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*Explaining the undeclared work in Albania. An empirical research in Durres and Tirana****

SUMMARY: 1. Introduction – 2. Undeclared work in Albania – 3. Explaining the undeclared work – 4. Empirical research methodology – 5. Findings – 6. Conclusions and recommendations – 7. Bibliography and webliography.

1. Introduction

To address the undeclared work, first, we must define it terminologically. The presence of many terms, such as black job, informal job, illegal work, informal economy, etc., related to aspects of unlawful employment, make such a determination necessary. The importance of

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defining the term *undeclared work* is particularly related to 1. Legal aspects, 2. Characteristics it presents and 3. Effects it produces. Few European countries have embedded this term in the National Labour Code (France¹) or in the Labour Law (Lithuania²), while the rest of the Europe has not sanctioned a similar treatment of this term.

Useful information can be found at international organizations such as International Labour Organization (ILO³), the Organization for Economic, Co-operation and Development (OECD⁴) and the European Union⁵. Based on the definitions of undeclared work in general (particularly the European Commission), we can conclude that the object of undeclared work is not related to illegal activities. Undeclared work

¹ *Sont constitutives de travail illégal, dans les conditions prévues par le présent livre, les infractions suivantes: 1° Travail dissimulé; 2° Marchandage; 3° Prêt illicite de main-d'oeuvre; 4° Emploi d'étranger sans titre de travail; 5° Cumuls irréguliers d'emplois; 6° Fraude ou fausse déclaration prévue aux articles L. 5124-I, L. 5429-I, Lutte contre le travail illégal, **Labour Code (Code du Travail)**, Article L8211 – 1.*

² *Undeclared work shall mean the work functions performed, for remuneration, by a natural person (an employee), who is subordinate to another person (an employer), for the benefit of the latter, where the following has not been recorded in the working time accounting documents according to a procedure prescribed by the Labour Code of the Republic of Lithuania: overtime worked by the employee, the employee's work during holidays or day-off unless such work is set according to a schedule, the employee's night-time work, **Law On Employment (Republic of Lithuania)**, Art. 58, N. XII – 2470 2016.*

³ *All economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements – ILO Resolution concerning Decent Work and the Informal Economy,*

<http://www.ilo.org/public/english/standards/relm/ilc/ilc90/pdf/pr-25res.pdf>

⁴ *Employment...which, while not illegal in itself, has not been declared to one or more administrative authorities...* - OECD Employment Outlook 2004, <https://www.oecd.org/employment/emp/34846912.pdf>

⁵ *The concept of 'undeclared work' is taken to mean any paid activities that are lawful as regards their nature but not declared to the public authorities, bearing in mind that differences in the regulatory system of Member States must be taken into account – Communication of the Commission on Undeclared Work, COM (98) – 219, <http://ec.europa.eu/social/main.jsp?catId=1298&langId=en>*

has a legal object, but the fact that concerned subjects (employer and / or employee) do not fulfil the legal obligation of job declaration, transforms undeclared work into a legal, social, and economic issue. The **legal problems** concern the fact that certain entities, to realize some short-term advantages, do not meet certain legal obligations versus the state taxpaying agencies and those of social and health insurance. **Social problems** are related to the fact that undeclared work brings social security costs to the contributing beneficiary (creating problems in the sustainability of the whole social security system), physical security in the workplace, protection of the rights of employees, etc. **Economic problems** are related 1. to the economic benefits of some entities who unfairly compete with businesses that respect declarations and other legal obligations, 2. with lower incomes in tax agencies, social security, and health agencies, 3. with the reduction of quality standards of products and services.

The attention and fight against undeclared work have increased over time. Due to the characteristics of undeclared work, in some countries, it is most difficult to detect it, and in other countries, such an aspect is tolerated. Referring to European Union countries, we note that undeclared work exists in all countries but in different dimensions (minimum in Austria, maximum in Bulgaria)⁶. On the other hand, we also observe that over time, the government agencies' struggle against

⁶Williams C. C., Nadin S., (2012), *Joining up the fight against undeclared work in Europe*, Management Decision, Vol. 50, Iss: 10, pp. 1758 – 1771.

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this phenomenon has done concrete results in improving this situation, maintaining anyway the differences in the EU countries⁷.

