

Informal economy, a really widely accepted or an “enemy” to the economy?

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Abstract

Informal economy is relatively a new terminology in economy. Many studies have been made to measure it. More studies are done try to find ways to reduce the informal economy. In this paper we will try to make an analyses of the measured level of informal economy in Albania, by trying to compare it with the countries of the region.

Based on previous studies of the authors we will see the development in the mentality of Albanians about the informal economy, by focusing on corruption.

A survey has been conducted to measure the level of informal economy in a selected sample of the Albanian economic factor. Based on this study, this paper will aim to screen the approach Albanians have towards the informal economy, level of awareness and furthermore the level of acceptance. By examining the results of the survey we intend to see if informal economy and corruption are related to culture or are just economic driven actions.

Introduction

Informal economy is a problem of the developing economies. The legal status of informal economies, their connection to the state and the role of public institutions are of major importance. The informal economy is a terminology mostly developed in the poor countries, especially in Africa, as the back market of labour force (Portes at al).

Informal economy has a more fixed character in countries where incomes and assets are not equitably distributed. In many cases economic growth is not accompanied by improvements in employment levels and income distribution for that the informal economy does not shrink Becker (2004).

In the transition economies like the Albanian one, the informal economy is a relatively new term as under communism time it was not present or at least not known. Economies coming from totalitarian systems are, now a day facing a high level of informal economy. In these countries the informal economy has been developing together with the transformation and evolvement of the political, economical and social system. Informal sector is more and more referred as informal economy, not to limit to

one specific economic activity, but it is more a cross cutting phenomenon of different sectors Becker (2004).

Informal economy definition and measurements

There are different definitions of informal economy, and different ways of measuring it. Defined by the Economic Dictionary (2013) the informal economy is a system of trade or economic exchange used outside controlled transactions, including barter of goods and services, mutual self- help, odd jobs, street trading, and other direct sales activities. Income generated by the informal economy is usually not recorded for taxation purposes, and is often unavailable for inclusion in gross domestic product computation. Further it is defines as “all economic activities by workers and economic units that are by law or in practice not covered or insufficiently covered by formal arrangements” (ILO, 2002). Further Mema et al (2003), would define it as “that part of the ‘lawful’ economy which doesn’t respect the enacted legal framework and which would be rate able in case of report to fiscal authorities”.

So in broader terms informal economy is the part of the economy that is not taxed or reported. It is difficult to measure the informal economy and there are different

methodologies to do that. The measurement of informal economy may be realized through direct estimation methods or indirect estimation. The direct estimation method would comprise surveys, monitoring of the expenditure and income statistics. Some of the indirect estimation methods are the national account statistics, labour and employment statistics, transactions, monetary request, electricity consumption etc..

Informal economy is present at every economy being that developed, or not, but its size would differs. The size of the informal economies would vary depending on the methodology used and on the data available. Schneider (2007) conclude that the size of the informal economy in the world would vary from 8.4% of GDP in the USA or 9.4% of GDP in Switzerland (countries with the lower informal economy in his ranking), to 60,2% of the GDP in Tanzania and 63.2% in Zimbabwe. In the Netherland the informal economy is estimated to be 13% of the GDP (Carolina, et al 2007). In Somalia, only the income from piracy is estimated to be up to the level of 110% of the GDP (Institute for Security Studies, 2012), which mean the size of the informal economy should be much higher. With this we would like to point out that the informal economy might be much higher than the data available.

The informal economy has both benefits (Bolivar 2006) and costs (Lewis 2004). We would like to point out that the informal economy has more negative than positive aspects. Informal economy brings increase of non-productive economies (Lewis 2004). Those economic actors operating in an informal sector argue that they promoting economic development, by bringing money to the economy and on the other side by offering flexibility. But these small firms are competing with someone else that under the same market conditions is paying the tax and the social contribution for the employees by raising the costs, and competing in a non fair market.

