

A comparative Overview of Informal Employment in Albania, Bosnia and Herzegovina, Moldova and Montenegro

Coordinator:
Cristina Mihes

Technical Editors:
Natalia Popova
Stefan Roch

Based on the following national studies:

Addressing the problem of Undeclared Work in the Construction Sector through Social Partnership in Albania.

Author:
Qemal Baliu

Strengthening Social Partnership in Bosnia and Herzegovina: Addressing the Problem of Undeclared Work in the Construction Sector through Social Partnership.

Author:
Amil Kamenica

Assessment of the Informal Economy in Moldova: Tackling Undeclared Work.

Authors:
Birgit Pfau-Effinger, Andrea Salvini, Elena Stribu , Stefan Roch & Paul Borsdorf

Addressing the Problem of Undeclared Work through Social Dialogue in Montenegro.

Author:
Bozidar Sisevic

Copyright © International Labour Organization 2011
First published 2011

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: pubdroit@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with reproduction rights organizations may make copies in accordance with the licences issued to them for this purpose. Visit www.ifro.org to find the reproduction rights organization in your country.

ILO Cataloguing in Publication Data

Mihes, Cristina; Popova, Natalia; Roch, Stefan

A comparative overview of informal employment in Albania, Bosnia and Herzegovina, Moldova and Montenegro / Coordinator: Cristina Mihes, technical editors: Natalia Popova, Stefan Roch; International Labour Office, ILO Decent Work Technical Support Team and Country Office for Central and Eastern Europe. – Budapest: ILO, 2010
64 p.

ISBN 978-92-2-124463-9 (print)
ISSN 978-92-2-124464-6 (web pdf)

ILO Country Office for Central and Eastern Europe

informal employment / social dialogue / employment policy / informal economy / Albania / Bosnia and Herzegovina / Moldova, Republic / Montenegro

13.013

ILO Cataloguing in Publication Data

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications and electronic products can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address, or by email: pubvente@ilo.org
Visit our website: www.ilo.org/publns

Printed in Hungary

Table of Contents

1. Introduction	1
2. Economic characteristics and developments	2
3. Informal employment in perspective	5
3.1. Concepts and Implications	5
3.2. Methodology	8
4. Development and levels of informal employment in Albania, Bosnia and Herzegovina, Moldova and Montenegro	9
4.1. Absolute levels of informal employment in comparison	9
4.2. Production units and employment status in informal employment	10
4.3. Gender and Informal employment	11
4.4. Branches of Informal Employment	12
4.5. Age and Informal Employment	12
4.6. Skills and Education	13
4.7. Payment of envelope wages	13
4.8. Summary	14
5. National policies on Informal Employment in Albania, Bosnia and Herzegovina, Montenegro and the Republic Moldova	15
5.1. Measures adopted until 2008	15
5.1.1. General policies, legal and institutional frameworks	15
5.1.2. Supply side measures	16
5.1.3. Demand side measures	17
5.1.4. Tax measures	17
5.1.5. Labour Inspection	17
5.2. Evaluation of measures, challenges and the current situation	18
5.2.1. Albania	18
5.2.2. Bosnia and Herzegovina	18
5.2.3. Moldova	19
5.2.4. Montenegro	19
5.3. Summary	20
6. Industrial Relations and Informal Employment	22
6.1. Industrial Relations in Albania	22
6.2. Industrial Relations in Bosnia and Herzegovina	23
6.3. Industrial Relations in Moldova	23
6.4. Industrial Relations in Montenegro	24

7. Best Practice	25
7.1. Measures targeting both supply and demand	25
7.1.1. The introduction of minimum wages and sufficient wage floors	25
7.1.2. The diversification of employment contracts	26
7.1.3. Strengthening sanctions	27
7.1.4. Extending control measures via inspection	28
7.1.5. Simplified Tax regulations	29
7.2. Measures, mainly targeting the demand side	30
7.2.1. Simplifying guidelines and regulations that burden employers	30
7.2.2. Incentives for employers, firms and households to transform informal into formal employment	31
7.2.3. The creation of information campaigns targeted at employers to raise awareness of the importance of declaring work	32
8. Policy Recommendations	33
8.1. Structural reforms and institutional settings	33
8.2. Awareness raising	34
8.3. Prevention	35
8.3.1. Labour Inspectorate	35
8.3.2. Sanctions	35
8.4. Facilitating compliance	36
8.4.1. Prevention measures	36
8.4.2. Curative measures	36
8.4.3. Targeting customers with indirect tax measures	37
8.5. Other measures	37
8.5.1. Introduction of more active labour market policies	37
8.5.2. Introduction of policies specifically targeting the construction sector	38
8.5.3. Introduction of policies specifically targeting the agricultural sector	38
9. Conclusion and the way forward	39
Annex I: Summary of the Report: Addressing the Problem of Undeclared Work in the Albanian Construction Sector through Social Partnership	40
Annex II: Summary of the Report: Strengthening Social Partnership in Bosnia and Herzegovina: Addressing the Problem of Undeclared Work in the Construction Sector through Social Partnership	43
Annex III: Summary of the Report: Assessment of the informal economy in Moldova: Tackling undeclared work	46
Annex IV: Summary of the Report: Addressing the Problem of Undeclared Work through Social Dialogue in Montenegro	48
Bibliography	51

Foreword

In its 2002 resolution concerning decent work and the informal economy the ILO's constituents recognized the decent work deficits of informal employment and emphasised the importance of creating enough employment opportunities that are formal, protected and decent for all workers and employers.

This comparative overview has been published as a contribution to the ongoing debate on promoting decent work through the extension of labour protection to the informal economy. It seeks to be an inspiration for policy makers especially in South Eastern Europe to develop targeted solutions to the problem of informal employment.

Within the Irish Government-funded project "Tackling Undeclared Work through Social Partnership in Albania, Bosnia and Herzegovina and Montenegro", the ILO commissioned national studies to take stock of the situation regarding undeclared work (UDW) in the construction sector in these countries. The findings of these studies have indicated that there are significant levels of informal employment. Representatives of the tripartite constituents in the three countries have endorsed the findings and recommendations of the studies, and have recognized UDW as a key social problem. The ILO has supported the tripartite constituents by helping to design and implement action plans for tackling undeclared work in the construction sector in Albania and Bosnia and Herzegovina and cross-economy in Montenegro. Furthermore, technical assistance and advisory input for the establishment and development of social partnerships was provided. At the request of the Government of Moldova, a similar study was carried out and validated by a national tripartite workshop in 2010. The tripartite constituents have used the study's findings and recommendations to negotiate a National Action Plan for combating undeclared work in Moldova.

Decent Work Country Programmes (DWCP) are the main vehicle for the delivery of ILO support at the country level. The DWCPs of Albania and Bosnia and Herzegovina feature the reduction of the informal economy as a long term goal. This goal has been agreed upon and is implemented by governments in consultation with the social partners. Although a formal DWCP has not yet been developed for Montenegro, priorities and planned outcomes have been determined along the same lines and in consultation and agreement with the Montenegrin constituents.

The present comparative overview is based on the four national studies and recommendations validated as mentioned above. It served as a discussion basis in a tripartite workshop held in Istanbul on 25-26 November 2010. The workshop's key objective was to facilitate the sharing of both lessons learned and good practices recognised among the four countries' representatives and their Turkish counterparts, and to determine a way forward in tackling informal employment in the sub-region.

The preparation of this report was led by Ms. Cristina Mihes, Senior Specialist in Social Dialogue and Labour Law, in close cooperation with the technical editors, Ms Natalia Popova, Senior Employment Specialist and Mr. Stefan Roch.

I would like to take this opportunity to extend my gratitude to the Government of Ireland for the financial support it provided to implement this project and the ILO Office in Ankara and, in particular its Director Ms. Gulay Aslantepe, for the support provided in organizing the final workshop in Istanbul. Special thanks go to the staff of the ILO DWT/CO in Budapest, in particular Ms. Cristina Mihes, Senior Specialist in Social Dialogue and Labour Law, Ms. Anne Knowles, Senior Specialist for Employers' Activities, Ms. Svetla

Shekerdjieva, Senior Specialist for Workers' Activities and Ms. Natalia Popova, Senior Employment Specialist for their technical contribution and Ms. Krisztina Homolya, Programme Assistant, Ms. Eva Mihlic, Programme Assistant, Ms. Lilian Orz, Senior Financial Assistant and Ms. Tünde Lovko, Financial Assistant, for their efficient assistance at all times. Special thanks are also due to the authors of the national studies, Mr. Qemal Baliu (Albania), Mr. Amil Kamenica (Bosnia and Herzegovina), Mr. Bozidar Sisevic (Montenegro) and Ms. Birgit Pfau-Effinger, Mr. Andrea Salvini, Ms. Elena Stribu, Mr. Stefan Roch and Mr. Paul Borsdorf (Moldova).

The opinions expressed in this report do not necessarily reflect the views of the ILO.

Mark Levin

Director
DWT/CO Budapest

1. Introduction

Informal employment has grown steadily throughout the world in the last 20 years. In developing countries in particular, most jobs created during this time evolved from the informal economy. In 1991, the ILO recognised this evolution and called it the 'informal sector'¹. At that time it was believed that a growing informal sector could in fact be beneficial in that it created convenient low cost jobs that raise employment levels in developing countries. A provision was that some effort needed to be taken to eliminate the worst forms of exploitation and inhumane working conditions.

Since then, the perspective of the ILO has shifted considerably. On the one hand, the term informal sector has become obsolete. Instead, the term 'informal economy' has been introduced to more precisely delineate that informal activities cannot be confined to only one sector, but are in reality spread throughout the economy as a whole. As will be shown in the study, informal employment is evident in all economic sectors. It is spread among most demographic groups and can take various forms such as the receipt of envelope wages or household activities.

In a significant development in this area, the ILO has introduced the notion of decent work as its main goal and the basis of its activities. Decent work is based on four strategic objectives: fundamental principles and rights at work and international labour standards; employment and income opportunities; social protection and social security; and social dialogue and tripartism. In the context of informal employment, this represents a substantial shift from the abolition of the worst forms of exploitation towards the ambitious concept of decent work. Within the global informal economy as it currently functions, the objectives of decent work cannot be achieved. Rather, the formalisation of economic activities is a prerequisite for achieving decent work.

In its report on decent work in the informal economy, the ILO detailed a strategy on how to overcome informal employment in order to create a decent work environment². In the short term, the informally employed should be recognised by the authorities and the law, and guaranteed their basic rights. In the medium term, incentives should be given for employees and employers in the informal sector to formalise their activities. In the longer timeframe, further formal employment opportunities need to be created so that informal activities are not chosen as an alternative anymore.

The comparative report is based on four studies prepared by External Collaborators on informal employment in Moldova³ and Montenegro⁴ and informal employment in the construction sectors of Bosnia and Herzegovina⁵ and Albania⁶. The main aim of the report is to explore the nature and extent of informal employment in the countries of the Republic of Moldova, Montenegro, Bosnia and Herzegovina and Albania and to find new approaches and practical policy solutions to tackle the phenomenon.

1 Compare, International Labour Office, *The Dilemma of the Informal Sector*, 1991

2 International Labour Office, *Decent Work and the Informal Economy*, 2002, p.5

3 Pfau-Effinger, Salvini, Stribu, Roch, & Borsdorf, 2009

4 Sisevic., 2008

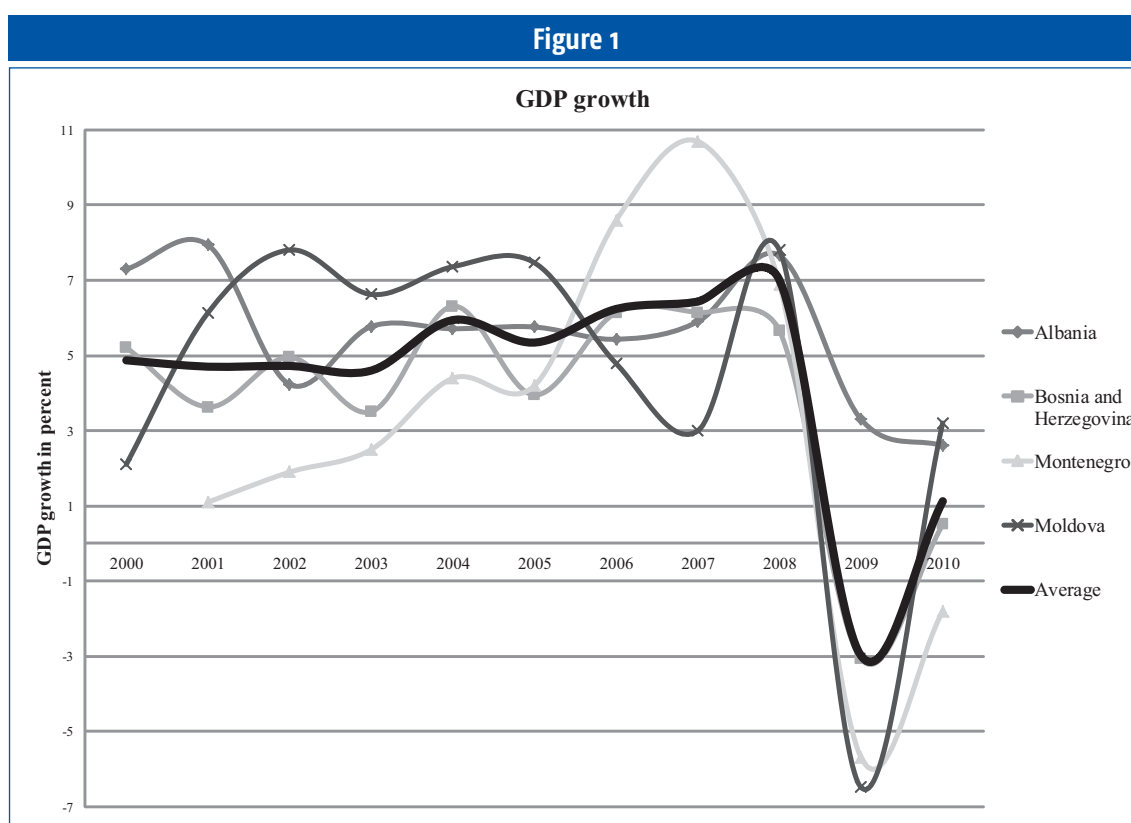
5 Kamenicy, 2009

6 Baliu, 2008

2. Economic characteristics and developments

Bosnia and Herzegovina (BiH), the Republic of Moldova, Montenegro and Albania have all been strongly influenced in their economic development by the transition towards market-based economies. In the case of Moldova the collapse of the Soviet Union saw a transition from a communist to a market-based economy. With Montenegro and Bosnia and Herzegovina, the collapse of the Yugoslav Republic opened up the economy in the early 1990s and sparked the transition process. In Albania, similarly, the transition from a communist economic system towards capitalism was triggered by developments in the early 1990s.

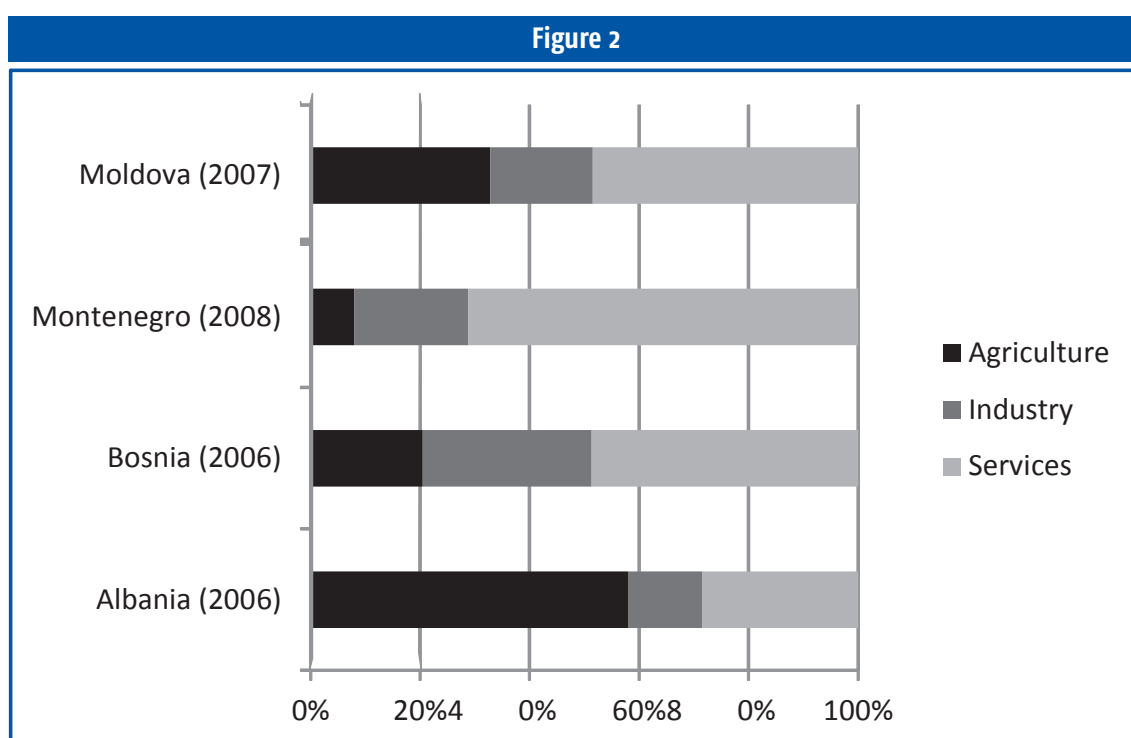
In the immediate years following these changes, all four countries experienced very low or negative economic growth. Many former state-owned businesses were not able to cope with the sudden exposure to the market economy and went bankrupt due to not being competitive. Furthermore, the often corrupt, non-productive and non-transparent way of privatising former state owned companies and property had negative effects on the economic development of these countries. As a consequence, the GDP of the Republic of Moldova had shrunk by 1999 to one third of its 1989 level.⁷ Nevertheless, most of these countries picked up considerably from the mid 1990s onwards. Increased FDI and the growth of the service sector in particular led to consistent and strong GDP growth (see Figure 1). In the years between 2000 and 2008, most countries were able to retain macroeconomic stability.



