on reducing the level of informality. To this end, it is recommended for the government to **draft a strategy**.
- The business community and citizens **should be consulted** so that society at large feels engaged in needed reforms and trust in institutions increases. So far even principally suitable policies have provoked resistance by businesses and civil society as they were **top-down driven**.

Policy recommendations (cont.)

- The anti-informality action should not be considered as an action but a reform which asks its time, including **comprehensive social policy**.
- **Rely more on technologies** (electronic payments, cash registers with fiscal memory, linked in real time with revenue agencies, electronic filing of tax forms, points of single contact, etc.), automation and algorithm.



Thank you!