

Hidden Economy in the Western Balkans: Challenges and Lessons for Economic Recovery and Convergence

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The impact of the hidden economy

- **Negative consequences of the hidden economy**
- **COVID-19 impact**
 - temporary spike in unemployment; lack of healthcare coverage; companies and workers cannot benefit from recovery measures; home office hinders inspections
- **EU accession implications**
 - Copenhagen economic criteria; candidates' Economic Reform Programmes (ERP); Chapter 2: Freedom of movement for workers; Chapter 19: Social policy and employment

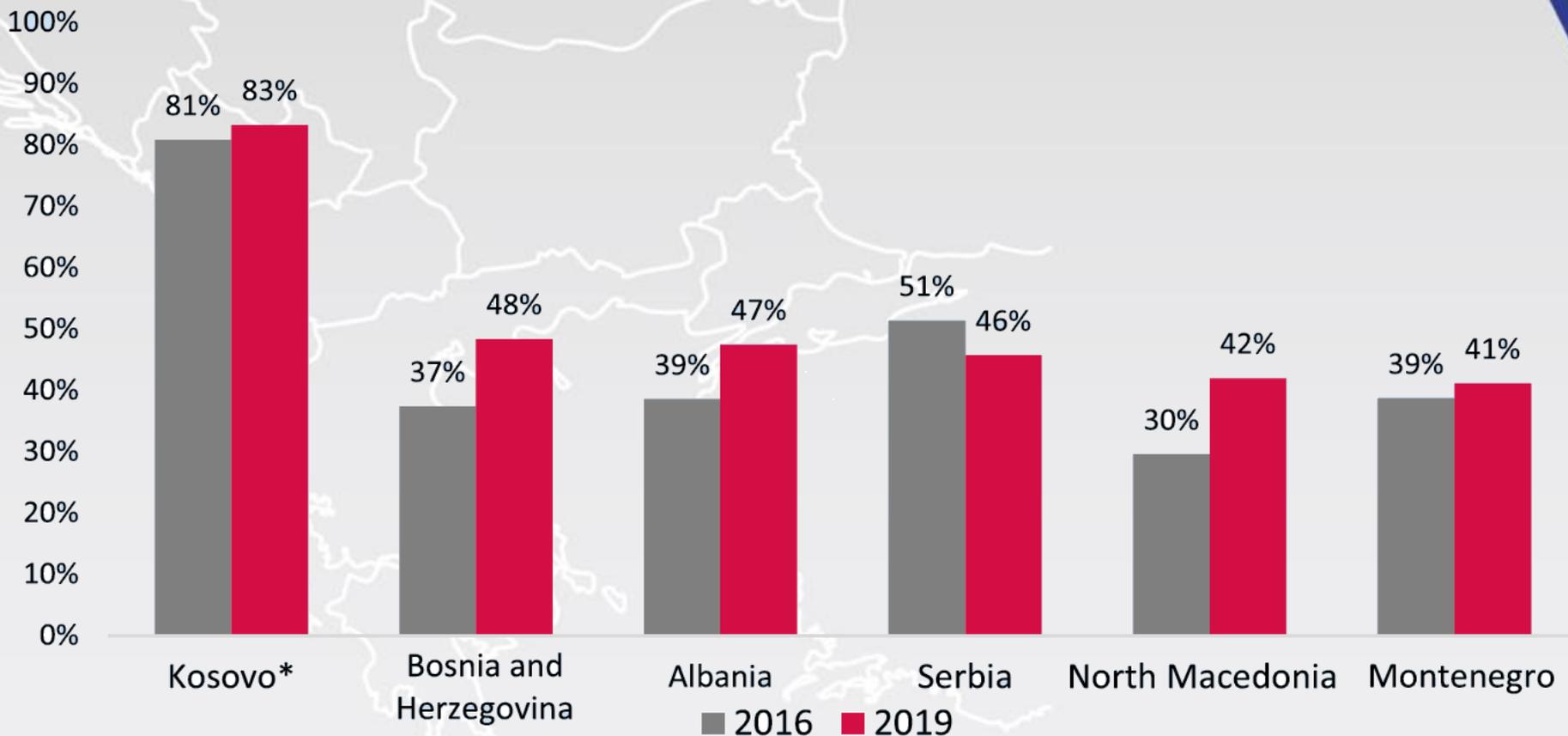
Vulnerable sectors: Country specifics

- **Albania:** garment industry, mining and manufacturing
- **Kosovo*:** call centres; construction workers