(Source: IMF World Economic Outlook database)

⁷ Whereas Albania's GDP had dropped to around 2/3 of its 1989 value by 1992, it nearly retained its previous level by 1999. (Source: IMF World Economic Outlook database) Such data are neither available for Bosnia and Herzegovina nor for Montenegro.

However notwithstanding such growth, these young market economies remained vulnerable to economic volatility. Montenegro and Bosnia and Herzegovina for example, being rather small-scale economies and producing a very limited range of products, were obliged to open up to foreign markets, making them highly dependent on imports. During the initial transition period, exports did not match the demand for imports. The main reason was the collapse of what were previously key industries. This collapse was not yet counter balanced by an adequate growth in other economic sectors. The service sector, especially transport, tourism and construction, started to flourish in the region. This was the major driving force for the relatively high levels of economic growth in the post 2000 years (see Figure 2). Nevertheless, up until the present day the growth of these sectors has not been sufficient to counter the overall demand for imports. Not surprisingly therefore most of these countries run a considerable trade deficit.

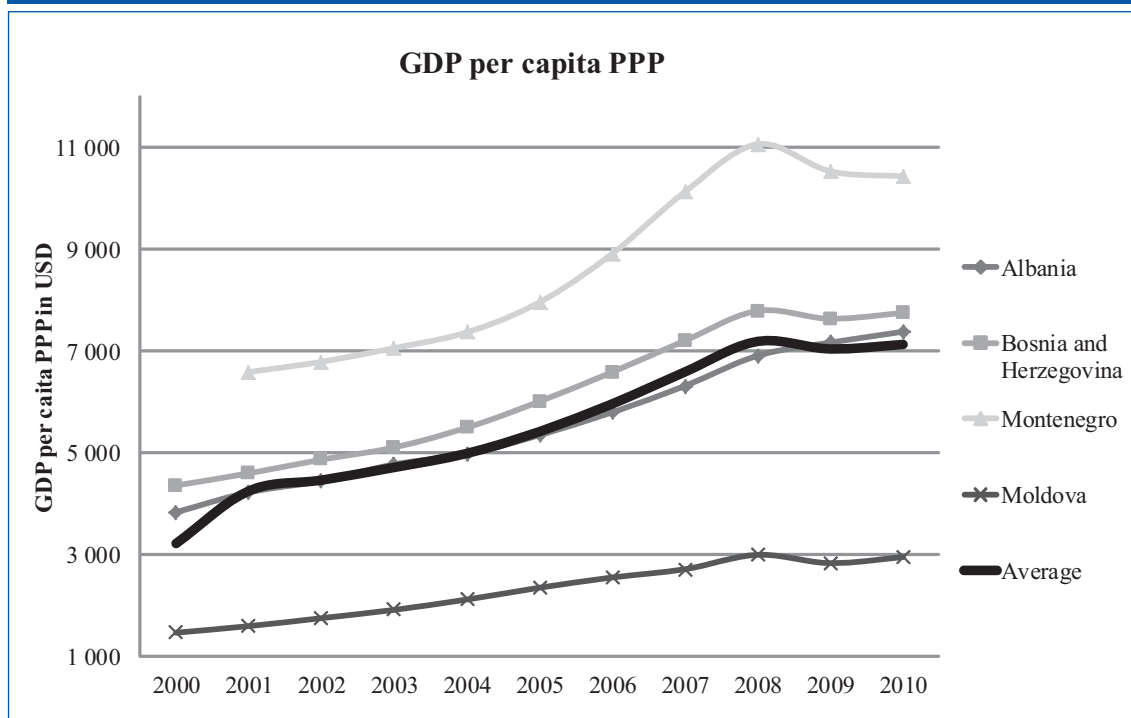


(Source: KILM and LFS surveys)

The vulnerability of these countries became especially apparent during the course of the economic crisis triggered in early 2008. As stated, the growth of those countries has mainly been based on the service sector, due to high levels of Foreign Direct Investment (FDI) flows into South-Eastern Europe. As the global economy struggled, the financial markets went into crisis, decreasing the world-wide flow of investments considerably, causing a credit crunch. Consequently, FDI ceased in this region and with it went the service sector growth. In South-Eastern Europe and the four countries of this study, GDP growth collapsed as a result, except in Albania which is less exposed to international trade and less dependent on foreign direct investments, compared to the other countries ⁸ (see Figure 1 and Figure 3).

⁸ Compare the FDI stocks of each country as a percentage of gross domestic product of 2008: Albania, – 20.3%; Bosnia and Herzegovina – 42.1%; Montenegro – 67.1%, Moldova – 42.5%. (Source: World Investment Report 2009, pp.264–265)

Figure 3



(Source: IMF World Economic Outlook database)

3. Informal employment in perspective

3.1 Concepts and Implications

A common definition of informal employment does not exist. Different terms are used in different regions or by different organisations and scholars, which often overlap but are mostly not entirely the same. Commonly used terms are: informal employment, black work or moonlighting. For the purposes of this study the definition of the ILO and the ICLS will be used.

Since the nature and extent of informality differs substantially between countries, different measures and approaches were developed. In order to receive data that is internationally comparable, a standard definition had to be found. At the 15th International Conference of Labour Statisticians (ICLS) in 1993, it was suggested to include measures of the *"informal sector"* into the system of national accounts. Hence, the term 'employment in the informal sector' was defined as:

"Comprising all jobs in informal sector enterprises, or all persons who, during a given reference period were employed in at least one informal sector enterprise, irrespective of their status in employment and whether it was their main or a secondary job."

Looking back, this definition was rather narrow in its nature. The informal sector was defined in terms of informal production units in which informal employment takes place instead of the workers in informal employment themselves and the nature of their jobs.

In order to extend the definition closer to the reality of the workers and to put the concept of decent work⁹ for all at the centre of attention, the 90th International Labour conference (ILC) in 2002 decided to change the expression *"informal sector"* to *"informal economy"* since informal type employment could not simply be reduced to only one sector. The definition now reads as follows:

"All economic activities that are not covered in one way by formal arrangements"

Based on the wider and more inclusive definition of the informal economy in contrast to the informal sector, the 17th ICLS in 2003 published a new definition of the concept of informal employment within the informal economy. This concept remains the standard definition of informal employment within the framework of the ILO and will serve as the theoretical framework of this report as well. Hence, *"informal employment"* is defined as:

*"The total number of informal jobs, whether carried out in sector enterprises, informal sector enterprises or household during a given reference period"*¹⁰.

The definition comprises: Own account workers and employers in their own informal sector enterprises, contributing family workers, employees holding informal jobs, members of informal producers' cooperatives and own account workers engaged in the production of goods exclusively for own final use by their households (see Figure 4).

⁹ Decent Work is defined as follows: "Decent work is captured in four strategic objectives: fundamental principles and rights at work and international labour standards; employment and income opportunities; social protection and social security; and social dialogue and tripartism. These objectives hold for all workers, women and men, in both formal and informal economies; in wage employment or working on their own account; in the fields, factories and offices; in their home or in the community." Compare the ILO website: http://www.ilo.org/global/About_the_ILO/Mainpillars/WhatIsDecentWork/lang--en/index.htm

¹⁰ Hussmanns, 2004, p.7

Figure 4

Conceptual Framework: Informal Employment									
Production units by type	Jobs by status in employment								
	Own-account workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal
Formal sector enterprises									
Informal sector enterprises ^(a)									
Households ^(b)									

(a) As defined by the Fifteenth International Conference of Labour Statisticians (excluding households employing paid domestic workers).

(b) Households producing goods exclusively for their own final use and households employing paid domestic workers.

Note: Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit in question. Cells shaded in light grey refer to formal jobs. Un-shaded cells represent the various types of informal jobs.

(in: Hussmanns, 2004, p.27)

In addition to the definition above, envelope wages are a wide-spread practice within the context of informal economic activities in these four countries. Envelope wages function in a way that only a certain amount of the wage (usually at minimum wage level) is declared to the authorities, while the rest of the wage is paid informally. The inclusion of envelope wages demonstrates the complexity of informal employment and the problem of distinguishing between formal and informal activities in practice. It is not always as straight forward as it may appear in theory. The effects of this practice are similar to other informal forms of employment such as tax evasion, low social benefits, in that they reduce scope for policy solutions by the State, and abet illicit competition on the basis of reduced wage costs against companies which employ formally and legitimately. However, although envelope wages are regarded as a basis of informal employment, they still differ from complete informal employment in that the employment relationship itself is declared to the authorities and a certain amount of social security contributions are paid.

A widely used term in the four country studies and by the European Union is 'undeclared work'. The European Union defines undeclared work as follows:

*"Productive activities that are lawful as regards to their nature, but are not declared to the public authorities, taking into account the differences in the regulatory system between Member States."*¹¹

The definition of undeclared work is similar to the definition of informal employment. The major differences are that the notion of informal employment provides a further framework for statistical measurement in terms of the dimension of production units and the explicit exclusion of illegal activities from the framework of undeclared work. Nevertheless, since this study does not further explore the issue of illegal employment, both informal employment and undeclared work can be regarded as describing essentially the same phenomenon.

¹¹ Renooy, Ivarsson, van der Wusten-Gritsai, & Meijer, 2004, p.93

An informal economy has certain key features, which differentiate it from a formal economy. Firstly it is important to note that an informal economy is the unregulated and the non-formal part of the overall market economy which produces goods and services for sale or other forms of remuneration¹². Furthermore, the informal economy has some key characteristics, which distinguish it from its formal counterpart. Flodman Becker (2004) characterises them as:

- Low entry requirements in terms of capital and professional qualification, compared to often rather high requirements in the formal economy;
- A small scale of operation, limited in size and growth potential;
- Skills often acquired outside formal education and formal labour market training measures;
- Labour intensive methods of production and adapted technology.

The existence of an informal economy and informal employment in a particular country is strongly influenced by such factors as the specific historical background, cultural influences, levels of development, characteristics of the economic system and the overall political and economic environment. Besides that, many similarities can be drawn between such countries. In the study on informal employment in Montenegro¹³ several factors were identified. People are often simply unable to find a job in the formal part of the economy due, for example, to a shortage of employment opportunities, or a low level of formal education. Such workers have generally no other choice than to seek a job within the informal economy since they cannot afford to be unemployed. High taxes, bureaucratic procedures and corruption can make formal employment complicated and expensive.

Inadequate and not carefully targeted employment policies can constrain employment in the formal sector and push workers towards informality. Low levels of job creation, combined with high unemployment and social assistance benefits below the basic level of subsistence, leave workers no other choice than to seek employment in the informal economy. In most countries of the region, the formal economy has only limited absorption capacity for surplus labour. High taxes potentially reduce a worker's wage below subsistence level. Rapid economic changes, as they were experienced in the transition periods, are often to the disadvantage of low skilled workers who cannot adapt to the new requirements in the formal economy and are squeezed out into the informal economy.

High instances of informal employment have various negative effects on the economy as a whole, on working conditions generally, and on the policy making process¹⁴. Endemic informal employment limits the effectiveness of employment as a tool to dilute poverty. Low tax revenues, due to the non-payment of payroll taxes, reduce the government's potential to introduce effective labour market policies and to provide sufficient social benefits. For employees, working in the informal economy means being stuck in an activity which is low paid, risky and precarious since occupational health and safety standards are not necessarily enforced. The lack of training taking place in informal employment prohibits those employees from claiming better paid positions in the formal sector. The rights of workers are difficult to enforce in the informal economy. Informal employees are generally not organised and labour inspections are difficult to undertake. Furthermore, informal employees are more likely to suffer illness and health problems due to the often unsafe working conditions.

The current economic crisis will not hasten the demise of informal employment. As economic growth slows down and capital inflows dry up, wage levels suffer and jobs are lost. Workers are therefore compelled towards the informal economy.

¹² Flodman-Becker, 2004, p.11

¹³ Sisevic., 2008, p.56

¹⁴ Compare Jütting & Laiglesia, 2009, p.11

3.2 Methodology

In the study, four countries were chosen to be contrasted and compared in terms of the nature and the extent of informal employment. As only three belong to the Western Balkans (Montenegro, Bosnia and Herzegovina and Albania¹⁵), the study is not necessarily representative for the region. Nevertheless, as explained above, all countries had to cope with transition to a market based economy and therefore share to some extent similar backgrounds and experiences.

The study is predicated upon the definition of informal employment given by the ICLS. It will first of all focus on the numerical data of informal employment. This is to provide an indication of the extent of informal employment in each country and the formal employment breakdown internally. From this point the analysis goes into further detail through comparing and analysing the levels of informal employment in the different economic sectors and groups.

The analysis will focus on informal employment in informal businesses, in formal businesses and in private households. The main reason for this is to assess informal employment as a whole within the context of the wider economic framework, as the definition of informal employment is contextualised within the wider framework of the informal economy.

The analysis of different groups of people undertaking informal employment focuses on factors such as gender, industry/sector, area of occupation (urban/rural), age, skills and education and envelope wages. This enables a better understanding of the internal mechanisms of informal employment. Furthermore, the analysis aims to identify specific vulnerable groups which are most affected by informal employment. These findings will be further examined as different policy responses are presented.

The study will conclude with the presentation of best practices and policy recommendations to be implemented at the national level. In addition, summaries of the country studies are provided.

The quality of the data which will be presented and compared varies substantially between countries. With some, such as Moldova and Albania, extensive research has been carried out on the informal economy and impressive data is available. With Montenegro and Bosnia and Herzegovina on the other hand, where such data is scarce. Furthermore, the informal economy and informal employment are concepts which are very difficult to measure and quantify. Therefore, all data used should be regarded as rough estimates rather than hard facts.

¹⁵ According to the EU definition, compare: http://ec.europa.eu/enlargement/pdf/balkans_communication/western_balkans_communication_050308_en.pdf

4. Development and levels of informal employment in Albania, Bosnia and Herzegovina, Montenegro and the Republic Moldova

4.1 Absolute levels of informal employment in comparison

According to the Moldovan Labour Force Survey, informal employment accounts for around one third of total employment in Moldova¹⁶. Research undertaken by the ISSP and EAM indicates that between a quarter and a third of all employees in Montenegro are employed informally. Informal employment in Bosnia and Herzegovina comprises around one third of all employment¹⁷. In Albania several studies were undertaken to measure the extent of informal employment, providing figures of around 30% to 60% of informal employment as a percentage of total employment¹⁸.

All estimates are approximate and to a large extent do not exactly adhere to the definition of the ICLS. Nevertheless, it is obvious that informal employment accounts for a major share of employment and economic production in these countries. Since extensive studies over longer periods in the four countries do not exist, it is not possible at this stage to analyse the exact development of informal employment. Furthermore it would be difficult to precisely compare the growth of informal employment, since Montenegro and Bosnia and Herzegovina became independent through the collapse of Yugoslavia, Moldova through the collapse of the Soviet Union and Albania initiated its transition through voting out the Communist government in 1992. It was previously generally accepted that informal employment was non-existent in communist countries, due to the absence of unemployment. However in Yugoslavia for example, unemployment was existent even before transition¹⁹. It can therefore be inferred that to a certain extent even before transition, informal employment existed and may therefore not be an entirely new phenomenon in the four countries.

As informal activities and certain forms of informal employment may have been in place before the transition process and continue to exist beyond transition, others were created by the transition. All countries witnessed a sharp economic decline in the immediate aftermath of transition due to the collapse of certain previous key industries and the instability which followed the introduction of new political systems. It led to a sharp increase in unemployment which could not be cushioned by weak social security systems. Subsequently, workers had little option but to engage in informal activities.

A survey of Albanian street vendors demonstrates the extent informal employment can reach in certain sectors²⁰. During the course of the survey approximately 7% of all street vendors in Albania were interviewed. The survey found that around 80% of all vendors work without a licence, and 90% neither pay state nor municipality taxes. Hence, almost the whole trade of street vending in Albania appears to be informal.

16 Pfau-Effinger, Salvini, Stribu, Roch, & Borsdorf, 2009, p.14

17 Rosas, Corbanese, O'Higgins, Roland, & Tanovic, 2009, p.10

18 Jütting & Laiglesia, 2009, p.29

19 Nesparova, 2002, p.7

20 Fortuny, Gundacker, Tomei, Kempf, & Roland, 2006, p.22

For Bosnia and Herzegovina, it has been estimated that around 5% of overall payroll contributions are lost in total through informal employment²¹. Taking into consideration that many informal workers receive social security benefits, this demonstrates that informal employment can have serious repercussions on the State budget and its ability to formulate and transpose effective social and employment policies.

4.2 Production units and employment status in informal employment

Informal employment in Moldova is evenly distributed with around 35% of informal employment in informal sector enterprises, 33% in formal sector enterprises and 32% in private households. Montenegro does not use the measuring system suggested by the ICLS but simply differentiates between informal employment in the formal and the informal economy. By this gauge, 77% of all informally employed workers are working in the formal economy and 23% in the informal economy.

It is interesting to note that the nature of informal employment in terms of production units differs substantially between Moldova and Montenegro. Whereas informal sector and formal sector informal employment is relatively equal in Moldova, formal sector informal employment is substantially larger in Montenegro than informal sector informal employment.

In terms of employment status, in Montenegro 15.8% of all informal workers are self-employed, while in Moldova 61.3% of all informal workers are considered self-employed. Albania too has a large share of informally self-employed with 29% of total informal employment. These numbers show that the nature of informal employment can differ substantially between the countries observed. Whereas in Moldova a large amount of informal employment takes place as self-employment, mainly own account work, in countries such as Montenegro and Albania, informal employment is much more based on an actual employment relationship, including the supervision of an informal employee by an employer.

The data shows that informal employment can differ substantially in its nature according to the production units. Montenegro for example, appears to have a more established system of formalised businesses than Moldova. This has specific implications for possible policy responses. For example, formalised businesses are easier to identify and access for labour inspection than informal businesses.

