



**9<sup>TH</sup> INTERNATIONAL ASECU CONFERENCE ON  
“SYSTEMIC ECONOMIC CRISIS: CURRENT ISSUES AND PERSPECTIVES”**

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**THE IMPLICATIONS THAT THE PRESENCE OF A LARGE  
INFORMAL SECTOR HAS ON BUSINESS AND ENTERPRISES  
DEVELOPMENT IN CHASE OF ALBANIA**

*UDC 005.412:004(496.5)*

**Abstract**

The informal economy is a key sector of employment and production in Albania but also fiscal and regulatory evasion and, as such, is a hotly debated issue. All of us recognize that the informal activities provide a substantial contribution to the economy. We also acknowledge however, that this contribution comes with significant costs in terms of lost tax revenues, lack of employee protection and unfair competitions among enterprises. The informal economy overshadows and influences many structural policy efforts and requires urgent action if Albania want to be part of EU market.

It is important to stress from the outset that no definitive answer exists on how best to tackle the informal economy. Economists have started to explore the role played by the informal economy in transition countries since 2002 and as a matter of fact the attention has been devoted to estimating the size of the informal sector and evaluating the fiscal implications.

This paper will focuses on the implications that the presence of a large informal sector has on business and enterprises development. During the years 1999-2004 the country has built a stable and open macro-economic framework, completed economic liberalization and enjoyed a sustained economic expansion, albeit from low levels, supported by a growing private enterprise sector. However in spite of these positive elements the share of the informal economy in GDP does not appear to have receded. Indeed, the indications are that the informal sector has been the most dynamic component of the Albanian economy in that period.

In the year, 2005-2010 are making continuous efforts to reduce one of the main resources that encourage informality in Albania, administrative barriers to business. As in the entire region in Albania has undertaken regulatory reforms to improve the business environment, which particularly affected the reduction of the informal economy.



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The formalization of the informal economy in a sustainable manner will help to answer three questions: How large is the informal economy in Albania? Why do many companies choose to operate in the informal? What are the measures taken by the government to reduce administrative barriers in business?

**Key words:** overshadow economy, informal sector, fiscal evasion, regulatory evasion and fiscal implication.

### *1. What is informal economy?*

As crime and other underground economic activities (including shadow economic ones) are a fact of life around the world, most societies attempt to control these activities through various measures like punishment, prosecution, economic growth or education. Gathering statistics about who is engaged in underground (or crime) activities, the frequencies with which these activities occur and their magnitude are crucial factors for making effective and efficient decisions regarding the allocations of a country's resources. Unfortunately, it is very difficult to get accurate information about these underground (or as a subset shadow economy) activities in terms of value added and of labor market, because all individuals engaged in these activities wish not to be identified.

Most authors trying to measure the shadow economy face the difficulty of how to define it. One commonly used working definition is: all currently unregistered economic activities, which contribute to the officially calculated defines it as “market-based production of goods and services, whether legal or illegal, that escapes detection in the official estimates of GDP.”<sup>1</sup> These definitions still leave a lot of questions open. It becomes clear that the shadow economy includes unreported income from the production of legal goods and services either from monetary or barter transactions – hence, all economic activities which would generally be taxable were they reported to the state (tax) authorities. In general, a precise definition seems quite difficult.

The discussion about the nature of the shadow economy fluctuates between two extremes: Either, the shadow economy is blamed for many problems of economic policy, such as unemployment, high public debt, and the recession, or, it is regarded as a legitimate free space in an economic system, which is characterised by high taxes and too much regulation. In social science, articles and papers dealing with the shadow economy often only focus on one single aspect, mostly the difficulties and challenges to measure its size. In addition, the basis of the analysis of the causes and consequences of the increasing shadow economy is often quite narrow and does not take results and insights of other social sciences into account. Therefore, a comprehensive overview and scientific analysis of this complex phenomenon is necessary<sup>2</sup>

