



International Labour Organization

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



Tirana, September 2008



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I Executive Summary

The ILO SRO in Budapest, Hungary in consultation with the ILO Office in Tirana, Albania retained the independent consultant Mr. Qemal Balliu, to provide a study research for the informal economy and particularly for the informal employment in the construction sector in the country. The study research was three-fold: 1) to examine the recent literature and legislation about the undeclared work in the country, its implication in the economy, actual role of the ILO constituents to tackle the issue through proven mechanisms of social dialogue developed on different levels, 2) organise meetings and interviews with the main actors to the issue namely relevant governmental institution's representatives, employees' representatives and employers' representatives and 3) undertake a survey covering five regions of the country where the construction sector is most dynamic.

Despite the growing interest of the ILO constituents on development of the industrial relations the lack of systematic information and data collection made difficult any assessment report. In the country this information is difficult to collect and very limited, often the quality of sources is uncertain. This study seeks to summarize and reflect on the latest available papers and poor information collected from the interviews. As mentioned in other studies the collective bargaining system in the country is centralized on national level at the NLC and lacks the bilateral bargaining system which might lead to legally binding agreements. Apart from some steps forward the sectoral collective bargaining is poor and active only with public enterprises.

Regarding the major issue of this paper—the informal economy and undeclared work in the construction sector the information is out-dated. It can be found different studies on the issue of the informal economy but no one does exist on informal employment in general and in particular on the construction sector. The latest data from INSTAT on the informal economy are of 2004, which could not be used as indicative figures today. The most reliable source on the matter proved to be WB papers on the informal economy relating-issues.

In addition to the desk research, a survey on the undeclared work with specific focus on construction sector was undertaken in five regions of the country as following: Shkodra, Tirana, Durrësi, Fieri and Vlora. A sample of 200 questionnaires was prepared and the specialist survey interviewers were hired. The survey was conducted during the first half of July 2008.

A summary of major findings and priority recommendations are formulated below:

Major findings from the desk research

- The Government in the last three years has taken serious measures to curb informal economy and the informal employment but most of the measures have been heavily focused in the regulatory reform; significant efforts are lacking to address the incapacity of the enforcing institutions to undertake concerted efforts to combat the informal economy;
- The Government lacks sufficient support for the social partners to develop social dialogue and collective bargaining also at lower levels namely sectoral and enterprise level and furthermore regional levels where these effective means provide expected results;
- Up to date the Government has not succeeded in finding effective and efficient cooperation mechanisms in order that the three main enforcing institutions GDT, SLI and SII lay out convincing joint policies and strategies in combating undeclared work;
- The establishment of the business registration center (NRC) has facilitated the process of registration of the natural and legal entities including also the self employed persons. Actually it is reported that the number of firms registered with the NRC has amounted to 100,000, but still there are evidences of the unregistered and hidden economic activities;
- The NCL should debate comprehensively about the root causes, dimensions and expansion of the undeclared work in all the sector of the economy and then provide meaningful recommendations for every sector which should be known to the wide public and media;
- The tripartite bargaining system lacks the bilateral bargaining system particularly, which would lead to legally binding agreements;

- The employment policies designed by the Government has resulted as being non productive; the participation of the labour force in the labour market is not increasing and the unemployment rate has declined in a negligible manner;
- The National Council for VET is not functioning effectively - on one hand the real obstacle for this body is the lack of a separate budget as in the case of the NCL and on the other hand the insufficient commitment of its members;
- The grant of the construction permits by the authorized bodies such as: municipalities and communes is not associated with the legal obligation of the firms to return a part of the revenues in the form of SSCs, PIT and HCSC to the state budget;
- The government frequently serves as an guaranteeing financial channel for the expansion of the undeclared work as regards the payments of SSCs and PIT due to loose controls and routine inspections exerted to the companies that have won the public tenders;
- The social security scheme and healthcare security scheme are non-attractive for the contributors. There are large differences in contributions and in benefits among the large contributors (who pays the maximum contribution) and small contributors (who pays the lowest contribution) in the urban areas and between rural and urban contributors;

Major findings from the survey

- The perception of the population on the informal employment is high, it is supported overwhelmingly by 72 percent of the people interviewed who have acquired services and goods presumably coming from the undeclared work;
- The undeclared work is found mostly in the retail trade (41%), construction (19%) and various types of services (19%);
- The most acquired undeclared work in the construction sector are completion works (31%) such as: plastering, woodwork, tile setting, door and window mounting, painting etc;
- Nearly one third of the respondents (31%) buy construction works amounting to ALL50,000 whereas slightly fewer (28%) buy services and goods coming from undeclared work in general in the range of ALL 50,000 to 100,000;
- Frequent providers of the undeclared services and goods in general and the undeclared work in the construction sector are private individuals and acquaintances (relatives, colleagues, friends and neighbours) sharing 64% and 54% respectively of the purchasers. The acquaintances dominate over the private individuals in providing undeclared work in construction in the ratio 32% to 22 % respectively;
- The majority of people (40%) states that they buy services and goods that stem from undeclared work due to lower prices; in the construction sector the client attractiveness rests to faster service (22%) offered by acquaintances and private individuals;
- A dominant majority of 70 % of the interviewees are directly involved in undeclared work. This share comprises employees and self employees in those sectors where the undeclared work is found very often such as: retail, construction and services;
- Regarding the time spent in undeclared activities the respondents as expected ranked first the construction activities, second retail trade (12%) and third the service activities (7%);
- Within construction works our respondents (103 individuals) are involved basically with completion works (33%) which includes finishing the interiors of the buildings and installation and insulation works (26%);
- In relation to the frequency of involvement in construction works for nearly half of the respondents (43%) it is a work that they carry out it regularly, while nearly one third (30%) are involved very often and one fifth rarely;

- Overwhelming majority (66%) of the individuals involved in construction activities as self-employed or employed in construction companies spent more than 15 days during a month over the last 12 months;
- More than half of the employees or self-employed in the construction sector receive revenues in the range of ALL25,000 to ALL50,000. (€200~€400), which is in contrast with the data provided by INSTAT on the average wage in the construction sector;
- With regard to the status of their employment in the construction sector, more than half of the respondents (58%) work for the private firms and nearly one third (29%) are self-employed;
- Four major reasons for doing undeclared work are: 1) legal system is not implemented equally for all (16%), 2) it is impossible to find a regular job (15%), 3) taxes and social contributions are perceived very high (15%), 4) both parties the employer and the employee benefit from the undeclared work (14%);
- The employees and self-employed individuals working in the construction sector think that the major consequences working undeclared are relating to high possibility of losing job and poor working conditions;
- Apart from the majority involved in construction activity other sectors do not occupy a dominant share in the survey. Only 10 percent are coming from the public sector, the other 90 percent are from the private sector. It is identified that only a few persons are holding double employment (8%). The most impressive finding is that only 16 percent of the employees or self-employed in the construction sector are working in a formal way, the rest (84%) is working undeclared in a complete or partial manner;
- The majority (72%) of dependant employee or self-employed accepted that they are paid by the employer or are receiving incomes in undeclared way. One fourth of the respondents (26%) stated that their salaries are completely declared including here 10 percent coming from the public sector which furthermore implies that only 16 percent of the private sector employees (self-employed) in the construction sector are paid/receive salaries in a formal way;
- The considerable majority of the respondents (37%) stated that they received their salaries completely in informal way. In the case of partial declaration, the relative majority (28 %) hide up to half of the salary;
- Approximately, half of the respondents (46%) prefer full declaration of their income from their job;
- The striking figure is that 18 percent of the respondents believe that the informal employment is above 50 %. A relative majority (23%) provided an estimate of the size of the informal employment as being in the range of 20-30 percent;
- Despite that a relative majority of the interviewees (31%) think that the risk of being detected by the responsible authorities is high, as a whole more than half (57%) of the respondents estimate that the risk is small or very small;
- Nearly half of the respondents already know that they have to pay the dues and the fine if they are detected for not paying the PIT and SSCs and HCSCs;
- The survey results show that across all the five surveyed regions (Tirana, Durrresi, Fieri, Vlora and Shkodra) there is a major group which the respondents consider most likely to be involved in informal employment i.e. unemployed (54%), the second group are self-employed (22%);
- A part of the respondents (22%) think that the high incidence of the undeclared work is the result of the insufficient control carried out by the tax and SLI inspectors, and on the other hand they are blaming (23%) the State that does nothing to improve the employment situation among the population. In both estimations as first and second

reasons for involvement in undeclared work, the interviewees (34%) rank the lack of the regular jobs in the regular market.

Priority Policy Recommendations

Industrial relations and social dialogue

1. Social dialogue currently is developed only at the national level at the National Labour Council and National Council for VET and the tripartite government institutions; meaningful attempts and initiatives should be made by the ILO constituents to expand the social dialogue at sectoral and regional levels;
2. The scope and mandate of the NCL should be revised in the light of the recent development, transforming it into Social and Economic Council is welcomed by the TUs and EOs representatives, furthermore this important body should be chaired by the Deputy Prime Minister to increase authority and strengthen the decision making process;
3. In order to combat effectively the informal employment the social dialogue should be extended at the State Labour Inspectorate and General Directorate of Taxation, the tripartite cooperation on sectoral, regional and national level in these institutions shall contribute to the reduction of the undeclared work;
4. Comprehensive assistance and support is needed for the EOs and TUs to further strengthen their capacity in collective bargaining especially regarding various forms of manifestation of the informal employment and the design of policies and mechanisms to effectively curb it; The Ministry of Labour should take initiatives and specific measures in cooperation with social partners to reduce the informal employment in the construction sector;
5. A wide campaign of awareness should be initiated by the Government in cooperation with ILO and social partners to increase knowledge and understanding of the negative social, economic and moral impacts caused by the undeclared work;
6. Actually not all the representativeness criteria are met by the TUs and EOs. Meaningful efforts should be undertaken to meet the representativeness criteria and apply for membership at the homologues organizations, membership growth and strengthening the regional branches;
7. The NCL should design a national agenda which shall contain strategic objectives that aim at reducing informal employment in the most affected sectors including the construction; a monitoring and evaluating tripartite body should be established to measure and assess the performance of the reform as an important part of the Sectoral Strategy for Employment 2007-2013;
8. The necessity for the institutionalization and legal harmonization of the cooperation among the enforcing institutions against the informal employment such as: GDT, SSI and SIL should be established as soon as possible in close cooperation with social partners and international organizations EU and ILO;

Regulatory reform

9. Despite the recent successes of the Government in adopting the regulatory reform in taxation, registration and reduction of administrative burden, further efforts should be made to address business licensing and construction permits by central and local governments;
10. Further legal amendments are required to narrow the possibility of supplying undeclared work in subcontracting activities by the construction companies; the ACA could ensure a

significant contribution in this direction by improving even the agreement with GDP on the matter;

11. Actual legislation for the local government should be amended to authorize tax officers of municipalities and communes to check and identify undeclared work under their territorial jurisdiction;
12. Actually in the Task Force of the Regulatory Reform chaired by the Prime Minister, the Minister of Labour is not invited as a member alongside other ministers; involving the representatives of the Ministry of Labour in this important body would contribute significantly to the employment reform, labour market development and the reduction of the informal employment;
13. The Labour Code should be amended to reflect better the actual stage of the development in the trade unionism and employers' organizations movement; new elements of the social dialogue and industrial relationships should be included in the Code in order that collective spirit dominates the actual individual one;
14. Immediate measures should be taken to empower the SLI in terms of insufficient human resources, financial shortcomings, lack of adequate office equipments and other necessary requirements in order that the SLI cover with inspection services at least 25 percent of the total number of the firms by the end of 2009;
15. Granting of construction permits and bidding awards by municipalities, communes and contracting entities to companies to carry out public works and services should be accompanied with adoption of guaranteeing mechanisms for payment of SSCs and PIT on behalf of their employees;
16. The NCL should undertake initiatives to design policies and strategies aiming at curbing undeclared work in specific sectors of economy benefiting in this respect by the European experience; European model of social dialogue in the construction sectors could be a good practice on this matter;
17. Major source of the informal employment in the country are illegal construction so the central and local government authorities shall undertake strong preventive and punitive measures intended to stop definitely this devastating phenomenon; the cooperation of the social partners at the regional level is indispensable on this important issue.

Labour Market Reform

18. Albania is experiencing a jobless growth which denotes for ineffective employment policies attended by the government up to date; new mechanisms for creating new jobs should be designed especially in applying proven incentives for transforming informal labour into formal one;
19. New updated programmes should be implemented by REAs and VET Centers, specifically tailored for the unemployed and those employed in informal sector who in general are unskilled persons; specific programmes of microlending could be designed for these categories of workers;
20. A detailed cooperation programme among the ACA, REAs and VET Centers could be initiated regarding adoption the new technologies in the construction sector and qualification of a skilled labour force on this matter; a new licensing and certification system could be established for the qualified persons in new professions within construction sector.

II Introduction

In the light of the overall development and steady economic advancement of Albania, the whole society and institutions are making significant efforts to comply with the obligations of the Stabilization and Association Agreement signed between the EU and the Albanian Government in June 2006.

Over the last five years the economy has experienced a steady growth rate of 5 to 6 percent, the growth rate per capita has reached the amount of €2,513 in 2007, and unemployment level notwithstanding high, has been kept steady in the range of 13-15 percent. The inflation rate has been kept under control amounting to 2-3 percent and the National Central Bank has succeeded in pursuing the appropriate monetary policies and strategies and in reducing the cash economy down to 20 percent in 2007. The tax revenues have been rising year by year reaching 26 percent of GDP by the end of 2007. National currency Lek is stable against the Euro and meanwhile is strengthening towards the US dollar.

Despite the positive developments in some macroeconomic indicators, Albania suffers from the high trade deficit of about €2 billion and the general deficit of 44 per cent of the GDP. The other major economic problems that the country faces up are high rate of corruption, low enforcement of rule of law and high rate of informality. In contrast with some other countries of the region, Albanian is experiencing a jobless growth as well.

The new government which came to power in July 2005 has been taking courageous measures to reduce the informal economy and particularly the informal employment. Several significant measures have aimed at reducing the tax burden for the small businesses, lowering the labor costs for the companies, and adopting the reference wage system for the private sector. The establishment of the National Registration Centre in September 2007 is contributing significantly to the reduction of the cost of business registration, speeding up the process of incorporation of the companies thus promoting formalization of the companies.

In spite of efforts undertaken by the Government and social partners at the tripartite institutions and particularly in the National Labour Council, the level of undeclared work remains high. The informal economy is an important contributor to employment and GDP in the country, but also to increased tax and social contribution evasion and avoidance. The government, trade unions and employers' organizations recognize also that the contribution of the informal sector to economy results in heavy costs in terms of distorted labour market and employment, loss in tax revenues, lack of employee protection and unfair competition. Concerted efforts are needed in terms of channeling the social dialogue at sectoral and regional levels where the informal employment is more evident and where the combating tools and mechanisms could be built easier.

According to the ILO¹, the different groups of people have been termed "informal" because they share one important feature: they are not recognized or protected under the legal and regulatory frameworks and furthermore informal workers and entrepreneurs are characterized by a high degree of vulnerability. The average size of the shadow economy² over 1999-2000 in transition countries was 38 percent of the official GDP. The researches have found that if the shadow economy increases by one percent the annual growth rate of the "official" GDP of a transition country decreases by one percent respectively. In Albania there are different sources that report the extent of the informal economy as being in the range of 20-30 percent of GDP³. With respect to informal employment the figures result to be higher but the sources still unreliable.

In the latest policy document released by the MoLSA "Sectoral Strategy for Employment 2007-2013" among other issues it is stressed out the necessity of gradual decrease of the informal sector economy, but without defining the target objectives. The review and institutionalization of the cooperation among relevant institutions like: SLI, SII, GDT and NES and the design of the appropriate measures and undertaking joint efforts to curb the informal employment should be one of the priorities in the years to come. At these institutions where the social partners participate at the steering boards these efforts shall bring earliest success.

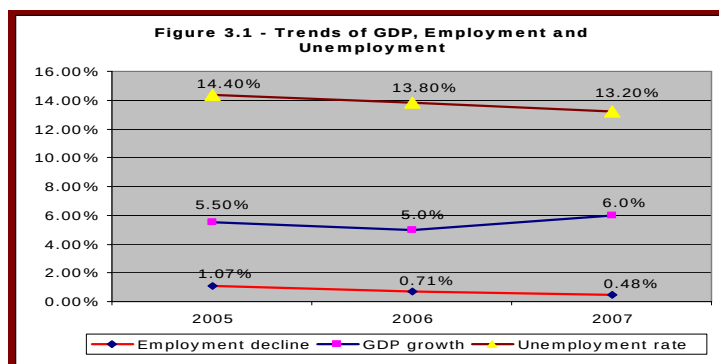
¹ ILO Conference "Decent work and the informal economy" 2002

² F. Schneider and R. Klingmair "Shadow economy around the world: what do we know" 2004

³ OECD "Informal Sector in Albania" 2004

III Economic growth and the construction sector

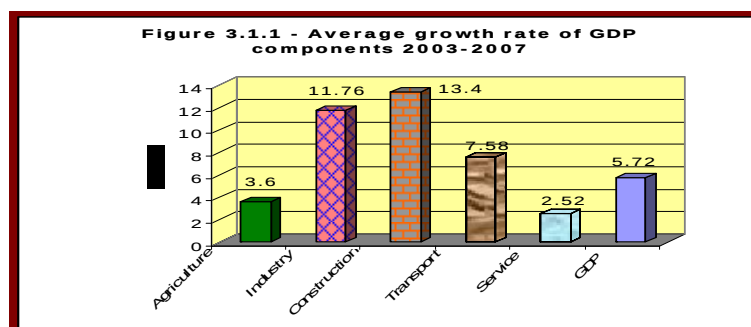
Despite the energy crisis in the last three years, Albania has managed to maintain a satisfactory economic growth. The major contributing sectors in the GDP for the 2007 are service, transport and industry. The construction sector, although very dynamic in recent years, have been facing slow down due to lack of the urban and coastal construction planning. While the trends of GDP and unemployment have been positive the employment indicator is plummeting down so enforcing the opinion of the researchers that Albania is experiencing a jobless growth, figure 3.1.



Source: INSTAT

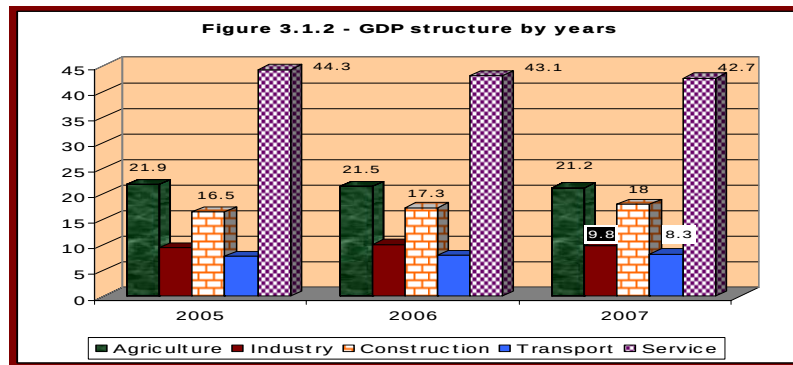
3.1 Contribution of the construction sector

The economic growth in Albania has been constant in the last five years ranging from 5.8 percent in 2003 to 6 percent in 2007. The main sectors that have significantly contributed to the GDP growth in average are industry by 11.7 percent, construction by 13.4 percent and transport by 7.58 percent as indicated in table 3.1.1.



Source: INSTAT

Although, the main contributor of GDP, the construction sector is affected significantly by the stringent policies of the local governments in the provision of the construction permits as well as by lacking of the planning of urban development. The most affected regions are Tirana, Durrresi and Vlora, where the construction sector has experienced a tremendous growth, but in decline during 2006 and 2007. The fall was affected also by the real estate legalization programme initiated by the government in 2006. Last year the construction sector grew only by 10.3 percent, dropping by 4.8 percent in size compared to 2005. It is expected that more liberalized policies undertaken by the Government, municipalities and communes shall affect positively this sector in 2008.



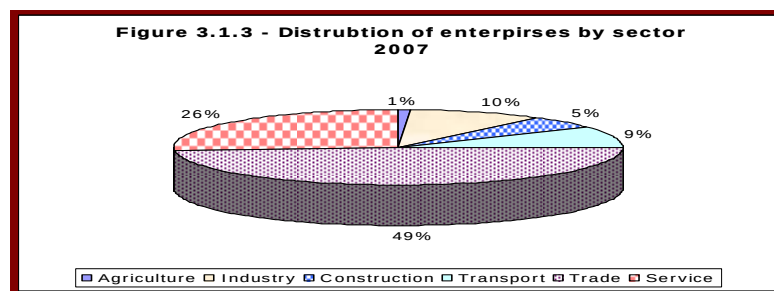
Over the last three years the country has experienced a considerable growth in number of enterprises. By the end of 2007 the number of enterprises has reached 87,484 units, noting an increase by 9 percent in comparison with 2006 and approximately 30 percent growth in comparison with 2005, as shown in the table 3.1.1. More than half (51%) of the enterprises are located in Tirana and Durresi regions, contributing significantly in national production and employment.