2. Undeclared work in Albania

Undeclared work, as the term itself states, is not easily identifiable. The forms of expression of this phenomenon are different and may appear simultaneously⁸.

Some studies and surveys show that all these forms of undeclared work appear in Albania. According to a recent study by SELDI, it turns out that undeclared work (i.e., employment where there is at least one of the above forms of absence or concealment of the statement) is accounted for 39% of total employment⁹. The classical form of undeclared work in Albania is the *partially undeclared work* (34.9% - 36% of the cases depending on the surveys type)¹⁰ and then the absence of a *written contract* (16%), *social security* and *unpaid health insurance* (12%).

Undeclared work is noted for individuals who are relatively less educated. Thus, almost 90% of high school respondents work with a written contract, while only 20% of primary school employees have a

⁷ EUROFOUND (2013), *Tackling undeclared work in 27 European Union Member States and Norway: approaches and measures since 2008*, Eurofound, Dublin, p. 6

⁸ SELDI (Southeast European Leadership for Development and Integrity), *Hidden Economy and Good Governance in Southeast Europe, Regional Assessment Report 2016*, p.36; IDM (Instituti për Demokraci dhe Ndërmjetësim), *The Shadow Worker – Hidden Economy and Undeclared Labour in Macedonia, Albania and Kosovo*, Policy Brief No. 38, October 2016.

⁹ SELDI, *op.cit.*, p. 22

¹⁰ SELDI, *op.cit.*, p. 22; IDM, *op. cit.*, pp. 7-8

written contract¹¹. This shows how important is education and information about the long-term problems of undeclared work.

While the forms of manifestation of undeclared work can be easily identified, it is more difficult to detect the expansion and to explain the reasons for the presence of this circumstance.

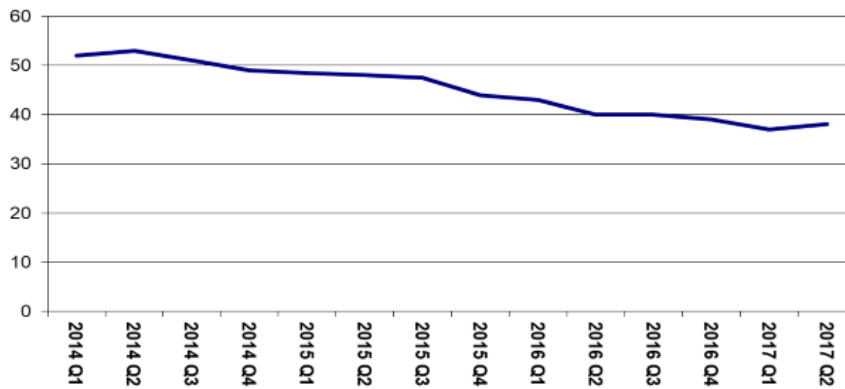
Regarding the expansion, there are several studies commissioned mainly by international institutions, which highlight the fact that undeclared work in Albania is widespread, although methodology and references may differ from one study to another. According to the International Labour Organization, informal work in Albania in 2016 (excluding the agriculture sector) is about 30% of total employment¹². According to the World Bank, undeclared work in Albania reaches 37.4% of total employment in 2017, with a significant improvement compared to 2014 (when the undeclared work amounted to 50% of the total employment)¹³.

¹¹ IDM, *op. cit.*, pp. 7-8

¹² ILO, *Women and Men in the informal economy: a statistical picture (third edition)*, 30 April 2018, in http://www.ilo.org/global/publications/books/WCMS_626831/lang-en/index.htm

¹³ World Bank and WIIW (The Vienna Institute for International Economic Studies), *Western Balkans – Labour Market Trends 2018, March 2018*, p. 14 në SEEJobsGateway.net

Figure 1. Informal employment (as % of total employment)



Source: WB and WIIW, 2018

From these sources, it seems that young men, self-employed, with low education constitute the dominant social group in undeclared work. Regarding the sectors of the economy, it can be confirmed that agriculture and services are the two most affected sectors in Albania. This confirmation can be since the majority of the labour force in Albania is self-employed in agriculture and services and the inspections in rural areas are most difficult to implement. Another ILO survey concludes that retail trade in urban areas is the most informal activity in terms of employment, followed by construction and other services¹⁴. Referring to INSTAT and the Social Insurance Institute (ISSH) the gap between employees and contributors is about 38% of total employees or 438891 employees that do not contribute to ISSH (2016). At the same

¹⁴ Mihes C., Popova N., Roch S., *A comparative overview of informal employment in Albania, Bosnia and Herzegovina, Moldova and Montenegro*, ILO, Budapest, 2010, p. 9

time, while 465185 people are employed in agriculture, there are only 53168 contributors (or 11% of the total)¹⁵.