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<sup>1</sup>Smith 1985, “Gross National Product” p.18

<sup>2</sup>The Shadow Economy and Institutional Change in EU, Accession Countries - A Two Pillar Strategy for the Challenges ahead, Dr. Dominik H. Enste/2001a, pp.158f; 2002



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Of course there are a number of interpretations of the “informal economy”. In 2004, informal economy in Albania, are used several terms to define what is generally called the informal economy: shadow, economy, black economy, underground, informal economy, or using a related statistical definition the non-observed economy. The use of this wide variety of terms, often with different conceptual underpinnings, has often resulted in difficulties in interpretation.

The definition used in 2004 for the informal economy in Albania is unobserved economic and productive, activity that is driven by tax and social security evasion or to avoid complying with certain legal standards and administrative procedures (Mirus and Smith 1997). This definition does not cover all the types of tax evasion, or revenue foregone by government, because it refers to evasion related to the production of goods and services and so will not reflect tax evasion related to capital gains say, which is not related to production. It is also excludes criminal activities (smuggling, trafficking etc.) and marginal non taxed activities (such as domestic labour and subsistence farming).

What is the difference between *tax evasion* and *tax avoidance*? The former is the general term for efforts by individuals, firms, trusts and other entities to evade the payment of taxes by breaking the law. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability and includes, in particular dishonest tax reporting such as under-declaring profits or overstating deductions. By contrast, tax avoidance is the legal exploitation of the tax regime to one’s own advantage, to attempt to reduce the amount of tax that is payable by means that are within the law whilst making a full disclosure of material information to the tax authorities<sup>3</sup>.

Based on same definition done by OECD Handbook “Measuring the Non-Observed Economy” (2002) gives us a comprehensive description of the non-observed economy, which is defined as consisting of five groups of activities:

*Underground productions*, defined as those activities that are productive and legal, but are deliberately concealed from public authorities to avoid payment of taxes or compliance with regulation.

*Illegal production*, defined as those productive activities that generate goods and services forbidden by law or that are unlawful when carried out by unauthorized procedures.

*Informal sector production*, defined as those productive activities conducted by unincorporated enterprises in the household sector or other units that are unregistered and less than a specified sized in terms of employment, and that have some market production.

Production of households for own-final use, defined as those productive activities that results in goods or services consumed or capitalized by the household that produced them.

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<sup>3</sup>Final draft “Tackling the Policy Challenge of Dealing with the Informal Economy in Albania”, prepared by OECD-Investment Compact 2004, p 19.



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Statistical underground, defined as all productive activities that should be accounted for in basic data collection programmes but are missed due to deficiencies in the statistical system.

It is important to stress that non-observed does not mean not measured. All of these components of the non-observed economy are important for GDP purpose but two of them are particularly relevant for this paper: those are underground and informal sector production which corresponds closely to the definition of informal economy in Albania.

The most important key factors in the establishment and growth of the informal economy in almost all of the literature are as follows:

- High intensity of legal and administrative regulations: the greater the intensity of regulation such as business registration, license and permit requirements, labour market restrictions, trade barriers, etc, the greater the incentive for flight into the informal economy. Research also suggests that law enforcement, not just the intensity of regulation, may be a key issue.
- High overall tax and social security burdens: basically, the higher the difference between the total cost of labour in the official economy and after tax earnings from work, the greater the incentive for the flight operation in the informal economy. Lack of the trust in official institutions/administrative corruption: examples such corruption include the court system, unclear legislation and bureaucracy
- Lack of access to formal property system: this refers to the lack of clear property rights and title deeds and the inability to collateralize property assets. This obstructs firm's access to official financial institutions such as credit lines, insurance etc.
- Long term decline in civic virtue and loyalty towards public institutions, combined with a decline in tax morale.
- Broad acceptance of illicit work often sanctioned or tolerated by the state.