- **North Macedonia:** construction, agriculture, hotels, cafes and restaurants
- **BiH:** 4/5 of the workers in agriculture; private tutoring and unregistered tourist guides; children and elders' care and home-cleaning
- **Montenegro:** “door-to-door” vendors, domestic work, family farms, open markets - envelope wages and under-reporting of the number of employees
- **Serbia:** unpaid family workers in agriculture, construction, food preparation

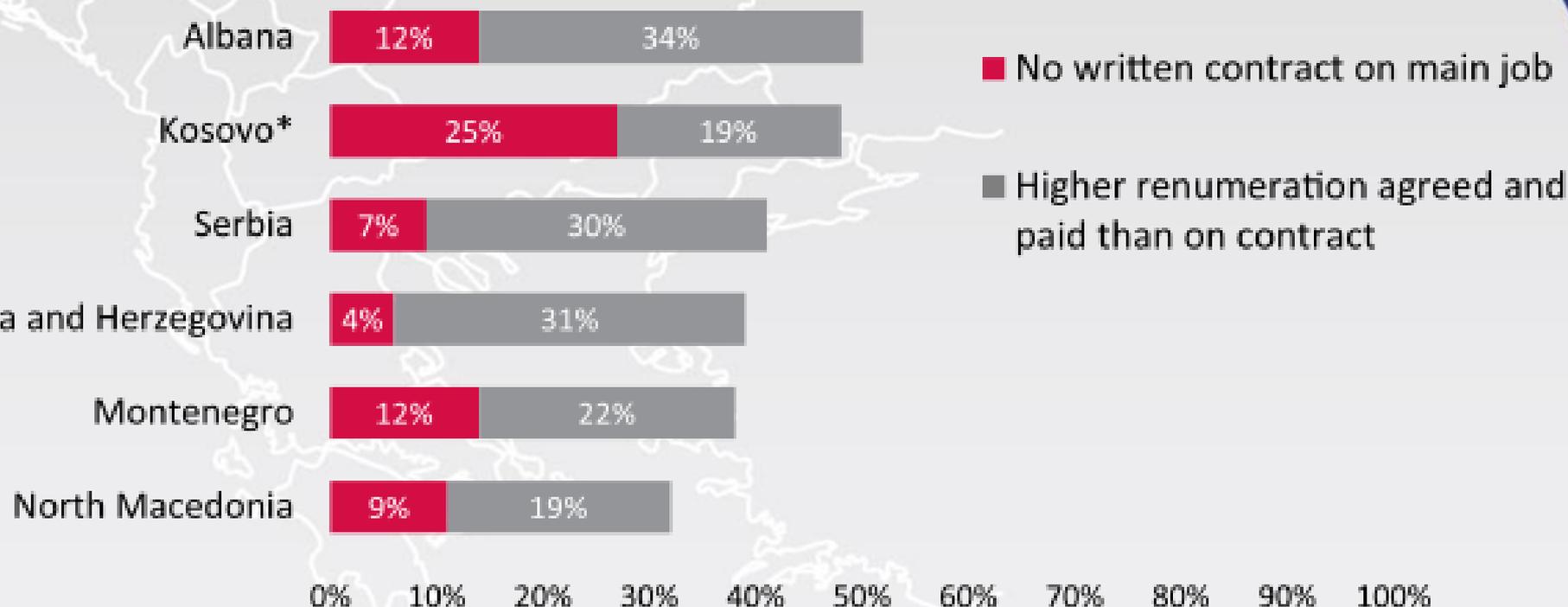
Key hidden economy trends 2020

- EC and ILO note that there is **no reliable methods for measuring informality** in the region and no reliable data
- **Hidden Employment Index has increased** (2016-2019) in 5 out of 6 Western Balkans countries (with 2.4% in Montenegro up to and 12.4% in North Macedonia)
- **Only Serbia shows decline** by 5.7%.