Montenegro and Bosnia and Herzegovina have benefitted from substantially higher foreign direct per capita investment in recent years than Moldova and Albania²². This contributes towards stronger growth of formal businesses in Montenegro and Bosnia and Herzegovina in comparison to Moldova and Albania, where investment has remained relatively low and has not contributed as substantially to business creation.

It is interesting to note that in Moldova part-time employment is more common in informal employment than in formal employment. This suggests that atypical forms of employment, such as part time work, minor employment or agency work are not common practice in the formal labour market and may need more policy attention²³. Legalising certain forms of atypical employment can serve as an incentive for employers to formalise more flexible forms of employment relationships.

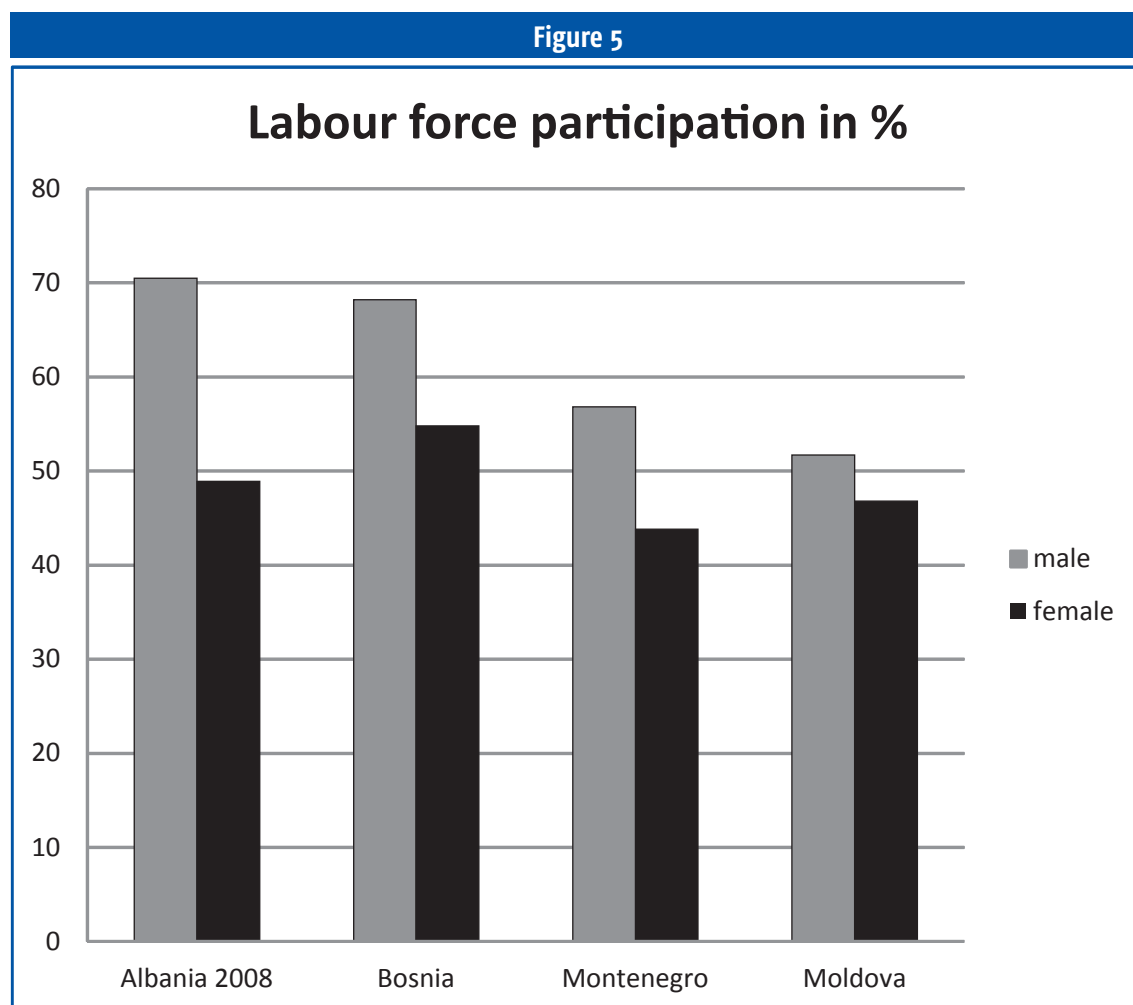
21 Kamenicy, 2009, p.18

22 Estimates of FDI per capita for in \$: Moldova: 125 (2007), 164 (2008); Albania: 184 (2007), 260 (2008); Bosnia and Herzegovina: 464 (2007), 232(2008); Montenegro: 1279 (2007), 1371 (2008) (sources: World Bank Indicators & World Fact Book 2007, 2008)

23 Pfau-Effinger, Salvini, Stribu, Roch, & Borsdorf, 2009, p.26

4.3 Gender and Informal employment

Employment of women in the formal sector remains low within all four countries, compared with male employment (Figure 5). The exception is Moldova where employment figures for women are relatively close to those of men. Nevertheless, the low rates indicate that female exclusion from the formal labour market is considerable. It follows therefore that women are likely to be employed on a large scale in the informal sector as, for example, family workers, or in agriculture or in the service sector. Sadly there is a lack of data on this issue and conclusions remain somewhat speculative. Hence, further research and analysis will be necessary in this respect.



(Source: KILM 6th edition, ILO estimates)

The only country for which sufficient data is available on informal employment and gender is Moldova. In the report on informal employment in Moldova it is shown that, like the formal employment gender breakdown, women and men have an equal share in informal employment. Female informal employment is very prominent in the agricultural sector in Moldova and in services such as the hotel and restaurant sector²⁴. In other sectors the male/female balance is more even.

²⁴ Fortuny, Tomei, Sertcan, Venckevicius, & Dussart, 2007, p.36

4.4 Branches of Informal Employment

Overall, agriculture appears to be one of the most prominent sectors for informal employment in the four countries. In Moldova, around 63.4 % of workers work informally in the agricultural sector. That is the main share of informal employment across the country. For Montenegro, no real indicators exist concerning the actual level of informal employment in the agricultural sector. Statistics indicate that the agricultural sector in Montenegro is relatively large in terms of its share of GDP, but comparatively low in terms of its official employment levels. One could conclude from this that a large share of the workforce in the agricultural sector works informally. In Bosnia and Herzegovina too, informal employment is most prominent in the agricultural sector²⁵. In Albania, like Montenegro, research on informal employment in the different sectors is very limited. Nevertheless, it is widely accepted that informal employment is more common in non-urban regions, where labour inspection is not very prominent²⁶. Informal employment is less prominent in the industrial sector in Moldova and Bosnia and Herzegovina. For Albania and Montenegro, no concrete conclusions can be drawn, since no data is available.

The decline of the agricultural sector appears to be one of the main reasons for informal employment in urban areas. Albanian policy makers have suggested that one of the main reasons for informal employment in urban areas is the high poverty of people living in rural areas. This leads to uncontrolled migration of people to urban areas to find jobs and to make a living²⁷. Such internal migration flows can only be circumvented by promotion of economic development in rural areas.

4.5 Age and Informal Employment

In all four countries analysed, one can discern a strong correlation between age and informal employment. Young people in particular are highly represented. In Bosnia and Herzegovina, most instances of informal employment are in the age group of 15 to 24. Informal employment in this group is more than 30% higher than in the other, older, age groups. In the Republic of Moldova, the level of informal employment of workers between 15 and 24 and between 25 and 34 is higher than the level of formal employment for these groups. For workers between the age of 35 and 44 and 45 and 54, formal employment levels are higher than informal employment levels. This suggests that young people often use informal employment as an access point to the labour market and as a stepping stone to the formalised economy²⁸. The numbers of informally employed persons above age 34 are nevertheless relatively high, suggesting that a large amount of workers get stuck in informal employment and spend their whole working life in the informal economy. The same observations can be made in Montenegro, where informal employment among younger workers is relatively high. In Albania, high rates of youth unemployment are a severe problem. Young workers have difficulties finding a job and entering the labour market after education. This implies that Albania is facing the same problem as the other countries and a certain amount of young workers enter the informal economy because of a lack of alternatives in the formal labour market.

High levels of informal employment also occur among older people. The example of Moldova shows that workers above the age of 65 are prone to fall into informal employment. Since the levels of pensions are generally low in Moldova as well as the other four countries, older people often have no choice but to work informally to make a living and to escape poverty.

²⁵ Kamenica, 2009, p.14

²⁶ Sisevic, 2008, p.34; Baliu , 2008, p.23, Kamenicy, 2009, p.14; Pfau-Effinger, Salvini, Stribu, Roch, & Borsdorf, 2009, p.12

²⁷ Baliu , 2008, p.23

²⁸ Pfau-Effinger, Salvini, Stribu, Roch, & Borsdorf, 2009, p.19

4.6 Skills and Education

The findings indicate that higher skilled workers find it much easier to enter the formal labour market than lower skilled workers²⁹. This is particularly so in Moldova. In correlation with the findings on age one can draw several conclusions from this. First of all, people acquire skills during education and during their work experience. Frequently the skills acquired before entering the labour market are inadequate to directly enter the formal labour market. Therefore workers often commence informal employment where they acquire practical skills and then move on to formal employment. This may be an ideal scenario, but it is not always the case. As stated, the figures suggest that particularly low skilled people enter the informal labour market and remain in it for the duration of their whole working life, never paying social security contributions and not being eligible to receive most provisions after their working life. Therefore it appears that very low skilled workers in particular are caught in an informal employment trap, since there is no demand for them in the formal labour market and the skills acquired in informal employment are not sufficiently recognised. This appears to be especially true for informal workers employed in informal businesses and own account workers, who do not have the opportunity to become formally employed within their business and cannot enter any training schemes³⁰.

In Bosnia and Herzegovina, low skilled workers generally earn low wages, which would be inadequate to live on if they were fully taxed. Therefore, they often willingly enter informal employment in order to make a sustainable living from their wage³¹.

As mentioned in the report on Montenegro, a large portion of the workforce is considered "difficult to employ". This means low skilled, low level of education and inflexible in their employability³². This highlights various structural problems which often arise through the transition processes or are inherited from the previous political and economic systems. Lifelong learning schemes, strongly promoted by the European Union, are quite unknown in the four countries. Training schemes and schooling programmes are often mismatched to the actual demands of the labour market. The main problems here are a lack of resources in education which makes the institutions less responsive to changes in the labour market and the missing links between the curricula and labour market needs.

4.7 Payment of envelope wages

Envelope wages are responsible for a large share of informal employment and have serious implications for the tax revenue of a State and the future benefits of employees. Envelope wages work in a way that employers pay the employee officially a lower wage than the average for a similar job, usually the minimum wage. This part of the wage is declared and taxed. The other share of the wage is paid in cash "under the counter", hidden from the State.

The studies in Bosnia and Herzegovina and Montenegro demonstrate that envelope wages are widespread, especially in the construction sector, where the majority of workers are paid partially through envelope wages³³. In Albania, company surveys conducted in 2005 and 2006 revealed that employers to a large extent register wages on minimum wage level in the payroll system. This suggests the widespread use of envelope wages³⁴.

29 Pfau-Effinger, Salvini, Stribu, Roch, & Borsdorf, 2009, p.20

30 Pfau-Effinger, Salvini, Stribu, Roch, & Borsdorf, 2009, pp. 20-21

31 Kamenicy, 2009, p.20

32 Sisevic, , 2008, pp. 18-19

33 Kamenicy, 2009, p.16; Sisevic, 2008, p.60

34 Baliu, 2008, p.19

The problem with envelope wages is that they are difficult to measure in terms of extent and distribution. There is no statistical data on this. With most labour inspections, the extent of envelope wages remains concealed, as long as the employer complies with the legal minimum wage. Employees on the one hand may in certain cases be unaware of the downside of receiving part of their compensation through envelope wages.

4.8 Summary

- The levels of informal employment are relatively high. In all four countries analysed, at least 30% of all employees are employed informally.
- The share of production units in informal employment differs substantially between the countries. Whereas in Moldova 33% of all informally employed work in a formal business, in Montenegro the figure is 77%.
- The nature of informal employment differs substantially in terms of employment status between the countries. In Montenegro 15.8% of all informally employed are self-employed. In sharp contrast, it is 29% in Albania and climbs to 61.3% in Moldova.
- Formal employment levels for women are generally much lower than formal employment levels for men. By contrast the data of Moldova suggests that informal employment levels for women are relatively equal to the ones of men.
- Informal employment is especially prominent in the agricultural sector. It is also widely spread in industries and construction.
- Younger and older workers are especially likely to be employed informally.
- Less educated and low skilled workers are more likely to be employed informally than higher skilled and better educated workers. Furthermore, the lower skilled worker is more likely to remain informally employed for a longer time.
- Envelope wages are responsible for a major share of informal employment and have serious implications on the tax revenue of the four countries.

5. National policies on Informal Employment in Albania, Bosnia and Herzegovina, Montenegro and the Republic Moldova

5.1 Measures adopted until 2008

5.1.1 General policies, legal and institutional frameworks

Since independence, Montenegro has attempted to tackle labour market reforms through multifaceted packages and programs, including various sets of laws, bylaws and policies. In 2001, an Economic Reform Program was introduced by the Government and the Social Partners, and lasted until 2005. The strategy was to introduce a package that targeted all economic sectors and institutions in terms of economic reform and modernisation, including the informal economy. The ultimate target of the measures was to increase economic growth and stability. The program introduced major reforms and new sets of laws such as a new Labour Code, which achieved measurable labour market results. The Central Bank of Montenegro estimated that at the end of the program informal employment was lowered from approximately 40% in 2001 to around 30% in 2002.³⁵

In 2007, a National Strategy for Employment and Human Resources Development was introduced, to operate until 2011, in order to raise the level and quality of employment. Its focus is to increase employment and counteract unemployment, improve productivity and the quality of work and strengthen social cohesion. Lowering informal employment is among its main targets. To reach that target, the policy has two major focal points: to reduce the costs of doing business through the reduction of administration and tax burdens, and more effective implementation of labour legislation. On the basis of this national strategy, a national plan for employment was established for the period 2008 to 2009. Its aim was to implement tangible measures and projects under the national strategy, of which around 200 of these were accomplished.

Policy makers at the State level in Bosnia and Herzegovina face the challenge of there being no up to date labour legislation. Although a Department of Labour Legislation exists at State level within the Ministry for Civil Affairs, labour legislation and policies are enacted at the regional level. Therefore, Bosnia and Herzegovina, the Republic of Srpska and the Brcko District all have their own sets of labour laws. However most of these laws are out of date and need to be reviewed. The EU conducted a project in Bosnia and Herzegovina to draw up an appropriate and modern set of labour laws for the country as a whole. However the outcomes of the project were not implemented because of the constitutional situation. It is problematic that especially new forms of labour such as free professions or part time work are not yet recognised. As a consequence, all occupations which may be referred to as atypical employment remain informal in Bosnia and Herzegovina. Only the Republic of Srpska has recently started to modernise its labour legislation.

Albania introduced a task force in 2004 to tackle the problem of informal employment. Its mission was to design and implement an action plan aimed at a substantial reduction in informal employment. The task force, chaired by the prime minister and involving five other ministries, excludes the Ministry of Labour. In 2004, the action plan was designed, and includes various measures targeting both workers and employers.

³⁵ Sisevic, 2008, p.39

In Moldova, employment policies affecting informal employment mainly emanate from the central Ministry of Labour and are implemented at national or regional level through the national employment agencies (NEA). This system faced various problems in the recent past. Previous employment policies were mainly focused on passive labour market measures, such as unemployment benefits, instead of active measures. Employment policies therefore remained rather ineffective. Furthermore, the NEA faced major problems in implementing national policies effectively since it has been seriously understaffed, undertrained and underequipped. The Ministry of Labour has prepared an Action Plan, spelling out concrete measures to reduce informal employment. The plan is yet to be ratified by the Government.

5.1.2 Supply side measures

The Economic Reform Program 2001–2005 introduced various measures to reduce informal employment in Montenegro. These included training schemes for unemployed youth to gain the necessary qualifications for the formal labour market. Temporary wage subsidies were introduced, which apply in case full employment is not possible at any stage through for example, unforeseen economic shocks, so that employers can keep their employees employed formally and employees do not slip towards informal employment as an alternative. Also job search assistance for all registered unemployed was introduced to aid integration into the labour market. The National Strategy for Employment and Human Resource Development 2007–2011 introduced some further supply side measures in Montenegro. These included the reduction of the fiscal burdens on employees' wages through the reduction of the individual contributions for health insurance and non-wage labour costs. Furthermore, greater assistance for jobseekers was introduced in order to ensure an adequate labour supply for the formal economy.

In Bosnia and Herzegovina, a general lack of active labour market policies (ALMPs) can be identified. The focus in terms of labour policy has been more on wage subsidies and self-employment initiatives. Those measures are regarded by some as costly and ineffective. More cost efficient and effective measures such as counselling and job brokerage may be preferable. Most employment policies are introduced in piecemeal fashion. Generally policies should be introduced as packages, in order to tackle far reaching labour market problems. Additionally, the most vulnerable people such as refugees or people with low levels of education who are most affected by informal employment are not targeted by employment policies in Bosnia and Herzegovina.

Although Albania does not have any ALMPs specifically targeting informal employment, it has some history of introducing ALMPs which have a positive effect on informal employment reduction. In 1999, various employment promotion programmes were set up to promote training and employment. Those measures included financial incentives for employers to hire unemployed persons for a certain period, and specific employment programmes were targeted to vulnerable groups such as marginalised women. Furthermore, Albania reduced social security contributions and personal income contributions as part of its action plan on informal employment in 2004, and fixed personal income tax at 10% in order to reduce the incentives to work informally.

Moldova has started to pay more attention to ALMPs. Vocational training and vocational guidance initiatives for jobseekers were accelerated in recent years. In 2003 laws on employment and social protection of persons seeking employment were introduced. These encourage the Government to co-operate with the social partners to promote ALMPs for jobseekers to be included into the formal labour market. A recent ILO led project focused on improving Moldova's labour market policies, and especially focused on the capacities of the NEA. Key outcomes included a Ministerial Commission being created, responsible for the design, monitoring and evaluation of national employment policies, a strategy for the reorganisation of the service delivery of the NEA was produced, and a long term staff learning plan and a staff development program on the management of ALMPs were introduced.

