

# INFORMAL NETWORKING IN THE WESTERN BALKANS REGION: A COSTLY PILLAR OF HIDDEN ECONOMY!

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Hidden Economy in the Western Balkans: Challenges and Lessons for  
Economic Recovery and Convergence  
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# Informal economy and informal networking

- **INFORM** – H2020 project – closing the gap between formal and informal institutions in the Balkans (<https://www.ucl.ac.uk/ssees/research/funded-research-projects/inform>)
  - **Informal networking** widespread practice in WB region – used both in the formal and informal economy - an important pillar supporting informalities  
Informal transactions, exchange of information, experience and ideas as well as (self)enforcement implemented through
- ## INFORMAL NETWORKS
- Is informal networking free? No, it is costly to establish them, maintain them and expand them – it takes individual effort and time (is money), and resources (are costly)
  - Hence, **what are the costs of informal networking in WB?**

# Costs of informal networking – mixed method approach

- **WB Sample** – AL, BiH, CRO, Kos\*, N.MK, MNT, RS and SLO
- **Mixed method** for WB sample :
  - Quantitative data from WB survey with 6,000 individuals
  - Qualitative evidence - 70 interviews from SME sector in SEE

# Informal networking in WB region

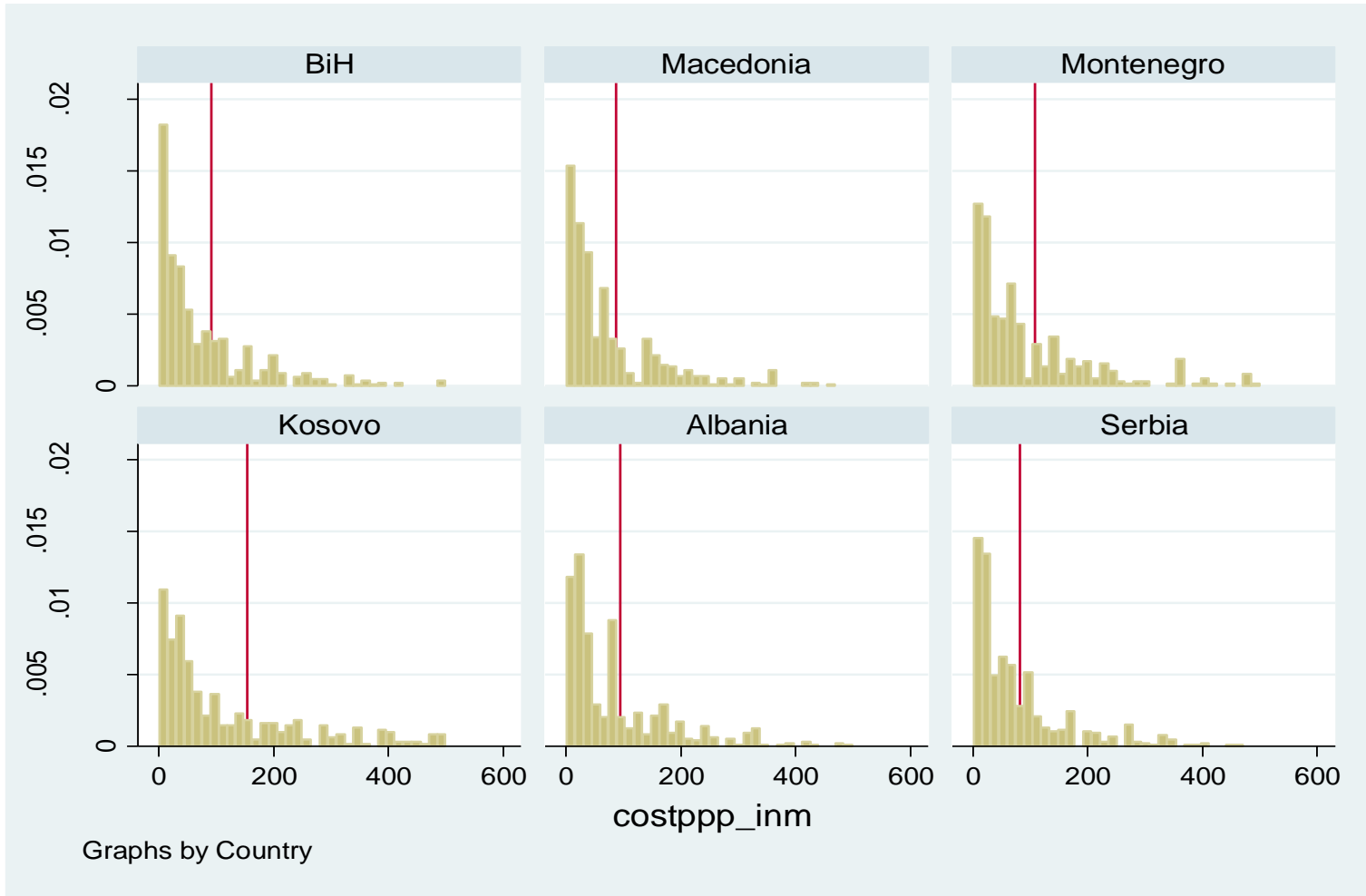
- Used for different purposes, but most often to avoid formal institutional deficiencies; associated with non-trivial costs that are often treated as investment by entrepreneurs:

*“In our society there is still a system where you can't make your way without some sort of informal connection”*

*“Of course it's important to invest time and money into these networks. These networks are hard to establish and you have to keep them alive. Spending time and money is therefore regarded as an investment”*

- Average network **13 members**; for entrepreneurs **30**; **strong ties dominate (87%)**; more **trust** to institutions than to people

# Costs of informal networking in WB region



- Costs of money (e.g. restaurants, gifts, ...) and **time** (opportunity cost)
- PPP adjusted
- 100 Euros per month
- Costs of time higher than costs of money
- Much higher for entrepreneurs and **dynamic**
- The highest for the least developed WB countries

# INFORMAL NETWORKING MODEL (*sureg*)

## Institutional framework characteristics

cross-country  
influence

trust in formal  
inst. and general  
people

## Network characteristics

network size,  
structure,  
economic  
position,  
**COST**

perceived  
importance of  
networks

## Individual characteristics

age  
gender  
family status  
education

Predispositions  
for networking:  
- location  
- internet use  
- entrepren.

