

Causes of the informal economy in Albania: Old and new views on the informal economy

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Abstract

The topic of informal economy and its accompanying phenomena personified in corruption, bribery and other distortions that accompany this destructive economic and social phenomenon are almost daily topics in the media, in professional and political debates and in everyday conversations between ordinary people. It is worth noting the paradox that consists in the fact that the more it is debated about the phenomenon in question, not only does not weaken and eliminate but on the contrary gains even greater intensity.

In recent years researchers have shown interest in studying the informal economy in many countries. This has come about as a result of the causes and implications of policies related to the informal economy. The informal economy is difficult to measure as in nature it is a hidden economy. The results show that the unemployment rate has a negative effect on the informal economy in Albania. This shows that the effect of unemployment income is greater than its replacement effect. In this study, the causes, factors and consequences of the informal economy are analyzed. It is shown that the informal economy has an impact on the distortion of a country's national statistics. After analyzing the tax system, informal employment and the informal economy over the years, some recommendations have been made to reduce the distorting impact of the informal economy.

Social, political and institutional factors play a major role in the economic development of the country and economic growth in developing countries but also in developed ones. Informality, which is a symptom of deep institutional weaknesses, is one of the factors responsible for reducing investment and expenditure, increasing income inequality, reducing foreign direct investment, and allocating resources. Informality poses a threat to a country's economic growth as it reduces efficiency in the private and public sectors. It is one of the most important factors affecting the reduction of economic growth in many countries of the world. This is a common occurrence today in many developing countries and arises as a result of their poverty. Informality is bad, not because money and benefits change manually or because of participants' motives, but because it privatizes particular aspects of public life by creating various debates and problems.

Key words: Albania, Corruption, Informal Sector, Informal Employment.

Introduction

The reasons that have influenced the development and growth of the informal economy in Albania are numerous: ineffective government policies in poverty reduction; high taxes, their complicated system and administrative abuses; widespread acceptance by the illegal labor society and informal economy; low probability of recording and punishing illegal work; lack of competencies and trust in official institutions; uncertainty in investments, etc. Detailed and reliable assessment of the size of the informal economy is a rather challenging exercise (Bernabè, 2002). The informal sector appears in both industrialized countries and those with developing economies (Bezemer, 2001). The main effects of the informal economy are on (Bass and Geoghegan, 2009):

Monetary indicators - Informal activities tend to be carried out in cash, increasing the demand for currency in circulation.

Labor market participation - As the number of employees in the informal sector increases, the rate of employees in the formal sector decreases. In the formal sector there are informal wage practices. Undeclared wages exist in all countries of the region and are mainly made in the form of so-called "wages in envelopes", where employers formally pay (so declare) their employees with the minimum wage, which is then compensated with an additional wage paid in cash (which is not declared). This practice has a significant impact on public finances and reduces the contribution to social security and taxes. Another impact is that by avoiding income tax, they lose social security benefits in the future.

Official statistics - Reliability decreases with the growth of the informal economy (Ahmed, Pasha and Rehman, 2016).

Economic growth - There are two opposing trends for the effect of the informal economy on economic growth. The first is that the decline of the informal economy affects economic growth, from tax collection. Second, the informal economy is more competitive and efficient compared to the formal sector, thus boosting economic growth. The high level of informality in the economy leads to tax increases to meet public spending needs. The main factors that influenced the growth and strengthening of the informal economy are: mass closure of jobs in the transition period; large demographic shifts towards plain areas mainly towards Tirana; high politicization of the state administration and pronounced interventions in economic decision-making; drafting new and constantly improving legislation, but leaving space for informality in the economy. Informal economy or fiscal evasion is one of the biggest challenges of the country in terms of economic development, the degree of informality according to estimates is 30-35% of gross domestic product, these data are alarming as the presence of this phenomenon causes damage comprehensive in the country's economy. The informal economy contributes to the creation of a large inequality in the "market economy", uncertainty and unfair competition (Bandaogo, 2016). This type of economy causes budget losses, but also a lack of information about the number of employees (Agénor and Montiel, 2015). The fight against the informal economy must be a priority and a basic condition for economic development. Informality is not a problem of only one country, but of the whole region, in the countries of the "European Union" the level of informality is around 18% which is not statistically small considering the level of development

and efficiency in these countries. Unless rapid and effective steps are taken in the fight against the "informal economy" it is impossible to create new jobs, the poverty rate cannot be reduced and at the same time severely damaged the state budget (Andrews, Sánchez and Johansson, 2011).