Informal economy and corruption, Albania and the Balkan

Corruption and informal economies are very closely linked to each other, a higher level of corruption leads to a larger informal sector and account for a high level of employment Dutta et al. (2011). For that we would like to focus more on the corruption level and it consequences. It is mostly common in Albania, that when you pay for a service or good there is no receipt in return. Even if a tax officer would be present, the situation will not change as the as the fine the shop keeper was suppose to pay is transformed into an income for the tax officer, as tax official result to be very corrupted IDRA (2009).

Corruption is a significant problem in much of the developing world. In many cases corruption acts like a tax, adding to the cost of providing public services and conducting business.(Olken, 2007).

Businesses by under reporting the turnover can reduce the tax liabilities by more than 100%, for that it is a strong incentive to tax evasion OECD (2004). The informal sector in Albania is mostly shown in the activity of; rural farmers, which accounts for 44.1% of employees in Albania in 2010 (INSTAT) and 19.3% of GDP in 2010 (INSTAT), but does not contribute to tax and social security; the micro businesses owned by individuals or families, which are mainly temporary and generally unregistered; registered SMEs, operating at various levels of formality; and illegal and criminal activities, sometimes disguised as legal businesses (Ruli 2003).

In the Western Balkan Countries the level of informal economy in 2003 is not so much different from one country to another (Schneider 2007). Albania has a level of informal economy 35.3% of the GDP, Bosnia and Herzegovina 36,7% of the GDP, Croatia 35,4% of the GDP, Macedonia 36,3% of the GDP and, Serbia and Montenegro (that were together by that time) 39,1%. Taking into consideration the similarity of the countries of the region in terms of economic development, and history we would say that the level of informal economy has a connection with the economic development and the history of the countries, even if it is not the aim of this paper to find a correlation of informal economy and country development.

Further part of the informal economy is the informal payments that go to the public officials. Informal payments to public officials are the percentage of firms expected to make informal payments to public officials to "get things done" with regard to customs, taxes, licenses, regulations, services, and the like (World Bank 2013). In Figure 1 is shown the percentage of firms that make informal payments to public officials.

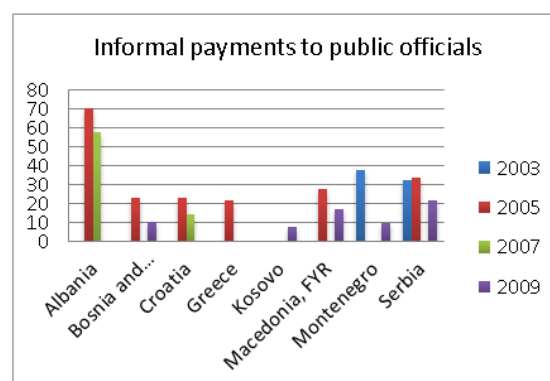


Figure 8, Source World Bank

As we can see Albania has the highest percentage of firms paying bribes, while Montenegro and Kosovo the smallest one. This might have a connection to that fact that both these countries are small and it is easy to know someone working for the public administration, on the other side this countries are the youngest in the region.

To better understand the informal we need to understand the corruption level. The corruption level in the region has been fluctuating in a small range from time to time, based on the Transparency International.

Based on the data available on by Transparency International in Figure 2¹ is shown the score of each of the countries in the region for the corruption level. The higher is the score the less corrupted is a country. As we can see Albania, Croatia, Macedonia and Serbia have an increase in corruption in the year 2011 compared to the year before, while Bosnia and Herzegovina, Kosovo and Montenegro had a better performance.