(Ernste, 2003, p 91p; Djankov et al, 2002; De Soto, 2003).

Same studies from OECD-EBRD 2003, pointed out that the business environment in Albania was extremely difficult, especially in the case of small enterprises. Those difficulties include significant bureaucratic and administrative barriers (such as entry barriers such as registration procedures and costs, licensing and permits problem, etc.), a high tax burden and a cumbersome tax administration, etc.

Those obstacles represent to doing business which discourages formality, but the issues of bribery and corruption is particularly noteworthy in Albania (i.e. the proportion of the firms that frequently bribe public officials to obtain licenses or permits and to avoid safety and other inspections).

The informal sector has grown till 2004, and has proved resistant to any attempts by government to reduce its size. For the Albanian government it is imperative to curb down



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the growth of the informal sector and bring business within the legal zone. The approaches they adopt to achieve this goal and the relationship they create between small-scale business and various state institutions will determine to a great extent the future of this business as small business is, and will continue to be the most active and dominating economic actor in the majority of the transition economies. It is imperative to undertake a broad analysis and define the basic aspects of this relationship between the state institutions and the informal small business.

First, small business was hardly able to be legal due to structural constraints. The low degree of registration and compliance with tax and labour legislation was attributed to the unfavorable environment for small business: tight markets, unstable or inadequate demand, strong competition, lack of financing and difficult access to institutional credit (the informal sector as a “pathology” of the economy).

Second, there was an inadequate institutional framework. In Albania the tax and commercial laws, the labour legislation, investment rules, etc. have been quickly brought to western standards, which in most cases poorly fit the local realities.

Third, the state had low capacity to pursue business promotion policies. That was a result of budgetary constraints and financial imbalances faced in the course of the transition. Fiscal priorities imposed the necessity of a broad taxation on small business. State institution incapability were linked also to their own non-compliance with the law, the inadequate implementation of rules, the arbitrary use of power, corruption of the public administration, etc. (the informal sector as a “pathology” of the State).<sup>4</sup>

Till the end of 2004 the most worrying occurrence of informality in the fiscal areas lies in the zone of small, medium or large businesses which are duly registered, but hide their turnover, profits, number of employees and real wages. It is precisely these kinds of businesses, which account for the largest part of the country's economic activities, with the trade (especially retail), transportation, services (such as bars and restaurants) and construction and production activities highlighted as being particularly important in terms of informal economy.

During this period also the structural nature of enterprises in Albania plays a role in relation to the informal economy as a very small enterprise, reflecting the predominance of agriculture activities in the economy and the decline in importance of large, state owned enterprises. They also tell us that the bigger the firm, the fewer the number of registered employees. There is a rapidly changing socio-economic profile of the country because of the emigration which has positive effects, such as the continuing high level of remittances from those living and working abroad. This emigration process plays a significant role not only in macro-economic stability but also an investment, know-how, support to standard of living and alleviation of poverty. At the same time, remittances fuel

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<sup>4</sup> The Informal Economy in South East Europe, G.Ruli “ Characteristics of Informal Sector in Developing Country”, 2003, p 241



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the informal economy since they are typically channeled outside of the commercial banking system, which complicates detection of size and impact.

Gross value added in 2001 is estimated at ALL 568 billion by INSTAT, 28.5% of which reflects adjustment made by INSTAT to capture informal activity. These adjustments are made to those sectors of the economy where informal activity is generally understood to occur. In the sectors where adjustment are made formal activity is estimated at 23.1% of gross value added, meaning that in the current official estimates of gross value-added produced by INSTAT informal production is 1.2 times as large as formal production. In 2001 informal economy was 28.5%, but the official estimates of informal activity are lower than generally understood.

