

The Economic Informality Opposite Fiscal Policy and the Legal Vacuum Issues. the Features of the Tourism Sector Informality in Albania

Teuta Balliu, PhD Cand.

Lecturer, Faculty of Economy in University of Elbasan "A.Xhuvani"

teuta.balliu@uniel.edu.al

Aida Gaçe Llozana, Ph.D.

Lecturer, Faculty of Economy in University of Elbasan "A.Xhuvani"

aidagacehe@gmail.com

Mimoza Kotollaku, PhD Cand.

Lecturer, Faculty of Economy in University of Elbasan "A.Xhuvani"

mimozakotollaku@yahoo.it

Abstract

Economists and researchers increasingly debate regarding costs, benefits and even measurements of the informal economy. Such discussions are also indisputable part of our country reality. They evidence more and more the influence that the informal economy occupies in the gross domestic product of a country. Others consider informal economy as lubricating social welfare. Nowadays taking into account the economic situation in Albania, the informal economy is considered blow in the market competition, this competition which in turn is considered of particular importance for the economic development of the country. Throughout the paper we will look at whether the policies and strategies of a state, undertaken in the framework of economic growth, do not bring a reduction in unemployment and efficient distribution of income then there will be no reduction of informality. In terms of tourism sector it will be concluded that it is this informality which deviates the so much required standards in domestic tourism. In the region, the lodging taxes are estimated at 1 euro, while in our country it varies no more than 5% of the price of the room. This is why it remains difficult to calculate costs, which amounts millions of euros just in this part of the tourism sector.

Keywords: informal economy, fiscal policy, legal vacuum, tourism.

Introduction

The informal economy is a hot topic for the Albanian reality. But how is this defined? The informal economy in itself includes all economic and trading activities recorded in fiscal and legal system. It is basically its nature to evade from taxes, fees, social security system and from the legal obligations related with the security and reliability of the services and products offered as well as the social responsibility of business. Experts as well as politicians of different levels, unable to complete its elimination, often debate the findings of the ways and means to put it under control.

These debates are not characteristic only for developing countries but also for the developed ones. Statistics from various reports of the European Commission show that the informal economy takes approximately 5-20% of GDP, and the figure is even higher for developing countries (Bank Annual Report, 2013). Its different levels come to the fact that it, the informal economy, in different countries is in different stages of development. The causes of the informal economy generally are considered as identified. Positive results to informalities increasingly emphasize the need for reforms in all those sectors which constitute incitement and contraction at the same time. It is widely accepted that the high fiscal burdens encourage the informality (SANDMO, 1992). Businesses that operate in the informal market claim that they do evade as they can not afford the taxes, fees and insurance. However, operating in this way they receive and create undeserved advantages

compared to businesses that are registered and are part of the tax system. From this, at all honest, competition comes as bankruptcy of the registered businesses as well as encouraging a shift from formal to the informal sector. Literature and studies related to this phenomenon show a mutual respect between the formal and informal economy, and for the fact that the market exists precisely to equalize demand and supply for goods and services (Pollo, 2010). The informal sector offers goods and services to the formal sector. To make a distinction between these two sectors it is important to go back to the definition of the informal economy which can also refer to as parallel economy, black economy, the underground economy, clandestine or as unregistered economy. In general terms, the informal economy is recognized as part of unobserved and unrecorded market economy that produces goods and services whose aim is their marketing or providing benefits in other forms and ways (E, 1989). Mirus and Smith in 1997 give this definition to it "The term informal economy refers to all unobserved economic activities realized by employees and entities, which are aimed at avoiding taxes and fees or operation contrary to the laws and administrative procedures which apply in a country ". In general, the informal economy is characterized by low demand in terms of capital and qualifications for the market access, by the skills acquired outside the framework of formal education, by intensive production methods implemented by manpower and inadequate technology and the economy operating outside framework although with lower cost.

The impact of fiscal policy on the informal economy seen in terms of fiscal evasion