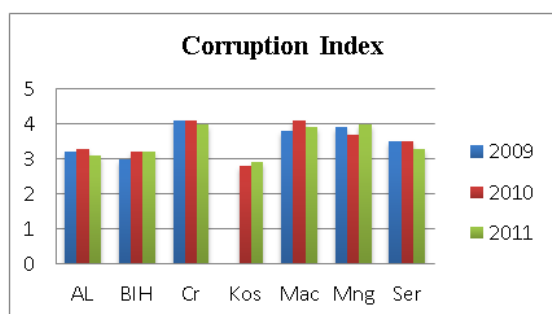


Figure 9, Source Transparency International

To understand more in detail the corruption in the region we will refer to studies conducted by UNODC (2011) in the countries of the region (Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia). In all of the countries of the region corruption is a very important aspect of the people's life. They rank it to be from the second most important problem of their country (Albania and Montenegro) to the forth most important (Bosnia and Herzegovina). Bribes in the region are mostly paid to the public administration. Bosnia and Herzegovina has the highest percentage of citizens who pay a bribe when they are in contact with public officials (20.7 %), while Serbia has the lowest (9.3%). The Western Balkan countries tend to be very traditional and patriarchal, so in the general perception, men should bring money home, and men is justified when he is subject to corruption. In all of the countries of the region there is a higher percentage of men exposed to bribe than women, except Albania, where women are more exposed to corruption than men (21.3% vs 17%). This might have a connection to the fact that most of the bribes in Albania are paid to doctors and nurses, while in the other countries of the region, most bribes are paid to police and then to doctors. We would say in this case that corruption is gender neutral. Even if Albania is one of the most corrupted countries in the region, the amount of bribe paid is the lowest compared to the other countries in the region. In Albania the average bribe amount is 43 Euros, while in Bosnia and Herzegovina is 112 Euros, in Serbia is 165 Euros, in Montenegro is 233 Euros, in Croatia 280 Euros, and Macedonia is leading with

470 Euros. This will indicate a different size of the informal economy. For that we would expect the size of informal economy in Albania to be lower. The most corrupted professions in the region are doctors (in all of the countries despite Serbia, where are police), than police, nurses and land registry officials. In all the countries in the region very few corruption cases end up in courts. The low level of claims based on corruption is related to the fact that people who are involved in a corruption benefit more from the corruption itself than from suing it, and in other cases they don't trust the legal system (UNODC 2011). To confirm this, in table 1 are shown the number of corruption cases send to court in the last years, based on the data collected by the official website of the First Instance Court in Tirana. In this table are reflected only the cases where the accused party has been declared guilty. In the Albanian legislation corruption is a criminal act and therefore is regulated by the Criminal Code, by the following articles; Article 244 (Active corruption of persons exercising public functions), Article 245 (Active corruption of the high state official and of the local elected/representatives), Article 259 (Passive corruption by public officials), Article 260 (Passive corruption by High State Officials or local elected officials). The "fight against corruption" has been more active in 2009, and very poor in 2011 when on the other side the 2011 (Transparency International) has the highest level of corruption. Even if corruption is a widely spread phenomenon in Albania, there are very few cases that end up in the court.

In Albania there is a moderated progress in the area of fight against corruption and organized crime (European Commission 2012). There is still informality in the labour market, and tax evasion. Even if most of the businesses are equipped with a cash registry, this has not helped to reduce the tax evasion. In fighting against corruption a considerable influence has had the progress made in the enforcement of court decision, by the introduction and strengthening of the private enforcement system, and on the other side the digitalization of the notary, both areas have been supported by the donor community and the project Open Regional Fund For south East Europe Legal Reform.

¹ We did not took into consideration the data of 2012 as the methodology used to extrapolate the Corruption Index has changed, and the data are not comparable.

Table 2 Court Cases on Corruption

Articles	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
244	0	0	0	0	0	0	0	3	8 ²	4 ³	1	0
245	0	0	0	1 ⁴	0	0	0	1	1	0	1	0
259	NA	NA	0	1	0	4	5	5	1	7	3	1
260	NA	NA	1	1	2	0	2	0	0 ⁵	0	0	0
Total	0	0	1	3	2	4	7	8	10	11	5	1

Source: Own Calculations, Tirana District Court

Why corruption and informal economy in Albania?