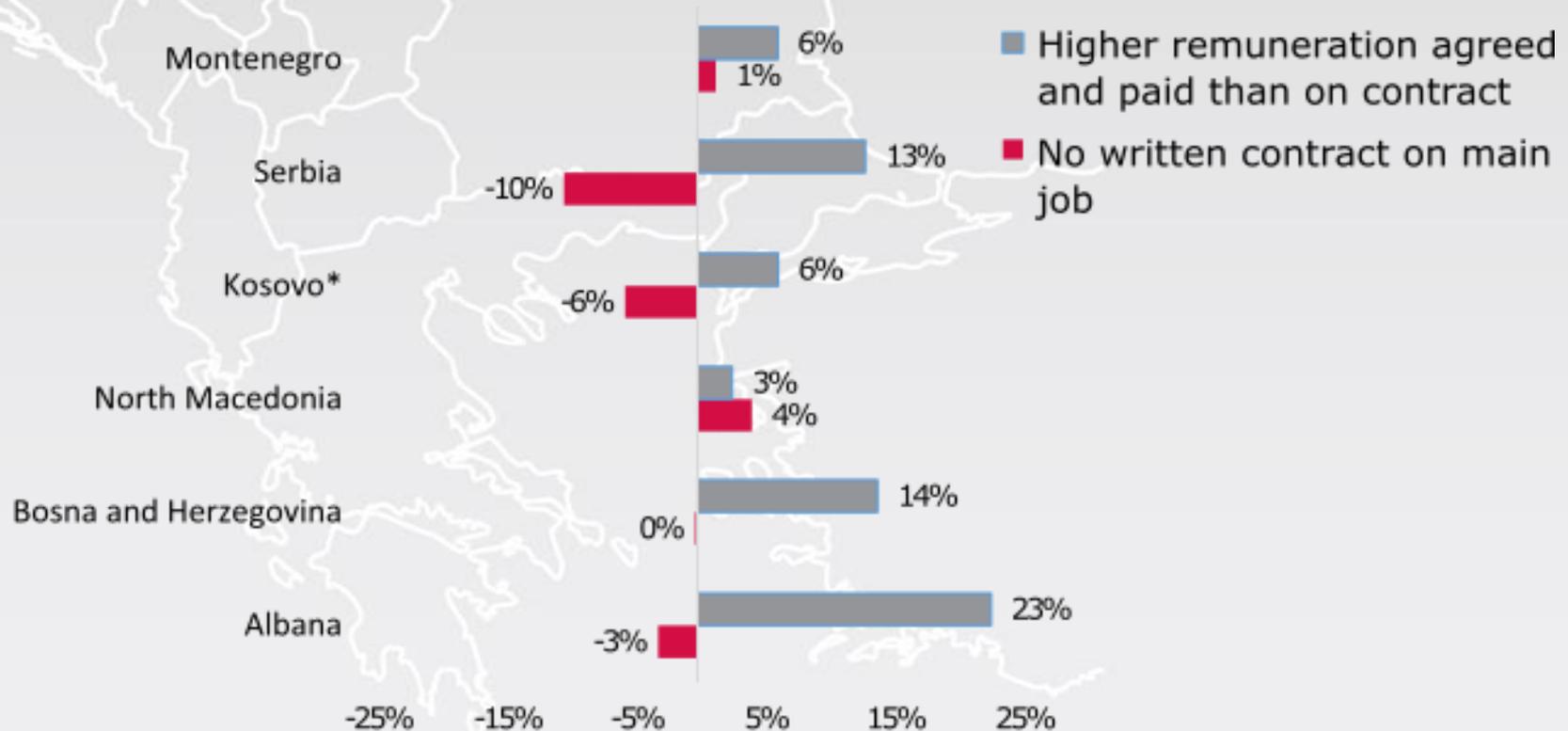
Hidden employment index 2016-2019



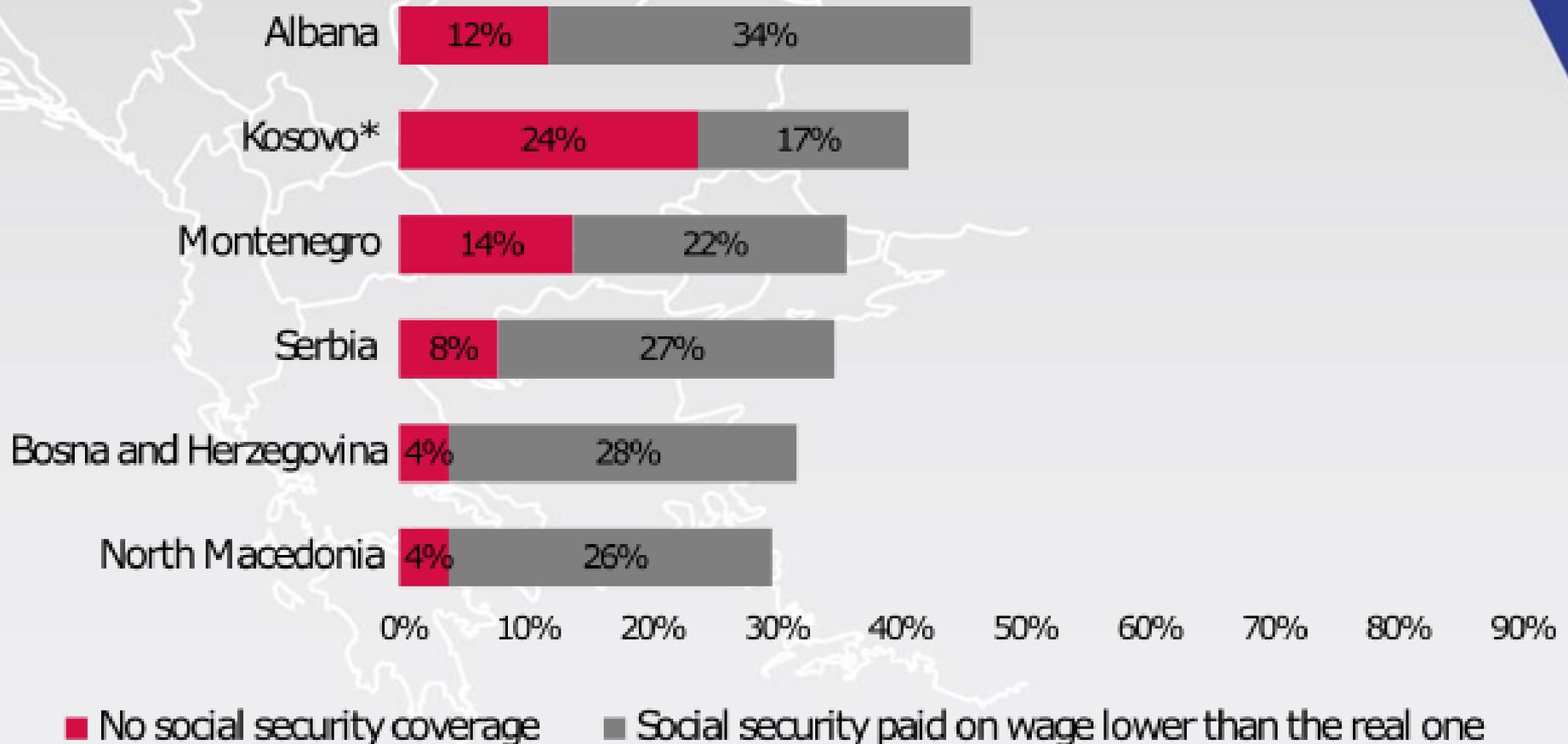
Workers without written contract on the main job or receiving higher than the declared remuneration (2019, in %)