Table 3.1.1 - Distribution of enterprises by region and year

Regions/Years	Y-2005	Y-2006	Y- 2007	Change 05-07	Increase in %
Berati	2,954	3,104	3,554	600	20%
Dibra	966	1,254	1,395	429	44%
Durrësi	7,764	9,600	10,624	2,860	37%
Elbasani	4,532	5,204	5,971	1,439	32%
Fieri	6,943	7,906	8,321	1,378	20%
Gjirokastra	2,757	2,954	2,493	-264	-10%
Korça	5,765	6,501	6,875	1,110	19%
Kukësi	387	758	764	377	97%
Lezha	1,492	1,822	2,207	715	48%
Shkodra	2,434	3,738	4,323	1,889	78%
Tirana	25,847	31,461	34,131	8,284	32%
Vlora	5,350	6,272	6,826	1,476	28%
Total	67,191	80,574	87,484	20,293	30%
Growth in %	0%	20%	9%		

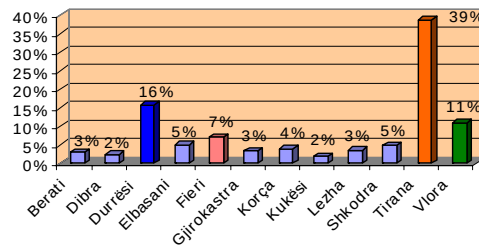
Source: INSTAT

Nearly 50 percent of the enterprises belong to the trade sector and 26 percent to the services sector. The enterprises in the construction sector account for 4,444, comprising only 5 percent of the total number of enterprises, as indicated in the figure 3.1.3 below.



3.2 Characteristics of the construction enterprises

Over half of the enterprises (55%) carry out their constructional activities in Tirana and Durresi regions as illustrated in figure 3.2.1. Other important regions where the construction activity is very dynamic are Vlora and Fieri, constituting 11 percent and 7 percent of the total enterprises respectively.

Figure 3.2.1 - Distribution of construction enterprises by regions 2007

Source: INSTAT

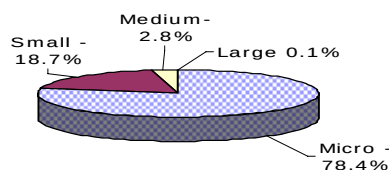
Within three years, the number of the construction enterprises grew by nearly 47 percent, while in Tirana and Vlorë regions the growth in number has been more than 70 percent. Whereas the increase in the number of enterprises in 2006 compared to 2005 has been 27 percent, in 2007 the growth has been only 16 percent in comparison with 2006, as indicated in the table 3.2.1 below.

Table 3.2.1 - Distribution and growth of construction enterprises by year and region

Region/Year	2005	2006	2007	Change 2005-2007	Increase in %	%
Berati	115	123	131	16	13.9%	3%
Dibra	83	100	109	26	31.3%	2%
Durrësi	520	610	698	178	34.2%	16%
Elbasani	178	197	222	44	24.7%	5%
Fieri	209	260	315	106	50.7%	7%
Gjirokastra	144	149	150	6	4.2%	3%
Korça	133	155	169	36	27.1%	4%
Kukësi	81	91	82	1	1.2%	2%
Lezha	120	131	152	32	26.7%	3%
Shkodra	178	214	216	38	21.3%	5%
Tirana	982	1,431	1,719	737	75.1%	39%
Vlorë	282	386	481	199	70.6%	11%
Total	3,025	3,847	4,444	1,419	46.9%	100%
Growth in %		27%	16%			

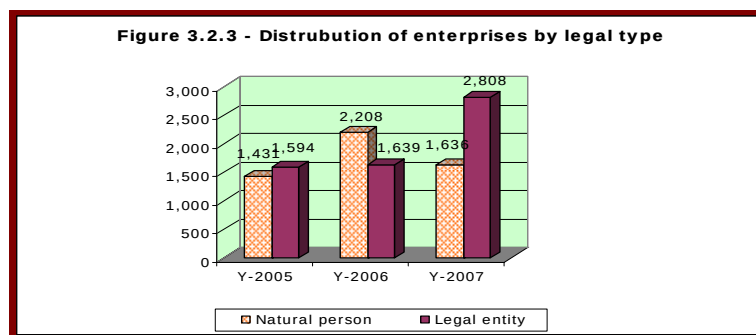
Source: INSTAT

According to the EU definition for the SMEs, the majority of construction enterprises are microenterprises (78 percent) employing from 1 to 9 salaried employees, figure 3.2.2. Almost 19 percent are small enterprises employing from 10-49 employees. The proportion of medium-sized (over 49 salaried employees) and large enterprises (over 250 salaried employees) is almost negligible.

Figure 3.2.2 - Construction enterprises by size 2007

Source: INSTAT

Regarding the type the construction companies, by the end of 2007 the legal entities comprise 63 percent of the companies and the rest 37 percent are natural persons, as indicated in the figure 3.2.3. Surprisingly, in the last two years is evident a considerable drop of the natural persons by 26 percent and a significant increase of the legal entities by 71 percent. The tax experts explained this decline of natural persons as a result of entering into force of a DCM adopted in the midyear 2007, which restricted the subcontracting activities in the construction works for the natural persons.



Source: INSTAT

IV Industrial relations in the country and in the construction sector

In Albanian legislation there is no exact definition of the industrial relations, in most of the cases this is identified with labour relations. In the Labour Code (article 163) is sanctioned the right of the TUs to start collective bargaining aiming at the conclusion of the collective contract with EOs on enterprise/s or branch level of industry. In the following articles, provisions are supplied on the mechanisms that facilitate the industrial relations such as: mediation, conciliation and arbitration. Until now even in Europe no agreed definition of industrial relations exists since the term is not used always systematically or rigorously by the experts. The most recent attempt to define the term "industrial relations" is made by Hoffman⁴ who emphasizes that "industrial relations consist of a web of institutionalized relationships between employees and their representatives (TUs), employers and the representatives (EOs) and the state". However, the term industrial relations actually is used in a broader sense encompassing: various regulatory frameworks, concerned actors, feasible processes and outcomes not limited to only employment relationships but also to different public policies. According to the ILO experts⁵ the effective tripartite social dialogue requires five conditions to be met:

- Active, independent, strong and representative social partners;
- Manifested will by all the ILO constituents and especially by the government;
- Established well-functioning institutions of social dialogue at all levels;
- An inclusive well-thought dialogue agenda and agreed procedures for negotiations;
- Good practice and experience in the conduct of social dialogue.

In the following section a detailed overview is given relating to the consecutive steps the Albanian ILO constituents have pursued during the transition period in the area of social dialogue, industrial relations and tripartism.

4.1 Design and adoption of the relevant labor legislation

The ILO considers social dialogue as right and a tool for advancing democracy and market economy. For all the countries that embarked on transitional reforms the development of tripartite social dialogue was a precondition for involving concerned stakeholders in policy-making and ensuring the social peace in the course of structural reforms. The true history of the structured social dialogue in Albania started in the beginning of 1990, after the democratic and political changes happened in the country. The democratic system and political pluralism adopted in the country required formulation and implementation of the new system of the labor relations. The effective functioning of the system of the labor relations is based on building three preconditions: adopting new legislations pertinent to the labor relations, establishing the functioning labor-related institutions, and design the adequate mechanisms for making operational the industrial relations.

The adoption of the main Constitutional Provisions in 1992 created the appropriate grounds for the formulation of the laws concerning labor relations. Later in 1996 the Constitution of the Republic of Albania was adopted by means of a popular referendum, Law 393/1996. Regarding labor relations in the Constitution, Article 50 emphasizes the employees' rights to unite freely in labor organizations for the protection of their work interests and furthermore in Article 51, the right to strike is guaranteed for every employee with regard to labor relations. In 1993 the

⁴ EFILWC "Quality in Industrial Relations: Comparative indicators" 2004

⁵ Y. Ghellab and M. Vylitova "Tripartite Social Dialogue on Employment in the SEECS" 2003

first Law on Trade Unions was approved, which enabled the establishment of the trade unions and their federations and confederations. Other laws that contributed in creation of a legal framework for the development and the advancement of the labor relations were the laws "On Labour Relations" and "On the Collective Contract of Employment" which passed in the Albanian Parliament in 1993. Later in 1995, the Labour Code sheltered all this legislation.

The Labour Code (Article 176) sanctions the right of the members of the TUs and EOs to establish their own professional organizations, federations and confederations. Furthermore, the professional organizations are social and independent organizations established on voluntary bases by the employers and employees intended to represent and protect the economic, professional and social interest and rights of their members. While the right of the EOs to establish associations (organizations) is based on the Law 8788/2001 "For non-for-profit organizations" the Labour Code contains all the detailed legislations concerning the establishment and activities of the TUs. The actual Labour Code does not contain specific provisions on the rights of the EOs as compared with those of the TUs rights.

The ILO gave an indispensable contribution in the design of all legislation concerning promotion of fair and sound labor relations. Albania is an old member of the ILO adhering to the organisation since 1920, only one year later of the ILO establishment. In 1967 a long suspension of activities began, which lasted for more than 30 years forced by the communism regime. The ILO restarted its technical assistance programmes in 1991 in all the fields under its mandate focusing its activities in preparing new labor laws and supporting the activities of the new-born social partners.

It was the efficient support of the ILO that concluded in preparation of the first Labour Code in the country in 1995, amended in 1996 and later revised and reviewed in 2003 Law No. 9125/2003. The Labour Code is a comprehensive law which contains provisions and clauses regarding the scope and purpose of the law, fundamental rights at work, establishment of the professional organizations, establishment of the mediation and conciliation offices, collective bargaining procedures for the establishment and termination of the collective and individual contracts, freedom of associations, obligations of the employers and employees concerning labor relations, occupational safety and health, working conditions and wage policies. The Labour Code is based on generally accepted norms of the International Law, including the international conventions ratified by the Parliament. The Labour Code doesn't contain any explicit provision in relation with mandatory formal employment of the individuals by an employer, except the emerging obligations in cases of accidents and vocational diseases (Article 39/3 of Labour Code). The Labour Code comprises 205 articles.

Important components of the current Albanian legislation are the ILO Conventions. Till now Albanian Parliament has ratified 49 ILO Conventions⁶, comprising 8 fundamental conventions (C29, C87, C98, C100, C105, C111, C138, C182) and other 3 priority Conventions (C144, C81, C129). The priority conventions are considered as instrumental by the ILO to the effective pursuit of decent work for all. The convention pending to ratification of the last priority conventions is C122 "The Employment Policy Convention" according to which the national ILO constituents would pledge to declare and pursue as a major goal an active policy designed to promote full, productive and freely chosen employment. A large part of the conventions have been transposed and included in the Albanian legislation. On the other side of adopting international instruments, obligations stemming from the Stabilization and Association Agreement with EU signed in June 2006, encourages the Government to harmonize and approximate a considerable part of its national legislation with EU Directives.

4.2 Establishment of the labour relations' institutions

Alongside the design and the adoption of the appropriate legal framework new institutions dealing with labor relations were established. Social dialogue, partnership and industrial relations are properly developing by the functioning governmental institutions, active trade unions and dynamic employers' organizations.

In 1992 the most important governmental body was established i.e. the Ministry of Labour, actually holding the name the Ministry of Labour, Social Affairs and Equal Opportunities (MoLSA). The mission of MoLSA⁷ is to develop, coordinate and implement an effective

⁶ ILO homepage www.ilo.org/ilolex

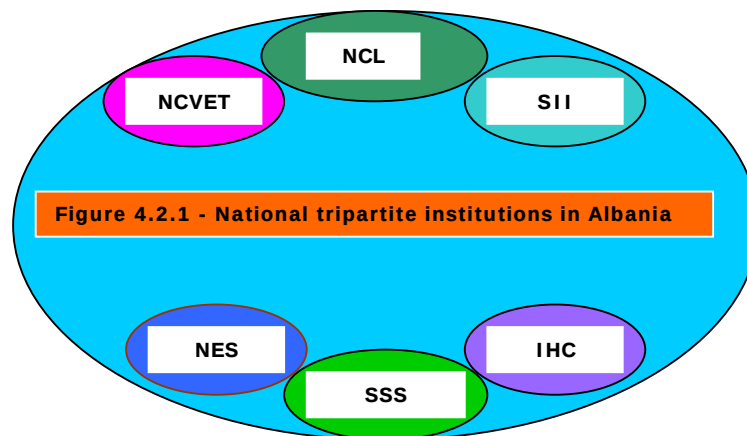
⁷ MoLSA homepage: www.mpcs.gov.al

employment system, promote labor market opportunities, develop an effective VET system, and provide social services to the marginalized groups. The institutional responsibilities of MoLSA are defined within the following areas:

- Development of labour markets and VET system
- Design and implementation of the employment policies
- Provision of social services
- Promotion of labour relations and social dialogue
- Organization of legal labour migration policies
- Design and implementation of the OSH policies

With regard to labour relations, the Directorate of Labour Relations in MoLSA encourages and develops social dialogue with social partners in order to bring into harmony the divergent interests of the parties, mitigate social conflicts and maintain the social peace. It promotes the labour dispute resolutions by peaceful means and through dialogue using appropriately the reconciliation, mediation and arbitration mechanisms. At each REA are established reconciliation and mediation offices that facilitate the dispute resolution among the social partners.

Other governmental organizations that serve the aim of advancing the social dialogue and labor relations are: National Employment Service (Law 7995/1995), Social Insurance Institute (Law 7703/1993), HealthCare Insurance Institute (Law 7870/1994), State Social Service (Law 9602/2006), National Council of Labour (DCM 370/1996) and National Council of VET (Law 8872/2002). The steering boards of these governmental institutions comprise appropriately the relevant representatives from the employees' organizations and employers' organizations. The only important institution, which is not yet constituted as the other tripartite institutions is the SLI. The TUs have repeatedly expressed concern about non existence of a steering board at the SLI which then must include the representatives of TUs and EOs.



In 1991 the first independent trade union was established in the country – the Independent Trade Union of Miners. A number of trade unions and their federations followed to establish in the coming years covering whole country. The major events in trade union movement were marked by the establishment of two major confederations in 1991: The Union of Independent Trade Unions of Albania (BSPSH) and The Confederation of the Trade Unions of Albania (KSSH). Both Albanian confederations are members of International Trade Union Confederation (ITUC). Trade unions are grouped in federations according to their specific industrial sectors, trades, services, agriculture, construction. About 10-15 TUs federations established confederations as representative bodies in their relations with the Government and the relevant international organizations. Both confederations have appointed their representatives at regional level and each confederation has its office in regions. The degree of unionized employees varies from 25-30 percent depending on the enterprise distribution, the workforce concentration and the effectiveness of the trade union activities. Some of the main specificities of the major TUs in the country are presented in the table 4.2.1 below.

Table 4.2.1 - Albanian TUs Confederations Structure and Specificities								
TUs/Dimensions	Number of Federation s/ TUs	National level collective bargaining	Sectoral level bargaining	Enterprise level bargaining	Coverage Ratio of bargaining		Unionization rate	Memberships ⁸
BSPSH Confederation	15						9%	84,000
KSSH Confederation	12						11%	105,000
Total	27			525 (2006)	Public sector	Private sector	20%	189,000
					85%	23 %		

Source: TUs and MoLSA

The main objectives of the TUs are the following:

- To design and implement the policies of the trade union movement in the country;
- To contribute to the social peace in the country by improving employment relations, working and living conditions, rights at work and social protection of their members;
- To support the decent work for all employees of the country, fair wages and social inclusion;
- To contribute to the full employment of the working age population without discrimination;
- To ensure full integration of the women into trade union organizations and promote gender equality in the decision-making process;
- To strengthen the solidarity among the generations and support the pensioners' rights;
- To combat the informal employment, child labour and forced labour by ensuring effective cooperation with employers organizations and governmental institutions;
- To play an active role in tripartite and bipartite consultation bodies in formulating national legislations in the areas of labour market and employment policies.

Amongst the most active Trade Unions are the following:

- The Trade Union of the Employees of the Education Sector
- The Trade Union of the Employees of the Health Sector
- The Trade Union of the Mining Sector
- The Trade Union of the Energy Sector
- The Trade Union of the Transport Sector
- The Trade Union of Trade, Banking and Services
- The Trade Union of the Mechanics, Metallurgy and Chemical Industry
- The Trade Union of the Textile, Leather and Clothing Industry
- The Trade Union of the Construction Sector and Public Services
- The Trade Union of the Pensioners
- The Trade Union of the Artists and Journalists

The cycle of the establishment of the social partners was completed by the creation of the first employers' organizations, in 1994 holding the name "the Confederation of the Businessmen of Albania". A number of employers' organizations were established in the coming years. Currently, the employers' organizations are gathered around six major employers' organizations, accepted as members of the NCL as follow:

- The Council of the Employers' Organizations (established in 2004)
- The Council of the Employers' Organizations of Albania (2004)
- The Albanian Constructors Association (2002)
- The Union of the Albanian Business Organizations (1998)
- The Albanian Association of Industrialists (1996)
- The Confederation of the Albanian Industries (2004)

The main objectives of the EOs are the following:

- To promote the economic, commercial and employment policies and reforms order to sustain and develop free enterprise initiatives;
- To provide national forums, represent and promote the interest of their members in all economic, social and labour policy issues;
- To assist, advice and provide relevant information and services to members, to establish and maintain contact among them and to protect the interest of the employers at the national level with Government and TUs structures and to promote their interest at international level particularly with ILO and EU;

⁸ ITUC homepage www.ituc-csi.org

- To facilitate and promote the exchange of information experience and good practice amongst the members;
- To develop policy positions diluted from the members, which can be used in national debate on various issues concerning the EOs members' interest.

The Employers Organizations of Albania (KOPSH) is the only member of the IOE⁹.

4.3 Current developments in the industrial relations

The establishment of sound industrial relations should be placed at the focus of the current agenda of the government, employers' and workers' organizations in their efforts to achieve stable economic and social development. Significant changes on the international, regional and national scene exert a major influence on how industrial relations should be built and developed.

In Albania the governmental institutions still play a significant role in shaping the industrial relations. So, despite the fact that employment is found mainly in the private sector (72%), the Government still plays a dominant role in the management of the economy and organization of the social life. Due to the donors' assistance and governmental incentives and programmes, skills and capacities of the governmental officials remain stronger than those of the social partners. This situation is also reflected in the framework of the social dialogue and industrial relations. However, there are encouraging steps undertaken by some of the employers' organizations to employ prominent experts in the different areas of the required competences. This example should be followed also by the TUs.

Social dialogue and labour relations in the country have mainly a tripartite character and does develop at the high level at the National Councils. As pointed out by the ILO experts¹⁰ the main form of the social dialogue in SEECs has been that of consultation and negotiation at the national level. The Governments conditioned by the established long tradition of central control and by encountering great difficulties in the course of the transition process have preferred to keep a relatively tight hand on economic and social reforms. Furthermore, the capacities of the TUs and EOs to act as effective partners at the various levels have proved to be very limited.

The first tripartite body, the Social Insurance Institute, was established in 1993, and then other tripartite institutions followed such as: the Health Care Insurance Institute 1994, the National Employment Service in 1995, the State Social Service in 1996, National Council of Labour in 1996 and National Council of VET 2002. In all these public bodies the Steering Boards are composed by the representatives of the TUs and EOs in addition to government representatives.

The most important tripartite body, the NCL was established by the Decree of the Council of Ministers (DCM) No. 370/1996, later included in Article 200, of the Labour Code (Law 9125/2003). The competences of the NCL are to examine and explore issues of the common interests for the employees and employers' organizations, with the view to finding acceptable solutions to the parties especially relating to legislation and employment policies, labour market development, VET system advancement, welfare policies, wage policies, adoption of the international conventions and laws, social insurance and protection, OSH system and social matters and relationships with ILO. The NCL has the right to request information and to receive data in order to carry out tripartite cooperation and partnership.

The NCL is made of 27 members constituted by 7 members from the relevant Ministries, 10 members from the employers' organizations and 10 other members from the trade unions, as indicated at the Fig. 4.1.3. The Minister of MoLSA is the chairperson of the NCL. The two deputy of the chairman are appointed respectively by the most represented employers and workers representatives and are reappointed once in two years. Members of the NCL are elected every 4 years. The Council as a rule convenes on quarterly bases, but not less than once a year.

⁹ International Organisation of Employers homepage www.ioe-emp.org

¹⁰ "Social Dialogue in CEE" ILO 1999

Figure 4.3.1 – The Composition of the NCL 2008

MoLSA provides the secretariat of the NCL. The NCL comprises six permanent tripartite commissions as follow:

- 1) The Commission for the Judicial Affairs
- 2) The Commission for the VET system
- 3) The Commission for the Wage and Pension Systems
- 4) The Commission for Economy and Finance
- 5) The Commission for the Occupational Safety and Health System

The NCL is a consultative body, it develop consultations among the members, take decision on consensus and provide recommendation to the Council of Ministers. Consultations take place in the areas of design and implementation of labour legislation, formulation of strategies and support for the Regional Employment Agencies, Vocation Education and Training Centers, design of policies for the improved of OSH system, design of policies for the improvement of the welfare system, as well as the adoption of the conventions and recommendations of the ILO and EU directives.

The representativeness criteria for the participation at the NCL are defined by DCM 730/2003 as indicated in the table 4.3.1. For the time being not all the criteria are met by the TUs and EOs. Meaningful efforts should be undertaken by the EOs to be members of the IOE and expand the territorial activities all over the country.