3. Explaining the undeclared work

In Albania, the most common form of undeclared work is "partially declared". This means that the employee and the employer implement two contracts and usually with two different wages: one contract with a declared and official wage and the other unwritten contract (verbal) with another wage, which is hidden from state bodies (taxes and contributes). The unwritten contract with another wage, which is hidden from the state bodies, constitutes a legal violation. Of course, this is done to pay fewer taxes and duties, resulting in potentially fewer services to the community.

To explain the permanent presence of this phenomenon in the Albanian economy we will refer to the institutional theory¹⁶, which tries to address the issue of lack of symmetry on the one hand of laws, codified rules and on the other hand of customs, unwritten and uncoded rules.

¹⁵ www.instat.gov.al, www.iss.gov.al

¹⁶ De Jonge A., *The Glass Ceiling in Chinese and Indian Boardrooms*, Chandos Asian Studies Series, 2015.

Figure 2. Institutional theory / conceptual framework



Source: De Jonge A (2015)

When there is a symmetry or a balance between written codes and unwritten codes the presence of illegality in general and undeclared work is almost zero¹⁷. Uncodified customs, although they may be socially acceptable, may not be legally permissible or acceptable. Such an asymmetry of codified norms / uncodified norms occurs due to low trust in government and the rule of law. The greater the institutional asymmetry, the greater the undeclared employment rate. This study uses the indicator "tax morality" to measure the degree of institutional asymmetry at the individual level and the hypothesis to test the thesis of institutional asymmetry is:

¹⁷ Williams C.C, Horodnic A.I., *Evaluating the prevalence of the undeclared economy in Central and Eastern Europe: An Institutional asymmetry perspective*, European Journal of Industrial Relations, Vol. 21(4), pp. 2 – 3.

The prevalence of envelope wages will be greater in individuals expressing lower levels of tax morality.

Although this research is based specifically on the institutional asymmetry thesis, it is not the only thesis that tries to explain the presence of undeclared work in different countries. Thus e.g., a. *modernist thesis* tries to explain that in poor countries with a low degree of modernization in bureaucracy administrative, the rate of undeclared employment is higher. While b. The *neoliberal thesis* tries to explain the fact that in countries with high taxes and strong state intervention in the free market, the undeclared work rate is higher. Finally, c. the *political economy thesis*, which emphasizes the fact that in countries where protection and social intervention is lower, undeclared employment will be more evident than in countries with high protection and social intervention¹⁸.

¹⁸ William C.C., *Explaining cross-national variations in the prevalence of envelope wages: some lessons from a 2013 Eurobarometer survey*, *Industrial Relations Journal* (45(6): 524 – 542.

Table 2. Correlation between taxes and public expenditures with undeclared work

Country	Taxes (% GDP) – (1)	Social Contrib. (% GDP) – (2)	Soc. Public Expenditure (%)	Employment Soc. Expenditure (%)	Undeclared Work (% tot. employm.) – (3)	Correlation (1–5)	Correlation (2–5)	Correlation (3–5)	Correlation (4–5)
Albania	17,6	5,17	6	0,05	39				
Bosnia and Herzegovina	19,9	14,9	6,95	0,12	37				
Montenegro	23,4	11,4	9,1	0,41	39	0,36	0,26	-0,16	0,32
Serbia	19,7	12,2	11,16	0,06	51				
North Macedonia	16,4	8,5	10,08	0,12	30				

Testing “political economy” thesis, studies conducted in some European countries show that there is no significant correlation between taxes, contributions, and the level of undeclared work¹⁹. This can be said for Albania and similar countries in the region such as Bosnia and Herzegovina, Montenegro, Serbia, and North Macedonia.