**Table1. Formal and Informal Activity by Sector-% of GVA (2001)**

Sectors	% of GVA		Ratio Formal Informal
	Formal	Informal	
Cereal Products	0.2	0.4	1.7
Other food	0.5	0.5	1.1
Textile, leather	1.3	1.0	0.8
Wood, paper, furniture	0.6	0.8	1.3
Chemicals	0.2	0.2	1.4
Non-metallic & mineral products	0.5	0.5	1.0
Metals	0.4	0.7	1.7
Machinery & equipment	0.1	0.1	0.7
Construction	3.2	4.8	1.5
Trade	8.8	7.9	0.9
Hotel & catering	1.1	1.3	1.2
Transport	3.8	4.9	1.3
Real estate, renting, business service	1.4	4.1	2.9
Other Community etc.	1.2	1.3	1.1
<b>Total</b>	<b>23.228.5</b>	<b>1.2</b>	

*Source: INSTAT 2001*

In the final draft 2004, for Investment Compact in SEE the official estimates of informal activity are lower than generally understood and the estimation process into the GDP used by INSTAT suggests that this is not quite the full picture<sup>5</sup>. A large part of formal activity is estimated using imputations which include a formal and an informal part. And for given estimate of GDP that the estimates quoted above over-estimate formal activity and under-estimate informal activity. On the other side the OECD estimate that the current official estimates of gross value-added reflect 14.7% formal activity and 37.0% informal activity.

<sup>5</sup> Final draft “Tackling the Policy Challenge of Dealing with the Informal Economy in Albania”, prepared by OECD-Investment Compact 2004, p.30



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**Table2. Recalibrated formal/informal activity by sector -%of GVA**

Sectors	% of GVA		Ratio Formal Informal
	Formal	Informal	
Cereal Products	0.2	0.4	2.2
Other food	0.4	0.6	1.4
Textile, leather	1.0	1.2	1.2
Wood, paper, furniture	0.4	0.9	2.1
Chemicals	0.2	0.2	1.6
Non-metallic & mineral products	0.4	0.5	1.3
Metals	0.3	0.8	2.5
Machinery & equipment	0.1	0.1	0.7
Construction	3.1	5.0	1.6
Trade	4.5	12.2	2.7
Hotel & catering	0.9	1.6	1.8
Transport	1.9	6.9	3.6
Real estate, renting, business service	0.8	4.7	5.9
Other Community etc.	0.6	1.9	3.2
<b>Total</b>	<b>14.737.0</b>	<b>2.5</b>	

*Source: OECD 2004*

The ratio of informal to formal activity (2.5) based on these estimates is extra ordinary high, and certainly significantly much higher than is thought.

However measuring the size of informal sector is a considerable challenge and a challenge that is surmountable in the long run. The official data for 1998 to 2001 shows very little change in the level of overall economy wide informality. The small changes that do occur reflect compositional changes in activity and final demand, rather than changes in informality per se. From the official estimates available, the formal economy, in those sectors where informal activity generally occur increased steadily as a share of GVA between 1998 and 2001, rising from 26.3%, 28% 28.1%, to 28.5%.

During the life Albanian business choose to avoid many difficulties by either operating fully or partially in the informal economy. A number of studies have sought to estimate the size of the Albanian informal economy.





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**Table3 Estimates of the Size of the informal economy in Albania**

Source	Estimate(%of GDP)
ACER (1999)	30%
Albanian Government (INSTAT 2001)	28.5%
Schneider (2002)	33%
Ruli (2003)	30%-45%
Christie &Holzner (2003)	51%
IMF (2003)	30%-50% +
Muco at al (2004)	30%-60%

*Source: Investment Compact SEE (2004)*

Various methods have been utilized to estimate the size of the informal economy such as discrepancies in the national accounts, fluctuations in currency outside the banking system, changes in the use of electricity as a proxy for real economic activity etc. The above estimates are not directly comparable or problem free, not least because of the severe data limitations, but they conclude that the informal economy accounts for 30%-60% of GDP in Albania, with more recent estimates clustering at the higher end of the range.