Table 4.2.1 - Representativeness criteria of social partners

Trade Unions	Employers' Organizations
Number of certified members	Number of certified member firms
Number of concluded contracts and their coverage rate	Number of employees in the member firms
Number of branches/professions/territorial organizations	Number of branches/professions/territorial organisation
Capacity to engage in collective bargaining for the employment contracts and dispute settlements through mediations	Capacity to engage in collective bargaining for the employment contracts and dispute settlements through mediations
Membership in international organisation	Membership in international organizations
	Size of budget addressed to social affairs

The issue of the informal sector economy and particularly informal employment has been discussed in several cases during the regular meetings of the NCL. Consultations are developed around the issues of making the SLI as effective as possible by providing to it more human and financial resources. A closer cooperation is required among the ILO constituents and particularly among the social partners in those areas of economic activities where the informal employment is widespread.

The country is undergoing a process of industrial restructuring which includes privatization of public sector enterprise, technology upgrading and increased foreign direct investments. Consequently, the social partners and the Government should view labour relations from a more strategic perspective i.e. how labour relations can contribute to improved workplace cooperation, increased employment flexibility, enhanced labour productivity and improved enterprise competitiveness.

A sound industrial relations system requires an effectively-designed policy for labour relations management. The major strategic objectives of this policy should include¹¹:

- 1) Ensuring decent employment and job security and employment opportunities;
- 2) Raising living standards through improved terms and conditions of employment;
- 3) Improving productivity which enables employers to raise the living standards of their employees;
- 4) Minimizing conflicts, achieving harmonious relations, resolving conflicts through peaceful means and establishing stable social relationships.

The industrial relations in the country are affected by the low bargaining powers of the trade unions and employers organizations. The position of the trade unions is weak due to the small size of the industrial sector, the dominance of the micro enterprises and the large informal economy¹². On the other side the employers' organizations should raise their profile, verify their membership base and redefine their identity. TUs and EOs have voiced their permanent request to transform the NCL into the National Social and Economic Council by assigning this body executive power regarding wage and pension policies, unemployment benefits and other matters relating to employment policies and working conditions.

With the view to enhancing the bargaining powers of the employees and based on the EU Directives, the Albanian Parliament approved the new Law 9901/April 2008 "For the traders and commercial companies" which contains important provisions for the establishment of the workers' councils expressed in the articles 19-20. Based on this law the employees of a commercial company employing more than 50 employees are allowed to establish workers' council. For the companies that employ more than 20 and less than 50 employees the workers' council duties shall be delegated to the elected representatives of the employees. Some of the main duties of the workers' councils are: to monitor the legal compliance of the company' activity, to supervise and implement the collective contracts and the provisions of the statutes of the company concerning the workers' rights and entitlements. It is early to judge about the applicability of this law to the Albanian companies, but the TUs have expressed concerns about this law considering it as unfair intervention in their domain of influence.

Regarding the mechanisms for the settlement of the labour disputes the Labour Code (Law 9125/2003) has foreseen the establishment of the labour dispute resolution committees in every Regional Employment Agency operating under the NES. The conciliation, mediation and arbitration bodies enter in operation according to a time schedule and event development relating to the dispute.

Concerning the sectoral social dialogue as in other neighboring countries it is the least developed component of the national industrial relations system. Another distinguished feature in Albania is that the social dialogue is poor developed also in regional level. As we have seen in the country are established several tripartite consultation mechanisms, but rather poor designed mechanisms of the collective bargaining and social dialogue at sectoral and regional level. We already identified three reasons that affect this unsatisfactory situation, first the weakness of the sectoral TUs being either member of KSSH or BSPSH in term of membership, competences and organizational management, second the EOs are built on members that deal with many economic activities, the only sectoral employer organisation is ACA, and third is lack of will of the parties to negotiate and debate on mutual concerns and interests. At regional

¹¹ S.R. de Silva "Elements of a sound industrial relations system" ILO 1998

¹² EU Progress Report Albania 2007

level, on one hand the TUS and EOs have not established yet active and strong representative offices and on the other hand the governmental representatives in the regions i.e. prefecture' representatives have shown little interest in promoting social dialogue.

On enterprise level the social dialogue is more developed with public enterprises or public sector such as with KESH, public health sector and education sector.

4.4 Industrial relations within construction sector

It is a well-known fact that social dialogue can make a real contribution if it is imbedded in a functioning structure of labour, employment and social protection policies¹³. Despite the concentration of the tripartite dialogue at high levels at NCL in the case of Albania, the need for the development of the sectoral social dialogue was considered indispensable by the TUs including the construction sector. The construction sector is the leading sector in terms of its contribution to the GDP. Its weight in the national economy is growing year after year reflecting its dynamism and the high demand for the constructional activities.

The high incidence of the undeclared work in the construction sector makes the establishment of meaningful social dialogue among the social partners very important. Unfortunately the social dialogue and collective bargaining within the construction sector is lacking. The TUs reported that ACA representatives have expressed reluctance to develop meaningful social dialogue with both sectoral trade union federations which are members of KSH and BSPSH. Both federations are active in social dialogue with public sector enterprises which fall within the sector such as: waste collection, public green areas maintenance, water supply enterprises and public works enterprises.

Unilaterally, the ACA itself is very active in the representation and the protection of the interests of its members – employers of the construction companies. Of significant importance is the mutual cooperation agreement established since 2002, between General Directorate of Taxation and the National Constructors Association, which is meant to contribute to the reduction of the undeclared work in the construction sector.

It was a great hope that the industrial relations within the construction sector would institutionalize and develop when the Albanian Constructors Association was established in October 2001. But the ACA has developed many relationships but not with similar TUs. The Association has developed a high profile of relationships within and outside the country. The ACA has built regional offices in 12 regions of the country including a district office in Saranda, in the south of Albania. The Association has concluded a considerable number of cooperation agreements with various central and local governments' institutions for different important issues. The most important agreements of the ACA concluded with different institutions are as follow:

- ❖ The Collaboration Agreement with the Ministry of the Public Works
- ❖ The Agreement with the Tirana Municipality
- ❖ The Agreement of the General Taxation Directorate
- ❖ The Agreement with the Construction Police
- ❖ The Agreement with the Directorate of the Central Archive of Construction
- ❖ The Agreement with Real Estate Registration Office

On international level the ACA has concluded cooperation agreements with the following:

- ❖ Bulgarian Construction Chamber in 2002
- ❖ German Construction Industries Association in 2004
- ❖ Construction Association of Croatia in 2004
- ❖ Construction Association of Turkey in 2007

All these agreements have contributed to facilitate the construction activities of the members of the Association. The membership base of the ACA has been increased year by year but in lower rate than the construction companies' establishment as indicated in the table 4.4.1. The contribution of the construction sector to the GDP is significant amounting to 18 percent in 2007.

¹³ Industrial Relations in Europe 2006

Table 4.4.1 - ACA membership and contribution

Indicators/Years	2005	2006	2007	Change 05-07
Membership base	430	493	540	26%
Number of construction companies	3025	3847	4444	47%
Coverage ratio	14%	13%	12%	-15%
GDP in billion ALL	822	900	982	19%
Construction contribution to GDP in billion ALL	138	156	176	28%
Share of Construction to GDP	17%	17%	18%	7%

Source: ACA

On their part the TUs have developed social dialogue to advance labour relationships with public companies of the construction sector and with limited number of the private construction companies by concluding collective agreements in their concerned area. The TUs representatives – the Federation of Construction Workers and Public Service Employees (a member of BSPSH) has concluded 40 collective contracts covering out of 4,200 employees members of the federation. Through these contracts a solid social protection of the employees have been guaranteed in terms of minimum wage, duration of working hours, annual leave, illness benefits and acceptable working conditions. The other Federation of the Trade Unions of Construction, Wood and Public Works (a member of KSSH) has concluded a collective contract with the Ministry of Public Works–first level contract and 46 collective contracts on enterprise level.

Table 4.4.2 - Albanian Trade Unions structure and specificities in the construction sector*

TUs/Dimensions	Number of TUs	National level collective bargaining	Sectoral level bargaining	Enterprise level bargaining	Coverage ratio of bargaining	Unionization rate	Memberships
Federation of Construction and Public Services (BSPSH)	7		1	40	20%		8400
Federation of Construction, Wood and Public Services (KSSH)	7		1	46	25%		7000

* The data provided in the table above are purely indicative by the TUs representatives

The collective bargaining system in the country features only tripartism; bilateral bargaining system is lacking and consequently represents a major obstacle towards concluding legally binding agreements between ILO constituents. However, there are efforts by the TUs to advance some proposals for cooperation with employers' organizations and particularly with ACA.

V Nature and extent of informality

5.1 The extent of the informality in the country

In the recent years the concern of the Albanian governments about the degree of the informality in the economy has been expressed in various efforts being these legislative, administrative, institutional and regulatory initiatives. Unfortunately, in all the recent studies carried out by OECD, OSCE, EU and Council of Europe, the extent of the informality resulted higher than in the neighboring countries. It is widely accepted that the causes of the excessive degree of the informal economy in the country stemmed out from the initial stage of the implementation of the fundamental market economy principles and the expansion of the democratic processes at the beginning of 1990, when the speed of the private sector initiatives surpassed several times that of institutional and legal framework establishment. Although the legislative and regulatory measures undertaken by the government to reduce the extent of informal economy seems to be gradually increased year by year, the enforcing mechanisms to combat the phenomenon are not sufficiently strengthened and used quite effectively and adequately.

The informal economy is a major concern in all the CEE countries since it causes losses in revenues from tax evasion, distortions of the labour market, hide the real employment and encourage unfair competition. The design and the implementation of the effective strategies that could contribute to shifting from informal to formal activities must be a major concern of all social partners such as: employers' organizations, trade unions, local governments as well as public administration.

In Albania is not yet adopted a definition of the informal economy or informal employment. The INSTAT and other government institutions use the definitions adopted by ILO and OECD according to their purposes. According to the definition of the ILO an informal employee is “an employee of someone who is not a household member or paid worker in a household farm or business and is not entitled to social security benefits” This definition is used by INSTAT when undertakes periodic LSMS survey.

The OECD adopts a definition so called non-observed economy¹⁴. According to this the non-observed economy consists of five groups of activities:

- Underground production, defined as those activities that are productive and legal but are deliberately concealed from public authorities to avoid payment of taxes or compliance with regulations;
- Illegal production, defined as those productive activities that generate goods and services forbidden by law;
- Informal sector production, defined as those productive activities conducted by unincorporated enterprises in the household sector or other units that are unregistered;
- Production of households for own-final use, defined as those productive activities that result in goods and services consumed or capitalized by the households;
- Statistical underground defined as all productive activities that should be accounted for in basic data collection programme but are missed due to deficiencies in the statistical system.

One of the most accurate efforts to estimate the size of the informal sector economy was undertaken by F. Schneider¹⁵ in 2002 indicated in the table 5.1.1. Although, the mark for Albania in this estimation is comparable with those of the other countries of the SEE, the author maintained the position that in the case of Albania the figure could be higher because of the unreliability of the data. The figures found referred to the shadow economy in terms of value added, but there is a tight relationship between “shadow” labour market and the informal economy. According to Schneider again the “shadow labour market” includes all cases where the employees or the employers or both occupy a “shadow economy position”. Moreover, the empirical research undertaken in some countries in Europe have found that the informal labour force in 1998 is in the range of 15-30 percent of the total labour force. In Albania for the time being no estimates have been reported to define the size of the informal employment.

Table 5.1.1 - Informal Sector in SEE countries		
	Country	Informal Sector/GNP
1	Albania	33.4 %
2	Bosnia and Herzegovina	34.1%
3	Bulgaria	36.9%
4	Croatia	33.4%
5	Macedonia	45.1%
6	Serbia	29.1%
7	OECD average	18.0%

Source: F. Schneider 2004

5.2 The nature and extent of the undeclared work in the country

Undeclared work as a persistent and overwhelming phenomenon of distorted labour relations emerged after the 1990. The root causes are of various nature and characteristics arising from closing down of the public enterprises which employed hundreds of thousands of workers leading to high level of unemployment. Other major causes that affected the increased undeclared work were lack of the appropriate institutions to deal with the new phenomenon, low level of the awareness among the employers and employees organizations and lack of appropriately-designed mechanisms to combat the phenomenon.

In order to get the most reliable data on the extent of the undeclared work a national definition should be employed. Till now no definition is determined for the purpose of the analyses and measurement. In recent studies and surveys undertaken by ILO, OECD, ETF and EU, comprehensive efforts have been made to adopt an internationally-accepted definition in order to facilitate and understand the causes of the informal economy.

¹⁴ OECD Handbook “Measuring the Non-Observed Economy” 2002

¹⁵ F. Schneider and R. Klingmair “Shadow economy around the world: what do we know” 2004

According to ILO definition¹⁶ undeclared work could be of two types: employment in the informal sector which involves enterprises on the one hand and informal employment which involves jobs on the other. Again, according to 15th ICLS definition, employment in the informal sector comprises 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. Furthermore, informal sector enterprises are private unincorporated enterprises owned by individuals or households that are not constituted as separate legal and financial entities independently of their owners' activities. The 17th ICLS defined informal employment as the total number of the informal jobs, whether carried out in formal sector enterprises, informal sector enterprises or households during a reference period.

Among three contrasting definition of the undeclared work: 1) the enterprise-based definition, 2) the job-based definition and 3) the activity-based definition, in the EU the latter one is currently used. According to the EU accepted definition the undeclared work are activities which circumvent declaration of revenues to tax authorities or social insurance institutions, but are lawful as regards their nature¹⁷. Understandably, rather than distinguishing between undeclared and declared enterprises and jobs, the actual tendency has been to differentiate between activities that are declared and undeclared.

The manifestations of the undeclared work in the country are of various types and nature. In a research study carried out by WB¹⁸ relied on LSMS data of 2004 results that the construction sector leads the informal employment by 83 percent, followed by service sector accounting for 72 percent as indicated in the table 5.2.1. Furthermore, the study found that in the non-agricultural sector, 55 percent of the workforce is employed informally. This includes 28 percent in self-employment or unpaid work and 27 percent in unregistered wage employment. Informality represent a large part of the wage sector, with 39 percent of all wage-earners are not covered by social security scheme.

Table 5.2.1 - Incidence of informal employment by sector, 2004

Sectors of economy/Informal employment share	Informal employment as % of total sector employment	Distribution of informal employment in %	
		wage employment	self-employed or unpaid
Industry	48	62	38
Construction	83	70	30
Services	72	33	67
Public administration	3	78	22

Source: World Bank 2006

In the last two years the Government has undertaken policy measures to curb the undeclared work but unfortunately no evidence of the progress has been revealed. Even the INSTAT has not publicized any document relating to the undeclared work in the country. Considering the two major surveys undertaken each year by INSTAT – Labour Force Survey and Economic Enterprises Survey no meaningful conclusion could be reached with the data provided by them for the extent of the informal employment. However, using the INSTAT¹⁹ data results that during the recent years 2005 and 2006, overwhelmingly the surveyed companies have adopted approximately minimum wage around 14,000 ALL in the payroll system when calculating the amount of the social insurance contribution for their employees, indicated in the table no.5.2.2. This means that the companies underreported the real wage of the employees, thus saving a considerable amount of funds by adopting “off the book” wages or envelope wages. During the years 2005 and 2006 the SSC amounted to 41.9 percent of the gross wage of the employee, while in our calculation the contributions amounted to only 36 percent in 2005 and 33 percent in 2006 respectively. The difference between official and real SSC amount is higher particularly in 2006 resulting in 8.9 percent. This phenomenon was widespread till the introduction of the wage reference system adopted by the Ministry of Finance in 2007.

¹⁶ Ralf Hussmanns “Measuring the informal economy” ILO 2004

¹⁷ EFILWC “Tackling undeclared work in the European Union” 2008

¹⁸ WB “Labour Market Assessment in Albania” 2006

¹⁹ INSTAT publication “Results on structural survey of economic enterprises” 2006

Table 5.2.2 - Main results from INSTAT surveys of economic enterprises

Indicators	Y-2005	Y-2006	Growth in %
Number of enterprises in the survey	48,092	55,647	15.7%
Total employment	185,196	202,195	9.2%
Total waged employees	128,782	140,049	8.7%
Self-employed employees	56,414	62,146	10.2%
Total payroll in ALL (thousand)	30,034,000	36,063,000	20.1%
Average monthly wage in ALL	13,515	14,863	10.0%
SSC in ALL (thousand)	10,910,000	11,940,000	9.4%
Monthly SSC per employee in ALL	4,909	4,921	0.2%
Share of SSC to the wage	36 %	33 %	-3%

Source: INSTAT

Regarding the extent of the unregistered enterprises, some measures taken by the government in the beginning of 2006, during 2007 and 2008 affected positively the reduction of these types of companies. There are reliable evidences of formalization of a great number of the informal companies based on the increasing number of the “new” companies by 20 percent in 2006 in comparison with 2005 and by 9 percent in 2007 compared to 2006, as indicated in the previous table 3.2.1. For the time being it is difficult to find reliable data on the number of informal companies currently operating in the country.

Almost all the international experts of the informal economy²⁰ agree that the key factors that feed the growth of the informal economy are the following:

- High intensity of legal and administrative regulations;
- High overall tax and social insurance burdens;
- Lack of trust in of institutions and complicated administrative procedures and corruption;
- Lack of access to formal property system;
- Long-term decline in civic virtue and tax morale;
- Broad acceptance of illicit work by the wide public.

In the Albanian government policy document “Sectoral Strategy of Employment 2007-2013”²¹ among other causes of informal employment are listed the following reasons:

- Uncontrolled movement of the population from the rural areas to the urban areas where the employment opportunities and living conditions are improving steadily;
- High level of poverty among the rural population migrating to the urban areas;
- Considerable labour force employed in the construction sector makes difficult the control and monitoring of the informal labour;
- A major part of the transactions are carried out of the banking channels which contribute to flourishing cash economy and consequently informal economy;
- Insufficient communication and undeveloped computerization network systems among the relevant institutions make difficult exchange of information and data relating to the undeclared work;
- Institutional cooperation among the GDT, SII and SLI is still based on the bilateral agreements which are not binding legal obligations;
- The actual level of the cooperation and partnership among the social partners do not help in effective fighting of the phenomenon;
- The Government institutions lack the logistics and financial means and facilities to take efficient measures in curbing the level of the undeclared work.

5.3 Enforcing mechanisms for combating undeclared work

The enforcing governmental institutions mandated for action and charged with the responsibility to combat the undeclared work in the country are State Labour Inspectorate, General Directorate of Taxation and Social Insurance Institution.

²⁰ OECD “The informal economy in Albania” 2004

²¹ MoLSA “Sectoral Strategy for Employment” 2007

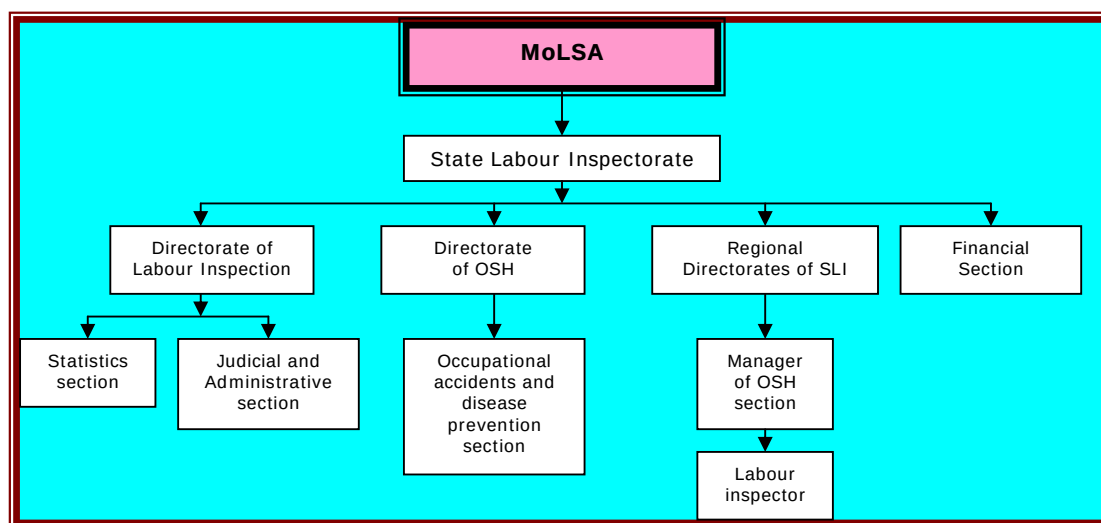
5.3.1 The State Labour Inspectorate

The SLI was established in 1995 as an autonomous body under the MoLSA. The General Inspector is appointed by the Prime Minister by means of the proposal of the Minister of MoLSA. Actually the SLI operates in accordance with the Law 9634/2006 “On Labour Inspection and State Labour Inspectorate”. The mission of SLI is to prevent human casualties and damages, occupational accidents and disease and ensure social protection in the work place. The SLI covers the following principal areas of activities:

- Ensuring the implementation of the legislative provisions relating to the working conditions, social protection, protection of the employees at the workplace in particular to the women employees;
- Providing relevant information and technical advice to employers and employees on current legislation relating to the SLI mandate and authority;
- Taking measures to enforce continual and effective adoption of the current OSH legislation;
- Suspending the economic activities of those natural and legal entities that operate in violation of the legislation and regulations;
- Promoting codes of ethics at work place.

Currently the SLI employs 130 persons, out of whom 95 are labour controllers and inspectors. Only a limited number (10%) of the total enterprises are covered by labour inspections services due to shortage in personnel, vehicles and financial resources. The SLI comprises seven Regional Directorates and twenty nine District Offices in the country as indicated in the figure below.