The corruption is a behaviour and part of a culture. When showing the map of the Corruption Index (Transparency International), it is clear that countries with high level of corruption are also countries which in terms of culture are similar (Hampden- Turner et al, 2000,). Different culture interpret differently the rule of law (Hampden- Turner et al, 2000,pg 13). Universalism cultures are more oriented to an equal treatment by the laws, and rules and law have a stronger power versus particularism cultures where laws can be interpreted differently for different people, personal relations are more important and law enforcement is much weaker. Countries of the Balkan are particularism cultures, and collectivist. More important is the group of reference, the community and not the institutions. This brings to personal connections to be very important for success. A culture can be understood by the language, the Albanians have an expression: "even the king never refuses a presents", by justifying presents in return to a favor. In a survey conducted in 2006 with 30 nurses for an assignment paper (Llatja et al), the results showed that the nurses would accept presents as they did not like to call it bribes. The reasons for that were low salaries and low motivation at work. Corruption in the collectivist culture needs to be justified. Presents are allowed but corruption is not a nice word. On the other side corruption is so much present in every discussion in Albania, that everyone gets it for granted. If you are successful you have been giving bribes, or using your connections (Teka at al 2008). There is a high level of perception of corruption, but when very few people would admit they ever corrupted. By that we would like to point out that the level of corruption and the level of perception of the corruption defers. We need to keep in mind that promoters of the corruption and informal economy are the economic actors as such as they want to find an easy way out, as most of the bribes are paid to avoid a fine, to shorten the procedure or even to get a better treatment (UNODC 2011).

Survey on informal economy and corruption

In order to see the reaction of the Albanians toward informal economy we conducted a survey with a limited sample of 200 participants. The age distribution varies from 15- over 50s, living in different parts of Albania. When asked if they pay social security, 38% of the interviewed answer not. This is a high percentage for the small sample. If we deep again in cultural dimensions, Albanian is a culture with synchronous time (Hampden- Turner et al, 2000,) and this cultures are more oriented to the past and present than to the future. For that many Albanian would better prefer to have a job without thinking of the retirement time. The future is very far away.

Remittances continue to play an important role in the Albanian economy, 26% of the interviewed receive remittances but mostly (55%) receive them in cash by indirectly increasing the unmeasured cash in the economy. 49% of the interviewed does not pay an income tax for the income they generate outside the official payment. Most of the interviewed (68%) don't get a fiscal receipt when shopping because the shop keeper does not provide them with that (48%), and in 17% of the cases the shop does not have one. As we mentioned, the fiscal cash boxes were a success of last year (European Commission 2012), but still it is difficult to prevent the informal economy even with installed fiscal cash boxes, for that there might be need a better supervision and that the tax official is not corrupted. So less corrupted tax officers will lead to less informal economy. When asked on the perceived level of informal economy in Albania there is a distribution of opinions, but only 11% thinks it is lower that 30% of the GDP the rest thinks it is higher, 27% thinks it is higher than 60 % of the GDP, but raising again the issue of public perception. So there is a high miss trust of Albanians in the system, they believe there is a higher corruption and higher informal economy than it really is measured.

In our survey we asked if the interviewed had ever given a "coffee" to public officials. 48% of them gave a "coffee" to a policeman, 78% to a doctor, 72% to a nurse, 33% to the door-keep to enter a building, 17% to a professor, 7% to the boss for a promotion or for getting the job, 47% for getting a birth certificate at the civil office, 58% to get served without waiting in a line. In 57% of the cases the

"coffee" has been asked by the other party. In 85% of the cases there has been a payment in cash. As we saw corruption in Albania is present and active. Based on the number of corruption cases in the court, the corruption cannot be reduced by amendments of laws or regulation, but by enforcement of law and what is more important building of trust for the institution.

Conclusions

Informal economy has a more fixed character in countries where incomes and assets are not equitably distributed.

Albania has the highest percentage of firms paying bribes in the region, but the amount of bribe paid is the lowest compared to the other countries in the region.

The most corrupted professions in the region are doctors, police, nurses and land registry officials and corruption is gender neutral.

Even if corruption is a widely spread phenomenon in Albania, there are very few cases that end up in the court.

Countries of the region need support by the donor community to fight against corruption.

There is a connection of corruption with culture and history development. Corruption in the collectivist culture needs to be justified.

Bribes are accepted when there is low salary and/or low motivation at work.

Less corruption will bring to less informal economy.

There is a high mistrust of Albanians in the system, they believe there is a higher corruption and higher informal economy than it really is measured. Corruption cannot be reduced by amendments of laws or regulation, but by enforcement of law and what is more important building of trust for the institution.

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