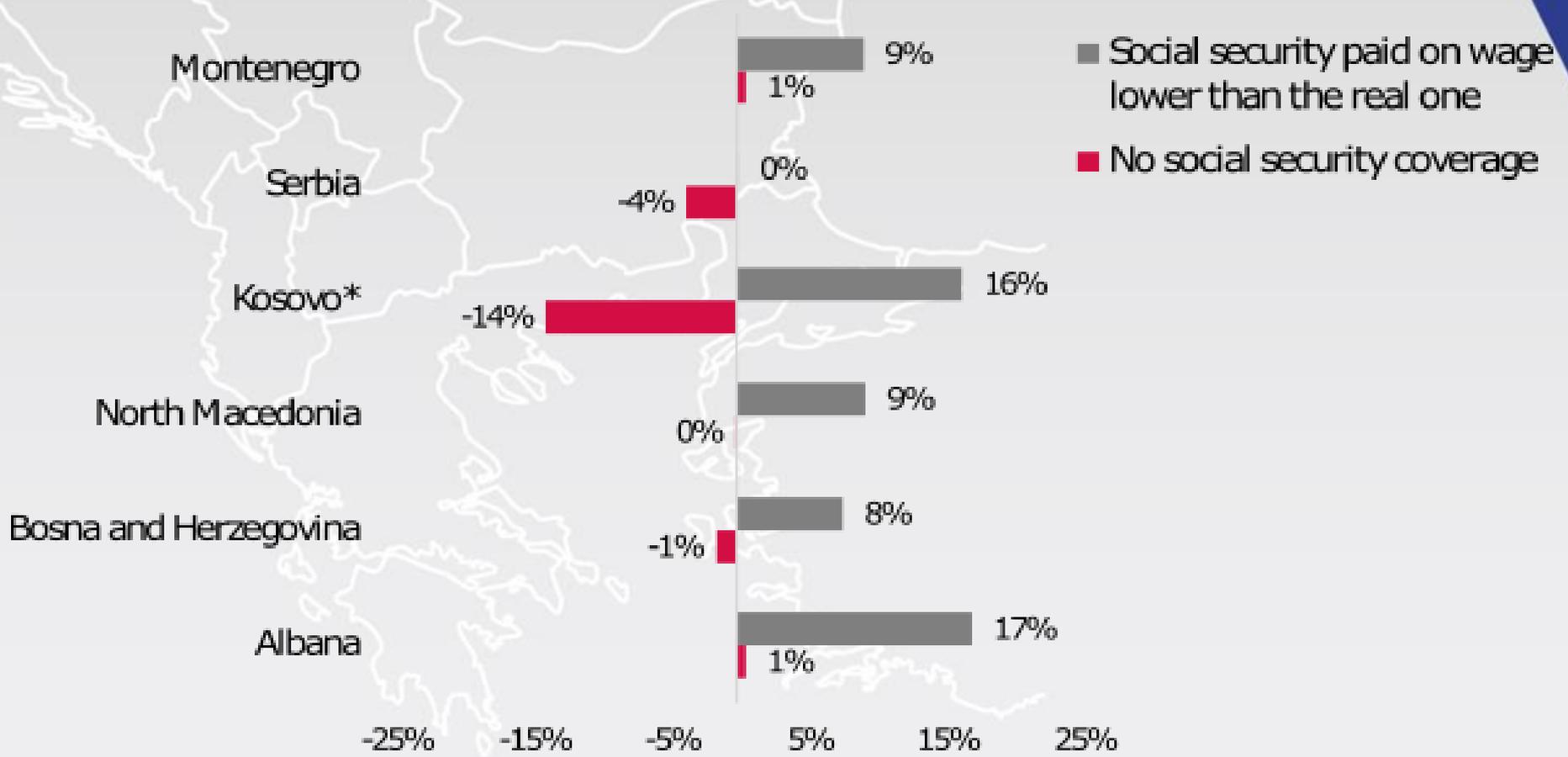
Workers without written contract on the main job or receiving higher than the declared remuneration (% change 2019-2016)