5.1.3 Demand side measures

An important element of the Economic Reform Program 2001–2005 was the reduction of incentives for employers to employ informally in Montenegro. Increased penalties for the non-registration of businesses were introduced in conjunction with more intensive labour inspection. On the other hand, the Government introduced various measures to facilitate formal business creation through the limiting of barriers to business creation, and simpler bureaucratic processes. Micro credit schemes further facilitated business creation. In 2003, a new labour law was introduced making the labour market more flexible by reducing the costs of hiring and firing. Also the national strategy on employment introduced various demand side measures by further reducing burdens such as administrative and tax costs.

In Albania, several demand side measures introduced through the action plan against informal employment were implemented in 2004. Incentives to hire workers formally were established, small business taxes were reduced by 50% and social security contributions were reduced for employers. To avoid envelope wages, a reference wage system was introduced, depending on levels of employment of the relevant worker, and wage payments through the banking system were made mandatory. Business registration regulations were simplified in order to give incentives to form formal businesses and to formalise formerly informal businesses. Restrictions in public procurement were introduced, requiring the full declaration of the number of employees and evidence of the payment of social security contributions and personal income tax in order to be eligible to participate in public procurement. Furthermore, Albania is working on introducing e-government, e-procurement and e-business solutions into its administrative system, to ease administrative procedures for formal businesses.

In the Republic of Srpska of Bosnia and Herzegovina, an agency for the Development of Small and Medium Enterprises (SMEs) was established in 2007 and equipped with a strategy for the development of SMEs between 2006 and 2010.

5.1.4 Tax measures

As part of the Economic Reform Program, Montenegro introduced various tax measures to restrict informal employment. The tax system was simplified and various specific taxes were reduced, to give employers and employees more incentive to formalise their relationship. Furthermore, new mechanisms were introduced to strengthen tax payment processes.

In addition the Albanian action plan against informal employment included various measures to enhance tax and customs regimes and administration, to lower the burden on formal businesses and to give informal businesses the incentive to formalise.

5.1.5 Labour Inspection

In the years following independence, Montenegro gradually widened its labour inspection activities. New laws were introduced to oversee new activities. These included a law on tourism inspection, a law on financial inspection and a new law on labour inspection. The National Strategy for Employment and Human Resource Development 2007–2011 included within its measures the strengthening of the enforcement of employment rights and the improvement of occupational health and safety, through labour inspection.

One of the main shortcomings that all Labour Inspectorates have in common in the region is the lack of funding and human resources. The labour inspectorate in Albania for example was only able to cover 10% of all companies in Albania in one year. It found 7% of the total employment in the companies inspected to be informal. This is substantially lower than the estimates for the Albanian labour market. Furthermore, Albanian Labour Inspections, like others, lack empowerment. The Labour Inspectors are not entitled to inspect cases of envelope wages. In Moldova, the Labour Inspectorate advised that they cannot undertake the necessary quantity and quality of inspection due to limited human and financial resources. Legal

initiatives against employers are often impossible due to a lack of resources. Furthermore this restricts the labour inspectorate from undertaking preventive actions against informal employment such as awareness raising and information campaigns.

5.2 Evaluation of measures, challenges and the current situation

Although various initiatives were introduced by the four countries, most of them fell short of what was required and had little impact.

5.2.1 Albania

In Albania, the issue of labour law and labour policies not being adequately enforced has been highlighted in the construction sector. Corruption remains problematic in the public sector, substantially limiting the effective implementation of policies related to informal employment. Payroll taxes paid by employers are not correlated with the payroll lists of the employees, making it difficult to identify tax fraud by employers through the non-payment of contributions, and producing negative effects on the future pensions of employees. Although the survey results in the study show that the awareness among employers and employees concerning the need to pay taxes is growing, it still remains relatively low, as only some 46% of the persons interviewed prefer a full declaration of their income³⁶.

Albania introduced major reforms of its Labour Inspection administration in 2009. The national Labour Inspectorate opened up an internal audit department to increase the effectiveness of its work and resources. Furthermore, the first of 24 planned local Labour Inspectorates were opened, to have a wider coverage of Labour Inspection. Nevertheless, Labour inspection remains underfunded and understaffed in Albania³⁷.

Effective policy implementation and the creation of a functioning dialogue are especially challenging at the regional level³⁸. The Albanian Construction Federation argues that a review of the Labour code is needed in order to establish stronger regional social dialogue and to establish regional collaboration agreements. Albania has yet to establish a Labour Court in which labour disputes could be handled and through which labour rights and working conditions could be challenged and upheld.

5.2.2 Bosnia and Herzegovina

The problem with policy reform in Bosnia remains the country's complicated political and administrative structure and the very limited competence of national institutions. According to the European Training Foundation, it is critical to Bosnia and Herzegovina's development that it overcomes labour market fragmentation in order to achieve a single economic space³⁹. This can only be accomplished if the national institutional environment is further empowered and given more ownership. It is crucial for Bosnia to improve its business environment.

In Bosnia and Herzegovina, as in most other countries, the awareness levels among employers, employees and the wider population concerning the effects and implications of informal employment are very low.

³⁶ Baliu, 2008, p.48

³⁷ Commission of the European Communities, 2009, p.32

³⁸ ILO Report on Tripartite Seminar, 2010, p.8

³⁹ European Training Foundation (ETF), Bosnia and Herzegovina, 2010, p.2

5.2.3 Moldova

During the Chisinau validation meeting with stakeholders involved in combating informal employment in Moldova, a number of policy shortcomings became evident. The Ministry of Labour, Social Protection and Family presented an Action Plan, to be ratified by the Government.

Labour Inspection in Moldova remains weak due to understaffing and limited resources. It remains impracticable to oversee a reasonable number of companies effectively. The Labour Inspectorate instead focuses more on preventive actions through information and education campaigns on informal employment. Nevertheless, resources for even this are scarce and more and better cooperation agreements and frameworks have to be developed with the Social Partners to put this objective into action. The Bureau of Statistics organised seminars for all stakeholders to brief them on the statistical nature of informal employment. It is important to combine the efforts of all stakeholders to create synergies and find a more coherent and coordinated approach to tackling informal employment. Furthermore, the Bureau of Statistics pointed out that awareness is low among workers and employers concerning the implications of informal employment.

The Vocational Education and Training sector remains underdeveloped. According to the European Training Fund, various projects have been undertaken on vocational and educational training by donor countries⁴⁰. Those received little steering and coordination by the Government and this limited their impact. Little investment by the Government into vocational education and training has left it underfunded and poorly staffed.

The project conducted by the ILO, revealed that the National Employment Agencies in Moldova still lack resources and capacities to cope with the challenges provided by the scale of informal employment. The fiscal burden on employers and employees remains high since payroll tax has been increased.

5.2.4 Montenegro

Informal employment remains a major problem in Montenegro. According to employer representatives, in Montenegro the costs of doing business remain a major obstacle to fighting informal employment⁴¹. There is a significant number of unregistered companies in Montenegro, which by their nature cannot be accessed by labour inspection. They represent one of the main creators of informal employment. Furthermore, around 10,000 registered companies do not employ any workers. This is around two fifths of the overall number of companies registered in Montenegro.

The costs of doing business are particularly high after a company has been registered. Various certificates and decisions of several State and municipal authorities are necessary to operate a business. Small employers often cannot cope with the time and financial commitment this requires. It is important therefore that the Government's implementation of the strategy to reduce business barriers is thoroughly followed through, and guided by the social partners. The number of companies increased from around 3500 to 25000 from the early nineties to the present. The resources and competencies of Labour Inspection operations have not in turn increased, making it impossible to provide effective inspection services. The high level of informal employment points to a general lack of awareness of the implications of informal employment among the general population and especially among the key participants of employers and employees.

Another major problem of the Montenegrin and all other Labour Markets discussed is the underdeveloped education and vocational training systems. The education system cannot respond to the changing needs of the labour market and often does not reflect the skills demanded in the world of work. Many people leave school and cannot find a job. They then turn to informal employment. The European Training Foundation specifically criticises the vocational education and training system as being underdeveloped, despite recent

⁴⁰ European Training Foundation (ETF), Moldova, 2010, pp. 6-7

⁴¹ ILO National Tripartite conference, 2009, p.4

reforms. For example, in 2009, people who had undertaken vocational education were more likely to be out of work (44.8%) than those who had undertaken general school studies (17.8%)⁴².

Inflexible labour legislation, high levels of protection of employees and a high level of taxes are identified by the Social Partners as the main causes of informal employment in Montenegro⁴³. The Socials Partners and the Government therefore have to continue to work together on the effective implementation of employment strategies and also consider the review of old and the drafting of new targeted policy measures, especially taking into account the implications of the financial crisis.

5.3 Summary

- General Policies, legal and institutional frameworks
 - Montenegro approaches its labour market reforms through coherent policy packages. These have produced measurable positive effects in the labour market. Lowering informal employment levels has been among the main targets of the packages.
 - Bosnia and Herzegovina has no national set of Labour Laws. The labour laws in the districts are often outdated and vague. It is important that labour legislation in Bosnia and Herzegovina is reviewed and brought up to date.
 - Albania introduced an action plan in 2004 to combat informal employment.
 - Employment policies to combat informal employment have been rather ineffective in Moldova since they were mainly based on passive measures. The National Employment Agencies lack the capacity for effective implementation. Recently an action plan on informal employment citing a variety of measures has been introduced and is to be validated by the Government.
- Supply Side measures
 - Through the Economic Reform program and the National Strategy for Employment and HR, various targeted measures were introduced. Among them are: training schemes for unemployed youth, temporary wage subsidies, job search assistance, reduction of fiscal burdens for employees wages and more assistance to job seekers. These measures have led to tangible results in the labour market. • There is a general lack of active labour market policies in Bosnia and Herzegovina. Vulnerable groups in society are generally disadvantaged as a consequence.
 - Albania has introduced no specific supply side measures targeting informal employment, but certain measures introduced have had a positive effect on it. Among those measures are incentives for employers to hire from vulnerable groups and the reduction of tax burdens on employees and employers.
 - In Moldova efforts to enhance vocational training and guidance for jobseekers were made. In addition, the capacities of the National Employment Agency were strengthened through a recent ILO led project.
- Demand side measures
 - The Montenegrin Government introduced measures in the form of a stick and carrot approach. On the one side there are sanctioning measures such as increased penalties for non-registration, and increased labour inspection. On the other hand there are measures such as reducing barriers to business creation and the introduction of various micro-credit schemes.
 - Albania introduced a variety of measures within its action plan to counter informal employment. Among those measures are the reduction of small business taxes, introduction of a reference wage system, simplification of business registration, restrictions to informal businesses in public procurement and the promotion of e-government solutions.

⁴² European Training Foundation (ETF), Montenegro, 2010, p.4

⁴³ ILO National Tripartite conference, 2009, p.4

- Tax measures
 - Montenegro simplified its tax system, reduced the taxes on employers and introduced new control mechanisms to reduce informal employment.
 - The Albanian action plan introduces various measures to lighten the tax burden on employers.
- Labour Inspection
 - Although Montenegro has stepped up its efforts on labour inspection, most labour inspectorates in all four countries remain ineffective, lacking the necessary resources to cover a large share of the businesses effectively.
 - All labour inspectorates face a lack of human and financial resources to undertake their tasks effectively.
 - Resources are not only insufficient for inspection but also for legal claims and remedial actions by the Labour Inspectorates.
- Despite many encouraging policy initiatives, informal employment has remained high in all four countries. The impact of policies has been weak because the implementation process is badly constrained. Generally speaking, the following shortcomings are identified:
 - The Labour Inspectorate is not sufficiently empowered and is generally underfunded and understaffed.
 - The Social Partners still do not play a strong enough role in the policy making process. Economic and Social councils often lack the empowerment, the resources and the trust of policymakers to have a more significant impact.
 - The Vocational and Educational system is often poorly developed and remains underfunded and understaffed. It is not responsive enough to the demands of the labour market.
 - Various regulations and laws remain impotent and outdated.
 - Especially in Bosnia and Herzegovina, the political environment is strongly fragmented and does not allow for the development of effective solutions at the national level.
 - National Labour Market Institutions have inadequate ownership and are understaffed and underfunded.

6. Industrial Relations and Informal Employment

6.1 Industrial Relations in Albania

In 1993, the first law on Trade Unions was created, allowing the establishment of Trade Unions and their respective federations and confederations. Since 1996, the right to organize freely and the right to strike are codified in the Constitution of Albania (Articles 50 and 51). Article 176 of the Albanian Labour Code grants the right to establish professional organisations, federations and confederations to trade unions and employer organisations. The specific right of employer organisations to establish associations is based on the law of non-profit organisations.

Within the Ministry of Labour, a Directorate of Labour Relations was created whose aim is to encourage and develop social dialogue with the social partners and to mediate conflicting views. Two main Trade Union federations exist in Albania, the Union of Independent Trade Unions in Albania (BSPSH) and the Confederation of Trade Unions of Albania (KSSH). Both confederations act on a regional and national level. Furthermore, a number of sector specific trade unions exist, active in the sectoral collective bargaining processes. Currently there are six main employer associations which are active in social dialogue at the national and regional level. Those are: The Council of Employers Organisations, The Council of Employers Organisations of Albania, The Albanian Constructors Association, The Union of Albanian Business Organisations, The Albanian Organisation of Industrialists and The Confederation of Albanian Industries. The most important tripartite institution is the National Council of Labour (NCL)⁴⁴. Its role is to find consensus between trade unions and employer organisations in order to find acceptable solutions on legislative and employment policy issues.

Although, the structures for industrial relations are relatively developed in Albania, the Government remains the major player in policy formulation, mainly due to its monopolistic role in the pre-transition era. Furthermore, the bargaining position of the social partners' remains constrained due to the decline of formerly large industries, the new prominence of small non-organised companies and enterprises, and the significant level of the informal economy.

The latter is mainly responsible for the fact that tripartite strategies to decrease informal employment remain unsuccessful. The Government has undertaken its own initiatives which were only partly successful. The trade unions of Albania have a history of trying to organise informal workers to claim rights and protection, however these approaches have had little impact. Similarly the employers have not been very effective in confronting informal employment. Only the construction association can claim any success. It has come to an internal agreement on informal employment and created an information campaign on tackling informal employment.

⁴⁴ The NLC is composed of the following Organisations:

On the workers side: the Union of Independent Trade Unions of Albania, the Confederation of Trade Unions of Albania, the Union of Workers' Trade Unions of Albania, the Trade Union of Oil Workers of Albania, the Federation of Education Trade Unions of Albania and the Independent Education Trade Union of Albania;

On the employers' side: the Council of Employers' Organization of Albania, the Confederation of Councils of Employers' Organizations, the Constructors' Association of Albania, the National Chamber of Clothing Manufacturers, the Confederation of Industrialists of Albania, the Union of Investors and Industrialists and the Council of Albanian Agro-business

6.2 Industrial Relations in Bosnia and Herzegovina

Social dialogue in Bosnia and Herzegovina (BiH) takes place mainly at the level of entities and the Brcko district. Social dialogue is governed mainly by the Labour Law, the Law on Strike and the Law on Association and Foundations. The Federation of Bosnia and Herzegovina (FBiH), the Republic Srpska (RS) and the Brcko District (BD) all have their own set of each. The FBiH, RS and BD have each formed Economic and Social Councils for tripartite cooperation. An agreement on a National Economic and Social Council was drafted in 2006, but failed to be endorsed by the Council of Ministers.

At the entity and Brcko District level three main trade unions exist, the Confederation of Independent Trade Unions in BiH, the Confederation of Trade Unions of the Republic Srpska and the Trade Union of the Brcko District. Furthermore, an umbrella organisation consisting of the three confederations has been internationally recognised but has failed to register at state level. On the employers' side, the picture is similar. Four major employer associations exist, namely the Association of Employers in the Federation of BiH, the Confederation of Employers of the Republic Srpska (mainly small and medium size companies), the Union of Employers of the Republic Srpska and the Association of Employers of the Brcko District. In addition, the Association of Employers of BiH has registered at the state level as an umbrella association, having as members the Association of Employers in the Federation of BiH, the Confederation of Employers of the Republic Srpska and the Association of Employers of the Brcko District.

Following the analysis of informal employment in the construction sector in BiH, it was decided by tripartite consensus to create a body to combat informal employment in the construction sector at the level of each entity. Further, a tripartite coordinating board was established under the auspices of the Economic and Social Council of Republika Srpska. It adopted a tripartite Action Plan and a communication strategy on fighting undeclared work.

6.3 Industrial Relations in Moldova

Moldova has a relatively sound legal framework for social dialogue. The right of association and organisation for employers organisations is codified in the Act on Employers No. 976/XIV of 2000 and for Trade Unions in the Act on Trade Unions No. 1129/XIV of 2000. Since 1993, the Collective Agreement Act and the Act on Labour Dispute Settlement have co-existed, promoting bipartite social dialogue and collective bargaining.

The National Confederation of Trade Unions of Moldova and the National Confederation of Employers Associations of Moldova are the representative social partners at national level. The problems with the current system of industrial relations are similar to those Albania is facing, mainly that the system remains too State-dominated. Furthermore, collective agreements are mainly reached in the public sector. Private sector employees are almost exclusively protected by the national labour legislation.

A National Commission for Consultation and Collective Bargaining has been created as a forum for national tripartite consultation. But the Commission lacks resources (it has no secretariat with technical, human or financial resources) and is too poorly structured (meetings are held irregularly) to be an effective institution in tripartite bargaining.

Specific outcomes on informal employment have not yet been agreed upon within the framework of national social dialogue in Moldova. A good example, on which further discussions on the conclusion of future collective agreements on informal employment could be based, is the recent signing of a collective agreement on the elimination of the worst forms of child labour, especially in the agricultural sector. The agreement not only prohibits child labour but sets out clear step by step targets and spells out future research activities and training programs to be designed for the relevant stakeholders to gradually abolish child labour.