Literature review

The informal sector, also known as the undeclared economy or the shadow economy, is present in every country, however there is no consensus from studies on how to define it (Johnson, Kaufmann and Shleifer, 1997). Kanbur (2009) suggest that when estimating the size of the informal economy it is important to estimate the size of firms as this is highly related to informality. According to the international literature, to reduce informality it is suggested that three main principles be considered (Jarvis, 2000):

- Gradual approach to formalization through the preparation, discussion and implementation of an integrated strategy against informality;
- Pay attention to the order of measures taken. Strong rules should come after good rules have been applied. Fighting the informal economy with repression while having problems with law enforcement puts you at greater risk of damaging the economy and increasing unemployment.
- Social capital building. It is important to aim at increasing transparency and fighting corruption. Even good rules may not work if there is a low level of social capital and weak institutions.

According to Kiani, Ahmed and Zaman (2015) there are two opposing views about informal labor markets. First, according to one view, the informal sector mostly serves the function of absorbing the surplus of labor force. Consequently, the rise of informality is interpreted as economic failure and informal employment is considered as imposed on the individual. Proponents of the other perspective insist that the informal sector should be seen as a dynamic sector that aids economic development. In this case the growth of this sector is seen as a sign of economic success and informal employment is voluntarily chosen as an opportunity for higher pros. According to the authors, both attitudes can be correct and can be applied in the same state.

According to Ruer and Knight (2007) unemployment in less developed countries increases poverty to the extent that workers in these countries simply can no longer remain unemployed, and consequently have to accept employment in the informal sector. As extensive as the informality literature is, so are the factors that have been identified as determining the decision of the worker or employer to operate in the gray economy. First, there are a number of authors who suggest that the level of taxes, as well as barriers related to bureaucracy and employment regulations, play a very important role in determining businesses to operate informally (Putniņš and Sauka, 2015).

Based on empirical research, Torgler, Schneider and Schaltegger (2010), for example, conclude that employment regulations and the tax burden have the greatest effect on the size of a state's informal sector. The degree of informality also depends on the skill level and demographics. Skills level is

measured by education or engagement in industry (Schneider, 2012). Intuitively, the low-skilled workforce is expected to act more informally by considering compensation and other factors (Schneider, 2002).

While academics focus heavily on creating the conceptual framework for measuring informality, there are studies that focus on the more practical challenges posed by informality (Horodnic, 2016). Still, there is a division between the authors who see informality as an obstacle that needs to be eliminated as soon as possible, and others, who say that informality is a phenomenon that can be used for economic growth in the long run (Henry and Sills, 2006).

Reducing the weight of informality

- To identify the degree and reasons for the use of "cash" in the Albanian economy, the impact of its use as a means of payment in the expansion of the informal economy and to present the development of the payment system as a means to reduce the use of cash in the economy.
- Strengthen fiscal discipline, full implementation of the law for all economic activities.
- Reduction of administrative barriers and fiscal burden, expansion of information services and other services in favor of business which in addition to the effects on economic development will bring a reduction in the degree of informality in the economy.
- Real study and verification, photographing the situation regarding the construction of the tourist area, with priority given to the development of tourism. Unlock, formalize investments operating in the private sector.
- Reduction of legalization fee for informal buildings. This encourages business registration and increases tax collection. Enterprises in the informal economy face numerous barriers, such as infrastructure and institutional issues (Abdixhiku, Pugh and Hashi, 2013).