Figure No. 5.3.1.1 – Organizational Structure of the SLI



The competence and authority of the labour inspector to check and verify the existence of the undeclared work within the inspected enterprises are emphasized in the Articles 13 and 14 of the Law No. 9634/2006. In the paragraph 4 (b) of Article 13 and paragraph 9 of Article 14 is pointed out that the labour inspector and labour controller during the routine inspection are authorized to “check the payments of the obligatory social and health insurance contributions for all employees according to the workplaces”.

In case when the labour inspector detects uninsured (undeclared) employees in the workplace within the inspected company site, then he/she assigns a penalty to the employer which is in the range of 30 to 50-fold the official minimal wage for every undeclared employee.

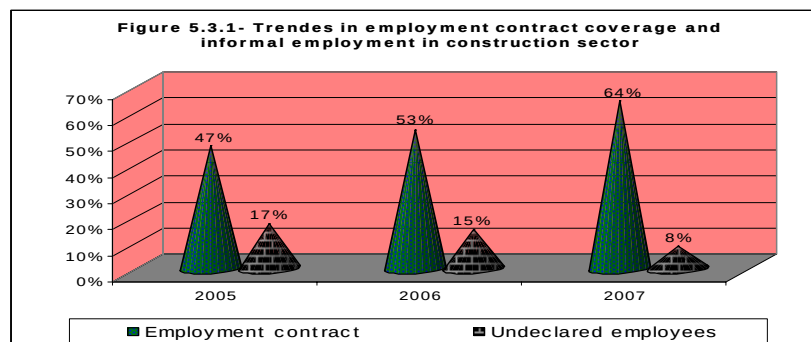
Regarding the SLI activity to prevent, detect and combat the black work or informal employment, during 2007 results that the level of undeclared work is around 7 percent of the labour force employed at the inspected companies while in construction sector results in 8.4 percent as indicated in the table 5.3.1.1. The highest incidence of the undeclared work is identified at the trade and catering, agriculture and construction sectors. Due to limited number of personnel, lack of logistic means the SLI is able to do a very limited job. The actual ratio between the number of inspectors and the number of enterprises is 1:1000 (the effective

number of inspector is around 100 in the country and the actual number of enterprises is nearly 100,000). Regardless hard difficulties, the SLI has covered with inspection services only last year 2007, 10 percent of the total number of the enterprises and 33 percent of them were in construction sector.

Table 5.3.1.1 -Statistical data from labour inspections in 2007				
Sector of activity /Indicators	Inspected entities	Identified employees	No. of undeclared employees	Undeclared employees in %
Electricity, Gas, Water	40	631	17	2.70%
Mines and Quarry	41	515	13	2.50%
Agriculture, Forestry, Fishing	53	337	30	8.90%
Transport, Communication, Storing	90	1,064	28	2.60%
Finance, Service, Insurance	723	5,644	299	5.30%
Construction	1,499	23,208	1,949	8.40 %
Manufacturing	1,834	54,588	2,620	4.80%
Trade, HORECA	3,523	14,415	1,629	11.30%
Other activities	1,102	11,390	831	7.30%
TOTAL	8,905	111,792	7,417	6.63 %

Source: SLI

Regarding the trends in regular employment and informal employment in construction sector, the SLI provided the following data presented in the figure 5.3.1. A steep decline of more than 50% of the informal employment is identified during the last year in comparison with the preceding years 2006 and 2005. It should be clarified that the labour inspectors are mandated to detect and identify only on side of the undeclared work in the companies that is related with the number of insured employees, the “pocket wage” manifestation of the undeclared work they are not entitled to detect and consequently is out of their authority. A positive trend is the increase of the number of the employees hired under the employment contract – a significant growth (36%) of the employees covered by the contract is seen in 2007 compared with 2005.



Source: SLI

5.3.2 The General Directorate of Taxation

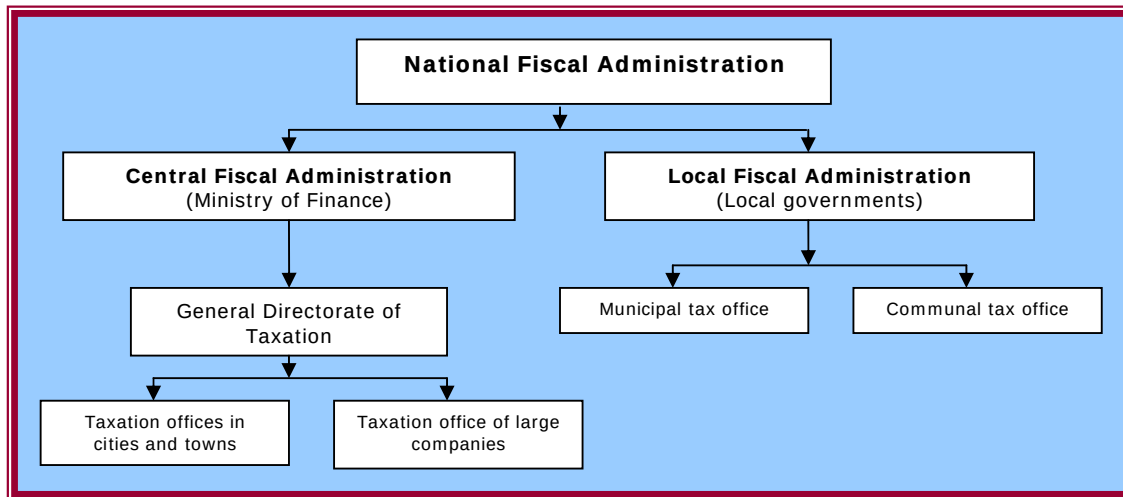
The taxation system in the country was established in 1991. From the past system nothing was inherited in terms of practice, experience and institutions, since in the socialist system no tax was levied on the state-owned enterprises and the population. The private initiative was prohibited by the law. The taxation system was created to fulfill three goals:

- 1) to finance the administrative functioning of the state;
- 2) to finance the implementation of public investment;
- 3) to support the social services for the population.

During the 1991, the first tax packages were adopted for the economic activities undertaken by the private and public enterprises such as: custom duties, taxes on economic activities of the natural and legal entities and national and local taxes.

The national fiscal administration in the country consists of the Central Fiscal Administration or the General Directorate of Taxation²² (GDT) and Local Fiscal Administration or Tax Administration of the Local Governments, as indicated in the figure no. 5.3.2.1. Alongside the taxation offices under the GDT, early in 2007 the tax offices were established in every municipality and commune of the country as part of the fiscal system under the authority of the local governments comprising 69 municipalities and 304 communes all over the country.

Figure No. 5.3.2.1 – Organizational Structure of the Fiscal Administration



The difference in responsibilities and competences of the GDT and the LFA rests at their different scope and business types that these bodies administer. The LFA manages the collection of taxes subject to the Law No. 9632/2006 "For the System of Local Taxes". Since January 2007 the tax offices of the local governments are responsible for the collection of taxes on small businesses. According to the law, small business is considered an economic entity that generates annual revenues below or equal to ALL8 million (around €63,000) irrespective of their legal form of registration, namely natural or legal entity. Thus the small businesses are subject to a fixed tax for the revenues segmented in seven brackets. The amount of SBT varies according to the type of economic activity, geographical location and revenues. The companies that are subject to the Small Business Tax (SBT) are exempted from charging VAT. The representatives of the tax offices at the municipalities and communes themselves or in cooperation with the representatives of the regional tax offices have the responsibility during their routine inspection to change and redefine the status of the business whether it is small or large one, according to the revenues generated. Surprisingly, the law does not provide for the tax offices at the local governments to check for the undeclared work at the small businesses.

The GDT comprises 36 regional and district offices established in every city and town of the country. The subject of tax collection and fiscal compliance of the GDT are those companies that have annual turnover above ALL8 million. These businesses are subject to VAT and CIT. Currently, VAT is 20 percent or 0 percent applied with very few exceptions the latter one, and CIT is 10 percent applicable from January 2008. The activity of the GDT and its regional offices is based on the Law No. 9920/May 2008 "For the Tax Procedures in the Republic of Albania". In the Article 4 of this law the various taxes are named as follow:

- Value-added tax
- Personal income tax including company income tax (tax on profit)
- Excise tax
- Tariffs on gambling games, casinos and hippodromes
- National and local taxes and tariffs
- Contributions for social and health insurance

²² GDT homepage www.tatime.gov.al

The responsibility of the GDT to collect the social and health insurance contributions in addition to other taxes and tariffs is defined by law. In the Article 119 of the Law No. 9920 is emphasized the case that if the employer-taxpayer does not declare the hiring of new employee/s within 48 hours before the employment than the employer is obliged to pay all the due social and health insurance contribution and a penalty falling in the range of ALL 10,000-20,000 for every case. There is a large discrepancy between the amounts of penalty that the labour inspectors can charge to the companies in case of hiding informal employment compared with the fee that law allows the tax inspectors for the same law violation i.e. the labour inspectors can charge actually 30-50 fold more than tax inspectors.

In the Instruction No.02/2006 "For the tax procedures" issued by the GDT, the tax officer among other tasks are responsible for the following:

- Verification on the site of the number of the employees with the view of identifying and detecting the presence of any undeclared or unregistered employee;
- Verification of the operating wage system and benefits in the company;
- Assessment of the social and health insurance contribution for every employee;
- Enforcement of payment of due taxes and tariffs including the personal income tax and social and health insurance contribution;
- Assignment of the legal penalties according in case of law violation.

The tax officer is obliged to cross-check the information and data based on the mandatory documents that any employers must keep in the file such as:

- Permanent register of all employees;
- Payroll document;
- Declaration of the number of employees and their paid social contributions.

For the purpose of continual monitoring and checking the social and health insurance contributions and personal income tax, the GDT offices in the regions still collect the contributions and PIT coming from small business employees. This collection is carried out every three months. Moreover, the regional taxation offices collect also the SSC and PIT of the employees of the NPOs. In this case the contributions are done every month.

Regarding the construction sector the tax officers carry out routine inspection to the business sites but more rarely than the other type businesses. The reason is that the GDT has signed a cooperation agreement with ACA to standardize the number of workforce hired per unit of square meter of construction site; this will be discussed later in detail. But, although the agreement a considerable number of construction companies do not observe the agreement and the informal employment is demonstrated not only in the undeclared employees and in partial declaration of the salaries but also in subcontracting and barter exchange.

5.3.3 The Social Insurance Institute

The general system of the social security consists of: obligatory insurance, voluntary insurance, supplementary insurance and specific state pensions. The fundamental legal framework for the proper operation of the social security system is provided by the Law 7703/1993 and the subsequent amendments made till this year. The obligatory social insurance scheme is a non-for-profit type and protects the people by providing additional incomes to the employees, employers and self-employed persons with regard to:

- Temporary incapacity for to work due to illness;
- Maternity period;
- Seniority, invalidity and in case of loss of the family breadwinner;
- Vocational accidents and diseases;
- Unemployment

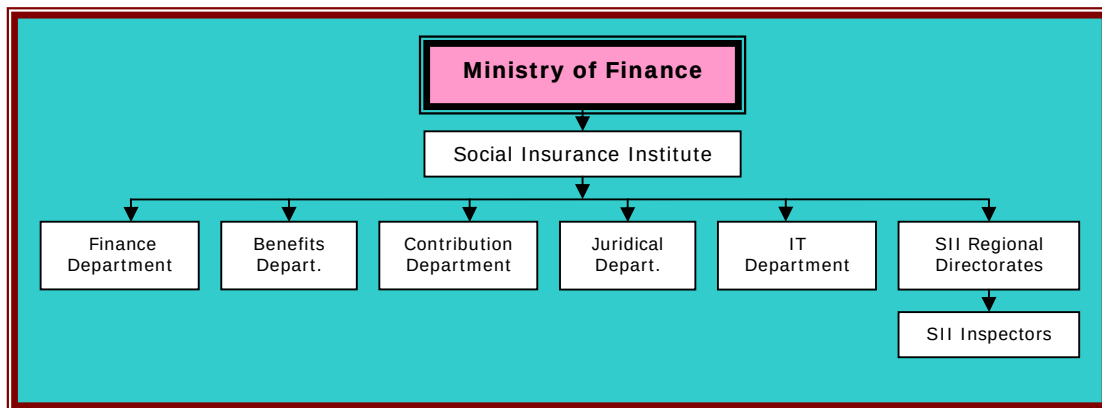
When for reasonable causes the persons can not provide for contributions relating to obligatory social security he/she can be protected for specific period of time by using the scheme of voluntary social security when he/she provides certified declarations for not receiving any income.

The article 13 of the Law 7703/1993 stresses out the legal obligation of the employers to deduct from the wage or salary of every employee the respective contribution amount and transfer this amount to the account of the regional social security directorate. The social

security contributions are transferred on a monthly or quarterly basis, according to the regulatory provisions.

The social security system is managed by the Social Insurance Institute²³ (SII) which is an independent public organization under the authority of the Ministry of Finance. The SII was established in 1993, with its headoffices in Tirana. The Steering Board of the SII comprises six representatives from the relevant ministries, three representatives of the EOs and three representatives from TUs. The SII comprises 36 regional and district offices throughout the country. In addition to the management of the public pension system, actually the SII manages the collection of the social security contributions coming from the rural employees. The criterion for the collection of the social security contributions in the rural areas is land property entitlement that a farmer possesses. Based on the land plot ownership by the farmers, the SSI inspectors enforce the collection of the contributions which are very low in comparison with the urban employees. A simplified organizational structure of the SII is illustrated below in the figure 5.3.3.1.

Figure No. 5.3.3.1 – Organizational structure of the SII



In 2006, the right of the collection of the contributions for all urban workers was transferred to the tax authorities, who then transfer the revenue to the SII. The SII continues to collect contribution revenue from rural workers. The total number of the contributors has experienced a slight increase only 4 per cent when comparing 2005 and 2007, as indicated in the table No. 5.3.3.1, but however a significant rise of urban contributors has been observed amounting to 24 percent. The number of insured rural population has fallen in both parameters contributors and beneficiaries, by 10 percent. In Albania the ratio between contributors and beneficiaries is very low – nearly 2 contributors to 1 beneficiary, though a slight increase is seen over the last years.

Table No. 5.3.3.1 - Demographics of the Social Insurance Scheme

Subjects / Years	2005	2006	2007	Change 05-07
Contributors (C)	857,859	718,298	893,500	104%
Urban Areas	367,316	421,433	456,086	124%
Rural areas	490,543	296,865	437,414	89%
Beneficiaries (B)	546,704	530,977	524,657	96%
Urban areas	370,082	366,401	365,990	99%
Rural areas	176,622	164,576	158,667	90%
Urban Ratio C/B	0.99	1.15	1.25	
Rural Ratio C/B	2.78	1.80	2.76	
General Ratio C/B	1.57	1.35	1.70	

Source: SII

The table above shows an almost even division in contributors between the urban and rural areas in 2007. On the beneficiaries' side, however there is a marked disparity between two areas, with urban outnumbering rural beneficiaries more than 2 to 1. The social security system in the country is very vulnerable due to the insufficient amount of contributions

²³ Social Insurance Institute homepage www.issh.gov.al

received by the different groups of populations particularly from farmers. The system dependency rate, which compares the total number of beneficiaries in the pension system to the total number of contributors, has the highest ratio in the SEECs²⁴, in 2007 the dependency ratio was 59 beneficiaries per 100 contributors.

While the total SSCs have experienced an increase by 12 percent when comparing 2005 and 2007, a sharp decline (37%) is evidenced in the ratio between the urban and rural contributions, figure 5.3.3.2. Although the positive trend in narrowing the gap between the urban and rural SSCs the pension ratio remains basically at 2 to 1 respectively.

Table No. 5.3.3.2 - Amount of SSCs by years and areas

Contributors / Years	2005	2006	2007	Change 2005-2007
Total SS Contributions ALL	33,628,000,000	35,768,000,000	37,664,000,000	12%
Total contribution per employee	3,267	4,150	3,513	8%
Urban Contributions in ALL	31,647,000,000	33,990,000,000	35,155,000,000	11%
Urban contribution per employee	7,180	6,721	6,423	-11%
Rural Contributions in ALL	1,981,000,000	1,778,000,000	2,509,000,000	27%
Rural contribution per employee	337	499	478	42%
Ratio Urban Cont./Rural Cont.	21	13	13	-37%

Source: SII

5.4 The nature and extent of the undeclared work in the construction sector

5.4.1 Definition of the construction activities

To discuss about the undeclared work in the construction sector, first is necessary to define what kinds of the professional categories and the economic activities should be included in this sector. Since our survey is based on the EU NACE classification which is currently been used also by INSTAT we preferred the EU classification for the purpose of our study. All the economic activities that are considered to be of constructional type fall within Section F and Code 45 of NACE Rev1.1. Broadly speaking the following types of economic activities are included within this sector:

- 45.1 Preparation of construction site (demolition, embanking, digging, boring);
- 45.2 Building of complete construction or parts thereof and public works (timbering, scaffolding, carriageway fluvial and maritime works);
- 45.3 Building installation and insulation (electricity, insulation, plumbing);
- 45.4 Building completion works (plastering, woodwork, walls and grounds, painting);
- 45.5 Renting of the constructional equipment and machinery through an operator

According to the Code 45 we tried to identify all the natural and legal entities that are engaged in the construction activities. In general the construction activity is carried out by: 1) companies as legal entities, 2) natural persons as individuals that have vocational skills supported by a university degree or a professional diploma or vocational experience appropriate to the construction activities such as: bricklayers, plumbers, welders, carpenters, electrician, painters, plasterers, repairs, tile layers, installers of doors and windows and 3) unskilled individuals that carry out constructional activities but have not an appropriate education or vocational experience on that area of activity or profession i.e. these professions they have gained by working with professional masters in the country or abroad, or in worst case pretend to have.

5.4.2 Nature of the undeclared work in the construction sector

The construction sector is the typical sector where the undeclared work is evident not only in Albania but also in Europe. Since the early 1990, the question of undeclared work has been considered at European level, specifically in the White Paper on Growth, Competitiveness and Employment in 1993. In 2003, the Council of the EU adopted a Resolution on undeclared work²⁵ calling the member States to address this issue and to work together to improve the situation.

²⁴ WB "Social Insurance Review – Albania" 2006

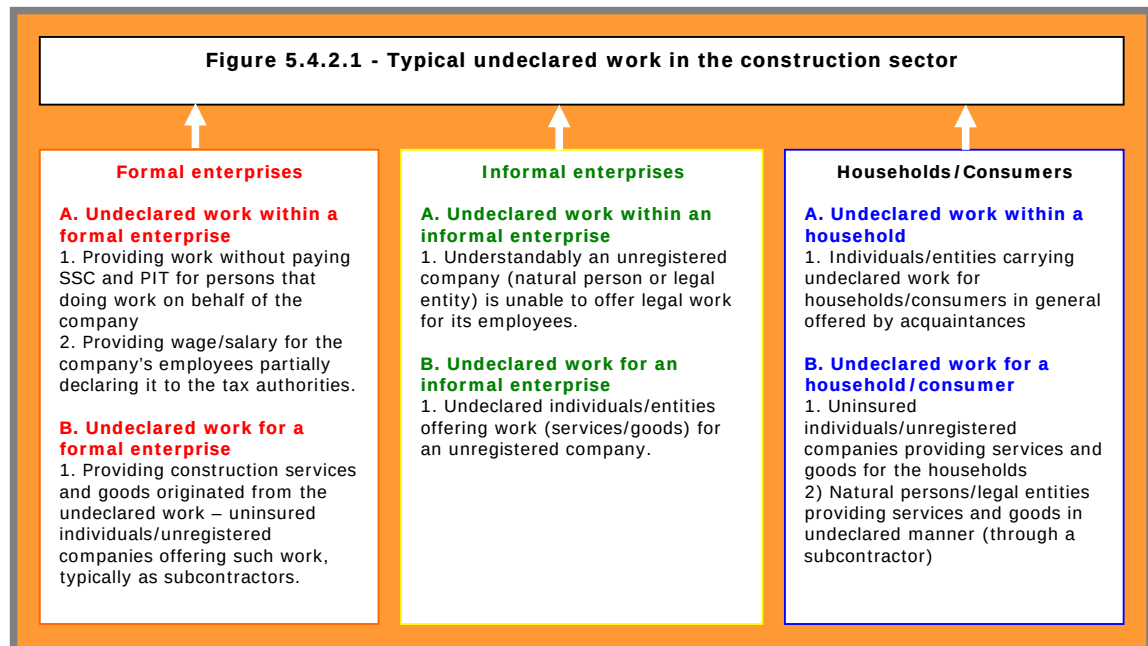
²⁵ Council of the EU "Resolution on transforming undeclared work into regular employment" 2003

The ILO in the 90th ILC Session 2002 devoted the major part of the agenda to the decent work and the informal economy. According to this ILO report in transition countries the informal economy has many forms as such: substance activities (subsistence farming on small plots of land, petty trade), undeclared/unregistered labour, unregulated or unlicensed enterprises, shuttle trade with neighboring countries, to tax evasion activities (hiring of own-account workers instead of issuing labour contracts, double accounting, payment of part of wages “under the table” to illegal and criminal activities”.

In Europe the undeclared work in the construction sector²⁶ is dominant in a great number of countries like in Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy Netherlands, Norway and Slovakia exceeding the undeclared work in others sectors such as: hotel and restaurants, agriculture and transport. One common feature of all these sectors is that they are labour intensive.