The agricultural sector is very important for Moldova's social partners in tackling informal employment. The National Confederation of Trade Unions has highlighted rural areas as one of their key focal points

between 2008 and 2012. Moreover, the National Federation of Agriculture and Food Industry has been positively acknowledged for its involvement in drafting and endorsing the framework agreement on the abolition of child labour. It could be an important actor in accelerating employers' initiatives against informal employment, especially in the agricultural sector.

6.4 Industrial Relations in Montenegro

Before the transition process and before Montenegro's independence, a free and open social dialogue was practically non-existent. The main foundations of a functioning and effective industrial relations system were introduced and implemented in Montenegro only after 2000. Montenegro's industrial relations mechanisms and its actors are therefore still relatively young and inexperienced. Freedom of association is granted in Montenegro's constitution and represents the pillar of industrial relations in Montenegro (Article 40). This basic right is specified in Article 1 of the Labour Law of 2003, which states that employers and employees have the right to form their own organizations without having to ask for permission. Since 2006, the Labour Code has specifically prescribed that collective agreements may be concluded on national, branch and enterprise level both in the public and private sector by the organisations which are considered representative.

The major Trade Union in Moldova is the Confederation of Trade Unions in Moldova (CTUM), successor of the old CTUM, previously the only Trade Union in the country. Furthermore, there are various enterprise and branch level Trade Unions, organised under the roof of the CTUM.

The largest employers organisation is the Union of Employers' Montenegro (MEF). Since there was no employer organisation in existence before the transition, the organisation had to be established from grassroots in 2002 with support of the ILO and the IOE.

Both the MEF and the CTUM have been very active in implementing a functioning social dialogue. Social Councils were created at national and local level. The Social Council on the national level is particularly influential as it gives opinions on draft laws and other legislation concerning the social status of employers and employees which the respective Ministry is obliged to take into account.

On 1-2 September 2009, the social partners, the Ministry of Health, Labour and Social Welfare (MHLSW) and an ILO delegation met for a national tripartite conference within the framework of the Social Council. This focused on addressing the problem of informal employment. As a result, an action plan was drafted, spelling out areas for immediate medium- and long-term action to tackle informal employment. The action plan proposes active and more direct involvement of the social partners in the realization, monitoring and evaluation of all measures and activities as a necessary precondition for the successful implementation of the action plan.

7. Best Practice

This chapter presents an analysis of various measures which have been formulated and implemented by EU Members and other Eastern European countries to combat informal employment⁴⁵. These measures will be analyzed as to their impact on the labour market and their implications for the Government and its agencies, as well as for employers and workers. The illustration of these measures is highlighted through a number of practices from selected European States. The objective is to contrast the practices of the four countries presented with practices of various EU Member States. The practices may serve as food for thought for all stakeholders involved in the policy process to develop new strategies for each labour market to tackle informal employment.

7.1 Measures targeting both supply and demand

7.1.2 The introduction of minimum wages and sufficient wage floors

The introduction of a minimum wage always leads to the fixing of a certain wage floor. There are various forms of minimum wages, and all have different effects on the labour market. There are both formal and informal and general and sector specific minimum wages. A formal minimum wage is statutory; it is declared as part of the national law and is an intrinsic part of the overall national labour law framework. An informal minimum wage is not officially declared but is established through the interaction of other laws and agreements. Those may include various social partner agreements which together build a sufficient wage floor. A general minimum wage is introduced at country level and is binding for every employer and employee. A sector or company specific minimum wage is agreed on at sector or company level and is generally only binding in the specific context it has been agreed under.

Generally, a statutory minimum wage will be more effective in fixing a wage floor than an informal minimum wage. An informal minimum wage is created through a number of different regulations and agreements which interact with each other. This can make it difficult at times to determine the exact rate. Hence, it might lead to legal uncertainty.

A general statutory minimum wage is usually introduced in order to fix the wage floor of one country. Its effects on informal employment are diverse. On the one hand, it can give incentives to employers to declare work at the lower level of the wage spectrum. Consequently, lowering the minimum wage might provide some incentive to declare the work of employees who formerly worked below the previous wage level. On the other hand, a low statutory minimum wage, which is not sector or company specific, will often lead to the occurrence of envelope wages.

The occurrence of envelope wages often leads to serious tax evasion. This can have major implications on the redistribution of social services and the balance of the overall State budget, since large amounts of tax revenue and social contributions are not paid. One solution is to not only introduce a national statutory minimum wage but also sector and company specific minimum wages, which reflect the real income situation of the specific sector or company. Nevertheless, the introduction of minimum wages may lead to an upwards pressure on all wages. Higher wage costs can in return result in higher unemployment levels, which would again lead to further tax evasion.

⁴⁵ The best practices presented are an adaptation of the chapter included in the study on undeclared work in Moldova, compare, Pfau-Effinger, Salvini, Stribu, Roch & Borsdorf, 2009. It is mainly based on the findings of the report "Undeclared work in an enlarged Union"; Renooy, Ivarsson, van der Wusten-Gritsai, Meijer, 2004, pp. 120–190

Usually minimum wages are not fixed as specific monetary amounts but rather as a percentage of the average annual wages of a country. In the Czech Republic for example, the minimum wage in 2006 was fixed at 40% of the average wage. In Estonia, the minimum wage constituted 41% of the average wage. In most countries, the rate of minimum wages increases over the years. For example in the Czech Republic, minimum wages were fixed at 33% of the average wage in 2000. They grew to 38% by 2005 and 40% by 2006. In Latvia, the minimum wage is to be increased to up to 50% by 2010. A common explanation for this phenomenon is that higher wages enhance the incentives among lower skilled and relatively lower paid workers to declare their work. The reasoning behind this is that often wages less taxes and social contributions leave an income which remains below the basic subsistence level of a country. This leaves workers with no other choice but to either not declare their work at all or to only declare their work at minimum wage level and either work a second job undeclared or get a top up wage in the form of envelope wages. In order to prevent this outcome, Romania for example has introduced a range of minimum wages, agreed by the social partners, which not only sets the minimum wage overall or at sector level, but is based on the level of education of workers. Union and employer representatives play a major role in the wage fixing process in many of the European countries (in particular in Romania or Estonia). It is important to incorporate both parties in the process, since only they can determine the real situation of workers and employers, and therefore find solutions which better reflect the economic realities, than a single agency would do.

7.1.2 The diversification of employment contracts

It is often the case that the legal definition of 'employment' in a country does not match the realities of the world of work. "Standard" employment is generally defined as an occupation where the employee is working under the guidance of the employer. The employee works full time, gets full pay and has an indefinite contract. Although this kind of employment contract should remain as the norm, it cannot be overlooked that "non-standard" or "atypical" forms of employment are gaining in importance. Atypical employment generally is every kind of employment which differs in one point or the other from the standard employment definition. Hence atypical constitutes such forms as part-time or minor employment, which are restricted in time and pay, fixed term contracts or agency work, where the traditional employer-employee relationship is not in place. If standard employment is considered the only legal form of employment, all atypical forms of employment are perceived as illegal, hence they will not be declared. Instead of invalidating atypical work in order to retain standard employment, certain forms of atypical work can be legitimised and serve as stepping stones towards standard employment.

In many European countries, employers are shifting significant parts of their employment structures to atypical work. The idea is to gain more flexibility than under standard contracts. In many sectors in Europe, employers hire a high number of agency workers which they can lay off relatively quickly in times of economic recession or decreasing production. Furthermore fixed term contracts are becoming increasingly popular with employers in order to remain flexible. If those forms of employment are illegitimate, many employers might take the risk and switch towards informal employment in order to gain the employment flexibility seen as necessary to remain competitive.

Employees can profit from the legalisation of atypical employment. On the positive side, certain atypical jobs would be created that would not have been created otherwise, giving especially young workers the chance to enter the labour market, gain practical experience and qualify for a standard employment contract. Young workers who are not offered those alternatives might be forced to work in informal employment. Furthermore, many employees could be kept in employment if certain forms of atypical employment were legalised. This is especially the case for older workers, who would otherwise be laid off because of their age, and acquire informal jobs because of a lack of alternatives. As the study has clearly shown, informal employment is especially prominent among younger and older workers.

When certain forms of atypical work are legalised, the Government can expect a rise in tax and social contribution revenue, since it should lead to incentives to declare work. On the other hand, it might be the case that there will be more structural unemployment, especially in times of recession, since workers with atypical contracts can usually be laid off easier than workers with standard contracts. This becomes a problem particularly in times of recession.

In Slovenia, the notion of supplementary work has been codified, in an effort to explore alternative forms of work and employment. An individual can register for supplementary work if his annual income is below the minimum subsistence. Through this, individuals are encouraged to declare extra work if necessary to raise their income and their living standard.

Germany has introduced a comprehensive system to declare minor and low paid employment through the introduction of “mini jobs” and “midi jobs”. A job is considered to be a “mini job” if the employee earns no more than 400 Euro per month. In that case, the employee pays no income taxes or social contributions. The employer pays a reduced amount of payroll taxes. An employee is considered to work a midi-job if he or she earns between 400.01 and 800 Euros. In that case both the employer and the employee pay a reduced payroll tax rate, compared to regular employment.

At the EU level certain working conditions for workers employed in various forms of atypical employment have been fixed. Those directives are mainly based on the principle of non-discrimination towards an atypical worker as opposed to a similar worker with a standard contract. These include aspects such as pay, working time and in-work training. Non-discriminatory measures are crucial for the successful legalisation of atypical jobs, since they minimise the risk that employers simply exchange atypical for typical jobs. Atypical employment remains a stepping stone towards standard employment.

7.1.3 Strengthening sanctions

Sanctioning mechanisms play an important role in the battle against informal employment. The more severe sanctions an employer or a household will suffer if they are found to have not declared work of their employees, the more incentive they will have to declare such work and bear the associated costs.

Sanctions can take various forms. A commonly used sanctioning tool is the use of fines which have to be paid by the employer in the case of non-compliance with the law. In this case it is important that the legal framework is very clear. The definition of what constitutes a criminal offence as opposed to an administrative offence for example, has to be well defined. Other penalties in terms of non-compliance can be the repeal of an employer's license or the empowerment of informal workers to claim a permanent contract if they can prove to have worked for a certain period informally for that employer.

By introducing stronger sanction mechanisms, employers will have a greater incentive to declare work. At a certain point, the cost of getting caught will be substantially higher than the employer's financial benefit from not declaring work.

Employees can benefit from tougher sanctions against employers. Most of all, the awareness that those sanctions are in place can empower an employee to claim his or her rights against an employer. Furthermore, sanctions can serve as a protection mechanism for employees in order to remain in formal employment or as a catalyst to get previously informal employment, formalised by the employer. It is the task of the Government to introduce an effective legal framework to help back up the proposed sanctions.

In many European countries, fines for the non-declaration of work have increased significantly over the years. In Germany for example, the penalties have been increased to up to 200,000 Euros. In certain cases, this level of fines represents a serious burden for employers. In Bulgaria too, fines for employers violating provisions of labour legislation have been increased drastically.

In this regard, Germany has amended the definition of what constitutes a crime in terms of a violation of the labour legislation. The non-payment of social contributions by an employer is now considered a

crime while tax fraud by households, for example through the non-declaration of minor cleaning jobs, is only considered an administrative offence.

Slovenia has empowered workers to help sanction employers in the case of informal activities through its 2006 amendments of the Illegal Work and Employment Act. Under this amendment, unemployed persons or students who work informally are presumed to have a permanent employment contract and are therefore entitled to claim a permanent contract with the employer within 3 days. If the employer is not willing to issue the contract, the employee can take legal action against the employer which in most cases will lead to very high fines for the employer.

7.1.4 Extending control measures via inspection

In order to tackle informal employment and to gather useful information about the nature and extent of informal employment in a particular country, a functioning and effective labour inspectorate is crucial. For the operation of a successful labour inspectorate, it is important to have reliable registries. Sufficient resources have to be dedicated to collecting appropriate labour market information which is then channelled to the inspectors to enhance their work. Registries furthermore have to be coordinated with each other to share knowledge effectively. To further the work of the labour inspectorate, it is crucial that cooperation is in place with other State actors involved, most notably, police authorities, border control and other Government agencies. All agencies must have clear instructions and targets concerning their role in the inspection process and their collaboration with other authorities in order to ensure the smooth operation of all actors involved. It is not only important to create sufficient horizontal networks, but to also strengthen the cooperation through vertical channels. Therefore it is important to create viable links between the inspection agencies and regional and central Government authorities in order to enhance the policy creation process at all levels. A sound and supportive legal framework can strongly contribute to the work of labour inspectorates. This is especially so for domestic workers, who are generally considered a significant at-risk group in terms of informal employment. Therefore authorisation procedures for inspection in companies and private homes must be executed as effectively and quickly as possible.

An effective system of labour inspection ensures that the rights of employees are upheld. In most cases, employees do not take claims against their employers if their rights at work are not honoured and their work is not legally declared. In the spheres of the lower educated and lesser paid this is often due to a lack of awareness of individual rights and sanctioning mechanisms. An effective labour inspectorate can help to at least partly redress this imbalance.

For employers, labour inspection is essentially a sanctioning mechanism. Employer non-compliance with the law, specifically the principle of declaration of work, is sanctioned, based on the findings of labour inspectors. Therefore, the presence of a well-organised and effective labour inspection administration can help increase the declaration of work due to the employer's fear of penalties which could seriously affect their business activities. Nevertheless, labour inspection can also have negative effects on the employer's side. Inspections which are un-coordinated and overly intrusive can distract the employer from focusing on business activities. Small and mid-size companies are most at risk, since they often lack the human and financial resources to halt their business activities for a certain amount of time, for the sake of labour inspection.

It is the role of the State to supply sufficient resources and ensure the existence of a coherent legal system for the operation of a national labour inspectorate.

Many European countries have taken specific measures to strengthen labour inspection administrations. Germany for example extended the competencies of its customs authority by giving it certain prosecution and policing functions. Furthermore, in 2004 a single tax enforcement unit was created which collaborates with the German labour inspectorate. In the Czech Republic, inspections at the workplace and in companies have been facilitated between employment offices and the labour inspectorate. Denmark intensified control measures against informal employment in 2004. This was backed up by legislative reform in 2005, which

made it easier to detect anomalies and impose sanctions on informal employment. The law for example gives tax authorities stronger rights in accessing workplaces, especially construction sites.

Cooperation between different authorities involved in the inspection process, has been a major aim of many European states. In Slovenia, joint actions between at least two supervisory bodies have been encouraged. This is supposed to make the actual process of inspection more effective and speedier, and less intrusive for employers. Furthermore, cooperation between supervisory authorities in charge of monitoring informal employment has been enhanced by better information being passed on to the inspectorates. In Latvia, the State Revenue Service and the National Labour Inspectorate have signed cooperation agreements for information exchange and cooperation to facilitate the process of collating, supplying and using relevant data for the labour inspections. For this, the State Revenue Service has included in its action plan specific measures to tackle envelope wages in particular through such strategies as reminders, explanation requests, interviews and seminars.

7.1.5 Simplified Tax regulations

Payroll taxes can constitute a major financial burden for both employers and employees. High taxes on both employers and employees can be one of the major drivers to informal employment. Therefore, payroll taxes have to be fixed in a way that produces a balance between sufficient revenue to sustain a balanced State budget and not overburden employees and employers to an extent that the non-declaration of work becomes a preferred option. In many cases, it is not just the amount of taxes that have to be paid but also an overly complex system of determining actual tax rates. There is too much bureaucracy involved in order to make the payments and this burdens both employers and employees alike.

Employees can of course gain substantially from lowering taxes and simplifying the payment mechanisms. First of all, the employee gets to keep more of his gross income. Workers with lower incomes can benefit considerably since in many cases their net income is not enough to make a decently living wage. So, especially vulnerable workers and low skilled workers in lower income groups should get relief. Furthermore, simplifying and making tax payments more transparent can have a positive effect on the declaration of work. When employers know what is deducted from wages and what benefits they apply for in return, the declaration of work is more attractive.

Although high taxes do not necessarily lead to a higher amount of informal employment in a country, they can seriously burden a company's competitiveness in the market. Interestingly, Sweden has a relatively high payroll tax rate but still a low share of informal employment. Small and mid-size employers often struggle to bear high tax costs for the employment of their employees. High taxes can be an incentive for employers to not declare work. If the tax burden is lowered and its payment simplified, employers have an incentive to declare work.

Governments must walk something of a tight rope to fix taxes at the right level. Higher tax rates lead to higher revenue per person taxed but might also lead to a higher level of informal employment and unemployment. Lower tax rates might produce lower revenues per person taxed but provide more incentive to declare work and also help businesses to remain competitive. Nevertheless, too low a tax rate can lead to an imbalance in the overall budget and have serious implications on State spending.

Overall, payroll tax rates have been reduced by a number of European countries over recent years. In Bulgaria, payroll tax has been reduced from around 45% in 2000 to 31.7%, although original plans were to abolish payroll tax overall. In Western Europe, taxes have been gradually reduced; in Denmark for example from 45.5% to a current 42.9%.

Many countries have specifically reduced income tax rates and the levels of personal non-taxable income of workers. Estonia has reduced the overall income tax rate for employees from 26% in 2004 to 20% in 2009. The Czech Republic reduced personal income tax rates for the two lowest income brackets.. Similar reforms have been taken place in Spain. In some countries the untaxed monthly income level was increased, so that the payment of taxes does not put an employee into poverty. This has been the case in Latvia and Bulgaria.

Furthermore, some countries have consciously tried to simplify their tax regulations. Slovenia has lowered the number of tax brackets in terms of personal income tax from 5 to 3 to simplify the actual tax rate. In Estonia only one unique tax rate is applied to all income earners.

As a further example Latvia has plans to substantially reduce the tax burden and simplify tax procedures for especially small and mid-size companies. The idea is to raise their competitiveness and to improve their market position, especially in respect of competition with larger firms.