Hidden practices in social security coverage (2019, in %)

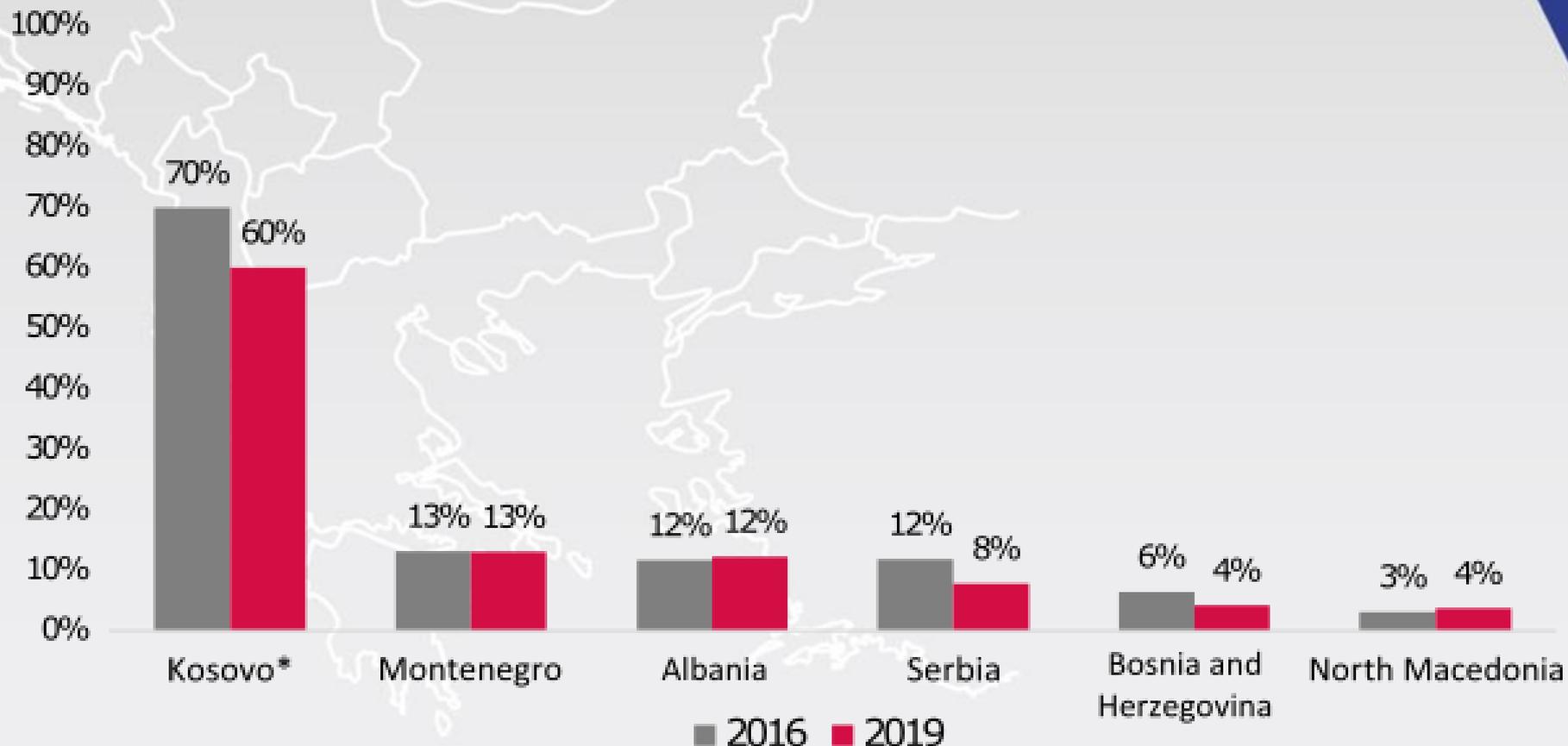


Trends in social security coverage (% change 2019-2016)