In Albania, research on undeclared work in general and specifically in selected sectors are rare or better say absent. But it is proved and well-known that the informal employment is proportionally increased with the distance from the capital city where the inspections are less enforcing. One of the major reason of the undeclared work in the construction and concentrated mostly in the coastal areas and in the outskirts of the major cities is construction of buildings – houses, villas and apartments blocs without construction permits. This phenomenon typically widespread in recent years due to the incapacity and poor will of the central and local governments to stop down, has been currently restricted by some legal and institutional measures of the Government.

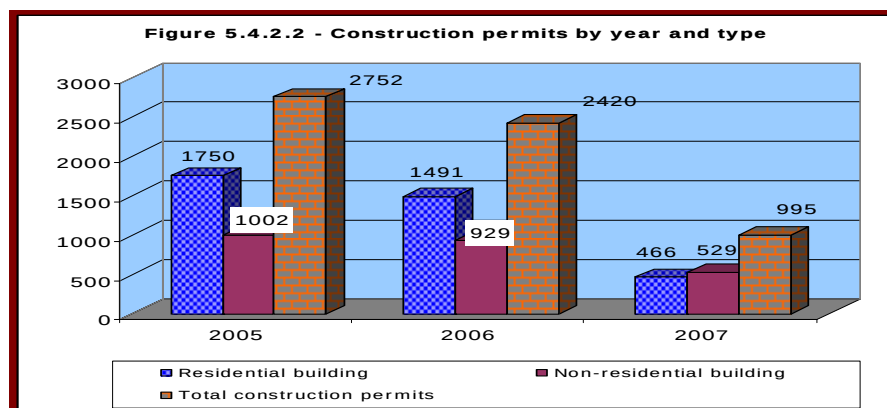
An effort to build a scheme of the typical undeclared work from the supply and demand side is designed at the figure 5.4.2.1 below. What is most typical for the country is the widespread proliferation of the informal enterprises group/individual self-employed in construction that carry out different type of informal works as subcontractors. In the following figure the undeclared work is carried out to the benefit of three distinguished entities which employing workers and/or subcontracting workers.



A drastic drop of the construction permits has been observed in the last years as shown in the figure. 5.4.2.2. This fall in 2007 compared with 2006 is approximately 60 percent. The construction permits are granted by the various institutions according to the type of the permit and the geographical areas. In the urban and rural areas the construction permits are provided

²⁶ EFILWC “Industrial relations and undeclared work” 2005

by the municipalities and communes – Councils of Territory Regulation. Other body that is entitled to grant construction permits is National Council of Territory Regulation.



Source: INSTAT

From the table below two main observations shall be commented: first a considerable discrepancy between real SSCs (including also HCSC) and official SSCs which in 2006 results to be 12.9 percent and second issue is the minimum wage which in the construction sector in 2007 is ALL 16,756 an amount that does not reflect the real wage but a partial wage, that part which is reported to the tax authorities.

Table 5.4.2.1 - Main results from INSTAT surveys of construction enterprises

Indicators	Y-2005	Y-2006	Growth in %
Number of enterprises in the survey	2,005	2,991	49.2%
Total employment	24,566	29,104	18.5%
Total waged employees	22,477	25,799	14.8%
Self-employed employees	2,089	3,305	58.2%
Total payroll in ALL (thousand)	4,509,000	5,852,000	29.8%
Average monthly wage	15,296	16,756	9.5%
SSC in ALL (thousand)	1,320,000	1,694,000	28.3%
Monthly SSC per employee in ALL	4,478	4,850	8.3%
Share of construction SSC to Total SSC	12.1%	14.2%	17.3%
Real share of SSC to the wage	29 %	29 %	0.0%
Official minimal wage ALL	12,500	14,000	12.0%
Official SSC in percentage	41,9 %	41,9 %	

Source: INSTAT

VI National policy approaches against undeclared work

6.1 Governmental policies against undeclared work

Over the recent years the Albanian Governments have taken a number of initiatives and measures to reduce the informal sector economy and informal employment. The policy measures have been legislative, regulatory and administrative combining deterrence measures with enabling compliance measures.

For the purposes of effectively combating the informal economy the Albanian Government established a task force empowered with all the necessary mechanisms by a Decree No. 180/2004. The Steering Committee (later named as the Task Force) is charged to design and implement an Action Plan for the reduction of the informal economy in the country. In December 2004 the Inter-Ministerial Task Force prepared a detailed Action Plan²⁷ based on the recommendation of the OECD study. A summary of major objectives and measures concerning undeclared work of the Action Plan is indicated in the Table No. 6.1.1. In the Action plan are designed specific measures to reduce the undeclared work in terms of reducing of SSC burden for the employers' and employees, reduction of PIC, establishing attractive pension schemes

²⁷ OECD "The Informal Economy in Albania" 2004

for the employees and self-employed and particularly for the employees in the agricultural sector.

The actual measures against the informal economy are incorporated in the regulatory reform and managed by a state body based on the Council of Ministers Order No. 170/October 2005 "On the establishment of the Task Force for the management and monitoring of the regulatory reform intended to improve the business climate" and the Order No. 274/2006. The Task Force is chaired by the Prime Minister and comprises five ministers (respectively ministers of Economy, Public Works, Justice, Finance and Agriculture), but the Minister of Labour is not included. The main duties assigned to the Task Force are to:

- Determine the governmental priorities intended to improve the business climate in the framework of regulatory reform;
- Approve priority measures intended to remove the business administrative obstacles in conformity with the self-assessment review carried out by the public institutions;
- Monitor the expert group proceedings, according to the priority areas aiming at accomplishment of the relevant and planned measures;
- Review the implementation of the regulatory reform and evaluate the impact of the applied policies.

Before submitting the legal acts and bylaws to the Council of Ministers, the relevant Ministries shall submit the draft legislation to the Ministry of Economy, Trade and Energy responsible for assessment of the updated compliance with:

- Procedures of the business registration
- Procedures of granting permits and licenses
- Tax and custom duties procedures
- Legal framework relating to land property and construction
- Procedures for the business inspection
- Procedures for administrative appeal

The Government is on the course of gradual accomplishment of the tasks included in the Action Plan presented below. As we will see in the following section a part of the measures has been accomplished by the Government during the last years.

Table No. 6.1.1- A Summary of the Action Plan relating to the Undeclared Work

Objectives	Measures	Responsible institution	Monitoring indicators	Timeframe
1) Improvement of the statistical evaluation of the GDP	1.1 Using input labour method for the evaluation of NOE.	INSTAT GDT IP MP	- Methodological documents created - Improved labour indicators - New forms of identification of underreporting of employees - Surveys carried out and used for the estimation of GDP and undeclared work	2005-2006
	1.2 Using the data of SLI to measure the NOE. 1.3 Carrying out of labour force survey 1.4....			2007-2009
2) Improvement of tax and customs regimes and administration	1.1 Review business register procedures 1.2 Review the fiscal burden 1.3 Review the SSC scheme 1.4 New measures to combat corruption and bureaucracy 1.5 Reduction of the CIT and PIT 1.6 Reduction of SBT	MoF GDT GDC MoIA METE	- Fiscal Packages - New scheme for the SSC - A number of administrative barriers removed - Reduced the fiscal burden	2005 - 2006
3) Improvement of the collection of the SSC	1.1 Organization of conferences and undertaking studies on informal economy 1.2 Measures to enforce the inclusion of uninsured persons 1.3 Reduction of the rate of SSC	MoLSA METE GDT SII SIL	- Increased number of insured persons - Reduction of the rate of SSC	2005 - onward
4) Improvement of the business environment through the reduction of administrative barriers	1.1 Organization of the conferences 1.2 Assessment of the administrative barriers 1.3 Law on commercial companies 1.4 Establishment of BRC 1.5 Redesign of the BAC	METE MoJ ALBINVEST MoLSA	- New legislation approved - Reduced time and cost for business registration - Operational "silence is consent" principle - Established Secretariat of BAC	2005 -2006

6.1 Specific measures undertaken to reduce informal employment

The Government has adopted significant measures and initiatives to facilitate the formalization of the employment and establishment of formal enterprises. In the next sections are listed a number of the policy measure accomplished up to date that are affecting positively the reduction of the informal economy and employment in the country.

6.1.1 Reduction of Small Business Tax

One of the important measures in this direction was reduction of the SBT by half, starting from January 2007 (Law 9632/October 2006). The SBT for the small businesses, which in majority are small traders and producers, personal and domestic service providers and free-lanced professions varies according to the size of the revenues, category and region. After this measure the enforcing mechanisms for mandatory registration were adopted by the tax offices of GDT and local governments. Periodic inspections were undertaken all over the country in order to suspend the unregistered and unlicensed activities or enforce formalization of enterprises. The SBT is divided in seven brackets according to the revenues starting from less than ALL 2 million as the first bracket, from ALL2 million up to 3 million as second bracket, and so on in successive manner up to the seventh bracket falling within ALL7 million up to 8 million. The reduced level of SBT varies from ALL 5,000–148,000 based on the revenues, geographical location and type of economic activity.

6.1.2 Reduction of the Social Security Contribution

According to the Law No. 9600/July 2006 the social and health insurance contributions were decreased by 9 percent on the employer's side amounting to 32.9% from previously wage share of 41.9%, as indicate in the table 6.1.2.1. This initiative was considered a significant measure to the benefit of companies and self-employed persons. It is thought that this initiative would encourage the enterprises to declare all the employed persons and total wages and salaries assigned to them.

Table 6.1.2.1 - Share of the social and healthcare security contributions to the employees' wage

Type of contributions/shares	Employer's share	Employee share	Total Specific Contributions
SSCs	20.0%	9.5%	29.5%
HCSC	1.7%	1.7%	3.4%
Total contributions	21.7%	11.2%	32.9%

Concerning the legal sanctions, in the cases when the natural persons or legal entities fail to declare the total number of the employees than the tax administration enforce the subsequent entity to pay the outstanding social insurance contributions and a penalty varying from ALL10,000-20,000 per each undeclared person (Law 9920/2008).

6.1.3 Adoption of flat tax

The adoption of flat tax was an initiative emerged from encouraging results of the application of this tax in other Eastern European countries considered as a success. In essence the flat tax comprises two taxes: the personal income tax (PIT) and company income tax (CIP), both taxes were equalized and reduced to a value of 10 percent. Previously, PIT was based on progressive application of the tax according to the level of wage from a lower limit of ALL 14,000 up to a upper limit of ALL65,500. Actually PIT of 10 percent is applied uniformly starting from the minimal wage above ALL10,000, as indicated in the table 6.1.3.1. The other encouraging decision in favor of companies was the reduction of tax on profit (CIT) from 20 percent to 10 percent (Law No. 9766/July 2007) starting from 01 January 2008.

Table 6.1.3.1 - Personal and Company Income Tax

Taxable Incomes	Limits	Values in percentage
1) Personal Income Tax		
Above	up to	
0	10,000	0 percent
10,001 +	30,000	10 % of that part of the wage above ALL10,000
30,001 +	and beyond	10 % of the wage above 0 %
2) Company Income Tax		10 %

This encouraging fiscal measure is thought to determine the future performance of the Albanian companies in terms of fair self estimation and volunteer declaration for the taxable revenues, which consequently shall result in higher tax collection by the end of 2008 and

onwards as indicated in the table below 6.1.3.2. Concerning the second dimension of the undeclared work – the declaration to the tax authorities of the personal income tax which is paid together with social contributions from the payroll the current results are encouraging. As illustrated in the table there is an impressive increase of more than 50 percent of the PIT in 2007 compared to 2005, dominated by the increase of the PIT generated mainly by the private firms and self-employed (62%). Up to date the Albanian legislation does not contain any provision regarding the PIT payment by the self-employed in agricultural sector.

Table 6.1.3.2 - Collection of PIT by year and source

PIT types/years	2005	2006	2007	Change 05-07
Public PIT	2,045,000,000	2,542,100,000	4,334,800,000	53%
Private PIT	1,249,500,000	1,765,200,000	3,248,700,000	62%
Total PIT	3,294,500,000	4,307,300,000	7,583,500,000	57%

Source: GDT

6.1.4 Adoption of reference wage system for the private sector

Although against the free market economy principles and labour market freedom the Government enforced the adoption of the reference wages for the non-public sector by a Decree of the Council of Ministers (DCM) 285/May 2007. This measure was taken in order to reduce the so-called “pocket wage” which means partial declaring of the wage for the employees. The table 5.4.2.1 illustrates significantly the proportion of the undeclared work coming from the pocket wage. Surprisingly the average wage for the whole employees surveyed by INSTAT results to be approximately very near to the official monthly minimum wage of ALL14,000²⁸ (€115). The difference between the real average wage and official minimal wage is only ALL863 (€7)!!!, which in terms of value signifies a large amount of money not channeled to the state budget and to the pension fund. This phenomenon is practically the same for both years and for the construction sector Table No. 5.4.2.1.

According to the DCM the taxation administration is entitled to reassess the amount of the SSC and PIT for all non-public sector employees if the declared wage level by them is deemed to be non real and non-corresponding to the wages of free labour market. The reference wages are categorized according to the level of qualification, region, type of profession and level of management. Skilled works in the construction sector are considered the following professions and others similar to them such as: brick layers, carpenters, plasterers, painters, tile-setters, welders, plumbers, and electricians. For the referring wages of the construction sector, the law provides for seven classes of wages starting from the minimum ALL14,000 for unskilled workers up to ALL250,000 for higher level managers of the construction companies as indicated in the table 6.1.4.1.

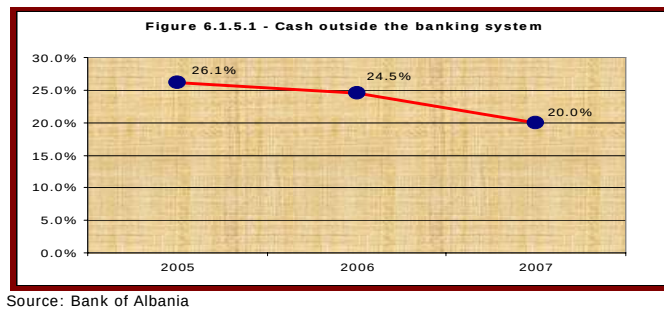
Table 6.1.4.1 - Reference Wages (ALL) for the employees of the construction companies

Category/Personnel	Administrators		Branch managers/ senior managers		Technicians	Skilled workers	Unskilled Workers
	General Director	Managerial staff	General Director	Managerial staff			
First Category (Tirana)	250,000	150,000	150,000	60,000	33,000	27,830	17,000
Second Category (Durrësi, Elbasani, Korça, Vlora, Fieri, Gjirokastra)	200,000	100,000	70,000	48,000	31,500	26,565	15,000
Third Category (other districts)	150,000	80,000	50,000	40,000	30,000	25,300	14,000

6.1.5 Channeling the wage payment through the banking system

Another measure to reduce the undeclared work in the economy was the legal obligation to execute the payment of the wages (mandatory for all VAT payers) through the bank channels for the employees of the private sector. This is mandatory procedure in order that these expenses are recognized by the tax authorities. Not only the private sector employees but also the majority of the public sector employees nowadays withdraws their salaries and wages through the bank channels i.e. ATMs or bank counters, which was a measure initiated by the Central Bank in 2004 to combat the cash economy and reduce the cash amount outside the banks. A declining trend of this indicator is shown in the figure 6.1.5.1 below.

²⁸ The current exchange rate is €1=ALL 122



Another enforcing measure to reduce the informality and cash economy is stressed out in the Law No. 9920/2008 “For the tax procedures in the Republic of Albania”, article 59 where the natural and legal entities are prohibited to carry out transaction in cash for the amounts exceeding ALL300,000.

6.1.6 Simplification of the business registration

Considering the dynamic growth of the small business sector, the lack of a true voluntary compliance culture and the weak tax administration capacity, simplified taxation was thought to be an important element of a strategy to address the problem of underground economy. The simplified taxation schemes has indicated at least that the tax base i.e. number of taxpayers have been broadened. With the view of simplifying the business registration the Government established last year the National Registration Center Law 9723/2007. The expeditious registration of the business activities is mandatory for the following entities:

- Natural persons including self-employed
- Simple companies according to the Civil Code
- Legal entities (Joint-stock Company, Limited Liability Company, Limited Partnership, General Partnership)
- Representatives of the foreign companies
- Credit Unions
- Mutual Cooperation Association

The registration for the above-mentioned companies takes only 24 hours and actually is provided in the all the regions and municipalities of the country. The registration at the NRC ensures all the other registrations as follow:

- Registration of the small business
- Registration for the PIT
- Registration for the SSC
- Registration for the HCSC
- Registration for the CIT
- Registration for the national taxes
- Registration for the excise tax
- Registration for the VAT

In the registration form for the natural persons provided by the NRC are foreseen four categories of self-employment:

- 1) Self-employed without employees
- 2) Self-employed with employees
- 3) Self-employed with employees and unpaid family members
- 4) Self-employed without employees with unpaid family members

In the cases when the tax officers detect natural persons are legal entities that carry out economic and/or commercial activities without being prior registered with the NRC then this entity shall be registered in a temporary register kept by the taxation office till the entity concludes its registration in NRC (Law No.9920/2008).

6.1.7 Restriction in bid participation

In the course of restricting the level of undeclared work last year the Government took another measure to optimize the utilization of the public money through the public tenders. Apart from

the procedural changes and qualification criteria improvements, the new law requires also full declaration of the number of the employees and the evidence of payment for the SSC and PIT for the declared employees for the company that takes part in bidding process. For specific amount of the bid, the contracting entities do require a certain number of the insured employees.

The Law 9643/2006 "On the Public Procurement" emphasizes the intended objectives as follow:

- To increase the efficiency and effectiveness of the public procurement procedures carried out by contracting entities;
- To ensure well utilization of the public funds and reduce the procedural expenses;
- To encourage participation of the economic operators in public tenders;
- To promote fair competition among the economic operators
- To assure equal and non-discriminatory treatment of the economic operators participating in the public tenders;
- To ensure integrity, public trust and transparency in public procurement procedures.

For the first time the law includes the establishment of the institution of the Procurement Advocate. He/she is elected by the Parliament with the proposal forwarded by the Council of Ministers. The Procurement Advocate main duty is to protect the lawful interest of the economic operators from the unlawful and irregular action or non-action of the contracting authorities in the area of the public procurement by means of monitoring and investigation of the administrative procedures during public procurement development. In the law are defined the conditions for participating in e-procurement and the duties of the Public Procurement Agency²⁹.

The article 45 of the law stresses out the criteria for exclusion of the bidders from the public tender. Among others the economic operations shall be excluded from the participation in the public tender if the bidder has failed in fulfilling the legal obligations in terms of SSCs payments and other taxes.

6.1.8 Obligatory registration of the self-employed persons

Early in 2007 the DGT has issues an Instruction No.1 dated 12 January 2007 "For the definition of the commercial activities and ambulatory services and the procedures for their registration with the tax offices". Based on this regulation the self-employed person in commercial activities and ambulatory services are entitled and obliged to register with the local tax offices at the municipalities and the communes. After the preliminary registration at the local tax offices these persons shall be registered with the QKR window at the municipalities which provides the self-employed persons NIPT (Identification Number of Taxpayer), and NSSH (Social Security Number) issued by the Regional Taxation Offices and the Regional Social Insurance Directorates respectively. The categories of the self-employed persons that are included are following: small traders, shoe-polishers, recyclable waste collectors, plumbers, electricians, welders, painters, tile setters, mechanics, persons that carry out agricultural works by using various machineries: harvesters, land tillers, chemicals sprayers etc.

6.2 Policy approaches against undeclared work in the construction sector

The NLC has discussed and proposed some policy recommendations against the informal economy and undeclared work in different sectors. Unfortunately, it was difficult to find any written statement of the NLC on the matter.

The social dialogue to decline the informal employment in the construction sector has been developed only in the tripartite forum namely in the NLC. On the lower level it is concentrated separately on bilateral labour relationships between the Albanian Constructors Association and the General Directorate of Taxation on one hand, and between TUs and public and limited number of the private enterprises on the other hand.

²⁹ Homepage of the PPA: www.app.gov.al

The significant measure to curb the informal employment in the construction sector is the signature of the second and updated bilateral agreement³⁰ between GDT and ACA dated 04 May 2006. This agreement contains the following agreed issues:

- ❖ Minimal Fiscal Cost in the construction sector
- ❖ Payable VAT and the SSCs.

In relation with the MFC both parties agreed that minimal cost amount for the Tirana city is 30,000 ALL/m² referred to a construction area including VAT herewith. For other cities and regions this amount varies from 20,000 to 30,000 ALL/m², as indicated in the table no. 6.2.1.

Table 6.2.1 - Minimum cost-related indicators in the construction sector

Regions/ Indicators	Minimal construction cost ALL / m ²	Minimal payable VAT	SSC/ m ²
Berati	24,840	1,134	1,055
Dibra	22,830	1,043	970
Durresi	24,840	1,134	1,055
Elbasani	21,660	989	920
Fieri	23,820	1,088	1,012
Gjirokastra	24,540	1,121	1,042
Korça	22,680	1,036	963
Kukësi	25,110	1,147	1,066
Lezha	22,440	1,025	953
Shkodra	28,350	1,295	1,204
Vlora	24,840	1,134	1,055
Tirana	30,000	1,370	1,274

Regarding VAT, the amount payable to the tax authorities this amount in no case could be lower than the minimal VAT determined in this agreement.