7.2 Measures, mainly targeting the demand side

7.2.1 Simplifying guidelines and regulations that burden employers

Complex and numerous bureaucratic procedures can represent a major obstacle in expecting employers to declare work. This is the case for both employers who want to declare the work of their employees and future employers who want to register a new firm. The main objective therefore in simplifying guidelines and regulations is to make registration procedures for employers more effective and easier to complete. This can be accomplished in a number of ways. The procedure itself can be simplified by reducing the number of steps that have to be taken to register a business or an employee. Furthermore the service delivery can be substantially improved through making effective use of new communication technologies such as online supply of registration forms or various services and information materials.

Through a simplified bureaucracy, employers have more incentive to declare employee work and their own business activities. The employer will save time and money when bureaucratic procedures are sped up and simplified. Small and mid-size firms can save much from such measures since the burden on them is substantially higher than that on large firms, mainly due to a lack of financial and human resources to properly process with the various obligations.

For Governments, the simplification of guidelines and regulations necessitates, at least initially, considerable investment. There has to be spending in new technology such as computers for the agencies or a full coverage internet connection. Furthermore, internal procedures have to be reviewed and staff retrained to work effectively with the new guidelines' and procedures. Nevertheless, the investment will surely pay off. The agencies will be able to use their own resources more effectively through higher quality procedures and therefore be able to deliver better services.

Poland introduced the so called "Klaska package" in March 2007. The aim was to remove barriers to the creation of entrepreneurship and to simplify the system of economic activities. The package included various measures. One single registration form was created for every entrepreneur who wants to start an economic activity, in order to make the registration process more fair and transparent. Furthermore, the electronic data transfer between agencies was to be enhanced to speed up the registration process and application forms for registration were made available online.

Many countries have invested considerable effort to make stronger use of the internet in delivering services to employers for business registration. Estonia has strongly promoted IT solutions in the provision of public services. In combination with a simplified commercial code, it is now possible to register a company within just two hours. Furthermore, since 1999 it is possible for employers and employees alike to file tax returns and tax statements online. One of the most developed countries in Europe in terms of the provision of public services through the internet is Belgium. It has a centralised information system for the payment of social security by employers and employees. Belgium has introduced a unique registration procedure for businesses online through an electronic single starter notification system (DEUS) which is based on one centralised register of economic activities. Furthermore Belgium has introduced an immediate electronic declaration of personnel (DIMONA) and a simpler declaration of workers revenue (DMFA), all online, to reduce the bureaucratic burden on employers.

7.2.2 Incentives for employers, firms and households to transform informal into formal employment

Employers or households often do not declare certain forms of employment since they regard them as minor and in some cases would otherwise not provide the job, since declaration is perceived as being too costly. These include housekeeping jobs, gardening and other forms of minor employment. The aim of Governments must be to create incentives for employers to declare every form of employment, no matter if minor employment or otherwise. Incentives can be given in various forms. They can be given in the form of subsidies, so that the State pays a certain amount of the overall wage of the worker. Similar to subsidies are systems of vouchers, which can be purchased by employers to employ someone for a limited period of time, through which the wage is partially subsidised. Besides subsidising employment, another outcome of this initiative is the promotion of corporate social responsibility.

Through wage subsidies and voucher systems, employers are given incentives to hire especially low skilled or previously unemployed workers, who in return receive valuable work experience. It makes the creation of jobs, which would normally not be profitable for the employer due to high labour costs, attractive to employers across all fields of the economic spectrum. Promoting corporate social responsibility can help create awareness among employers that declaration of work should be standard procedure and creates an overall business climate in which the non-declaration of work is seen as a breach of conduct.

Wage subsidies and voucher systems will first of all create costs for Governments. Nevertheless, paying those subsidies might be less costly than not paying them. Workers who are not subsidised, especially in the lower paid spectrum, are most in danger of becoming unemployed and that can put an even bigger burden on the State. Through subsidies, the unemployed can be put into jobs and some will remain in employment providing them with valuable work experience in order to qualify for higher, non-subsidised jobs.

In terms of corporate social responsibility, Romania has been one of the forerunners in the region. Romania introduced a directorate for corporate social responsibility within the framework of the Ministry of Labour. The aim of the directorate is to advocate legal employment and decent wages among firms. In order to accomplish that, it uses an enterprise by enterprise approach. This is a relatively complex and unwieldy approach, since customised strategies have to be worked out for each enterprise. Nevertheless, if the approach is used mainly for larger firms in the country, it can be successful. Major firms can serve as pioneers of good conduct and can promote this through their national contracting behaviour, that is, by only cooperating with other (small and mid-size) firms which are similarly socially responsible.

Wage subsidies have been a useful tool in Europe for restricting informal employment. In Poland for example, tax allowances were introduced for households that legally employ persons for domestic help. Also in Denmark, a scheme was introduced which paid wage subsidies to households that buy household services. The scheme was at one point limited to people in need, such as old aged or disabled persons. In light of the wide demand for those services, it has been recommended that the scope of the scheme be broadened to other groups of the population.

In Poland, the Czech Republic and Belgium, schemes have been introduced to allow unemployed to work minor or part-time jobs while receiving unemployment benefits. The idea is to encourage employers to re-employ unemployed persons legally through paying unemployment benefit as a form of wage subsidy for a fixed amount of time.

Systems of labour vouchers have been introduced by countries such as the Czech Republic and Belgium. The idea is to give employers a less-bureaucratic and cost saving alternative to hiring workers informally. Especially in Belgium, the measure has been heavily subsidised with the State spending around 21 Euros for a one hour voucher, which costs the company around 6.70 Euros. On the basis of this, voucher systems have met criticism as being too expensive and that stronger tax cuts for employers instead would be more effective.

7.2.3 The creation of information campaigns targeted at employers to raise awareness of the importance of declaring work

It is often the case that employers are not aware of the importance of declaring work and the sanctions that they may face. The public tend to ignore the issue and there is no community pressure on employers employing workers informally. Public information campaigns can help to overcome this through raising awareness on both the side of the public and the employers. Various forms of media, such as print, television or the internet are used by the majority of the population on a regular basis. Effective media campaigns which target the specific group through selected media sources can thus have a strong impact on the public debate and exert pressure on employers that employ informally.

Information campaigns put pressure on the employers. By publicising undesirable employment conduct and advocating desirable conduct, those employers identified will be regarded negatively in the public forum. This has the potential to seriously hinder their business activities.

Governments should focus on campaigns that are effectively received by the public. It is important that strategies are created which define the target group to be reached and select media sources through which campaigns can be accomplished most effectively. This requires a considerable use of human resources from the Government side, in conjunction with a sufficient budget to fund the campaign.

Various countries have initiated information campaigns under different names, though mostly with similar goals. Bulgaria undertook a campaign called: "In The Light" which included promotion of public awareness of formal employment and the publication of legitimate and transgressing employer's names. A similar campaign was carried out in Slovakia. Latvia called its campaign "Work Contracts Work". It mainly published information material through the mass media to advocate the most important legal aspects of work relations. Denmark launched a major campaign under the title "Fair Play" to raise awareness about the negative aspects of informal employment. This included publicity about control measures such as labour inspections on the website of the Ministry of Taxation. Furthermore a major mass media campaign was launched through TV spots and newspaper articles, especially targeting the employment of young workers and non-Danish employees, which publicised the nature of illegal work and pointed out its negative effects such as tax evasion and unfair competition.

Estonia ran a campaign which mainly focused on employers. In 2005, the Estonian Customs Board initiated a major study about the tax behaviour of a sample of Estonian companies. Companies with relatively low wage rates and negative tax behaviours received a notice to change their conduct without any punishment. About half of the companies contacted complied.

Germany implemented a campaign based at the regional level and strongly included the major stakeholders, with particular focus on the construction and transport sector. The campaign, called "Alliance Against Informal Employment" aimed to create a regional alliance with a general declaration for the particular region and industry including raising awareness of the consequences of informal employment, advocating fair competition, establishing rules for regular tax payments by all companies and to enforce legal regulations and minimum standards. The partners furthermore agreed to publicly denounce employers who do not declare work.

8. Policy Recommendations

The informal sector is a heterogeneous phenomenon and the present research has confirmed that there are different causes and modes of operation, which characterize undeclared work in the countries in question. The policy mix may vary extensively from country to country, according to the characteristics of national and local labour markets and the capacity of institutions to provide incentives to comply with formality and to enforce the law. Therefore, no one-size-fits-all solutions can be identified and policy recommendations should be custom-tailored to the local country context. Further, the findings of the country studies confirm that undeclared work has an impact on a large section of the population, even though the degree of impact varies and different groups have different potential for entering formal employment. Young jobseekers, older workers, persons with various skills levels from both sexes are all affected, with the notable exception of Moldova, where there is a significant number of women in the informal economy.

The governments of the four surveyed countries responded in different ways to the challenges of undeclared work. Relevant strategies and measures have been adopted to respond to the scope of the informal economy in each country; however there is little evidence on their effective enforcement and their impact is still to be assessed. The experience in the EU member states can provide useful guidelines and indications for policy action, provided that the measures have a social consensus and are aligned to the capacity of the local institutions to implement them. In other terms, it is necessary that the adoption of a policy for combating undeclared work does not simply select measures that have been successful in other countries, but is coupled by a political, social and technical feasibility for effective implementation. Monitoring and evaluation procedures should be introduced as a routine. Further, specific actions should be streamlined in the national policies framework, combining measures in different policy spheres. Specific ad-hoc measures to increase quality of work need to blend actions on both the supply and demand sides of the labour market. The variety of experiences in the EU shows that there is no one-size-fits-all solution. This requires strategies, elaborated together with social partners, which combine a well coordinated approach among administrative authorities, awareness raising, prevention and effective sanctions enforcement.

8.1. Structural reforms and institutional settings

As in many EU countries, there is a high correlation between the size of undeclared work and the general income level. Hence, a vibrant economy helps to prevent informality while poverty and weak institutions contribute towards its spread. Therefore, efforts should be targeted primarily at the development of democratic institutions and the stabilization of economic conditions in general. An effective and transparent institutional framework is a key prerequisite to attract investments and to the creation of a conducive business environment in order to fuel economic growth and job creation. Since undeclared work is especially prominent in rural areas, specific development plans and measures should be adopted to promote rural development. Donors' cooperation in this field would be very useful; however any pilot project initiatives should lead to systemic reforms in order to ensure sustainable impact.

A crucial element for the success of any policy or action plan combating undeclared work is that it is adopted through a consensus-building process involving all stakeholders such as the social partners. These should not only constitute control and sanctioning mechanisms which are not sufficient in light of limited financial and human resources; rather a carrot and stick approach should be chosen, also offering incentives to employers and employees to move from informality to formality, such as the introduction of cooperate social responsibility schemes or labour vouchers schemes, as explained in the best practices section.

Policy coordination and transparency represent the objectives likely to build the ground for enhanced effectiveness of any measure related to the governance of the labour market and in addition, should be seen as a pre-condition to increase effectiveness and efficiency of public policies, reforms and investments.

Empowering labour market institutions in a way can contribute towards more accountability and a more efficient operation of those actors. Through increasing the transparency of those institutions, simplifying their procedures and defining their tasks more clearly, the scope for corruption can effectively be narrowed down. Furthermore, a code of Ethics, can add towards fighting corruption in public agencies and institutions. Better coordination and cooperation between national and regional concerned governmental agencies, e.g. Employment agencies, the Labour Inspectorate, the National Bureau of Statistics, tax authorities and others can help to better organise the work between the institutions and give every institution the opportunity to profit stronger from each other. Especially the sharing of information, knowledge and expertise has to be channelled. One possible way forward in this respect is the setting up of inter-institutional co-ordinating bodies on the subject matter of informal employment to share information and approaches and to plan joint interventions. Those bodies should also include the Employers' and Workers' organisations to share their specific expertise in the world of work.

Social partnership is one of the main preconditions for the design and implementation of policies in the field of combating undeclared work. It is key to include the expertise of the social partners to more accurately design better targeted solutions. The Economic and Social Councils, existent in all four countries should be used as forums for discussions. The outcomes of those discussions should be included in the policy making process to the largest extent possible. In addition, the Social Partners have to extend their efforts to lower the level of informality within their sector. First of all, it is important that the Social Partners are given a large stake in the process of awareness raising. The Social Partners at all levels should agree on the content of the campaigns, so that they target employers and workers alike. Efforts to organize informal workers should also be increased.

The Social Partners could offer services and counseling to attract new members, creating targeted solutions to move from informality to formality. It is important that effective wage bargaining at the branch level is taking place. Only through effective wage floors which reflect economic reality and provide for a decent living standard of the workers, can undeclared work and especially envelope wages be effectively diminished.

8.2. Awareness raising

Awareness raising campaigns are particularly important in order to illustrate the negative aspects of undeclared work and to decrease its acceptance among the population. It is important that awareness raising campaigns are on one hand targeted to specific audience and on the other also try to reach as many people and groups as possible. Therefore, the approach to awareness raising campaigns should be multifaceted and include different forms of media in order to reach its specific target in the most effective way. The social partners can form regional partnerships, preparing information material, outlining the specific implications of undeclared work in a region or sector, while also offering guidance and indications to employers and workers to how to move away from informality. A code of ethics could be produced on a regional or national level for employers. Those employers who strictly comply with the code would be officially referred to and publicized, serving as role models.

A particular effort should be dedicated to demonstrating the nexus between taxation and benefits to enable citizens to readily perceive the returns, in terms of services provided. One example is the pension system where there is a clear relationship between the money earned and the building up of pension funds. The awareness raising on this particular link would contribute to a better understanding of the fact that pension benefits are proportional to the contribution to the social security fund and to the size of the salary from which the contribution were paid. The improvement in quality of social services could also reduce the incentive to enter informality. However, an increase in the type and quality of social services requires more resources coming from both taxation and social contribution. The information campaigns may further enhance the understanding on this issue. Explaining the rationale for paying taxes and social security contributions through regular awareness raising campaigns per se is not sufficient. These efforts should be

part of an ongoing process, together with continuous strengthening in the credibility and effectiveness of socio-economic and labour market institutions.

8.3. Prevention

The efforts to curtail undeclared work comprise measures aimed at convincing the actors in the informal economy of the risks associated with breaching the rules. In order to be effective, prevention measures should be linked to effective enforcement mechanisms and tools, including adequate level of sanctions for those who refuse to comply.

8.3.1. Labour Inspectorate

A positive policy approach through incentives and facilitation of the emersion from informality needs to be harmonized with a more effective set of sanctions. With this regard, the role of the Labour Inspectorate Service should be further reinforced. Strengthening the labour inspection system, with a view of implementing a reform to upgrade all its functions should be pursued within the broader reform plan of the Government. Better coordination and more incentives towards cooperation with inspection authorities will facilitate the compliance process. The Labour Inspectorate should cooperate with the National Bureau of Statistics, tax authorities, the National Employment Agency and other institutions to share information and coordinate its work more effectively. Greater financial and human resources should be deployed at the Labour Inspectorate in order to ensure a wider coverage and more effective control mechanisms. Furthermore, the Labour Inspectorate should adopt a more multidisciplinary approach to the workplace visits. Interdisciplinary inspection teams should be organised, combining expertise in working conditions, occupational health and safety and social security. With a particular reference to the case of Montenegro (see Annex I), it is important that policies empowering Labour and Tax Inspections are implemented, taking into account the high level of irregularities found in companies in the countries covered by this study.

Labour inspectorates are often significantly understaffed for the wide range of tasks within their mandate and the economic crisis may be further increasing their workload, yet labour inspectors are called upon to fulfill their tasks. Strengthening labour inspection systems is therefore, more than ever, an integral part of the crisis response as noted in the ILO Global Jobs Pact, adopted by the International Labour Conference in June 2009.

Another mechanism used to improve detection is the “social identity card”, which has been introduced in countries such as Belgium, the Czech Republic, Finland, Italy, Norway and Sweden, which contains social and economic data from different administrative datasets. This tool will facilitate the work of inspectors since every employee will have to show the card with his or her latest employment data. The national authorities will provide identity cards to those workers for whom social security has been paid.

8.3.2. Sanctions

Sanctions against employers are an important mechanism to diminish undeclared work. However, sanctions should be a last resort. They should be properly designed and applied in a proportionate manner. On one hand, fines which are too low may have no impact on enforcing compliance and on the other hand, if sanctions are too high, they may lead to the employer’s insolvency. Therefore, the specific level of fines should therefore be determined in cooperation by various actors, such as the Ministry of Labour, tax authorities and the Social Partners. The description of fines should then be codified within the Labour Law and made known to all employers.

8.4. Facilitating compliance

This approach seeks to encourage 'good' behavior in tax and social contribution compliance. This could be achieved through preventative and curative measures. The former includes the simplifying of regulations, introduction of new categories of legitimate work, provision of business support and advice, tax incentive. The curative measures could include amnesties to those who accept to regularize their position, business advisory and support services to those seeking to formalise their activities, and a range of targeted direct or indirect incentives encouraging customers to use declared rather than undeclared work.

8.4.1. Prevention measures

Fiscal burdens on employers and workers are one of the main reasons for the especially high level of informality among self-employed persons. Too high a fiscal burden in the form of payroll taxes and social security contributions can have serious implications on the competitiveness of a company. This is why many employers prefer to pay a certain amount of wages in the form of envelope wages or operate entirely in informality. This can potentially distort competition on the market since the employer who does not pay taxes has an unfair competitive advantage over businesses that are compliant. Lowering payroll taxes and social security contributions can in some cases raise compliance and as a result the overall tax revenue can be potentially increased. Fiscal reform should also include possible fiscal stimulus measures, especially for small and mid-size companies. These can include favourable tax and credit schemes, especially for newly created small businesses. This would make it more attractive to formally start up a business activity and help newly created small companies to become competitive over shorter periods of time. Last but not least, it is also important to ease compliance by revising and simplifying legal and administrative requirements, such as registration and licensing. In fact, the transaction costs to comply with regulations (in terms of time, money and expertise), especially for small businesses, can become severe.