Administration of the tax system is a matter of concern not only for developing countries but also for already developed countries. There are many factors that influence the informal economy and each of them has a specific weight, but one that directly affects the informal economy is the fiscal evasion (F Schneider, D Ernest, 2001). The tax system is considered very important for the fact that he is the main instrument which finances the state's budget. Efficient and effective tax system makes business organizations, on their free will, to settle all obligations under the laws and regulations in force. When a tax system is considered efficient? What would be the fiscal package which makes such a tax system? Both raised questions can be answered differently. Their answers depend on the country to which they refer and the individuals of their society. This is because it is they, the people who make fiscal evasion. Different states have experimented with changing tax rates in order to achieve their objectives, but the increase of tax competition can bring new business opportunities or more risks for the government (UNECE, 2003). Lower tax rates in certain situations can affect the favorization of the business and at the same time also bring increased revenues to the state budget. The other side of the coin of this fiscal policy would be; low tax rates, fewer tax revenues which in turn would imply the reduction of the quality of public goods and services in various sectors (R. Boadway, E. Chamberlain and C. Emmerson, 2009). Modern tax systems consist of a series of taxes and duties that vary in type, weight and importance. Nowadays particular importance has taken the structuring of the tax system in accordance with the legislation in force as well as the harmonization of the tax system with the *acquis communautaire*. From 2008 until 2014, precisely until 1 January 2014, Albania used to apply a flat tax of 10%. This tax rate was considered low; however, under the excuse that the poor class of society payed a greater obligation than middle and rich class of society, therefore the fiscal burden was not considered fairly distributed, the new government passed on a progressive tax. The effects of the progressive tax system in Albania's economy still remain to be studied. To broaden the discussion a little bit about the flat tax we can say that in the late 70` was preached for the first time a new course known as "the economists of supply hand" which states that low tax levels affect in promoting new enterprises, increasing employment and consequently increasing production. According to this school, a contraction of the tax will cause an increase in state revenue without affecting the growth of the budget deficit. The well known Laffer curve shows that revenues from taxes are in proportion with the tax rate up to a certain level and then becomes negative correlation (Thomas K.Papp, ELODA Takats, 2008). Proponents of this curve argue that a higher tax rate will reduce the level of work in the formal economy by reducing the income from work, savings and investments and impacting directly into state coffer. Another effect of a lower tax is associated with the increase of the public revenues as a result of increased taxable base. Individuals and businesses will not hide their profits. One of the toughest tasks fiscal policy makers is precisely the finding of the optimal tax rate, finding the most suitable number of taxes and feed nationally and locally as well as their optimal management (HJ Kleven, WF Richter and BP Sorensen, 2000). All this varies depending on the level of economic and social policies of a country, where at the same time the tax system will be affected by administrative and adjustment costs. Finding a system without costs is not and does not require special skills, what exactly requires attention and study, is finding a tax system which costs are lower than benefits from it.

The most exposed actors of the informal economy.

Towards the informal economy remain exposed a number of groups which include poor groups in the labor market. The main challenge of the informal economy is still finding methods and techniques for its integration into the formal economy, as a matter of equality and social solidarity. Policies of a country should promote the removal of this economy and supporting part of the sector groups should be financed by society as a whole. Problems faced by hourly wage workers are countless. Causes came from inadequate working codes, not protecting the position of work, problems with social security and health insurance schemes as well as limited access to the organizations in defense of the employees' rights. Women as part of the informal economy continue to occupy a significant part of it. International statistics show that women occupy on average 60-80% of this market (Bank, World Bank Indicator, 2014). Moreover, the number of labor forces that belong to this group is increasing, representing the largest number of unpaid workers. The work of the young girls and boys remains a significant problem. They face the problems of the various obstacles, handling and resolution of which requires not only attention but also the specific policies and strategies. Due to the high level of unemployment in this age group they feel compelled to address the informal sector (Holzener, 2003).