The most important issues in this agreement relating to the fight against undeclared work is the provision which relate the social insurance contribution with a unit of the constructional site surface. It is agreed that each registered construction company, being natural person or legal entity is obliged to pay an amount as much as ALL 1,274 per every square meter of constructional site in Tirana, deriving this from a minimal wage of ALL 3,041 for every square meter of constructional site. For the other regions and cities the SSCs are calculated based on calculated coefficients, indicated at the tables attached to the agreement document.

The representatives of the legal construction companies expressed their profound concern of preventing illegal construction by the government authorities as one of the major contributor of the undeclared work in the sector. Although the punitive measures taken by the local and central government, the illegal constructions continue mostly in the coastal line and rural areas of the country. It is this portion of the construction works that distort the market and causes the major tax evasion.

In those cases when a part of the construction works are carried out by another construction company then the VAT and SSCs to be paid by the subcontracted company are calculated according to the value of the remained works carried out by the primary company. In cases when a part of the constructional works are carried out by construction companies registered as small business then the SSCs are deducted according to the type of works and the amount of SSCs are indicated in the table attached to the agreement document. In all the cases the small business subcontracted to carry out constructional works shall insure at least four employees including the owner.

Another effective measure to motivate people to pay the social security contributions shall be the establishment of strong linkages between contributions and benefits and the narrowing the gap between the contributions and pensions in the urban and rural areas. In this framework

³⁰ The agreement between GDT and ACA "Agreement for determining minimal indicators in the construction sector for the purpose of calculating fiscal obligations", May 2006

the policies that intend to further narrow the gap between maximal wages and maximal pensions shall be an encouraging incentive in the right direction to motivate employees to declare their incomes and pay the taxes and social contributions as indicated in the table 6.2.1. The table below is built after the latest DCM on new regulations about the social and healthcare security which entered into force on July 01st, 2008. As a major disincentive is the large gap between contributions and pensions in urban areas. Whereas, the ratio between maximum and minimum pensions is 2:1 the ratio between contributions is 5:1. Furthermore, whereas the difference between the urban and rural pensions is around 2 the difference in contributions is from 6 to 19-fold in disfavour of the urban employees.

Indicators / Areas	In urban areas	In rural areas	Ratio UA / RA
Minimum monthly pension (ALL)	9,515	5,200	1.8
Maximal monthly pension	19,030	7,200	2.6
Minimum monthly wage	14,830	-	-
Maximal monthly wage	74,150	-	-
Minimum monthly contribution	4,879	818	6.0
Maximum monthly contribution	24,395	1,280	19.1
Ratio Minimum W/P	1.6	-	-
Ratio Maximum W/P	3.9	-	-
Ratio between pensions	2.0	1.4	-
Ratio between wages	5.0	-	-
Ratio between contributions	5.0	1.6	-

VII Role of the social partners to tackling the undeclared work

The ILO is supporting its constituents in Albania to adopt four strategic objectives of the decent work: 1) fundamental principles and rights at work and international standards; 2) employment and income opportunities, 3) social protection and social security and 4) social dialogue and tripartism. Most importantly these objectives are relevant and applicable for all workers, women and men, in both formal and informal economies.

Up to date concerted efforts to tackle undeclared work by the ILO constituents are insufficient. The EOs, TUs and government institutions have undertaken unilateral actions against the undeclared work. The government institutions are collaborating with donors to narrow the legislative and regulatory gaps in the business registration, public procurement, social security system and tax administration. The prominence in the latest efforts has been given to e-governance as an effective measure to reduce the time, cost and corruption. Adoption of the e-procurement, e-business registration and VAT e-filing systems shall contribute to reducing the informality of the economy of the country.

The efforts of the government have been successful in the adoption of the new measures and initiatives in the framework of regulatory reform. The lacking arm of the regulatory reform is the enforcing components of the institutions like GDT, SLI and SII to get the utmost outcomes from the legislation in force. All these institutions need to coordinate their activities and efforts starting from the planning activities in coordinated inspections to identify and detect the undeclared in all economic sectors.

Active participation of the EOs and TUs representatives in the managing boards of the GDT and SLI would have facilitate the process of design and enforcement of appropriate mechanisms for this purpose. The government should promote and enhance mechanisms for regular dialogue involving TUs and EOs, by expanding the scope of existing national tripartite bodies, stimulating collective bargaining processes, and promoting innovative mechanisms specifically tailored to particular segment of the informal economy.

The TUs have an important role to play in advancing the decent work values among the unemployed people which are the most vulnerable part of the informal employment. The efforts for their involvement in the existing TUS or establishing new ones should be welcome. The unprotected workers unemployed or employed in the informal sector or self-employed should be organise to help protect their rights at work, their rights for decent employment.

Historically the trade union movement was built by unprotected workers who, through self-organisation and solidarity gained rights, benefits and social protection. Close cooperation of the TUs with local governments should be seen as contributing factor to integrate the informal workers in negotiating forums on regional level to debate and discuss on the best ways of employment formalization. Organizing informal economy workers represent a real challenge for the trade unions bearing in mind their specific needs and with a view to protecting collectively their interests and to claiming proper legal regulations.

The TUs new approaches for specific sectors of economy and in particular in construction sector should be revised and updated. Until now the efforts of the two TU federations to cope with the informal employment has not produced expected results. Both confederations and federations of construction sector should advance new proposals to the ACA representatives in order that they see clearly the benefits of cooperation. In addition to new approaches, the TUs should try to cooperate with similar associations on regional level where they exist or selected group of construction firms. Recruitment strategies to reach workers in informal activities have to be innovative, particularly when access to the workplace is denied, or the workplace is difficult to detect. An important role of the TUs would be to lobby on behalf of the informal workers and their associations and help them to achieve recognition, bargaining power and legal protection.

The EOs in the country are increasingly recognizing their indispensable role in promoting and protecting the interest of the formal economy. The informal sector economy and informal employment represent for the formal enterprises a real challenge since they incorporate unfair competition, often acknowledging that employers in the informal economy might employ more people than those in the formal economy. There are good reasons for employers' organizations to be involved in informal economy issues. The informal sector enterprises would cease to be unfair competitors if they can be assisted to enter the formal economy. Inviting the representatives of the informal enterprises to be members of the organisation in exchange of services and benefits might be a good strategy for their formalization.

The development of the production chains make inter-firms linkages important and determine competitiveness power. Attracting informal enterprises in these lucrative linkages should pose a good step for them towards informalization. The members of the ACA can play a major role in combating the undeclared work among the self-employed and small enterprises that work as subcontractors for them such as: electricians, plumbers, installers of air-conditioning network etc. Conditioning subcontracting with the formalization is a direction to be followed by the major construction enterprises. There are other areas that the employers' organizations could work such as adoption of the codes of conduct, promotion of framework agreements stakeholders' accountability and application of good practice standards.

In Europe³¹, interestingly trade unions and employer organizations in the construction and agricultural sectors are the most active social partners regarding undeclared work. Most collective bargaining agenda raise concerns in relation to the issue of undeclared work. But, one significant feature of industrial relations is the high degree of goodwill contrasted with the low level of action.

In Albania apart from the unilateral efforts of ACA, as indicate in the table 7.1, to protect its members from the informal employers in the construction sector overall appears a lack of determination in the fight against undeclared work. The NCL even has never issued a declaration about the size and reasons of undeclared work in the country and to show its commitment to combat the phenomenon. The social partners take unilateral initiatives that very often are non-binding in this respect.

Table 7.1 - Social partners involvement regarding UDW

Social Dialogue on UDW	Collective agreements		Social partners initiatives	
	Bipartite	Tripartite	Joint	Unilateral

³¹ EIRO "Industrial relations and undeclared work" 2005

Tripartite at NLC	Agreement in construction			ACA information campaign
				TUs information meetings

VIII Results of the assessment of the undeclared work in the construction sector

8.1 The survey methodology

The approach of the survey was a combination of the EU survey³² carried out last year in the EU member states and the ILO survey prepared by the ILO expert R. Hussmanns 2004, intended to measure the informal employment or as in the EU prefer to name undeclared work. The working questionnaire was adopted and modified according to the objective of the survey and the specificities of the construction sector in Albania. The survey was carried out with the purpose to address the phenomenon openly and to provide respondent with an exact definition of undeclared work. In the situation that in the country does not exist any definition of the undeclared work or informal employment, but in the legislations it is implied as an economic activity that a person carries out without paying social security contribution and personal income tax, which in fact is similar with the EU definition was used in the survey.

Our sample of the respondents comprised 200 male persons with the view of catching as much possible persons involved in construction sector. For Albania, it is a well-known fact that the number of women involved in the construction sector is negligible. The chosen size of the sample was limited because of the insufficient funds and time; a comparable sufficient size would have been 500 questionnaires. The survey was carried out by the INSTAT survey-interviewers comprising five regions of the country where the construction sector is more developed such as: Tirana, Durrresi, Shkodra, Fieri and Vlora. According to the number of the construction companies operating in these regions a reasonable division of the questionnaires was done proportionally with the number of the construction companies. In Tirana were interviewed 100 male persons, in Shkodra 20, in Durrresi 30, in Fieri 20 and Vlora 30 individuals. The interviewers were instructed by the consultant to explain to the potential respondents since the beginning the definition of the undeclared work, which was explained in the first page of the questionnaire. For the purpose of not avoiding the interviews with the potential persons involved directly in the construction sector, the specific advice to the interviewer was to not miss this category of the employees or self-employed persons.

The methodology used in the survey classifies the undeclared work as only activities that should be reported but result unreported to the tax and social security authorities, in principle legal ones. Out of the scope of the survey are illegal activities such as: smuggling, drug trafficking and other criminal activities. In Albania, income from work that falls below minimal wage does not need to be reported to the state authorities, but the minimal wage is enforced to all the sectors public and public ones in urban areas. In rural areas the scheme is different but however every farmer that owns a plot of land shall pay SSCs and HCCs but not ant PIT for the time being. In the survey the payment in kind are excluded since it is very rare in our case, but recently there are evidences that this kind of undeclared activity has started to be frequent among the firms.

The questionnaire was build on two distinctive parts in order to allow the respondent to see the phenomenon from three perspectives: 1) as a buyer of the services/goods stemming from the undeclared work which consists the demand side of the undeclared service/ good and; 2) as a performer/doer of the undeclared work in the form of the undeclared activities which is the supply side of the undeclared work and, 3) as a beneficiary of his salary in their jobs by receiving it totally or partially undeclared.

This kind of survey is especially suitable for mapping undeclared work done by private persons. Work done by firms can only be partly measured with this survey. The following table 8.1.1 illustrates the types of undeclared work covered by the survey and those are only partly covered or not covered at all.

Table 8.1.1- Coverage of the undeclared work by the survey

³² Eurobarometer Report "Undeclared work in the European Union" 2007

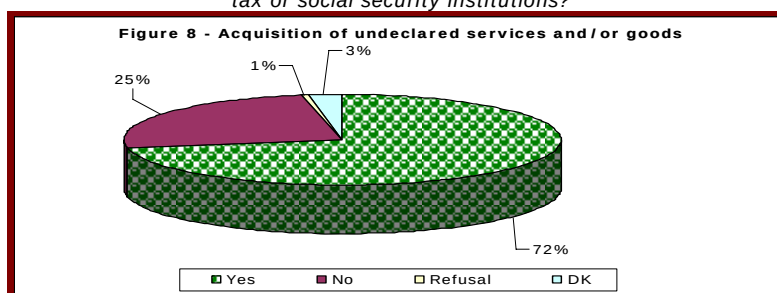
Type of undeclared work	Performer of UDW (supply perspective)	Buyer of UDW (demand perspective)
Individuals doing UDW for individuals/households	x	x
Individuals doing UDW for firms	x	-
Firms working undeclared for individuals/households	-	x
Firms performing UDW on behalf of other firms	-	-

8.2 The demand side of the undeclared work in general and in the construction sector in particular

Share of people buying undeclared services and/or goods

Share of people buying undeclared services and/or goods is considerably high (72%), which expressed in other words means that out of four people three buy undeclared services and or goods. The question of the buying of the undeclared services/goods is linked with the tax morale. The Albanian society is not at that stage of maturity where the obligation to pay the taxes is a social duty in the first place. The corruptive events relating to the public funds abuses by the government officials make the people reluctant to pay the taxes. In some European countries the largest share is in the range of 23–27 percent like in Denmark, Sweden, Netherlands and Latvia.

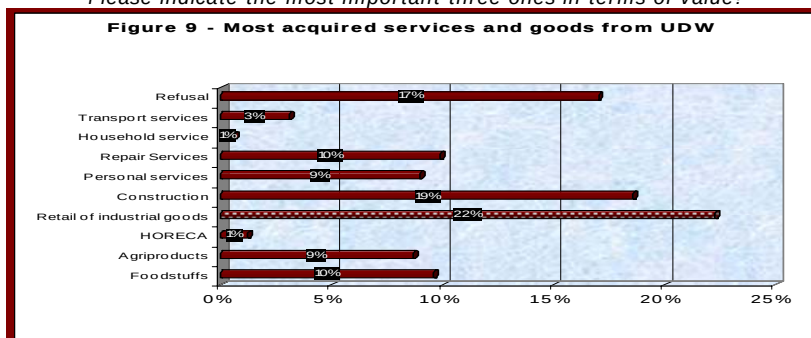
Q8 – Have you in the last 12 months acquired any service/goods of which you had a good reason to assume that they embodied undeclared work i.e. that the income was not completely or partly reported to tax or social security institutions?



The most important undeclared services and goods acquired

In our survey the retail has been divided into three categories: retail of industrial goods, foodstuff and agriproducts (fruits and vegetables). Altogether they consist of 41 percent of the goods acquisition stemming from undeclared work. The services comprises 24 percent of the undeclared work but keeping in mind that the all respondent are male, and the personal and domestic services mostly belong to the women domain, this figure should be considered carefully. The construction sector results in 19 percent of the answers but since half of the respondents are involved directly in providing construction works this figure also should be considered carefully.

Q9- What kind of services and/or goods coming from undeclared activities did you acquire? Please indicate the most important three ones in terms of value?

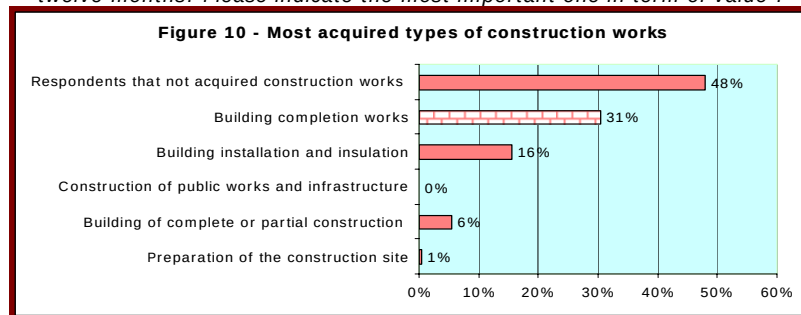


The most important undeclared construction work acquired

According to NACE the construction works are divided into five categories (except for one which is rare – renting construction machinery to an operator). Assuming that 50 percent of

the male respondents do not buy construction works because they do it by themselves then the other half buys mostly construction completion works (31%) relating to works such as: plastering, tile setting, painting, door and windows mounting, floor and ceiling covering. The source of the undeclared work in the construction results to be closely connected with the workers that use light equipment and tools such as plumbers, electricians, installers. The utilization of the heavy machinery such as in infrastructure objects and the construction of large buildings makes impossible to cover the undeclared work.

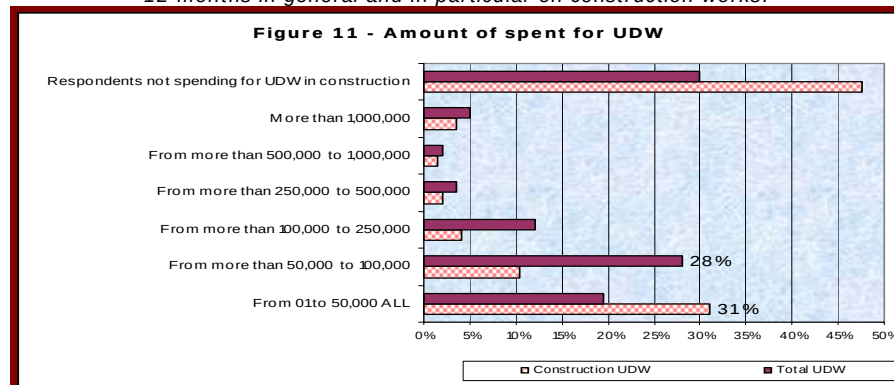
Q10- What kind of construction works (NACE 45) coming from undeclared work did you acquire in the last twelve months? Please indicate the most important one in term of value ?



Money spent for buying services and goods in general and construction works in particular from undeclared work

Nearly one third of the respondents (31%) buy construction works up to ALL 50,000 whereas slightly fewer (28%) buys services and goods coming from undeclared work in general in the range of ALL 50,000 to 1,000,000. From here it can be assumed that half of the undeclared services and goods acquired comprised undeclared construction works. It resulted that 30 percent of the respondents do not provided any data about the money spent for acquisition of the undeclared work, although in the question 9 only 17 percent refused to buy any undeclared work or services.

Q11- Thinking about the most important services/goods coming from undeclared work you acquired could you please indicate roughly how much money you spent on it in the last 12 months in general and in particular on construction works?

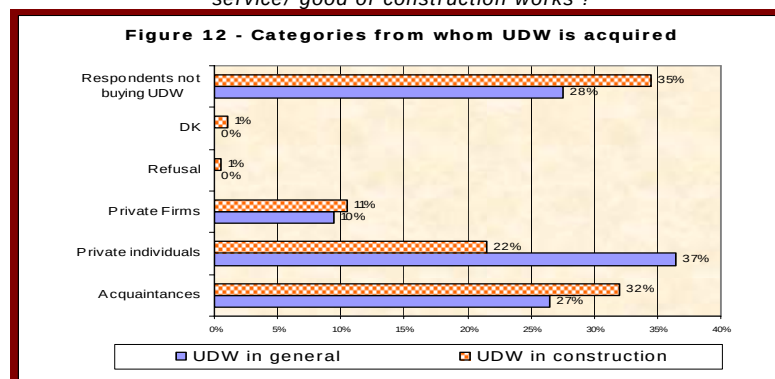


Providers of the undeclared services/goods and construction works?

In both cases the frequent providers of the undeclared services and goods in general and the undeclared work in the construction sector are private individuals and acquaintances (relatives, colleagues, friends and neighbours) sharing 64 percent and 54 percent respectively of the purchasers. The acquaintances dominate over the private individuals in providing undeclared work in construction in the ratio 32% to 22 %. The reason rests with the expected lower price and higher quality and even trust in fast services that acquaintances provide in comparison with the private individuals. The private firms perceived as offering services and goods with higher prices share the smallest part in the total undeclared work and in particular in the construction sector.

Q12 – Among the following, could you please indicate from whom did you buy this

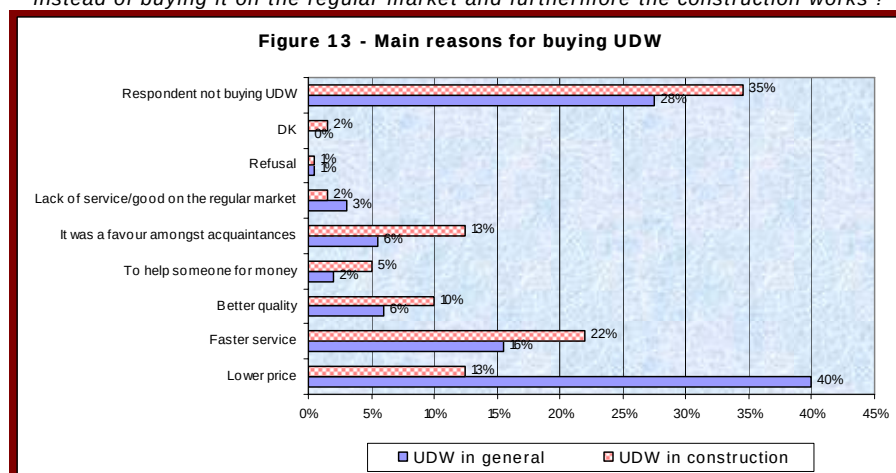
service/ good or construction works ?



Reasons of buying undeclared services/goods in the construction sector

While a relative majority of people (40%) state that they buy services and goods stemming from undeclared work due to lower price, in the construction sector the client attractiveness rests to faster service (22%) offered by acquaintances and private individuals. Other reasons that influence the purchasers' decision-making in buying undeclared work in the construction sector are lower price, better quality and the purchase is considered as a favor among the acquaintances in the construction sector. In the European survey the lower prices shared in average a large percentage 66 percent and the faster services 21 percent respectively

Q13 – From the following, could you please indicate what made you buy it undeclared instead of buying it on the regular market and furthermore the construction works ?

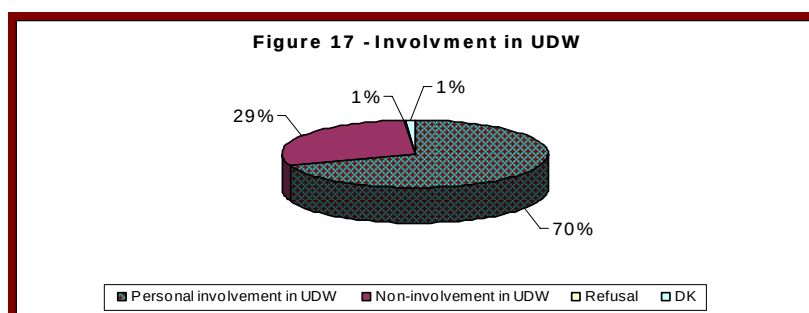


8.3 The supply side of the undeclared work in general and in the construction sector in particular

Share of people doing undeclared work

The figure below indicates that 70 percent of the interviewees are directly involved in undeclared work. This share comprises employees and self employees in the sectors where the undeclared work is found very often such as retail, construction and services.