It is important that policies of remuneration and salary are adapted to address the implications of undeclared work. Clear economic indicators have to be developed and measured on a regular basis to assist the social partners in their discussions on the setting of minimum wages. Close cooperation with the national agency responsible for statistics should also be based on the comparison of minimum wages and average wages in specific sectors and regions. As successfully experienced in Estonia, a notification letter may be sent to the employers in the sectors in which data shows possible envelope wages, informing on the discrepancies and asking for voluntary revision. For those who will not accept, strict control measures need to be in place.

Wage payment through the banking system should be encouraged, since this is an efficient way for the State to properly control payments of taxes and social security contributions. Tax and other payments could be better controlled through the introduction of e-government solutions. Additionally, the introduction of a coherent database on employment contracts is recommended, including individual and collective agreements. This would improve the effectiveness of joint control mechanisms of the labour inspection and the tax authorities and facilitate their efforts in identifying informal activities.

8.4.2. Curative measures

It is also necessary to establish a set of positive incentives for moving from informality to formality. Opportunities granted by the Government for voluntary transition from undeclared work into formal activities should be done in a way which is attractive for companies in terms of no additional costs and no risks of sanctions. Specific, well targeted schemes should be designed allowing informal workers and employers to enter formality. Individuals and businesses can be given a specified period of time, during which they can enter into the formal economy without sanctions. The management of these measures should be as simple as possible, avoiding unnecessary bureaucracy and over-regulation. According to experiences in various EU

member states, such as Italy, Belgium, and Germany, a system of incentives may also be coupled with the establishment of a specific organization, possibly created jointly with the social partners, in order to assist small-scale entrepreneurs emerging from undeclared work, by offering tutorship and counseling services. Training packages could be designed and implemented to facilitate the skills adaptation of the staff in the enterprises, increasing the capacity of the firms to compete legally on the market. Training vouchers can also be provided to meet the training needs of individual employees.

The emersion from informality could be also facilitated through the launching of amnesties that will cancel previous periods of undeclared work, provided that the entrepreneurs are willing to voluntarily disclose that they have been working informally. This approach allows undeclared workers and enterprises to regularise their situation with respect to issues such as tax, labour, safety, and social security contributions. The introduction of amnesties should be carefully assessed, and should make part of a coherent package of measures, negotiated with the social partners.

Introducing new categories of legitimate forms of employment can help formalise activities which were not previously recognised by labour law. These may include such forms of employment as part time work, home work or temporary work. In most EU countries, those forms of employment have been recognised as legal forms of employment in creating flexibility in the labour market through the “flexicurity” approach. The legitimisation of such activities makes it easier for workers who work atypically to formalise their employment and as a result often contributes towards moving into typical formal employment. Most importantly it helps to expand legal protection to workers in atypical employment relationships. The experience from EU countries demonstrates that the introduction of non-standard forms of employment such as “on-call” employment, agency temporary employment, small jobs or household tasks, or picking and selling fruit (Slovenia) and mini-jobs with a fixed earning threshold (Germany) have proved to be successful in reducing undeclared work. The identification of such jobs to be legitimized is country-specific and solutions should be agreed with the social partners in order to ensure adequate solutions on pay, working hours, exposure to risks and accidents at work.

8.4.3. Targeting customers with indirect tax measures

One way of encouraging consumers and businesses to use declared work is to reduce value-added tax (VAT) on specific goods and services where undeclared work is widespread: e.g. in Finland and Italy there is a reduction of VAT in the sphere of building renovation and maintenance. A similar approach could be adopted regarding outsourcing of domestic services, such as housekeepers, babysitters or gardeners. While households can claim some tax deductions, the domestic workers themselves could benefit from social and health insurance contributions.

8.5. Other measures

8.5.1. Introduction of more active labour market policies

The analysis of this report shows that one of the major obstacles to moving from informal to formal employment is a lack of adequate skills. Active labour market measures should be guided towards upgrading of skills to enable job seekers to enter the formal labour market. Public works should be used to develop specific skills demanded in the formal labour market. The analysis has further shown that a large share of informally employed workers receive unemployment benefits. Hence, passive labour market policies should be coupled with more active measures, since passive measures alone are generally not that effective tool in reducing informal employment.

8.5.2. Introduction of policies specifically targeting the construction sector

The country studies have demonstrated that undeclared work is endemic in the construction sector. Legislative changes and better implementation via a more empowered labour inspectorate can contribute towards reducing informality in the construction sector. Policies requiring legislative modifications should focus on issues of licensing and sub-contracting. The introduction of mechanisms such as mandatory Social Security Identity Card and a more empowered Labour Inspection would considerably enhance the enforcement of such policies.

8.5.3. Introduction of policies specifically targeting the agricultural sector

Another sector that needs specifically to be targeted is agriculture, which presents the highest level of informal employment in all four countries. The prevailing characteristic of traditional agriculture is the small scale of enterprises for which the challenge is to increase productivity and reduce vulnerability. This could be done by providing technical and financial support for rural development, as it has been planned in Albania, through the introduction of a specific law for rural development, linking incentives (grant facilitation, credit lines, and tax reduction) to the full compliance to tax and social contribution rules. An interesting practice has been introduced in Italy through the Service vouchers in agricultural sector which allows for regularisation the students and pensioners who supply their services on an occasional basis during the grape harvest season. The success of these schemes brought to the extension of this approach to other sectors and activities – such as private coaching, gardening, seasonal work by young people and door-to-door deliveries.

9. Conclusion and the way forward

Through the joint ILO-Irish Aid technical cooperation project “Tackling Undeclared Work through Social Partnership” the tripartite constituents in Albania, Bosnia & Herzegovina and Montenegro have taken stock of the current challenges in transforming undeclared work into regular employment, and have built partnerships to tackle undeclared work at national and in Bosnia and Herzegovina at entity level.

Memoranda of Understanding have been signed in Albania and Montenegro to formalize tripartite alliances, while a tripartite coordinating board on curtailing undeclared work has been established under the auspices of the Economic and Social Council in the Republika Srpska.

National and regional (Albania and Montenegro) and entity level (Republika Srpska) awareness-raising campaigns on the negative effects of undeclared work have been targeted towards the general public as well as workers and employers in the three countries. This is seen as a critical component of the Tripartite Action Plans alongside the design and implementation of necessary legal and institutional changes.

The social partner organizations in the three countries have actively engaged in the introduction of an enabling legislative environment and the development of tools to promote awareness among their members in tackling undeclared work. Synergies with ongoing projects (ITUC and BWI) have also been realized.

In all instances, common denominators in the responses to undeclared work have been political will and inclusive horizontal and vertical alliance-building. These have proved to be crucial when addressing the issue of informal employment.

Lessons learned during the implementation of the above-mentioned Tripartite Action Plans, and the social partners' own initiatives, have been shared, along with the acknowledged good practices developed in Turkey as a follow up to the 2005-2008 ILO-EU project on undeclared work, at a sub-regional tripartite workshop, held on 25-26 November 2010 in Istanbul.

One of the conclusions of the workshop was that further action was needed in order to develop the required legal and institutional frameworks and to establish a culture of compliance which would enable the attainment of sustainable outcomes.

Such action should target specific categories of economic units and workers, and should be decentralised to the level of regions or municipalities in order to be as close as possible to the problem. Conclusion of territorial/local pacts on addressing undeclared work is seen as a possible path to pursue.

Self-employed and micro- and small enterprises, mainly in agricultural and construction sectors, have been identified as economic units being most exposed to undeclared work. Workers in atypical forms of employment, which are uncovered by current national labour legislation (e.g. home workers, casual workers, rural workers, family workers), low skilled workers, youth and older workers, long term unemployed and women are at most risk of being informally employed and thus unprotected.

There was consensus among tripartite participants in the Istanbul workshop that the appropriate response to undeclared work is a holistic and integrated intervention of labour administration and other concerned stakeholders, in line with Labour Administration Convention, 1978 (no. 150) and the ILO Resolution on Decent Work and Informal Economy, 2000.

Annex I:

Summary of the Report: Addressing the Problem of Undeclared Work in the Albanian Construction Sector through Social Partnership

1. Economic background of Albania and the Albanian construction sector

In previous years the Albanian economy grew at a rate of 5% to 6% and had a steady unemployment rate of around 13% to 15%. Inflation was kept under control and tax revenue rose steadily. Services, transport and the industrial sector traditionally were the main contributors to economic growth. However employment growth was not as successful, Albania having undergone more or less a period of jobless growth. In previous years, construction sector companies had been growing strongly but this scenario has declined in recent times. Most construction sector enterprises are small, between 1 and 9 employees. Only a very small number of large companies exist in Albania.

2. Industrial Relations in Albania

The Right of Association of Employers and Employees and the Right to Strike are codified in the Constitution. The right to form trade unions and employer associations is codified within the national Labour Code. The most important institution involved in the industrial relations process in Albania is the Ministry of Labour, Social Affairs and Equal Opportunities, specifically the Directorate of Labour Relations. It is responsible for setting the legal framework for Industrial Relations and the Social Dialogue in Albania. Other important institutions in the social bargaining process are the National Employment Services, the Social Insurance Institute, the National council of Labour and others.

The first law on trade unions was approved in 1993, enabling them to be established. There are two major Trade Union confederations on national level and 10 to 15 federations according to their specific trade. The degree of unionized employees varies from 25% to 30% depending on enterprise distribution, workforce concentration and trade union activities. In 1994, the first employer organisation, the "Confederation of Businessmen in Albania" was established. Six other major employer organisations are recognised by the Council of Labour. The Government still plays a dominant role in managing the economy. Its influence on working conditions, wages and the like is still considerably stronger than the Social Partners'. The Government has retained a tight grip on the economic reform process consistent with its long tradition of central control. The national Council of Labour in Albania consists of 7 Ministry representatives and 10 representatives of the Unions and the Employer organisations. Its tasks are to find acceptable solutions between the partners, especially in regards to national policies and legislation.

Besides the strong influence of the Government, the social partners in Albania face various other

problems. The representivity of unions and employer organisations is relatively low in most sectors and regions, especially in the construction sector.

3. The Nature and Extent of Informality in Albania

Statistics supplied by the OECD, the OSCE, the EU and the Council of Europe show that the level of informal employment is higher in Albania than in its neighbouring countries. Within the country, no definition on informal employment is agreed upon. Therefore no reliable national statistics on the level of informal employment exist. Nevertheless, the national statistics provide various indicators on the extent of informality in the Albanian economy. It is clear from the statistics that an overwhelming number of companies pay minimum wages to a large share of their workforce. This indicates the widespread practice of envelope wages in Albanian companies.

International experts analysed the issue of informal employment in Albania and agreed that various factors contribute to informal employment. Among these are: complex legal and administrative regulations, high overall taxes and social security contributions, a lack of trust in the institutions and administrative procedures, a lack of access to formal property, a long-term decline in the tax-paying ethic, and a broad acceptance by the wider public of illicit work.

The Albanian Government has also analysed the root-causes of informal employment. It identified the following as major causes of informal employment: uncontrolled population movements from rural to urban areas, high poverty rates among the rural population prompting those movements, transactions being paid in cash rather than through banking, insufficient computerisation and networks among actors, and institutional cooperation in the labour market not being implemented adequately enough. Further, the Social Partners remain ineffective and Government institutions lack financial and logistical resources to create adequate policy solutions.

The various national inspection agencies play a key role in tackling informal employment. Among those institutions are the State Labour Inspectorate, the General Inspectorate of Taxation and the Social Security Institution. The Labour Inspectorate is highly underequipped, only being able to cover around 10 % of all Albanian companies. In 2008 the labour inspectorate found 7% of all workers to be employed informally in the companies inspected. In the construction sector it was 8.4%. A major problem of the Labour Inspection personnel is that they are not able to investigate cases of envelope wages; hence they cannot provide any further conclusions on the extent of those activities. Nevertheless, the findings of the Labour Inspectorate point towards an increase in employment and a decrease in discovered informal employment cases in recent times.

4. Policy solutions in Albania

A number of policies have already been introduced in Albania, targeted towards reducing informal employment. The small business tax has been lowered in order to make small businesses more competitive. Social Security contributions have been cut. The employers share was cut from 41.9% to 32.9% to make payment more attractive to employers. Personal income and company income taxes were reduced to 10% flat. In the private sector, a reference wage system was introduced to counteract the occurrence of envelope wages. Wage payments are increasingly being channelled through the banking system to restrict informal cash payments. Business registration procedures are being simplified, giving small firms the ability to register within just 24 hours. Participation in public procurement has been linked to the full publication of information of wage and tax payments by contributing companies. Furthermore, obligatory registration of self-employed has been introduced. It is important for Albania to implement these worthy measures as effectively as possible to have an effect.

5. Results of the assessment of undeclared work in the construction sector

In the course of the preparation of this report on Albania a survey was conducted among 200 male persons working in the construction sector to get further insights into the nature and perception of informal employment in the construction sector in Albania. The questions were prepared in a way that examined informal employment from 3 perspectives: the perspective of the buyer of informal services or goods, of the person performing informal employment and of the recipient of informal payments.

The survey came to the following conclusions: 72% of the people interviewed generally support the concept of informal employment. Informal employment is believed to be mostly in retail trade activities (41%), construction (19%) and services (19%). Private individuals and acquaintances (family members, friends, etc.) are the main source of informal employment. Those interviewed answered that they mainly purchase informal services due to lower prices (40%) and faster services (22%). A large number of the respondents (43%) carry out informal employment regularly, while only a small number carry it out on an irregular basis (around 20%). More than half of the informal employees earn at the level of the average wage in the construction sector. Of informal employees in construction more than half work in private firms, whereas 29% are self-employed. The main reasons stated for working undeclared are: the legal system is not implemented equally, it is impossible to find a regular job, taxes and social contributions are perceived as being too high, and employers and employees benefit from informal employment. People working informally in construction are most concerned about losing their job and of poor working conditions. 84% of the people interviewed in the construction sector claim to work informally. About half of those interviewed would prefer a full declaration of their income. More than half of those interviewed estimate that the risk of getting caught by the authorities is small.

The survey shows that there is a problem of perception and awareness not only among people working in the construction sector but also in the wider population. People perceive informal employment as a legitimate means of making an income but a large portion of those interviewed would rather work formally. People are afraid of losing their jobs and of the dangerous working conditions. It has to be made known that those conditions are most common in informal employment. Trust in institutions has to be built up before people formalise their activities and regard their services in a positive light. Most importantly the survey demonstrates that the real number of people working informally, including people receiving minimum wages is extremely high in the construction sector in Albania.

Annex II:

Summary of the Report: Strengthening Social Partnership in Bosnia and Herzegovina: Addressing the Problem of Undeclared Work in the Construction Sector through Social Partnership

1. Economic development and levels of employment in the construction sector in Bosnia and Herzegovina

Bosnia and Herzegovina experienced consistent economic growth rates of between 6 to 7.5% in the years 2000–2008. Notably the construction sector grew rapidly with 10% and 11% in 2005 and 2006 and 25% in 2007. A similar growth trend was apparent in early 2008 but growth decreased as the economic crisis started to impact. Construction accounts for only about 5% of the economy in Bosnia and Herzegovina but is an important target for investment, with approximately 55% of capital investments flowing into construction.

The majority of companies are micro-enterprises of between 1 and 5 employees. The number of construction companies in Bosnia and Herzegovina is difficult to estimate since many do not register as construction firms. Official statistics show that around 7% of all companies are considered to be active in the construction sector. Nevertheless, both union and employer representatives estimate that figure to be much higher.

The total number employed is likewise difficult to estimate and varies between 690000 employees in official figures and 811000 in the Labour Force survey. Less than 6% of workers are registered in the construction sector. There is an apparent gender gap in employment in Bosnia and Herzegovina. The Labour Force Survey shows that 65% of all persons employed are male and only 35% are female.

2. Industrial Relations in the construction Sector in Bosnia and Herzegovina

At the national level, the Confederation of Trade Unions in Bosnia and Herzegovina acts as the umbrella organisation for the 3 major regional organisations, the Confederation of Trade Unions of the Federation of Bosnia and Herzegovina, the Confederation of Trade Unions of the Republic of Srpska and the Confederation of Trade Unions of Brcko District. The construction sector unions in Bosnia and Herzegovina represent around 30% of formal construction workers. It is estimated however, that 75% to 80% of construction workers make use of union structures and services without contributing on a regular basis.

The employer organisations function in similar fashion to the unions in Bosnia and Herzegovina. At state level, the Employers' Confederation acts as an umbrella organisation, uniting the Confederation of Federation of Bosnia and Herzegovina, the Employers' Confederation of the Republic of Srpska and the Employers' Confederation of Brcko District. Approximately 15% of all employers are organised in the construction sector, out of which 30% to 40% pay regular contributions.

Collective bargaining in Bosnia and Herzegovina generally takes place at the district level. In the Federation of Bosnia and Herzegovina and the Republic of Srpska, branch agreements in the construction sector were reached including the fixing of minimum wages, holiday allowances and overtime work.

The social partners in Bosnia and Herzegovina have previously carried out campaigns against the informal economy which were relatively successful. In 2007, an ad hoc information campaign targeting employers who employ informally was undertaken. In the short term, the campaign had a considerable impact and lead to the formalisation of many jobs. As the information campaign concluded, its impact faded with it. In 2008, unions created a blacklist of employers who employed informally in order to publicise such negative practices. Apparently, 30% of the companies identified were from the construction sector.

3. The nature and extent of Informal Employment in the construction sector

In Bosnia and Herzegovina, a variety of forms of informal employment can be identified. The first is informal employment through the payment of envelope wages. Envelope wages are practiced by the majority of construction companies. Several interviews have indicated a variety of channels through which envelope wages are paid. The first is cash based operations such as small and minor construction works. The second channel is paying wages as part of the profit or dividend of a company, for which only 10% of profit tax is deducted instead of 34–40% payroll tax. Construction workers are often registered as students and are paid through students work centres which only tax the income by 12%. Furthermore, illegal operations such as money laundering have been identified as a channel for envelope wage payments.