¹⁹ Williams C.C., *Cross National variations in the under-reporting of wages in South-East Europe: A result of over-regulation or under-regulation?*, South East European Journal of Economics and Business, Vol.7, No.1, pp. 53-61, 2012; Williams C.C., *Evaluating cross-national variations in envelope wage payments in East-Central Europe*, Economic and Industrial Democracy, 36(2), pp. 283-303, 2015; Vorley T., Williams C.C., *Evaluating the variations in undeclared work in the European Union*, Journal of Economy and its applications, Vol.2, Iss.2, pp.20-39, 2012.

The difference between the EU countries (divided into four categories, as there are evident differences between them) and the Western Balkan countries lies in the impact of public social spending (excluding total pension expenditure) on undeclared work. If in many European countries, the impact of public social spending on reducing undeclared work is positive (i.e., if public social expenditure increases, undeclared work decreases), the estimates made in this study²⁰ do not reveal such correlation in the countries of the Western Balkan. Probably in these countries other reasons push businesses and employees not to declare their employees, being not closely tied to financial aspects. One of these reasons can be the fact that the Western Balkan countries do not pay much attention to employment programs. Meanwhile, on average, Central and Eastern European countries spend 0.65%²¹ of GDP on employment programs, Western Balkan countries spend many times less (apart from Montenegro). As a result, the impact of this financial instrument on undeclared work will be insignificant. Even about public social spending, Western Balkan countries spend on average less than Central and Eastern European countries (11%)²², although the gap, in this case, is much narrower. Regarding public social spending, it should be noted that a particular aspect can be also the low trust that potential service beneficiaries have in the system efficiency: the deficit in the utility

²⁰ Data are obtained from the World Bank, the International Monetary Fund, Euromoney, and the Social Insurance Institute of Albania

²¹ Database EUROSTAT, 2016

²² Database ILO, 2016

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function of public social expenditure increases the negative perception of people in the system efficiency.

Testing “modernization thesis”, can be analysed the way of administering and collecting taxes and contributions from law enforcement agencies. Referring to Doing Business reports, and especially to the "Paying taxes" indicator, Albania has ranked 125th out of 191 countries at a time since in the "Starting a Business" indicator Albania is ranked many times better (in the 45th place)²³. This means that in Albania it is easy to open a private enterprise, but the difficulties increase later, when the private enterprise starts the business. One of these difficulties is the dynamic of paying public burden (taxes, contributions, etc.)

Regarding the "Starting a Business" indicator, Albania has improved the situation over the years by simplifying the procedures for registering start-up businesses, saving time and money. Since 2008, new business facilities have been launched, significantly reducing the time for registration, and reducing the required procedures.

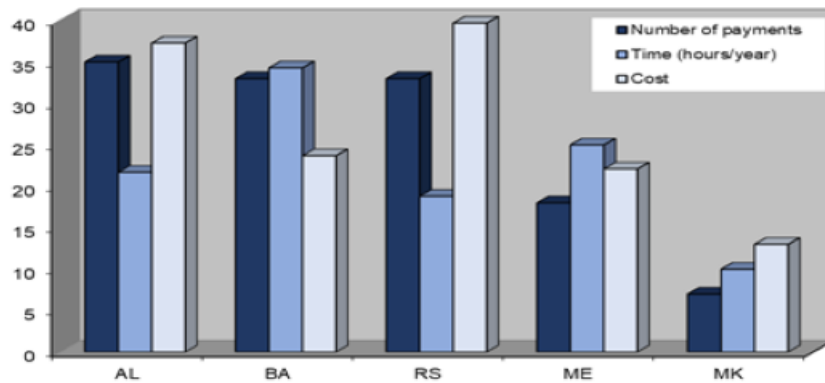
²³ Doing Business 2018,
<http://www.doingbusiness.org/data/exploreeconomies/albania>

Table 3. Doing Business indicators Albania (2018)

Starting a Business	2007	2014	2017
Number of payments	10	6	5
Time (days)	36	8	5
Cost (% GDP/capita)	21	25,8	12
Paying Taxes	2007	2014	2017
Number of payment	44	34	35
Time (hours/year)	240	357	261
Cost (% of the profit)	46,8	31,4	37,3

Compared to the countries of the Western Balkans region, one negative aspect has to do with business start-up cost, which is more times higher than in North Macedonia (0.1% GDP / capita), Serbia (2.3 % GDP / capita) or Montenegro (1.5% GDP / capita).