**2. Why many companies choose to operate informally?**

It is widely recognized that the informal economy has certain positive features, such as generating a vibrant and entrepreneurial business sector, being a significant source of employment and operating as a major force in counteracting poverty by acting as a safety net. De Soto makes a powerful case that the informal economy is a rational response to the inability of the state to satisfy basic human needs (housing, employment, transport etc.) which result that many people are focused to renounce legality since the cost of abiding by the law exceed the benefits (1989 and 2000).

Indeed there is no single economy 100% formal. In the OECD countries for instance the contribution of the informal economy to GDP formation is estimated to vary between 5%-15%. But while the most of the OECD member countries the informal sector has a relatively limited weight, being made mostly by small scale activities and marginal employment; in many of the transition and developing countries the informal economy has become a major feature of the economic system.

In the small enterprise sector, there was a systematic and widespread under-reporting of company turnover, partly driven by the fiscal advantages given by tax regimes for the company turnover below ALL 8 million (€ 63.000). Those companies are subject to the Small Business Tax (SBT) set at 4% of the declared turnover and are exempted from charging VAT. This advantage at the margin is very significant. Overall tax liabilities can be reduced by more than 10% by turnover-under reporting, providing a very strong incentive for tax evasion.





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The high marginal tax-rate above the VAT exemption threshold is distortionary and it is an impediment to reducing informal activity. The VAT exemption and the lower taxation on profits allow companies benefiting from the SBT regime to under-cut their competitors operating under the CIT/VAT regime. In an extremely price sensitive market, this fuel unfair competition and creates an incentive for the spread of under-reporting and tax evasion throughout the economy.

The two-tier VAT regime results in a break in the valued added chain that, in turn, facilitates turnover under-reporting, VAT and CIT evasion. Two functions in the operations of the customs administration create an additional channel for turnover under-reporting, increasing the pressure from unfair competition through parallel imports. As can be seen such practices under-declaring the value of imports and mislabeling the content of imports in order to benefit from lower import duties are still widespread, in spite of recent progress made in upgrading the customs administration.

The informal sector, fuelled by weaknesses in tax and expenditure policies, as well as in law enforcement, including the fight against corruption and organized crime, is large. It reduces the tax base and the efficiency of economic policies. *Overall*, despite size able structural shifts over the years, there is still ample scope for more labour inputs to move from low to the higher productivity activities. The informal sector is an important challenge.<sup>6</sup>

In frame of reducing informal economy Investment Compact in 2004 will advised the Albanian Government about some specific issues that should be addressed in the short to medium term;

- Abolish the Tirana District Court registration system and introduce a “one-stop-shop”.
- Move away from active court approval company registration and introduce a single registration from and “on line registration of enterprises.
- Introduce the Government approved Action Plan for Reducing Administrative Barriers to Business, by supporting the inter-ministerial task force coordinated by the Ministry of Economy.
- Ensure that that the task force has adequately resources and staff and able to conduct effective consultations with the business community.
- Introduce the principle of “silence is consent” as soon as practical.
- Based on standard assessments of international studies, starting a business in Albania has encountered a large number of judicial and administrative barriers that increase the direct costs as well as hidden ones and create the premises for the distortion of the market, raising the informality and open the way for the phenomenon of corruption.

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<sup>6</sup>EU Commission, working document, November 2010 Page 47



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*Table 1: Duration and registration costs in year 2004*

Ease of doing business	Total time	Total Costs	Out of Which				
			Official Fees	Consilience		Gifts/Bribes unpaid	
				In US\$	In %	In US\$	In %
In days	In US\$	In US\$	In %	In US\$	In %	Total	
Registration in the court	14,6	212,7	31,8	62,5	142,5	10,4	58
Tax registration including all optional steps	14,7	219	125,5	14,3	243,9	14,3	162,2
Other Institutions	13,9	292	209,3	18,8	150	12,5	125

*Source: ARSC 2004, Administrative and Regulatory Cost Survey (ARCS).*

Albania was ranked of 117, with 11 procedures and 41 days<sup>7</sup>.