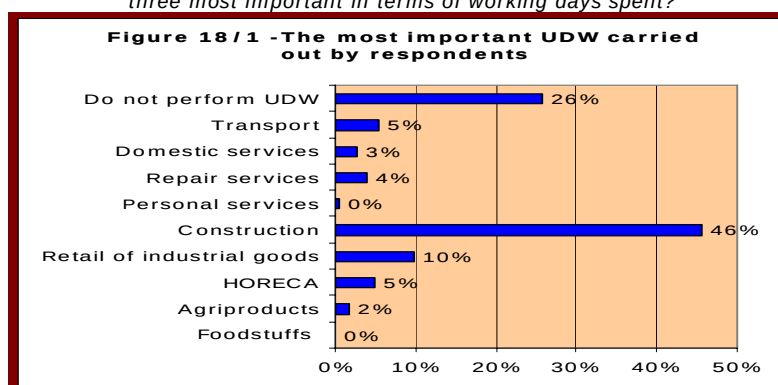
Q17 – Did you yourself carry out any undeclared work – providing service/ goods/construction works in the last 12 months for which you are paid in money without declaring it to the tax authorities?



Typical undeclared activities carried out by the respondents

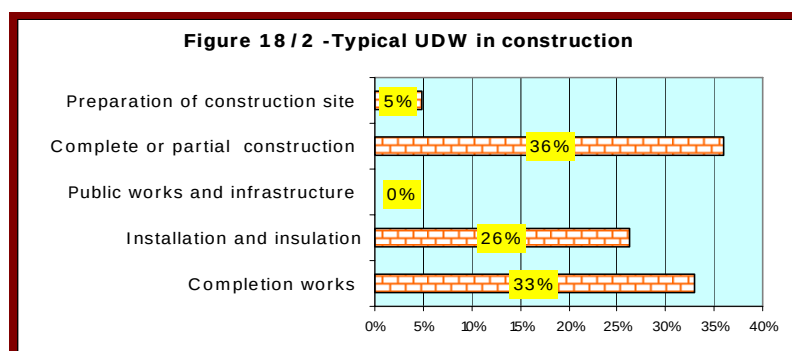
Regarding the time spent in undeclared activities the respondents as expected ranked first the construction activities (46%), second retail trade (12%) and the services activities (7%). The agriculture activities where about 420,000 farms are registered are not represented convincingly since the survey was focused more on the urban areas. However, the undeclared work in agricultural activities is well known to be high.

Q18 – Could you please indicate what kind of undeclared activities do you carry ranking three most important in terms of working days spent?



Typical construction activities performed by the respondents

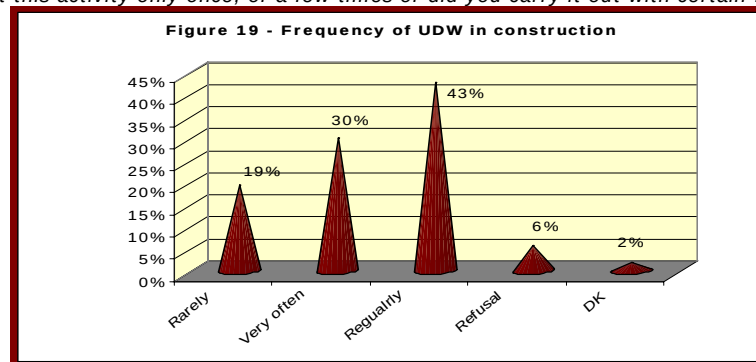
Within construction works our respondents (103 individuals) are involved basically with completion works (33%) which includes finishing the interiors of the buildings such as: plastering, tile setting, door and windows mounting, wood works covering for floors and ceilings and installation and insulation (26%) like: electric and hydraulic network setting, thermo and hydro insulation, welding, heating and conditioning. As



Frequency of undeclared work in construction

When it comes about the frequency of involvement in construction work nearly half of the respondents (43%) accepted that they carry out it regularly, while nearly one third (30%) very often and one fifth a few times.

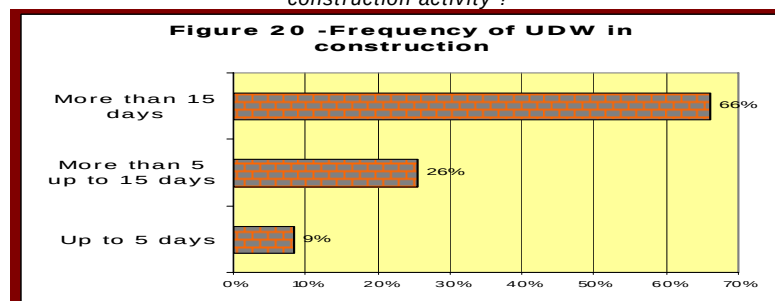
Q19 – Thinking about the most significant undeclared work you just mentioned in construction did you carry out this activity only once, or a few times or did you carry it out with certain regularity?



Days spent in construction works

Overwhelming majority (66%) of the individuals involved in construction activities as self-employed or employed in construction companies spent more than 15 days. Usually the construction activities are carried out during six days of the week which means 24 days per month. Taking into account the rainy days per year which in the last decade in average have been 50-60 days, then the effective working days in construction are approximately 20 days per month.

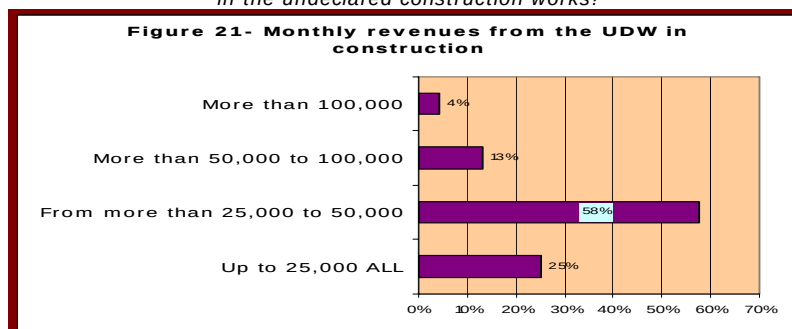
Q20 – How many days per month during the last 12 months did you spent in the undeclared construction activity ?



Monthly revenues coming from undeclared work in construction

More than half of the employees or self-employed in the construction sector receive a monthly salary in the range of ALL25,000 to 50,000. (€200~€400), this fact is in contrast with the evidences of the level of salaries in the construction sector taken from INSTAT, where resulted that the minimum wage in construction is about ALL 14,000. One fourth is paid up to 25,000 which correspond with a salary of an unskilled worker in the construction sector.

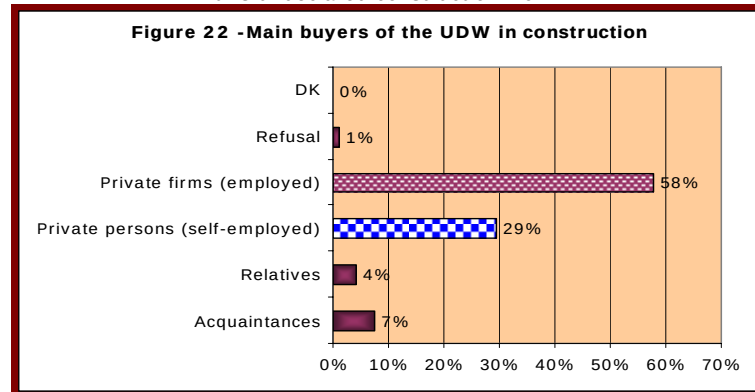
Q21 – Approximately, how much have you received in cash per month in the last 12 months in the undeclared construction works?



Buyers of undeclared work in construction sector

In this stage we can judge about the employment status of the respondent. Surprisingly it results that more than half (58%) work for the private firms and nearly one third (29%) are self-employed. Furthermore, there are good grounds that also the persons who have worked for relatives and acquaintances are self-employed (11%).

Q22 – Among the following, would you please indicate for whom did you carry out (work) this undeclared construction work?

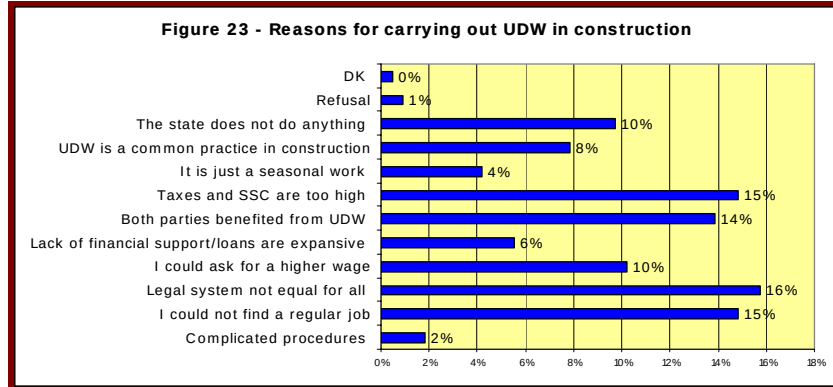


Main reasons for doing undeclared work in the construction sector

At least are found four major reasons for doing undeclared work:

- 1) Legal system is not implemented equally for all (16%)
- 2) It is impossible to find a regular job (15%)
- 3) Taxes and social contribution are perceived very high (15%)
- 4) Both parties – employer and employee benefit from the undeclared work (14%)

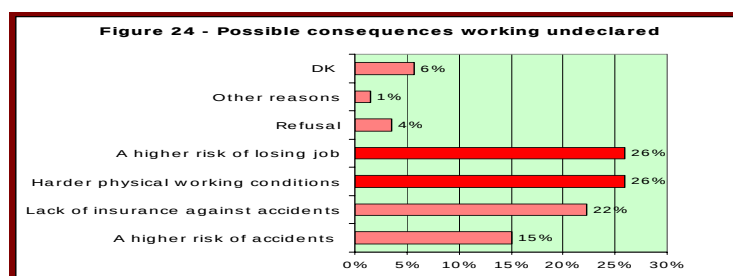
Q23 – Among the following alternatives, what are the reasons for doing undeclared work in the construction sector ?



Possible consequences working undeclared in the construction sector

The employees and self-employed individuals working in the construction sector think that the major consequences are related with employment contract termination, losing the job immediately and poor working conditions offered for them when working informally by the employer.

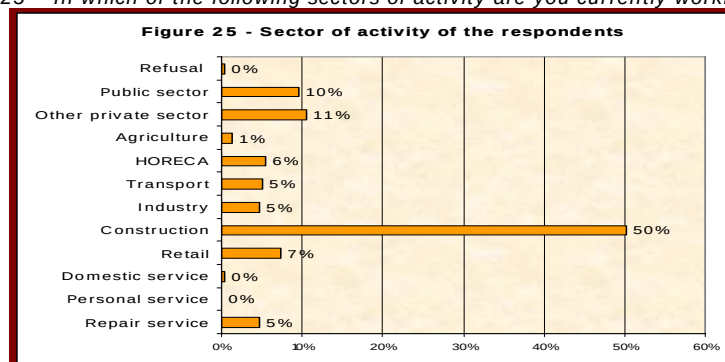
Q24 – Apart from other considerations, did you experience any of the following consequences when working undeclared?



Sector of the activity of the respondents

Apart from the majority involved in construction activity other sectors do not occupy a dominant share in the survey. Only 10 percent are coming from the public sector the other 90 percent are from the private sector. It is identified that only a few persons are holding double employment (8%). The most relevant finding from the last section rests with the detected fact that only 15 percent of the employees or self-employed in the construction sector are working in a formal way, declaring their incomes to the tax authorities.

Q25 – In which of the following sectors of activity are you currently working?



8.4 “Envelope wages” as a widespread phenomenon of salary payment

Share of the employees receiving partly or completely undeclared salary

Envelope wages is relevant for dependant employees and self-employed. In Albania can be distinguished several ways of salary payment:

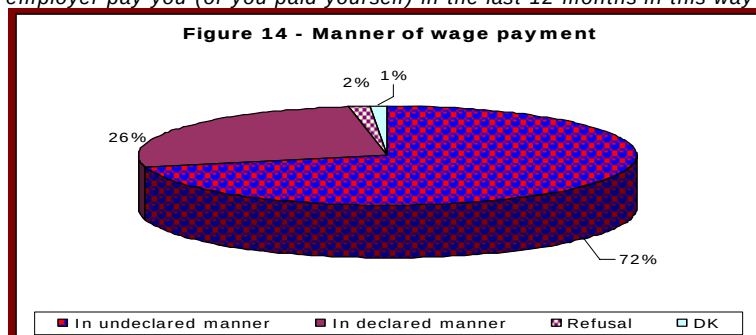
- No salary is paid to the employee (or the self-employed is paying himself) in a formal way which means not paying the SSC and PIT.
- The employer (or self-employed) is paying the employee the legally prescribed minimum wage officially recognized by the authorities and the rest is paid undeclared in order to avoid a part of the PIT and SSC. From our evidences this is the most widespread phenomenon of undeclared work within regular enterprises. This variant is mutually beneficial for both the employer and the employee. In majority of cases the employee has not choice either they accept the envelope wage or they do not get the job.
- In construction sector the undeclared work is covered also by subcontracting other companies which pay a minimum amount of taxes regarding their employees or not at all.
- The recent phenomenon that is giving rise is the barter exchange among the construction companies in exchange of services or goods the construction companies provide apartments to the suppliers.

In our survey being dependant employee or self-employed 72 percent accepted that they are paid by the employer or are paying themselves in undeclared way. One fourth of the respondents (26%) stated that their salaries are completely declared including here 10 percent coming from the public sector which furthermore implies that only 16 percent of the private sector employees (self-employed) pay salaries in a formal way.

The alarming fact remains in the flagrant cases reported by the TUs representatives when the designated public funds disbursed through tenders or donor programmes to the companies, Albanian or foreign ones are not returning back in the state budget the part of the taxes

comprising here PIT and SSCs. In addition this means that the State promotes the undeclared work through its financial means.

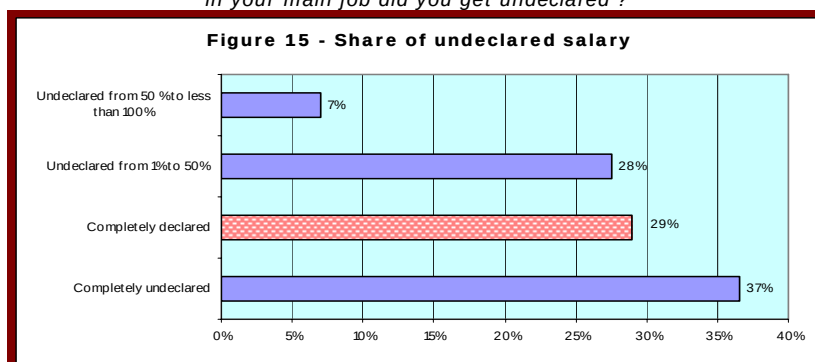
Q14 - Sometimes employers prefer to pay (or you as a self-employed prefer to be paid) all or part of the regular salary or remuneration for extra work cash-in-hand without declaring it to tax authorities. Did your employer pay you (or you paid yourself) in the last 12 months in this way ?



Share of the wage received in undeclared way

The vast majority of the respondents (37%) stated that they received their salaries completely in informal way. Moreover, it can be admitted that about 70 percent are employed in the informal sector or enjoy informal employment. In the case of partial declaration, the relative majority (28 %) hide up to half of the salary. The results of this section correspond with the previous sections with an acceptable discrepancy of 3 percent. In Europe the worst cases of the envelope wages are Latvia (17%) and Bulgaria (14%).

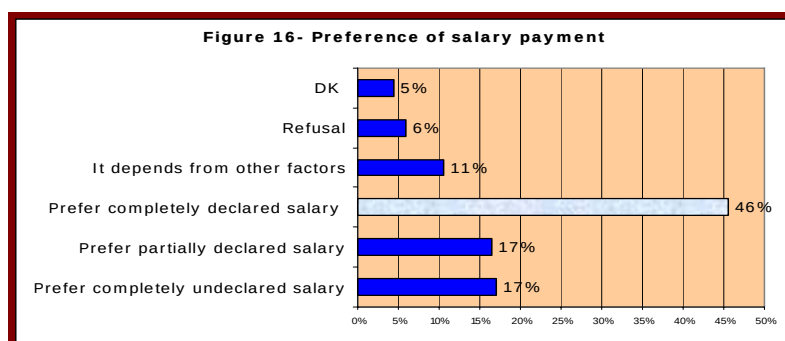
Q15 – Approximately which share in percentage of your annual income in your main job did you get undeclared ?



Preferences in receiving the salaries

Approximately half of the respondents (46%) prefer full declaration of their income from the job. This indicates that the awareness of the undeclared work is increasing and people require secured future of their life. Maybe this is closely connected with the average age of the respondents which results in 40 years old, and which means that simply they have begun to think over their pension insurance.

Q16 - Are you happy with getting a part of your salary or complete salary without having it declared to the tax authorities or would you have preferred to have your total income being declared?



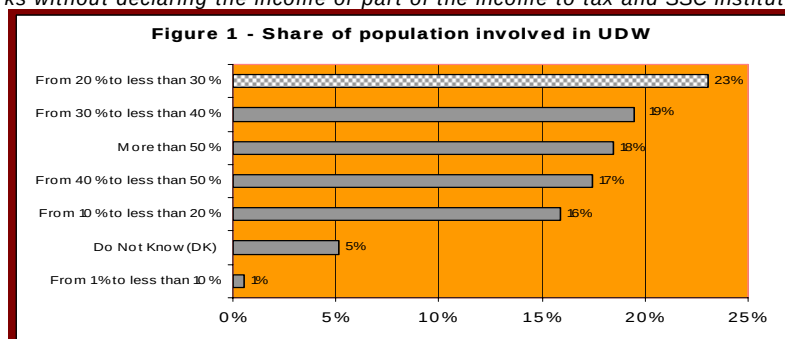
8.5 Undeclared work – public perception and acceptance

In this section of the questionnaire are prepared seven questions asked to the potential respondents in order to have their perception about the size of the undeclared work, its concentration and risks embedded in the construction sector.

Perceived share of the people involved in undeclared work

The vast majority of the respondents think that the informal employment is above 10 percent, only 1 percent of them believe that the undeclared work is below 10 percent. The striking figure is that 18 percent of the respondent believes that the informal employment is above 50 percent. The largest majority (23%) provided an estimate of the size of the informal employment as being in the range of 20-30 percent. This perception is relied on the evidences of reality in the country and particularly on the illegal construction which lasted for about 10 years. This perception is supported not only of 50 percent of the respondent that are directly involved in the construction sector but also of the rest of the respondents who belong to various sectors.

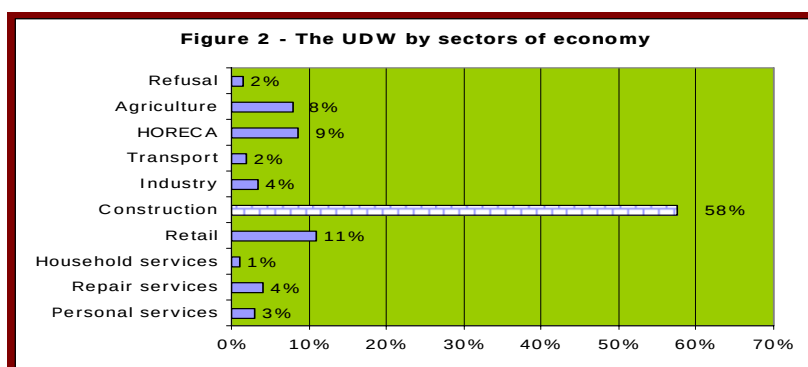
Q1 – What would you estimate as the share of the population in the country which works without declaring the income or part of the income to tax and SSC institutions?



Most affected sectors by the undeclared work

The construction sector consists as an outlier among other sectors; the majority of the respondents (58%) have no doubt that the construction sector is most infected by the undeclared work. This is supported also by the fact that half of the respondents are self-employed or employed in construction companies. This sounds as a fair declaration of the doers themselves. In reality, although that in our survey other sectors are represented by a low incidence, the undeclared work is widespread too, naming some of them such as retail, agriculture, services and bars and restaurants.

Q2 – According to your opinion in which of the following sectors the undeclared work is more widespread?



Dimension of the undeclared work among the acquaintances

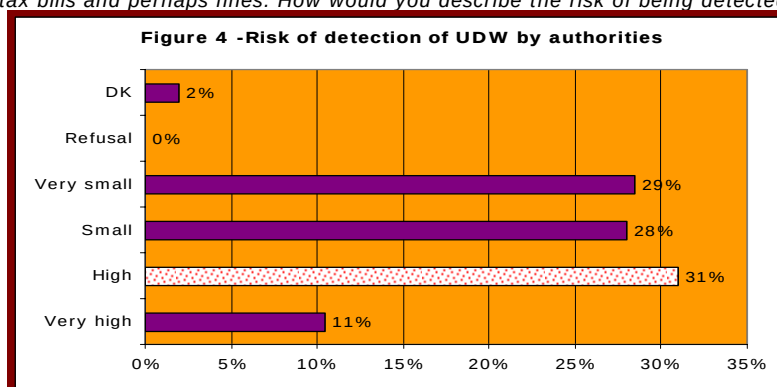
The wide proliferation of the undeclared work is underpinned also by the unequivocal acceptance of 100 percent of respondents that they all without any exception know someone that is involved in the undeclared work.