The main objective of the state is to minimize undeclared work that will be achieved through several directions (Feige, 1989):

- strengthening the partnership relations with other actors of the labor market, mainly with the social ones
- institutional development and improvement of the labor inspection service
- creation of a unique and modern system of work services at the regional level through the improvement and development of the working method at the regional level through the improvement and development of the working method and managerial capacities of the staff and the ability of the employees.

The realization of these competencies is realized by:

- improving the legal framework and management methods;
- increasing the degree of professionalism;
- organization of national actions as well as state policies to promote employment;
- consolidation of control bodies and cooperation with social partners.

Old and new views on the informal economy

In recent years, in various countries it has been done work to expand the concept and definition of the “informal sector” to include different types of informal employment that were not included in the previous concept and definition (Yasmin and Rauf, 2003).

Table 1. Old and new views on the informal economy

OLD VIEWS	NEW VIEWS
The informal economy exists detached from the formal economy.	The informal economy is related to the formal economy - it produces for it, distributes for it and provides services to the formal economy.
It represents a reserve pit of labor surplus.	Most of the increase in employment in the informal sector has been due to the decline in employment in the formal sector.
Work in the informal economy is mainly composed of survival activities and thus it is not subject to economic policies.	Informal enterprises include not only survival activities but also sustainable enterprises and dynamically growing businesses. While informal employment includes not only the self-employed but also others.

Source: Authors

The informal economy contributes to the creation of a large inequality in the "market economy", uncertainty and unfair competition (Williams and Schneider, 2013). This type of economy causes budget losses, but also a lack of information about the number of employees. The fight against the informal economy must be a priority and a basic condition for economic development.

The fight against informality is an important precondition for a country that aims to (Chen, 2004):

- increase the efficiency and competitiveness of its economy;
- improve the investment climate;
- ensure the implementation of balanced tax policies;
- ensure sustainable economic growth in the long run;
- fulfill the obligations arising from the framework of the Agreements with the EU.

Conclusion and Recommendations

In the case of informality, more attention should be paid to the causes of the disease than to its cure. Regarding the reduction of informality, it should be understood in the first place what this phenomenon is, why it is caused and if there is a possibility in preventing this phenomenon. So, not only measures that condemn informality should be taken, but also preventive measures.

The informal economy is a complex phenomenon present in every period. This phenomenon is present in almost every state sector, or private business. This phenomenon is present in every country, not only in Albania. It is found everywhere, regardless of the stage of economic development of a country. It is not enough just the preventive measures of the government to reduce the degree of informality, it should be emphasized the civic awareness, the awareness of every individual to work with dignity and effectiveness. Of course, it will never be possible to reduce it 100%, it is enough for its level to be minimal, and not to increase further. To reduce informality, it is not enough just to take measures, draft laws to fight against it, but it must and readiness and punctuality in respecting what was drafted.

Our country is part of the world economy, so it is worth noting that the increase of informality of other countries significantly promotes the increase of informality in our country. Factors that promote the informal economy are: informal employment, tax system, corruption, CASH economy. To all these factors are added other elements that are: unemployment, lack of income, lack of information of citizens on the use of non-cash methods, lack of technology, etc.

Low tax countries tend to have a low level of informal economy. But, the reduction of taxes only stabilizes the informal economy, therefore it is thought that there are possibilities for adjustments of the tax system, making them simpler in content, more logical for the citizens and more applicable in the conditions of our country. This will encourage businesses to move towards the formal. The informal economy in Albania will decline if the state were stronger and more efficient. Fighting corruption is understood as strengthening and consolidating state institutions, increasing civic responsibility, strengthening and modernizing public administration.

The degree of impact of cash on Albania's economic informality is very large. The main lever of reducing the use of cash as a means of payment is the development of the payment system. The electronic payment system is at a low level compared to western countries. Their use is related to a developed infrastructure that our economy lacks. To increase trust in banks, ie to create relationships between banks and businesses.

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