Figure 3. Paing taxes in Albania (2018)



Source: Doing Business in Albania (2018)

Testing “neoliberal thesis”, *paying taxes* indicator, although having undergone slight improvements over time, is quite problematic,

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especially regarding the number of payments and the time spent for paying various liabilities. There has been a significant improvement in the fiscal burden on businesses in the period 2007-2014. After 2014, with the reform of the fiscal system, the business taxes, and the opportunities for using electronic payment have increased. However, the results are not significant.

Compared to other countries of the Western Balkans, the number of payments should be made more than in any other country. The time spent on carrying out these procedures is relatively high, for example, North Macedonia (119 hours/year) or Serbia (225 hours/year). Of course, these situations do not encourage businesses, totally or partially informal, to formalize.

4. Empirical research methodology

To analyze the relationship between envelope wages and institutional asymmetry, we interviewed 1000 individuals from two districts of Albania, Tirana, and Durres. The sample data are collected considering that the sample businesses number and size (small, medium, large) are proportional to the businesses number and size in these two regions.

The anonymous questionnaire is structured in such a way that demographic data, professional data and employment data (declared / undeclared) help to better photograph undeclared work in these two important regions of Albania.

The three most important questions of this questionnaire that are directly related to the hypothesis raised are:

1. *Would you avoid paying state (municipal) taxes (fees), etc. if you could?*
2. *Have you received a higher wage than that declared to the social insurance fund (in the last 12 months)?*
3. *If yes, what is the percentage of the envelope wage?*

The other questions help to complete the undeclared work-study, e.g., regarding the employees' trust in government or the use of tax collection funds for the community services.

To analyse the above hypotheses, the dependent variable is whether employees received envelope wages. To analyse our hypothesis regarding institutional asymmetry, a tax morality index for each survey participant is measured using the question: *Would you avoid paying state (municipal) taxes, fees, etc. if you could? (where 1 means "never" and 4 means "always")*. The tax morality index for everyone is calculated using the mean score of this attitudinal question.

To examine the institutional asymmetry hypothesis and given the nonparametric nature of the data, (having a binomial dependent variable and some ordinal independent variables), a binomial logistic regression is provided.

First, a multicollinearity test is performed, to analyse the correlation between independent variables using Variance Inflation Factors (VIF). Being VIF approximately 1,000 we can conclude that the test indicates the absence of multicollinearity between independent variables. *Second, a Spearman's test is used to evaluate whether a statistically significant relationship*

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*exists between variations in tax morality and variations in envelope wages: In fact, the lower the tax morality in a country, the greater the prevalence of envelope wages ($p < 0.001^{***}$).*

Table 4. Employees receiving envelope wages in last 12 months (by company size and activity, employee group and district): *a - % of employees paid envelope wage; b - % salary paid as envelope wage; c - % of all employees; d- tax morality index.*

	<i>a</i>	<i>b</i>	<i>c</i>	<i>d</i>
All	23	33	100	2,06
<i>Company size:</i>				
1-4 employees	20	25	62	1,96
5 - 9	28	42	13	2,30
10 - 49	27	40	21	2,15
50 or more	32	32	4	2,29
<i>Occupation:</i>				
Manager	23	27	18	1,99
Specialist	20	39	21	1,94
Technical specialist	26	33	9	1,93
Official	18	31	21	2,00
Worker	30	30	31	2,27
<i>Economic Activity:</i>				
Good production	29	25	4	2,20
Service production	10	42	14	2,50
Industry	26	25	10	1,89
Construction	29	44	19	2,39
Communication/ Transport	32	36	6	2,01
Trade	25	21	22	1,93
Services	21	26	25	2,05
<i>Forms of employment:</i>				
Permanent full time	19	40	18	2,06
Fixed full time	25	37	45	2,08

Permanent part time	28	24	6	1,88
Fixed part time	34	30	5	2,21
Self employment	20	18	26	2,05
Gender:				
Men	28	33	61	2,14
Women	15	30	39	1,95
Education received:				
Low	32	33	5	2,2
Medium	25	30	51	2,04
High	20	35	44	2,08
Economic situation:				
No saving	21	29	42	2,07
Debts to live	42	23	10	2,10
Saving	21	39	48	2,05
N. of family members:				
1 - 2	23	31	9	2,13
3 - 4	23	32	57	2,11
5 - 6	22	32	29	1,99
6 and more	38	34	5	1,96
Age:				
15 - 24	23	34	15	2,32
25 - 39	28	32	38	2,07
40 - 54	19	32	39	1,98
55 and more	17	28	8	1,92