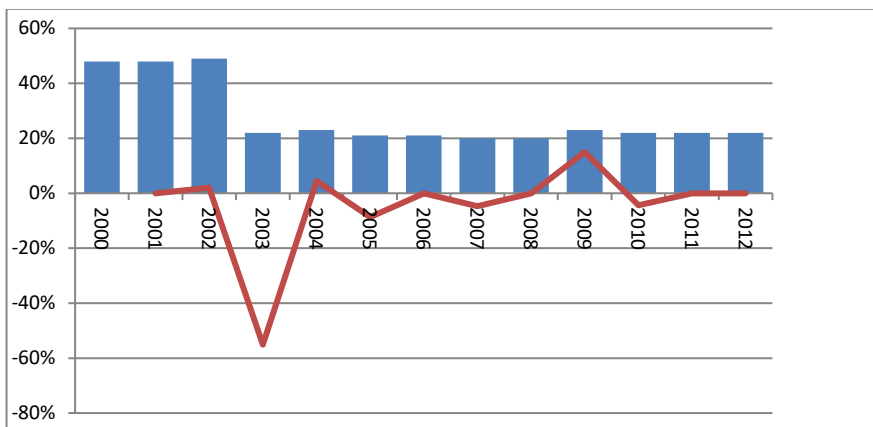
Once we have mentioned the informal sector stakeholders, let's briefly have a look at what are the problems and difficulties faced by the informal sector. The market economy compels all businesses which operate in accordance with the rules which guarantee the sustainability and competitiveness. This market can be very rough by making the formal and informal businesses face different obstacles that can affect business continuity. The state does favorize these obstacles not to penalize formal business but as measurements to limit the informal business. Such problems can have infrastructural, institutional or economic nature. These obstacles are connected with each other, creating a vicious circle of poverty and high risk. To illustrate with an example we can say that among the main reasons for the lack of capital and investment opportunities for the informal sector is the inability to be funded by financial institutions. Despite many obstacles we must emphasize that there are also other factors such as; the life cycle of product, type of the business and the level of society's development. But is it possible the formalization of the informal economy? The high degree of informality makes it a difficult task for the government to collect public revenue. It itself must not allow informality. Economic agents' effort should fairly be coordinated by the government leading to a continuous reduction of the informal economy. The negotiation process with the EU on a Stabilisation and Association Agreement reflected the progress made by Albania during the transition period. Given to Albania the status as a candidate country to the European Union, must say that standards and expectations are increased and not only that but ahead of our country already stand more ambitious objectives. Given the current problems with public revenue collection, it is appropriate to raise the question of how to achieve these ambitious objectives. The experience from developing countries has shown that to improve governance in order to achieve social objectives means to pass from an economy without infrastructure to an economy that pays taxes and fees. The majority of these reforms will require the reduction of corruption, bureaucratic inefficiency and other causes of the informal economy. More and more there are efforts towards reducing cash transactions. Banking and transactions only through banks and banking institutions will unquestionably mean a reduction of informality. But not only this, even the government through its administrative structures can play an important role in promoting and regulating the movement of cash. Strengthening of controls from different state institutions to identify and denounce the informal sector would be other ways to formalize the informal sector. International Monetary Fund in its report of 2014 states that the improvement of tax collection will be achieved by improving tax administration and not by changing tax policy. In order to measure the informal economy in Albania, there have been various studies, so for example the OECD (European Organization for Cooperation and Development) has estimated that the informal economy in our country is about 40%. The Institute of Statistics estimates that the weight that occupies informal economy in our country is 32%. Let's take a look at the performance of the informal economy. As we noted earlier elimination of the informal economy is almost impossible, so the aim of every country is keeping its levels which do not affect economic development. The phenomenon of informal economy can be analyzed by focusing on the factors that causes it. This complex phenomenon is a result of several factors which in turn interact with each other, thus bringing the further development of the informal economy and sometimes even shift from formal to the informal economy. Among the factors which influence its growth in general, including our country, we can be mentioned;

- The large number of legal and administrative norms and rules.
- Unemployment
- Higher tax liabilities
- Lack of trust in public institutions and corruption

- The right to property
- Awareness of society towards tax liabilities
- Approval or toleration of illegal work by state
- Failure of declaring the income

The informal economy in Albania was born after 1990, prior to this period is impossible to talk about such phenomena because of the centralized economy. Market liberalization undoubtedly brought its growth and upbringing. This despite the fact that the state did not create the much needed mechanisms to avoid or even to control it (a few years after 1990). After the collapse of the centralized economic institutions were created institutional and legal spaces or gaps. Even the financial crises, economic and political changes which have affected our country in different periods have encouraged the development of informality. Albanian reality shows that state authorities at different levels, often in order to gain personal benefits, help and support the development of informality. The chart below shows the performance over the years of fiscal evasion in Albania for the period 2000-2012, and in this way we see the informal economy in terms of fiscal evasion.

Figure 1. Level of fiscal evasion and its growth rate for the period 2000-2012



Non-declaration of income is another element which brings the growing informal economy. This factor can be seen through the eyes of employers and employees. Employees tend to claim less in order to have less tax liability as; profit tax, VAT, social security and health insurance. While employees benefit the difference between real wages and lower tax liabilities. These elements affect the progress of the labor market and consequently give rise to the informal economy.

The informality in the tourism sector.

As it is mentioned above, the informal economy has expanded and affects almost every sector of the economy. Saying this, it is obvious that the informal economy is also present in the tourism sector. Tourism creates unique spaces exactly where the needs and desires of tourists in many urban destinations, do not respond with products and services, especially near the main attractions, resulting in a gap that allows the informal economy for example: souvenir shops, restaurants, rent agencies, street vendors and shelters (Ashworth & Tunbridge, 2000). Within the major tourist areas in developing countries, these are formally and informally provider of the products and services industry (Crick, 1992). Work in the formal sector of tourism includes professions and businesses that are accredited, licensed and taxed such as hotels, restaurants, transport companies and travel agencies. In most cases, the informal sector includes outpatient sellers, artisans, and informal guidelines. Usually informal sector includes people with undeclared and unregistered income, not taxed or in some cases have illegal income (Rogerson, 2001). Informal activities, although in most cases work together with tourism formalized services and business components in some destinations, their separation is unclear. According to many studies, informal entrepreneurs have begun to be assessed by the state and are allowed to operate openly (Opperman, 1998). The