Workers with no health insurance coverage on the main job 2016-2019

(% of all engaged in a main job)



The causes of informality

- low tax morale
- high levels of unemployment
- high poverty levels
- weak business environment
- lack of trust in the public institutions and high perceptions of corruption
- high taxation and para-fiscal costs, coercive tax policy
- insufficient inspections and audits
- low quality of education and healthcare systems
- red-tape, burdensome severance payment system

National policies and measures (1)

- **Strategies and Action Plans**

- under the auspices of ILO (Montenegro, North Macedonia) or the IMF (Albania)
- critiques that the main objective is tax collection, not regularisation (Albania)
- critiques that there are no common databases or jointly agreed targets (North Macedonia)

- **Tax reforms**

- 2% reduction in employers' health insurance (Montenegro, 2019)
- labour tax burden has been lowered (Federation of BiH and R. Srpska, 2019)
- attempt to re-introduce progressive taxation (North Macedonia, 2019)
- foreseen tax reforms in Serbia

National policies and measures (2)

- **Inspections and fines**
 - Intensifies throughout the region
 - EC notes the focus on inspections and controls, rather than on incentives
- **Fiscal cash registers**
 - Kosovo (2014-2018)
 - Albanian law enabling the tax authorities to monitor taxpayers' turnover in real time (2019)
 - Montenegro plans for electronic fiscal invoices in 2021
 - BiH - VAT declarations submitted electronically since January 2019
- **Removing fiscal and administrative burdens**
 - Plans to decrease burden for low-income earners and simplify procedures
- **Awareness raising and budget transparency**

Policy Recommendations: National governments

- Identify the **real causes**, and implement **reforms** for improving the business environment, the tax policy and the quality of the public services
- Consider **mix of measures** - awareness campaigns, flexible types of labour contracts, vouchers, amnesties or tax reductions for regularization
- Hold **targeted inspections** at key risk companies, sectors and locations
- Be more pro-active in **utilising funding opportunities** (European Social Fund, IPA) for strengthening business operations, labour and tax procedures, quality of governance

Policy Recommendations: European Commission and the Council

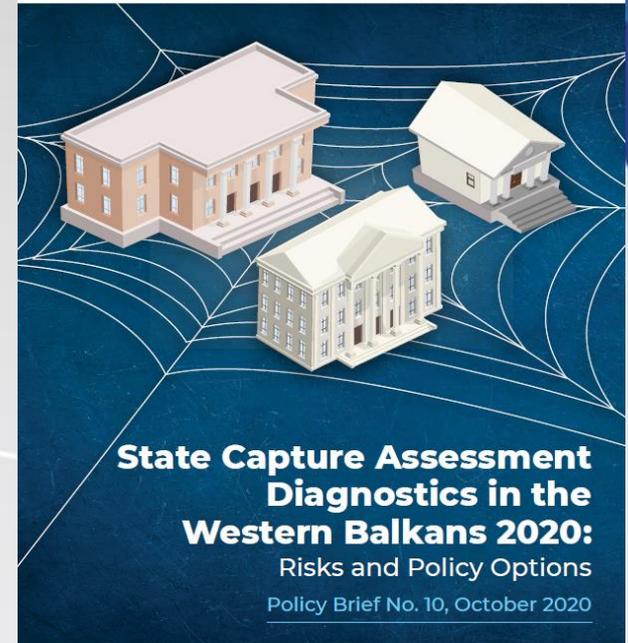
- Provide stronger messages, and more concrete and practical solutions in the **Assessments of the Economic Reform Programmes (ERP)**
- Share legal and procedural know-how from the Member States in applying efficient measures (though the **European Labour Authority; Eurofound; ILO**, etc.)

Hidden economy in the Western Balkans 2020: Trends and Policy Options

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Thank you!



State Capture Assessment Diagnostics in the Western Balkans 2020: Risks and Policy Options

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