However to give the solution of this situation the Government of Albania undertook the initiative to create as a first step the National Registration Center, with full autonomy about commercial registration process, as a "one-stop office" (one-stop-shop) to business registration. The process of reforming the registration would be implemented through the office/center was intended to carry out:

- The transformation of the registration process from a mix process (judicial and administrative) into a fully administrative one,
- The registration in one single day, in one single step, closer to the concerned persons and fully electronic,
- Increasing transparency, impartiality and simplicity on registration,
- Simultaneous registration for commercial, fiscal, social and health insurance and labour effects in one single step,
- Simplification of requests and necessary documentation for business registration,
- Decreasing registration costs, elimination of contacts with administrative employees and, thus, corruption reduction,
- Service supply on national level also expanding near the local administration structures,
- Full approximation of the standards of registration process with European directives.

With the establishing of NRC and making it functioning Albania have made a step forward in reforms in the business ranking 10 best places in the implementation of reforms in 2009.

<sup>7</sup> World Bank “Doing Business 2006”, page 110.



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**Table :2 Indicators of "Doing Business 2009" compare with "Doing Business 2008"**

		<b>2008</b>	<b>2009</b>	<b>Change</b>
<b>Ease of doing business</b>		<b>135</b>	<b>86</b>	<b>(+) 49</b>
<b>Starting a business</b>	<b>Ranking</b>	<b>130</b>	<b>67</b>	<b>(+) 63</b>
	Procedures (number)	10	6	
	Time (days)	36	8	
	Cost (% of income per capita)	21%	26%	
	Min. capital (% of income per cap.)	34%	32%	
<b>Getting Credit 2008</b>	<b>Ranking</b>	<b>61</b>	<b>12</b>	<b>(+) 49</b>
	Credit Information Index	0	4	
	Legal Rights Index	9	9	
	Public registry coverage	no data	8.3	
<b>Protecting Investors</b>	<b>Ranking</b>	<b>168</b>	<b>14</b>	<b>(+) 154</b>
	Disclosure Index	0	8	
	Director Liability Index	5	9	
	Shareholder Suits Index	3	5	
	Investor protection Index	no data	7.3	

Source: Doing Business 2008-2009

In the report of the EU Department for SME Development, regarding the implementation of the 10 criteria of SMEs Albania, part I "Policy finding by Charter Dimension" was written: "Albania has completed the implementation of radical reforms of its company registration system and leads the first group"<sup>8</sup>. This group includes besides Albania, Bosnia-Herzegovina, Croatia, Montenegro, Macedonia and Serbia. The Centre is also updating the records of existing companies, and transferring those records to the new electronic register.

NLC was established by decision of the Council of Ministers in December 2008 and began to offer services for businesses with 9.6.2009, as a second step undertaken by Albania Government.

Approval of the Basic Law Nr. 10,081 by the Parliament (February 2009), changes in 61 different sectoral laws to ensure full coherence law (May 2009); preparation and adoption by the Council of Ministers under the criteria and procedures / legal for each sub category / categories licenses (DCM. 538 dt. 26.05.2009) as well as other acts of organizational NLC (statutes, organizational, budget, etc.).

<sup>8</sup>European Charter for SME, Part I, "Policy Findings by Charter Dimension", page 54, 55



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At the NLC is operation already National Registry software program licenses and permits and the establishment of the system hard to center. Based on the quality of service features NLC are: electronic technology; short periods for licensing; implementation of the principle of "silent approval"; qualified staff, maximum transparency and public access to electronic registry of licenses and permits<sup>9</sup>

Those measures undertaken to reduce administrative barriers in frame of Regulatory Reform have direct implication to the informality. Many unregistered enterprise have pass to the formal sektor because of this facilitation.