Table 4. (continued)

	a	b	c	d
Marital status:				
married / coexistence	29	29	40	2,09
divorced	22	35	6	2,07
single	19	37	35	2,07
Householder	21	31	7	2,06
Householder & married	18	32	12	1,95
District:				
Durres	30	33	30	2,09
Tirana	20	31	70	2,05

5. Findings

Of 1000 interviewed, 603 were formal employees, of whom more than 2 in 10 (23%) received envelope wages in the prior 12 months, amounting on average to 33 per cent of their annual salary. The envelope wages are noticed in all businesses. From this research results that in large businesses envelope wages are more present than in other businesses. *This shows that for the contracting parties, no matter how big or small the business is, it is easy to agree illegally regarding the employee wage.*

Envelope wages are more prevalent among manual workers, men, and young people with lower educational level. Envelope wages are also very common in families with financial difficulties and more members. Also, referring to the civil status of the interviewed individuals, it results that envelope wages are more prevalent among married or cohabiting individuals.

Geographically, envelope wages are more prevalent in Durres than in Tirana.

Such a large spread of envelope wages shows in general that employees in Albania are a very vulnerable category compared to the contractual power of the employer, who consider the observance of the rules as a cost and not as a benefit to the entire society. At the same time, it should be said that the tax morality index of individuals who do not receive envelope wage is on average slightly higher (1.90 / 4) than those who receive envelope wage (2.30 / 4).

To determine whether the association between tax morality and envelope wages remains significant when other characteristics are considered and held constant, Table 5 reports the results of a binomial logistic regression analysis. The first column reveals that the propensity to receive envelope wages remains associated with lower levels of tax morality. As tax morality improves, and thus institutional asymmetry decreases, the prevalence of envelope wages declines.

Moreover, Table 5 identifies business sectors and employee categories in which the prevalence of envelope wages is higher when other factors are held constant:

- a. Women are less likely than men to receive envelope wages.
- b. Old people are less likely than young people to receive envelope wages.
- c. Educated people are less likely to receive envelope wages.
- d. Large families and those with economic difficulties are more likely to receive envelope wages.
- e. Those who have trust in the democratic system are less likely to receive envelope wages.
- f. Construction sector employees are more likely than others to receive envelope wages.
- g. It seems that the employee's number does not affect the presence of envelope wages.

Table 5. Binomial Logistic regressions of the propensity to receive envelope wages.

Variable	Effect standardized	Significance (p < 5%)
Gender (Women vs Men)	- 0.08***	0.02
<i>Age</i>		
- 15 - 24 vs > 55	0.16***	0.008
- 25 - 39 vs > 55	0.15***	0.02
- 40 - 55 vs > 55	0.03	0.76
<i>Education</i>		
- without vs. high education	0.10***	0.003
- low vs. high education	0,10***	0.0003
- medium vs. high education	0,10***	0.004
<i>Family members</i>		
- > 6 vs 1 - 2	0.11***	0.0006
- 2 - 4 vs 1 - 2	0.09***	0.04
- 5 - 6 vs 1 - 2	0.08	0.10
<i>Economic situation</i>		
- no saving vs. saving	0.09***	0.006
- debts vs. saving	0.14***	0.00
<i>Propensity tax evasion</i>		
- sometimes vs. always	-0.13***	0.01
- never vs. always	-0,19***	0.0002
- often vs. always	0.008	0.97
<i>Democratic System perception</i>		
- very bad vs. very good	0.08***	0.02
- bad vs. very good	0.12***	0.006
- good vs. very good	0.11***	0.009
<i>Forms of employment</i>		
- part time permanent vs. self-employment	0.04	0.48
- other vs. autonomy	0.06***	0.02
- fixed term part-time vs. self-employment	0.06	0.10

- fixed term full time vs self-employment	0.05	0.39
- permanent full-time vs self-employment	-0.09***	0.02
<i>Economic activity</i>		
- communication vs services	0.05	0.14
- construction vs services	0.22***	0.00
- other vs services	0.03	0.32
- industry vs services	0.06	0.10
- service production vs services	- 0.03	0.68
- trade vs services	0.07***	0.03
- goods production vs services	0.05	0.12