Another form of informal employment relates to those persons who work informally while receiving unemployment benefits from the State. This is especially common among war veterans who are eligible for cash benefits as unemployment benefits. Also healthcare and social insurance is paid by the employment offices. Statistics show that 65% of all unemployed receive unemployment benefits, while only 35% are considered as job seekers. The system is therefore highly inefficient and vulnerable to abuse. Inefficient and corrupt labour inspection administrations exacerbate the problem, often making it cheaper to bribe the labour inspector than to pay social contributions.

Some employees work informally but are not covered by any form of social protection. These are the most vulnerable among the informally employed, since they are often not covered by any form of social or health insurance and will not receive an adequate pension at the end of their working life. The effect of all this is a rising number of socially excluded people.

A common informal activity in Bosnia and Herzegovina is informal networks of formal workers who work on mainly smaller and private construction sites informally. Certain construction sectors such as the small housing and the reconstruction market are almost exclusively in the hands of those networks.

The official unemployment figure for Bosnia and Herzegovina is around 40%. The Labour Force Survey however gives it as around 21%. In that case, real employment is nearly 50% higher than indicated by the official figures. Hence, total informal activities are estimated at around 30 to 50% of all economic activities. It is apparent that bigger construction companies tend to employ formally, while smaller ones employ more informally, mainly because of lower competitiveness. In previous years, the construction sector has grown rapidly, while employment figures in construction grew only slightly. Since a productivity increase on this scale is highly unlikely, informal employment must have been growing. Based on those findings it is

estimated that around 40% of all construction workers work informally. Around 5% of social contributions in the construction sector are lost due to informal employment.

4. Reasons for and consequences of Informal Employment in Bosnia and Herzegovina.

The reasons for the high levels of informal employment in the construction sector are multifaceted and differ between the perspective of the employer, the employee and the public institutions.

The main problem for employers in Bosnia and Herzegovina is the relatively low productivity of the workforce in Bosnia and Herzegovina. Most qualified workers migrate to Croatia, Slovenia or Austria for higher wages and better working conditions. The education system does not supply the companies with enough suitably skilled candidates. The transition process has left the education system underfunded and therefore unable to provide students with the skills demanded by the labour market. Most construction companies are small, lacking the resources to take on better paying jobs and therefore not able to pay higher wages. Hiring and firing is expensive. This expense increases the incentive to hire informally. Additionally corruption in the labour inspection administration makes it cheaper for the employer to bribe inspectors than to pay social security contributions. The widespread practice of bribery further demonstrates that employers in Bosnia have a relatively low level of corporate social responsibility.

Low skilled employees are often not able to earn enough money in a formal job to make ends meet. Therefore, they willingly work informally. Workers are often simply unaware of the implications of informal employment. They do not know about their rights and the correlation between their payment of taxes and the services they are eligible to receive. Furthermore, the demand for lesser skilled workers is low and the supply is relatively high. This gives those workers a weaker bargaining position with employers.

The very complex Government structure of Bosnia and Herzegovina and the overlapping competencies of agencies and different levels of Government make law enforcement and the drafting of coherent and targeted policies very challenging. Often old and new provisions clash and incompatible laws exist in the different districts. The inspection agencies are under-resourced and often lack the necessary coordination between each other. Furthermore, widespread corruption limits the effectiveness of the inspection agencies.

Annex III:

Summary of the Report:

Assessment of the informal economy in Moldova:

Tackling undeclared work

1. Root causes for informal employment in the Republic of Moldova

Informal Employment in the Republic of Moldova developed mainly during and after the era of transition from a communist planned economy to a free market economy. In fact, informal employment was practically non-existent during Communist times. During the transition process, a deep labour market crisis developed. The demand for workers in the general formal economy became less than the supply of people in the labour market. Therefore people entered the informal economy in order to find work and escape poverty.

2. Size and structure of informal employment and the informal economy in the Republic of Moldova

Nearly one third of all workers in Moldova are estimated to work in some form of informal employment. Since some forms of informality such as envelope wages cannot be measured by statistics, this number is expected to be even higher in reality. Informal employment appears to be distributed relatively equally in informal sector enterprises, formal sector enterprises and households, each accounting for roughly 1/3 of total informal employment. Informal employment in formal businesses is mainly in the agricultural sector (53%) followed by construction (27%). In contrast, informal employment in informal businesses has a lower share in agriculture with around 1/3 working in agriculture and 1/3 in services.

Overall informal employment is most prominent in rural areas in the Republic of Moldova. Agriculture can be identified as the main source of informal employment with a share of 63.4% of total work being informal, followed by the construction sector with 52.5% of total work being informal. The majority of workers in informal employment are in fact self-employed, only a minority work as employees in either formal or informal companies. Those self-employed are mainly subsistence workers, carrying out informal employment to escape poverty. The ratio between men and women is relatively equal in informal employment. One can expect men to be more prominent in the more urban construction based informal employment, and women to be more often found in rural agricultural based informal employment or in the service sector.

The level of younger workers (including the age groups 15-24 and 25-34) and older workers (mainly above 65) is higher than that of middle aged workers (including the age groups 35-44 and 45-54). In fact, for the age groups of younger workers and older workers, more people are employed informally than formally. For the age group of middle age workers, more people are employed formally than informally. This demonstrates that young workers often enter the labour market through informal employment and move towards formal employment after several years of work experience. This is underscored by the observation that informal young workers have a higher probability of being employed in formal businesses, whereas older informal workers have a higher probability of being employed in informal businesses.

Better educated and better skilled persons generally have a higher likelihood of being employed formally than lower skilled workers. For young higher skilled workers, informal employment mostly serves as a stepping stone to formal employment. Young workers that are lower skilled find it harder to enter formal employment and often remain in informality for the whole of their working life, not paying any social security contributions and not being eligible to receive most services during and after their working life.

Workers tend to work unusual hours in informal employment. Informally employed workers work either substantially more than 40 hours per week or substantially less. Nevertheless, the great majority of informal employees work full time and therefore primarily in their informal job. Furthermore, part time work is not very common in formal employment. In informal employment, this practice is much more widespread.

Informal employment in households is almost exclusively unpaid family work. The gender distribution in informal household employment is rather in balance, with women being slightly higher represented at around 56%. The most represented age group in informal household employment is older workers above 65 years, with 31%. A feature is that older workers with low skills, who are only eligible to a small pension, work informally to make a living. Informal employment in households is most common in rural areas, especially through informal employment in the agricultural sector.

3. Explanatory factors for informal employment in the Republic of Moldova

From the demand side, informal employment is mainly undertaken in order to save labour costs. Social Security Contributions are a large burden for small employers to bear; hence some choose to employ informally to be competitive in the market. Especially low skilled workers are affected by this situation. Since the economic transition process, there is a vast discrepancy between the demand and the supply of lower skilled workers in particular in Moldova. Informal self-employment is often the only option to escape poverty.

Levels of Social Security payments are relatively low in the Republic of Moldova. Low pensions force especially older workers to take up informal employment to survive. Also unemployment benefits are often insufficient to survive; hence unemployed persons are forced to take informal employment due to a lack of formal jobs.

Workers in general have relatively weak bargaining positions. The discrepancy of supply and demand for labour puts in particular low skilled workers in the position where they have to accept nearly all the demands of the employer to be employed. Furthermore organization in the labour market through unionization is relatively low and the impact of Unions in Moldova is relatively weak.

Informal employment appears to be relatively well accepted among the Moldovan population. Most people regard it as a legitimate form of income and are not sufficiently aware of the downside of informal employment, such as no security and poor working conditions, and about the advantages for themselves that the payment of Social Security Contribution brings.

It is relatively difficult in Moldova to do business formally. The costs of business registration, obtaining licenses or customs are relatively high and the procedures are often lengthy, complicated and not transparent. Audits and inspections take place relatively frequently but in an unorganised manner by various inspection agencies, costing employers time and money. Corruption, especially in the form of informal payments, plays a major role in the Moldovan economy. Furthermore, absent or weak State sanctions contribute to the rising level of informal employment. The implementation of sanctioning mechanisms is weakened when sanctions can be bypassed through informal payments to officials.

Annex IV:

Summary of the Report: Addressing the Problem of Undeclared Work through Social Dialogue in Montenegro

1. Socio-Economic characteristics and developments in Montenegro

Montenegro's economy has been growing steadily during recent years, with 7% growth on average. This is mainly due to one of the highest per capita levels of investment in the region, leading to high employment levels, especially in the very dynamic tourism sector and the related sectors of transport, construction and trade. Through this, Montenegro steadily developed from a previously industrially dominated economy towards a service based economy. This development did not only bring advantages. Due to decreasing internal production, it also meant that Montenegro became highly dependent on direct foreign investment, and consequently built up a large trade deficit.

The transition process and a favourable legal and political framework boosted business creation after the transition, especially in the service sector. On the other hand, some older businesses, especially from the industrial sector, had to curtail operations. This meant job growth was negative in the early stages of transition. The transition process was furthermore marked by anomalies and corruption in the conversion of formerly collective property into private hands. Although business creation has been very strong in Montenegro and many small and medium size businesses were created, the majority of those employed are still employed in a handful of large companies. Companies in Montenegro are mainly engaged in trade, transport, communication and tourism.

In the early part of the transition period until the immediate years after the millennium, the labour market was characterized by decreasing employment rates. Only in the years 2004–2008 was economic growth high, as the labour demand increased significantly. Nevertheless, in comparison with EU countries, participation rates, especially among women are still very low. Furthermore, a large share of unemployed in Montenegro fall into the category of people who are difficult to employ, such as low skilled and people with a low level of education.

2. Industrial Relations and the Institutional Environment of Montenegro

Freedom of association is guaranteed within the constitution of Montenegro with freedom of organisation being codified in the national Labour Law. Recent legislative amendments have attempted to enhance the Social Bargaining process in Montenegro. In 2003, the newly amended Labour Law gave the Social Partners more ownership of collective agreements. Hence, duties and rights of employers and workers could be further agreed through contractual relations instead of being codified.

There are various institutions involved in the process of collective bargaining in Montenegro. The Labour Relations department of the Ministry of Health, Labour and Social Welfare deals with the preparation,

monitoring and improvement of labour legislation. The implementation of these laws is mainly undertaken by the Labour Inspection and the Safety at Work Inspection. Furthermore, the Employment Agencies, the National Pension Fund, the Health Care Fund and others are included in the drafting and implementation of labour market policies.

In Montenegro, 22 branch level trade unions are organised under the umbrella of the Confederation of Trade Unions (CITUM). The picture is similar for employers, where various branch organisations are organised under the umbrella of the Union of Employers' Montenegro. Both umbrella organisations are becoming more and more active in the collective bargaining process. In 2001, an Economic and Social Council was created. Among its ambitious tasks are the drafting of opinions on governmental policies and the undertaking of research on national policies which should serve as the basis of recommendations to the Government. Nevertheless, the Council lacks funding and staff and has therefore not yet achieved its high ambitions.

3. The Informal Economy; main findings from the desk research

In the years preceding the transition, levels of informal employment and undeclared work were rather low, around 5%. They were based on sporadic personal services such as repair works or the exchange of home grown agricultural goods. Since there were hardly any private enterprises, it was easy for the labour inspection to spot informal activities. As a result of the economic transition process, informal activities quickly spread to almost all economic sectors. Through factors such as the breaking away of former key industries and UN sanctions, even formerly middle class workers were forced to work in the informal economy to make a living. The rapid growth of informal business led to an unfair business environment, forcing more and more business to leave the formal economy. Growing informality led to large scale evasion of taxes, strongly restricting the State's scope for providing essential services.

The latest estimations point to a level of informal employment of around 22.6% of the overall employment in Montenegro. Of this number, 77% are employed in formal sector enterprises and 23% in informal sector enterprises. Some 54.4% of all self-employed are in the informal economy as are 74.7% of all agricultural workers. The highest share of informal employment is held by young workers. The main areas of informal employment are restaurants, agriculture and trade. The net-wages of informally employed workers are generally higher than the ones of formally employed workers due to the non-payment of taxes. Furthermore, around 40% of informally employed workers have been employed for an extended amount of time, at least 2 years.

As part of the answer to the rapid growth of informality in the Montenegrin economy, an economic reform program was devised for the period 2001–2005. It targeted all economic sectors and institutions, aiming for high economic growth and price stability. Decisive measures to reduce the informal economy were introduced. These included the following: enforcement measures, including harsher penalties for informal activities and increased inspection; legislative changes including a new and more comprehensive tax system, a tax amnesty law and a law on general profits; measures for enterprise creation such as more comprehensive rules for business creation; and enterprise restructuring and labour transformation initiatives, targeting mainly previously State owned enterprises and micro credit schemes for start up businesses and new employment. A new National Strategy for Employment and Human Resource Development was created, aiming to raise the level and quality of employment through reducing employment barriers and boosting investment. Measures include simulating flexible forms of employment, strengthening the enforcement of employee rights, reducing the motivation to work outside the formal economy, enhancing social dialogue and ensuring adequate labour supply.

Inspection agencies and custom administrations are among the most important organisations in fighting the informal economy through making informal activities visible. The national labour inspectorate is quite poorly resourced, employing only 27 inspectors. In 2008 they managed nevertheless to inspect 1/3 of all companies in Montenegro. In 1.1% of all companies investigated, irregularities were found. Most incidents were discovered in the hotel sector, in trades, agriculture and construction. The tax administration

is organised in 8 regional and one national office. To reduce tax fraud, new laws on corporate tax and personal income tax were introduced, reducing in both cases the tax rate to a flat rate of 9%. Despite this incentive, tax inspections still discovered irregularities in 50% of all companies inspected in 2008. The market inspection inspects the flow of goods in the internal market. In 93% of all inspections in 2008, irregularities were found. The tourist inspection found irregularities in 70% of all checks carried out in 2008. One of the most important inspections in Montenegro is the customs administration since the major share of State revenues comes from customs and tariffs. Although no concrete numbers of discovered irregularities are known, the increasing share of State revenue in this area is an indicator of the relatively effective work of the customs administration.

4. The Informal Economy; main findings from the survey

According to the survey, the participation levels in the informal economy are quite high; more than 50% of people asked had purchased either goods or services through the informal economy within the previous 12 months. Nearly one third of the persons interviewed had undertaken informal employment in the previous 12 months. For most of these, informal employment remuneration is regarded as the main income and it is undertaken regularly. Most demand in the informal economy is for goods or services from personal services (13%), repair services (8%), construction (7%) and agriculture (5%). The public seem to accept that goods and services in the informal economy mainly come from legal entities. The main motivation to work informally is to gain more income and to qualify for a regular job. It has become apparent that envelope wages are paid as part of the regular wage. Nevertheless, more the 50% of those interviewed claimed to prefer regular wages over envelope wages. Despite the high level of informal activity and its negative effects, most people interviewed are quite tolerant of informal employment. Furthermore, another significant reason given for preferring informal employment was a lack of Government control, and a perceived only minimal chance of getting caught carrying out informal activities.

Bibliography

Baliu, Q. (2008). *Addressing the problem of Undeclared Work in the Construction Sector through Social Partnership in Albania*.

Commission of the European Communities. (2009). *Albania 2009, Progress Report*.

European Training Foundation (ETF). (2010). *Albania: Country Information Note 2010–2012*.

European Training Foundation (ETF). (2010). *Bosnia and Herzegovina: ETF Country Information Note 2010*.

European Training Foundation (ETF). (2010). *Moldova: Country Information Note 2009–2011*.

European Training Foundation (ETF). (2010). *Montenegro: Country Information Note 2010*.

Flodman–Becker, K. (2004). *The Informal Economy: Fact finding study*. Sida.

Fortuny, M., Gundacker, F., Tomei, M., Kempf, F., & Roland, D. (2006). *Employment Policy Review Albania*. Strasbourg: Council of Europe.

Fortuny, M., Tomei, M., Sertcan, D., Venckevicius, T., & Dussart, C. (2007). *Employment Policy Review Moldova*. Strasbourg: Council of Europe.

Husmanns, R. (2004). Measuring the informal economy: From employment in the informal sector to informal employment. *International Labour Office*.

ILO Report on Tripartite Seminar: "Informal Economy in the Construction Sector and the Contribution of the Social Partnership", Shkodra, Albania. (2010).

ILO National Tripartite conference: Addressing the Problem of Undeclared Work through Social Dialogue in Montenegro: conference summary and draft Action Plan. (2009).

International Labour Organisation. (1991). The Dilemma of the Informal Sector. *International Labour Conference, 78th Session Geneva*.

International Labour Organisation. (2002). Resolution on Decent Work and the Informal Economy. *International Labour Conference, 90th session Geneva*.

Jütting, J. P., & Laiglesia, J. R. (2009). *Is Informal Normal?, Towards more and better jobs in developing countries*. OECD.

Kamenica, A. (2009). *Strengthening Social Partnership in Bosnia and Herzegovina: Addressing the Problem of Undeclared Work in the Construction Sector through Social Partnership*.

Nesporova, A. (2002). Why unemployment is so high in Central and Eastern Europe. *International Labour Office, Employment Papers*.

Pfau–Effinger, B. (2008). Varieties of undeclared work in European societies. *Centre for Comparative Welfare Studies*.

- Pfau-Effinger, B., Salvini, A., Stribu, E., Roch, S., & Borsdorf, P. (2009). *Assessment of the Informal Economy in Moldova: Tackling Undeclared Work*.
- Renooy, P., Ivarsson, S., van der Wusten-Gritsai, O., & Meijer, R. (2004). *Undeclared Work in an enlarged Union: An Analysis of Undeclared Work: An In-Depth Study of Specific Items*. European Commission.
- Rosas, G., Corbanese, V., O'Higgins, N., Roland, D., & Tanovic, L. (2009). *Employment Policy Review Bosnia and Herzegovina*. Strasbourg: Council of Europe.
- Rosas, G., Ghellab, Y., Harasty, C., Roland, D., Salvini, A., Sertcan, D., et al. (2007). *Employment Policy Review Montenegro*. Strasbourg: Council of Europe.
- Sisevic, B. (2008). *Addressing the Problem of Undeclared Work through Social Dialogue in Montenegro*.