Another key point in reducing informal economy is the increase of the intensity of regulations (often measured in the numbers of laws and regulations, like licenses requirements) is another important factor, which reduces the freedom (of choice) for individuals engaged in the official economy. One can think of labor market regulations, trade barriers, and labor restrictions for foreigners. It is clear the influence of labor regulations on the shadow economy. Regulations lead to a substantial increase in labor costs in the official economy. But since most of these costs can be shifted on the employees, these costs provide another incentive to work in the shadow economy, where they can be avoided.

Different studies have finding that government should put more emphasis on the reduction of the density of regulations or at least on improving enforcement of laws and regulations, instead of increasing the number of regulations. Some governments, however, prefer this policy option (more regulations and laws), when trying to reduce the shadow economy, mostly because it leads to an increase in power of the bureaucrats and to a higher rate of employment in the public sector. Besides, politicians might not really have an interest in a substantial decrease of the shadow economy, since a lot of voters gain from unofficial activities. The signaling of “fighting for law and order” might therefore be more useful for the chances of being reelected than radical reforms of the tax and the social security systems.

After 2006 Action plan "For reducing the informal economy for the period 2006-2009" was approved by CMD Nr.430, dated 28.06.2006 of the Council of Ministers. The informal economy in Albania was continuously reduce in the following 3 years. According to INSTAT data, unobserved economy (NOE) was estimate to be a reduction against GVA, from 28.7% in 2006, 28.5% in 2007 and 27.2% in 2008<sup>10</sup>.

Regarding the measures taken to reduce the informal economy, General of Taxation Directorate is carefully supervise certain sectors of the economy, such as tourism, transportation, notary services and hydrocarbons, etc., which are considered high-risk, terms of tax evasion. Until April 2012, there were 234 tax evades in the construction and

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<sup>9</sup> [www.qkl.gov.al](http://www.qkl.gov.al)

<sup>10</sup> Ministry of Economy Trade and Energy, Report of the Year 2008, Chapter Economy



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transport sectors. Improving the performance of tax administration in the fight against tax evasion and informality has resulted in revenue growth compared to the previous year to total revenues as well as VAT and the collection of social security contributions and health.

Based on the new strategic plan for the period 2012-2015, published in January 2012, the Directorate General of Taxation (DGT) has developed and begun to implement the Regulation "On cooperation between the special functions of the tax administration and referral potential cases that contain criminal elements in the area of taxation." Furthermore, several amendments were proposed by the Ministry of Finance in the Ministry of Justice to the Criminal Code in order to be given more tools to investigate Tax Administration on tax evasion. These changes include:

- Removing administrative measures as a condition for the beginning of a criminal investigation.
- Increasing the severity of penalties for repeated cases of tax evasion in large quantities.
- A new section on VAT fraud (carrousel schemes).

Increase the level of voluntary disclosure is a strategic priority of the activity of Tax Administration. In this regard, a new control methodology is applied to make it possible to determine values taxpayers' bills, rather calculated income tax installments and the amount of VAT based on the value of real traffic.

### 3. Conclusion

As it is shown the informal sector is significant in Albania and its measurement is evidently of importance to government and to other players in Albania, including the international and business community. Better measurement and information in this sector is therefore very important. Measuring the size of informal sector is a considerable challenge, but it is a challenge that is surmountable in the long run.

Reducing the administrative barriers have an impact to the informal economy, because of new registration of enterprises after the establishing the NRC and NLC. Those institutions have led to increasing transparency, reducing informal economy and reducing corruption within Albania's objectives in the field of improving business environment. Those measures have been positive impact to reducing informal economy, but those are not enough. The government should have a continuing policy about informal economy.

Within the GDP estimation process VAT registered enterprises should be identified and treated separately from non VAT registered enterprises. This is important for policy analysis and for quality assurance; using checks between declared VAT payments and expected VAT payments. Albanian Government should increase the severity of penalties for repeated cases of tax evasion in large quantities.



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