Referring to the number of undeclared workers (by economic activity) resulting from the distributed questionnaire, this study also estimates the financial costs for the Albanian state, according to three scenarios: optimistic, pessimistic, and medium, based on the envelope wages received by workers and the number of employees by sectors. It turns out that the loss of the state budget is on average about 15% of the Social Insurance Fund (SIF) collected by legal and natural persons (in 2018). *It should be noted that from a financial point of view, the transport and trade sector have the largest loss to the state budget, and this is evidenced in all scenarios.*

Table 6. State financial loss by envelope wages, 2018 (\$)

Economic Activity	Optimist Scenario	Medium Scenario	Pessimist Scenario
Production	6.895.385	16.365.745	17.836.910
Industry	2.775.695	3.780.276	4.593.080
Construction	22.842.568	2.406.5401	25.372.806
Transport and trade	49.717.431	69.746.838	83.660.056
Other	27.312.873	33.314.510	38.737.750
Total	109.543.953 <i>12% of SIF</i>	147.272.770 <i>15% of SIF</i>	170.200.601 <i>19% of SIF</i>

The analysis of this empiric research reveals an association between envelope wages and institutional asymmetry as measured by tax morality. As such, this institutional asymmetry thesis explains why some individuals within a country engage in undeclared work practices and others not. This does not mean that other theories are not relevant: e.g., tax rates or bureaucracy modernization are ways of reducing institutional asymmetry (improving tax morality), but these theories provide a macro – analysis referring to the country – level structure. *EU countries with more modernized governance, higher tax rates, greater income equality, higher expenditure on social protection and more effective redistribution via social transfers have a lower prevalence of envelope wages.*

Consequently, to decrease envelope wages should be reduced the institutional asymmetry. This is done through educational forms, promotions within businesses so that employers and employees are aware of taxes and bill payment. *Of course, such a philosophy should be followed by the principle of social justice, which means that all businesses should be treated equally and not selectively.*

Given the financial losses resulting from envelope wages, the government should invest heavily in actions against undeclared work. The empirical analysis of this study clearly shows that in addition to repressive measures, special attention should be paid to other awareness-raising and educational measures to combat this phenomenon.

6. Conclusions and recommendations

Undeclared work in Albania remains a troubling aspect of the informal economy. From a long-term perspective, undeclared work creates legal, economic, and social problems for all those employees who do not register in the state labour agencies. The most widespread form of undeclared work is *partial undeclared work – envelope wages* (employees are insured with the minimum wage, while they are paid more than the contract is shown). Regarding the economic sectors, agriculture, and services (among which retail trade, food business and catering) have the highest number of undeclared employees. Regarding the size of economic activity, self-employed and small business are distinguished as the most informal subjects in terms of employment. Under the socio-demographic point of view, young men and relatively less educated are employees who declare many times less than those with secondary and higher education (regardless of gender).

Although there has been some improvement over the size of the phenomenon, worrying remains the reasons that keep it alive. At first

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glance, it appears that the undeclared work comes from financial reasons. But that's not actually what happens. As in many other European countries, even in Albania, it does not appear that the burden of taxes and contributions is positively linked to the level of undeclared work. An interesting record that changes the description of undeclared work in Albania (but also other Western Balkan countries) from many other European countries has to do with the fact that undeclared work has no connection with the level of social expenditure for employment programs or public social spending (excluding social security costs). This means that the reasons for undeclared work are more complex.

This study, through empirical research, tries to prove the institutional asymmetry theory in two important districts of Albania (Tirana and Durres). From this analysis, it results that tax morality is related to the presence of envelope wages (as an important form of undeclared employment). This means that the higher the tax morality (institutional asymmetry decreases), the less important is the presence of envelope wages.

Considering these aspects of informal employment in Albania as well as ways of contrasting it with European Union countries, it is recommended that undeclared work in Albania be fought in several ways. In addition to the classical repressive forms, other forms of synergies should be applied that push or encourage businesses and employees to formalize, such as preventive measures or corrective measures (reduction of bureaucracy, application of incentives for specific categories, development of training and increased spending on

employment programs); educative and informative measures aimed, on the one hand, on the awareness of employees and businesses about damages, costs, problems related to undeclared work and on the other hand to develop knowledge about the tax system, social security, information technologies in the services of declaration and formalization.

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