same author, Opperman, has determined that in certain types of tourism where formality and informality stay together, here he includes informal and formal tourism in non-tourist areas. In these spaces, the growth of tourism plays an important role in their development. As such spaces, we can mention border areas in developing countries where many entrepreneurs sell different products and services for people who are staying or transiting the border (Peberdy and Rogers, 2000). Compared to non-tourist areas, tourist area is made up of a mix of formal and informal sellers and casual shoppers. Informality in our tourism sector is an evident reality. In Albania, though foreign and local tourists do not pay lower prices for accommodation in hotels or holiday homes, it results that some of this money, which should be translated in the tax and state's budget, is not reflected anywhere, all this comes as a result of informal accommodation units. Referring to the data during July - August 2014 it is estimated that the flow faces 254 thousand beds, but only 30 thousand of them are formal and belong to hotels. Tourism agents say it is this informality which deviates so much the required standards in domestic tourism. Mainly in the region, the accommodation taxes are calculated at 1 euro. While in our country it varies no more than 5% of the price of the room. This is the reason why it remains difficult to calculate the costs, which amounts to millions of euros just in this part of the tourism sector. Despite high rates of informality, the main problem of domestic tourism is inversely ratio between the price you pay and the service you receive in return. Improving this ratio is a challenge not only for the government and its institutions but also for the society itself. However this problem is not the focus of this paper and can be considered for further studies on the reality of Albanian tourism. Wishing to emphasize the fact that informality in the tourism sector is only a part of this economical reality, as a whole we are referring to inconsistencies in Albania's national accounts which suggest that the informal sector accounted on average of 36.2% of GDP in 1996-2012 periods. This leads to loss of tax revenue, lack of labor protection and unfair competition between firms, says the 2013 report of the EBRD for the business climate in Albania.

Conclusions and recommendations

Various international financial institutions have provided different figures for informality phenomenon in our country, but all show a higher level than 30 percent of the informal economy in our country. Black economy at these levels has brought negative effects mainly in two directions. The first low level in fiscal management being classified as the last place in the region for tax collection performance in relation to GDP at only 24 percent, from 29 percent which is the regional average. The second relates to the unfair competition by businesses that evade taxes. Serious companies, according to EBRD study, increasingly find it hard for to be competitive in such informal setting in Albania. This high level of informality, among others, is caused by factors such as labor market, corruption, legal gaps and tax system. Lack of banking culture and accomplishments of cash payments are another disturbing reality of our country. Constituent elements of the factors mentioned above are unemployment, non-declaration of income, failure to file financial statements, lack of efficiency in the collection of public revenue, not the declaration of the origin of money, lack of technology, etc. In general, countries with low tax rates tend to have the lowest level of the informal economy. However we must stress out that often happens that these lower tax rates only seem to stabilize the informal economy and no further decreases it. The tax system should be simple and wide acceptable and of course convenient according to the economic circumstances of our country. Setting possible links between contributions and benefits of the tax system is seen as a good opportunity for businesses and individuals to be directed towards the formal economy. Albania, until early 2014, had flat tax system, taxes that are often seen as a tax which encourages the expansion of businesses and individuals registering in the tax system. Progressive tax effects, as part of the fiscal package of 2014, on the informal economy could be studied in future periods. The Albania fight towards fiscal evasion is not only focused on tax rates. Non-implementation of laws and regulations in force as well as preferential treatment of other businesses are listed as other conditions and ways for the growth of the informal economy and fiscal evasion. Awareness of society remains the duty of the authorities and governmental institutions. That awareness can cover topics such as: not-collected taxes, ways and means which avoid taxes and customs procedures, policies for the elimination of spaces created. The informal economy is a widespread phenomenon, and therefore must work separately on any of its parts or elements. The fight against it can involve all the parties of interest, among which we can even mention the registered business. The fight against corruption is a very important part of the fight against fiscal evasion and informal economy. This fight should be seen as strengthening and consolidation of structures and state institutions and public administration. It also implies the awareness of citizens and the responsibility of every individual. To the same importance is the cooperation between various institutions such as: The Institute of Statistics, The Institute of Social Security, General Custom Directory, General Tax Directory, the institutions responsible for fighting economic crime etc. All these institutions can share and reconcile their data in order to reduce the level of informality. Equally important is the legal stability. Frequent

legal changes seem to encourage the tendency of businesses to be part of the informal market. Policies needed to improve levels of informal economy in Albania should include macroeconomic policies as economic growth, control of inflation level, employment and business climate. Outside this spectrum can not remain fiscal policy, labor legislation and social protection policies. This sector results in weakening of the authority and legitimacy of the state. All this brings a loss of citizens' confidence to justice, security or other services a consolidated state should offer.

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