	Netsize (0.09) (Model 1)		Strongnet (0.14) (Model 2)		Netwper (0.14) (Model 3)		Pincome (0.15) (Model 4)		Lncostppp (corr in resid.) (Model 5)	
VARIABLES	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value
age	0.06	0.107	0.00	0.661	0.00	0.795	0.00	0.087	-0.01	0.001
female	-2.63	0.006	0.00	0.941	-0.07	0.415	-0.52	0.000	-0.20	0.000
marr_single	-1.63	0.233	-0.01	0.383	-0.14	0.267	-0.51	0.000	0.21	0.000
marr_cohab	-2.95	0.387	0.03	0.422	-0.28	0.366	0.04	0.827	0.14	0.292
marr_divorced	-4.40	0.048	-0.07	0.006	-0.21	0.301	0.00	0.973	-0.03	0.722
marr_widow	0.80	0.620	-0.02	0.382	-0.01	0.972	-0.05	0.554	0.00	0.990
urban	-1.10	0.249	-0.02	0.113	-0.05	0.562	0.18	0.001	0.10	0.006
educ_second	3.22	0.008	0.02	0.156	0.14	0.193	0.53	0.000	0.17	0.000
educ_univer	4.66	0.002	0.03	0.047	0.04	0.787	1.38	0.000	0.26	0.000
educ_mscphd	4.76	0.097	0.04	0.177	0.65	0.011	1.87	0.000	0.41	0.000
int_daily	2.90	0.039	0.04	0.023	0.11	0.395	0.53	0.000	0.31	0.000
int_often	0.29	0.852	0.03	0.060	-0.03	0.841	0.34	0.000	0.09	0.148
entr	2.53	0.245	0.02	0.489	0.27	0.164	0.50	0.000	0.30	0.000
gentrust	0.37	0.062	0.01	0.012	0.03	0.074	0.03	0.011	0.04	0.000
insttrust	-0.04	0.846	0.00	0.059	0.01	0.435	0.00	0.951	0.02	0.025
Mac	2.14	0.164	0.04	0.047	-0.25	0.071	0.24	0.005	-0.32	0.000
Mng	3.03	0.076	0.05	0.006	0.03	0.824	0.64	0.000	-0.19	0.005
Kos	-4.02	0.019	-0.10	0.000	0.41	0.009	0.34	0.000	-0.02	0.776
Alb	-6.18	0.000	0.02	0.257	-0.77	0.000	-0.36	0.000	-0.23	0.000
Srb	0.05	0.973	0.05	0.005	-0.21	0.129	0.25	0.003	-0.19	0.002
_cons	8.20	0.007	0.84	0.000	7.33	0.000	1.78	0.000	2.79	0.000
No. of observ.	3,151									

# Costs of informal networking model

Larger informal costs are associated with:

- larger informal networks,
- with strong rather than weak ties,
- with those who perceive networking as being more important in their societies, and
- especially respondents with higher economic status (income).

Informal costs are systematically larger for:

- males (20%),
- educated individuals (secondary 17%, university 26% and postgraduate 41%), and
- for entrepreneurs (30%) - "INVESTMENT"
  - *Qualitative in-depth interviews with 70 SME entrepreneurs from SEE*



# A simulation – aggregated informal networking costs for entrepreneurs in SEE region (70 SME interviews)?

Country	Average costs of money per month (from interviews)	Average cost of time per month*	Total costs per month	Number of SMEs	Estimated cost (million per year)	Estimated cost as % of GDP PPP 2016
	1	2	3=1+2	4	5=4*3*12	
Albania	306 €	410 €	716 €	77,463	665.56 €	2.1%
BiH	243 €	471 €	714 €	31,335	268.48 €	0.7%
Croatia	231 €	153 €	384 €	149,006	686.62 €	0.8%
Kosovo*	254 €	295 €	549 €	45,985	302.95 €	1.7%
N. Macedonia	188 €	203 €	391 €	52,566	246.64 €	0.9%
Serbia	97 €	476 €	573 €	86,510	594.84 €	0.6%
Slovenia	50 €	437 €	487 €	131,310	767.38 €	1.2%

\*Note: this is calculated by linking the estimated time spent (in hours) with official indicators on average net earnings of managers (per hour) in these countries (Table 1), additionally adjusted with PPP index.

# CONCLUSIONS – costs of informal networking

- Informal networking widespread informal practice in WB used to support hidden economic activities, including in both household and business sectors
- Individuals and entrepreneurs in WB region who invest (resources and time) into informal networking do so at a high cost, but more to gain economic benefits than to follow cultural or traditional preferences (e.g. N. Macedonia)
- To decrease these costs, more efficient formal institutional environments and better performance in the EU integration perspectives is needed
- Holistic approach in tackling undeclared economy should reduce a significant amount of (opportunity) costs for entrepreneurs and households related to informal networking supporting hidden economy in WB region

Paper: The importance of being networked: The costs of informal networking in the Western Balkans region

<https://www.sciencedirect.com/science/article/pii/S0939362520300911?dgcid=author>. Efendic, A. and Ledeneva, A.  
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*Economic Systems*, October 2020