Q3 – Do you personally know any people who work without declaring their income or part of their income to tax or SSC institutions?

Risk of being detected when carrying out undeclared work

Despite that a relative majority of the interviewees (31%) think that the risk of being detected by the responsible authorities is high, as a whole more than half (57%) of the respondents estimate that the risk is small or very small. However, it is expected that the rule of law in the coming months and years will be more applicable and acceptable by the population with regard to the matter under discussion.

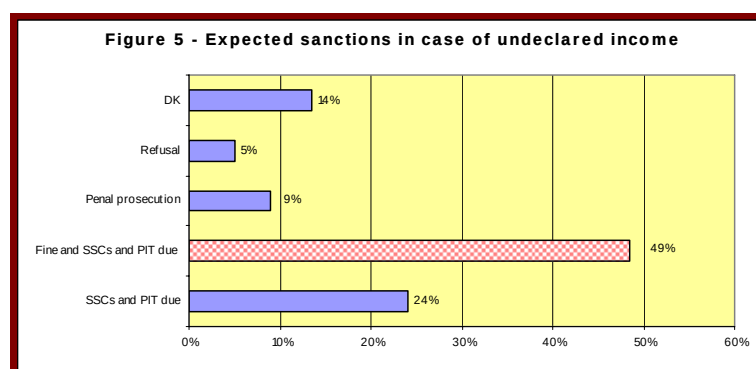
Q4 – People who work without declaring the income risk that tax and/or social security authorities find out and issue tax bills and perhaps fines. How would you describe the risk of being detected in Albania?



Expected sanctions in case of undeclared work

The increased awareness about the obligations for legal and tax compliance is illustrated with the result of the figure 5 below. Nearly half of the respondents already know that they have to pay the dues and the fine if they are detected for not paying the PIT and SSCs and HCSCs. In the Albanian legislation is stated that all three obligations are to be paid from the payroll for all employees. In the rural areas the contributors are excluded from the PIT. The interesting fact is that among three enforcing institutions are applied different enforcing policies when detecting undeclared work. The tax officers apply fines in the range of ALL10,000-20,000 for every informal employee in addition to dues. The SLI inspectors apply fines which go from 20 to 50-fold of the minimal official wage, whereas the SII inspectors which cover the rural areas enforce only the dues and interests on them.

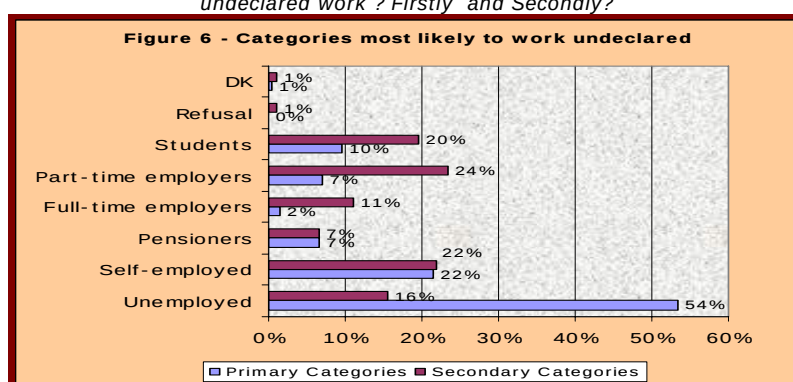
Q5 – In your opinion, what sanctions are to be expected if the authorities find out someone that does not declare his income to tax or social security institutions?



The categories of people that perform undeclared work

The survey results show that across all the five surveyed regions (Tirana, Durrresi, Fieri, Vlora and Shkodra) there is a major group which the respondents consider most likely to be involved in informal employment i.e. unemployed. The unemployment is a major problem in the country and in spite of the slight decline in the recent years it is high amounting to 13.2 by the end of 2007. This is an official estimate provided by MoLSA for the registered unemployed persons, but no official information is provided for the unregistered unemployed. The other groups of individuals that work undeclared are self-employed, part-time workers and students.

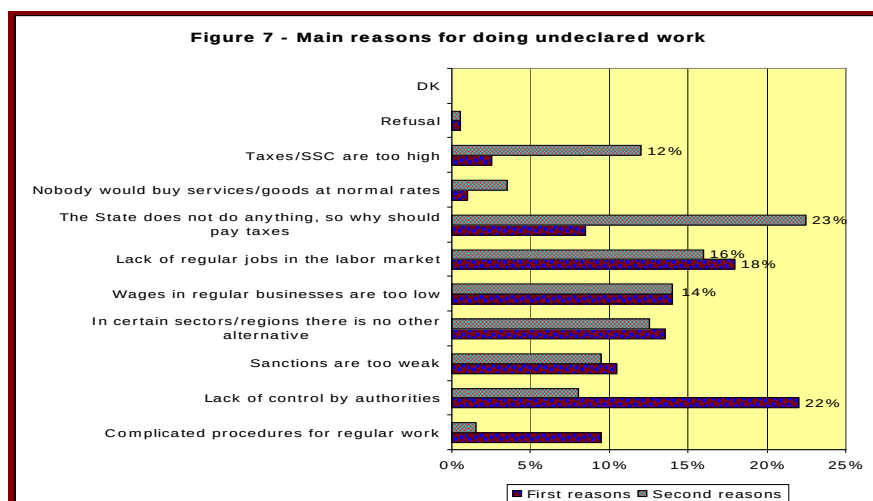
Q6 – Which of the following categories are in your opinion most likely to carry out undeclared work ? Firstly and Secondly?



Main reasons for doing undeclared work

The law enforcement still is a persistent concern among the public. The two largest shares of estimates relating to the reasons of doing undeclared work are connected with the competences and authority of the governmental institutions. On the one hand the respondents (22%) think that the high incidence of the undeclared work is the result of the insufficient control carried out by the tax and SLI inspectors, and on the other hand they are blaming (23%) the State that does nothing to improve the employment situation among the population. In both estimations as first and second reasons the interviewees (34%) rank the lack of the regular jobs in the regular market which consequently implies that even when they find a job, the employer offer them an irregular job – not registering them or paying them by partially declaring their salary to the authorities. A quarter of the Albanian respondents (34%) have the same estimate as their colleagues in other European countries where the low salaries in regular business are a significant reason for people doing undeclared work. The perception and the reality of low salaries in the regular market is closely linked with the fact that people perceive tax and SSCs as being too high.

Q7 – What are in your opinion the reasons for doing undeclared work ? Firstly ? Secondly ?



IX Main Findings

9.1 Major findings from the desk research

- The Government in the last three years has taken serious measures to curb informal economy and the informal employment but most of the measures have been heavily focused in the regulatory reform; significant efforts are lacking to address the incapacity of the enforcing institutions to undertake concerted efforts to combat the informal economy;
- The Government lacks sufficient support for the social partners to develop social dialogue and collective bargaining also at lower levels namely sectoral and enterprise level and furthermore regional levels where these effective means provide expected results;
- Up to date the Government has not succeeded in finding effective and efficient cooperation mechanisms in order that the three main enforcing institutions GDT, SLI and SII lay out convincing joint policies and strategies in combating undeclared work;
- The establishment of the business registration center (NRC) has facilitated the process of registration of the natural and legal entities including also the self employed persons. Actually it is reported that the number of firms registered with the NRC has amounted to 100,000, but still there are evidences of the unregistered and hidden economic activities;
- The NCL should debate comprehensively about the root causes, dimensions and expansion of the undeclared work in all the sector of the economy and then provide meaningful recommendations for every sector which should be known to the wide public and media;
- The tripartite bargaining system lacks the bilateral bargaining system particularly, which would lead to legally binding agreements;
- The employment policies designed by the Government has resulted as being non productive; the participation of the labour force in the labour market is not increasing and the unemployment rate has declined in a negligible manner;
- The National Council for VET is not functioning effectively - on one hand the real obstacle for this body is the lack of a separate budget as in the case of the NCL and on the other hand the insufficient commitment of its members;
- The grant of the construction permits by the authorized bodies such as: municipalities and communes is not associated with the legal obligation of the firms to return a part of the revenues in the form of SSCs, PIT and HCSC to the state budget;
- The government frequently serves as an guaranteeing financial channel for the expansion of the undeclared work as regards the payments of SSCs and PIT due to loose controls and routine inspections exerted to the companies that have won the public tenders;
- The social security scheme and healthcare security scheme are non-attractive for the contributors. There are large differences in contributions and in benefits among the large contributors (who pays the maximum contribution) and small contributors (who pays the lowest contribution) in the urban areas and between rural and urban contributors;

9.2 Major findings from the survey

- The perception of the population on the informal employment is high, it is supported overwhelmingly by 72 percent of the people interviewed who have acquired services and goods presumably coming from the undeclared work;
- The undeclared work is found mostly in the retail trade (41%), construction (19%) and various types of services (19%);
- The most acquired undeclared work in the construction sector are completion works (31%) such as: plastering, woodwork, tile setting, door and window mounting, painting etc;

-
- Nearly one third of the respondents (31%) buy construction works amounting to ALL50,000 whereas slightly fewer (28%) buy services and goods coming from undeclared work in general in the range of ALL 50,000 to 100,000;
 - Frequent providers of the undeclared services and goods in general and the undeclared work in the construction sector are private individuals and acquaintances (relatives, colleagues, friends and neighbours) sharing 64% and 54% respectively of the purchasers. The acquaintances dominate over the private individuals in providing undeclared work in construction in the ratio 32% to 22 % respectively;
 - The majority of people (40%) states that they buy services and goods that stem from undeclared work due to lower prices; in the construction sector the client attractiveness rests to faster service (22%) offered by acquaintances and private individuals;
 - A dominant majority of 70 % of the interviewees are directly involved in undeclared work. This share comprises employees and self employees in those sectors where the undeclared work is found very often such as: retail, construction and services;
 - Regarding the time spent in undeclared activities the respondents as expected ranked first the construction activities, second retail trade (12%) and third the service activities (7%);
 - Within construction works our respondents (103 individuals) are involved basically with completion works (33%) which includes finishing the interiors of the buildings and installation and insulation works (26%);
 - In relation to the frequency of involvement in construction works for nearly half of the respondents (43%) it is a work that they carry out it regularly, while nearly one third (30%) are involved very often and one fifth rarely;
 - Overwhelming majority (66%) of the individuals involved in construction activities as self-employed or employed in construction companies spent more than 15 days during a month over the last 12 months;
 - More than half of the employees or self-employed in the construction sector receive revenues in the range of ALL25,000 to ALL50,000. (€200~€400), which is in contrast with the data provided by INSTAT on the average wage in the construction sector;
 - With regard to the status of their employment in the construction sector, more than half of the respondents (58%) work for the private firms and nearly one third (29%) are self-employed;
 - Four major reasons for doing undeclared work are: 1) legal system is not implemented equally for all (16%), 2) it is impossible to find a regular job (15%), 3) taxes and social contributions are perceived very high (15%), 4) both parties the employer and the employee benefit from the undeclared work (14%);
 - The employees and self-employed individuals working in the construction sector think that the major consequences working undeclared are relating to high possibility of losing job and poor working conditions;
 - Apart from the majority involved in construction activity other sectors do not occupy a dominant share in the survey. Only 10 percent are coming from the public sector, the other 90 percent are from the private sector. It is identified that only a few persons are holding double employment (8%). The most impressive finding is that only 16 percent of the employees or self-employed in the construction sector are working in a formal way, the rest (84%) is working undeclared in a complete or partial manner;
 - The majority (72%) of dependant employee or self-employed accepted that they are paid by the employer or are receiving incomes in undeclared way. One fourth of the respondents (26%) stated that their salaries are completely declared including here 10 percent coming from the public sector which furthermore implies that only 16 percent of the private sector employees (self-employed) in the construction sector are paid/receive salaries in a formal way;

- The considerable majority of the respondents (37%) stated that they received their salaries completely in informal way. In the case of partial declaration, the relative majority (28 %) hide up to half of the salary;
- Approximately, half of the respondents (46%) prefer full declaration of their income from their job;
- The striking figure is that 18 percent of the respondents believe that the informal employment is above 50 %. A relative majority (23%) provided an estimate of the size of the informal employment as being in the range of 20-30 percent;
- Despite that a relative majority of the interviewees (31%) think that the risk of being detected by the responsible authorities is high, as a whole more than half (57%) of the respondents estimate that the risk is small or very small;
- Nearly half of the respondents already know that they have to pay the dues and the fine if they are detected for not paying the PIT and SSCs and HCSCs;
- The survey results show that across all the five surveyed regions (Tirana, Durrresi, Fieri, Vlora and Shkodra) there is a major group which the respondents consider most likely to be involved in informal employment i.e. unemployed (54%), the second group are self-employed (22%);
- A part of the respondents (22%) think that the high incidence of the undeclared work is the result of the insufficient control carried out by the tax and SLI inspectors, and on the other hand they are blaming (23%) the State that does nothing to improve the employment situation among the population. In both estimations as first and second reasons for involvement in undeclared work, the interviewees (34%) rank the lack of the regular jobs in the regular market.

X Priority Policy Recommendations

Industrial relations and social dialogue

1. Social dialogue currently is developed only at the national level at the National Labour Council and National Council for VET and the tripartite government institutions; meaningful attempts and initiatives should be made by the ILO constituents to expand the social dialogue at sectoral and regional levels;
2. The scope and mandate of the NCL should be revised in the light of the recent development, transforming it into Social and Economic Council is welcomed by the TUs and EOs representatives, furthermore this important body should be chaired by the Deputy Prime Minister to increase authority and strengthen the decision making process;
3. In order to combat effectively the informal employment the social dialogue should be extended at the State Labour Inspectorate and General Directorate of Taxation, the tripartite cooperation on sectoral, regional and national level in these institutions shall contribute to the reduction of the undeclared work;
4. Comprehensive assistance and support is needed for the EOs and TUs to further strengthen their capacity in collective bargaining especially regarding various forms of manifestation of the informal employment and the design of policies and mechanisms to effectively curb it; The Ministry of Labour should take initiatives and specific measures in cooperation with social partners to reduce the informal employment in the construction sector;
5. A wide campaign of awareness should be initiated by the Government in cooperation with ILO and social partners to increase knowledge and understanding of the negative social, economic and moral impacts caused by the undeclared work;

6. Actually not all the representativeness criteria are met by the TUs and EOs. Meaningful efforts should be undertaken to meet the representativeness criteria and apply for membership at the homologues organizations, membership growth and strengthening the regional branches;
7. The NCL should design a national agenda which shall contain strategic objectives that aim at reducing informal employment in the most affected sectors including the construction; a monitoring and evaluating tripartite body should be established to measure and assess the performance of the reform as an important part of the Sectoral Strategy for Employment 2007-2013;
8. The necessity for the institutionalization and legal harmonization of the cooperation among the enforcing institutions against the informal employment such as: GDT, SSI and SIL should be established as soon as possible in close cooperation with social partners and international organizations EU and ILO;

Regulatory reform

9. Despite the recent successes of the Government in adopting the regulatory reform in taxation, registration and reduction of administrative burden, further efforts should be made to address business licensing and construction permits by central and local governments;
10. Further legal amendments are required to narrow the possibility of supplying undeclared work in subcontracting activities by the construction companies; the ACA could ensure a significant contribution in this direction by improving even the agreement with GDP on the matter;
11. Actual legislation for the local government should be amended to authorize tax officers of municipalities and communes to check and identify undeclared work under their territorial jurisdiction;
12. Actually in the Task Force of the Regulatory Reform chaired by the Prime Minister, the Minister of Labour is not invited as a member alongside other ministers; involving the representatives of the Ministry of Labour in this important body would contribute significantly to the employment reform, labour market development and the reduction of the informal employment;
13. The Labour Code should be amended to reflect better the actual stage of the development in the trade unionism and employers' organizations movement; new elements of the social dialogue and industrial relationships should be included in the Code in order that collective spirit dominates the actual individual one;
14. Immediate measures should be taken to empower the SLI in terms of insufficient human resources, financial shortcomings, lack of adequate office equipments and other necessary requirements in order that the SLI cover with inspection services at least 25 percent of the total number of the firms by the end of 2009;
15. Granting of construction permits and bidding awards by municipalities, communes and contracting entities to companies to carry out public works and services should be accompanied with adoption of guaranteeing mechanisms for payment of SSCs and PIT on behalf of their employees;
16. The NCL should undertake initiatives to design policies and strategies aiming at curbing undeclared work in specific sectors of economy benefiting in this respect by the European experience; European model of social dialogue in the construction sectors could be a good practice on this matter;

17. Major source of the informal employment in the country are illegal construction so the central and local government authorities shall undertake strong preventive and punitive measures intended to stop definitely this devastating phenomenon; the cooperation of the social partners at the regional level is indispensable on this important issue.

Labour Market Reform

18. Albania is experiencing a jobless growth which denotes for ineffective employment policies attended by the government up to date; new mechanisms for creating new jobs should be designed especially in applying proven incentives for transforming informal labour into formal one;
19. New updated programmes should be implemented by REAs and VET Centers, specifically tailored for the unemployed and those employed in informal sector who in general are unskilled persons; specific programmes of microlending could be designed for these categories of workers;
20. A detailed cooperation programme among the ACA, REAs and VET Centers could be initiated regarding adoption the new technologies in the construction sector and qualification of a skilled labour force on this matter; a new licensing and certification system could be established for the qualified persons in new professions within construction sector.

XI Annexes

Abbreviations and Acronyms

ACA	Albanian Constructors Association
ALL	Albanian Lek (Albanian currency)
BAC	Business Advisory Council
CEEC	Central and Eastern European Countries
CIT	Company Income Tax
CAI	Confederation of Industries of Albania
DCM	Decree of Council of Ministers
EFILWC	European Foundation for the Improvement of Living and Working Conditions
EOs	Employers' Organizations
EIRO	European Industrial Relations Observatory
GDP	Gross Domestic Product
HCII	Health Care Insurance Institute
HCSC	Health Care Security Contributions
HORECA	Hotels, Restaurants and Catering
ICLS	International Conference of Labour Statisticians
ITUC	International Trade Union Confederation
IOE	International Organisation of Employers
INTP	Identification Number for the Taxpayer
ILC	International Labour Conference
KOP	Council of Employers' Organization
LFA	Local Fiscal Administration
LSMS	Living Standards Measurement Survey
MoLSA	Ministry of Labour, Social Affairs and Equal Opportunities
MFC	Minimal Fiscal Cost
NPOs	Non-for-Profit Organizations
NRC	National Registration Center:
NACE	European Nomenclature of Economic Activities
NES	National Employment Service
OECD	Organization for Economic Cooperation and Development
PIT	Personal Income Tax
PPA	Public Procurement Agency
RSID	Regional Social Insurance Directorate
SHCSC	Social and HealthCare Security Contribution
SBT	Small Business Tax
SII	Social Insurance Institute
SLI	State Labour Institute
SSC	Social Security Contribution
SEECs	SouthEast European Countries
SSN	Social Security Number
TUs	Trade Unions
UDW	Undeclared Work
VAT	Value-Added Tax

Persons interviewed

Mr. Spartak Gjini	GDT - Head of Statistics Section
Mr. Gramoz Xhangolli	MoLSA - Directorate of labour Relations
Mr. Thoma Mico	SLI – General Director
Mr. Sherif Bulku	BSPSH - Federation of Construction and Services
Mr. Kol Nikolli	KSSH President
Mr. Gezim Kalaja	BSPSH President
Mr. Alfred Topi	ILO Coordinator in Albania
Ms. Ines Nurja	INSTAT - General Director
Mr. Ali Emini	SII Deputy Director
Mr. Xhavit Curri	Albanian Builders Association
Mr. Avenir Kika	Albanian Builders Association
Mr. Imir Kamba	KOPSH
Mr. Niko Lera	GDT - Directorate of Taxation Procedures
Ms. Albana Bakalli	SLI – Statistics section
Ms. Emira Galanxhi	INSTAT- Labour force survey section
Ms. Krisafgji Stefa	INSTAT – Business Statistics Section
Mr. Lulzim Kazani	NCE – Construction Company
Mr. Riza Bengasi	KSSH – Federation of Construction, Wood, Public Services
Mr. Bujar Cani	MoLSA – Labour Relations Directorate
Mr. Muharrem Xhelili	MoLSA – Employment Policy Directorate
Ms. Eneida Mjeshtri	MoLSA – Employment Relations Directorate
Ms. Vjollca Canaj	MoLSA - Employment Relations Directorate

Fundamental ILO Convention

C029	Forced Labour Convention
C087	Freedom of Association and Protection of the Right to Organise Convention
C098	Right to Organise and Collective Bargaining Convention
C100	Equal Remuneration Convention
C105	Abolition of Forced Labour Convention
C111	Discrimination (employment and occupation) Convention
C138	Minimum age for admission for employment
C182	Prohibition and immediate action for elimination of worst forms of child labour Convention

Core ILO Convention

C122	Employment Policy Convention
C144	Tripartite Consultation Convention
C081	Labour Inspection Convention
C129	Labour Inspection (Agriculture) Convention

