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INFORMAL EMPLOYMENT IN THE REGION

Prepared for SELDI Report

Shadow Power: Assessment of Corruption and Hidden Economy in Southeast Europe



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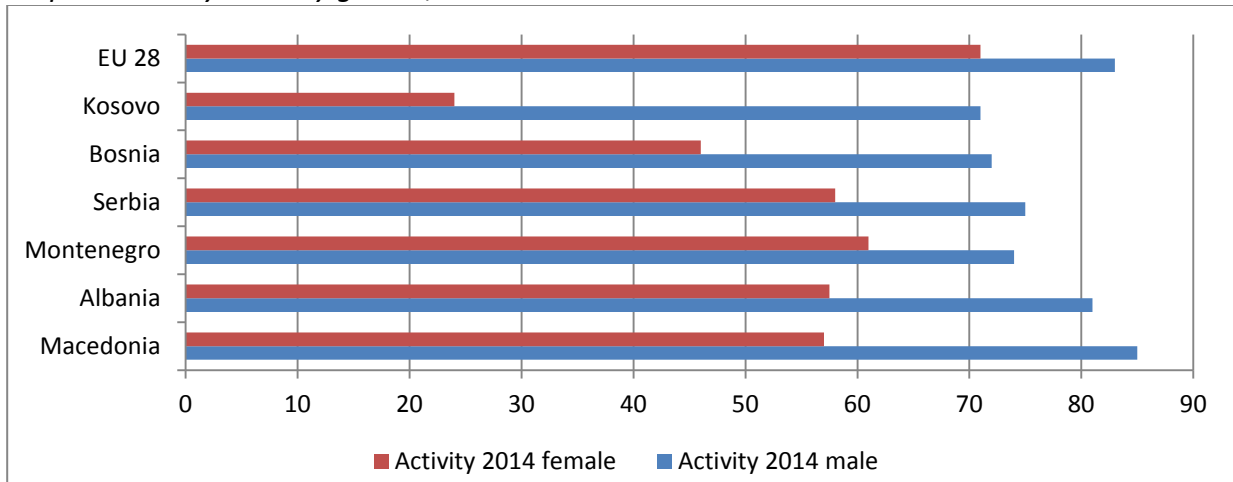
INFORMAL EMPLOYMENT IN THE REGION

GENERAL LABOR MARKET CONDITIONS

One of the main reasons for hidden employment is usually the poor situation in the general labor market. Therefore, we present a brief overview of the labor market situation in these countries

Countries in the region have very low activity rates (persons aged 20-64). While in EU28 average activity rate for man is about 83%, it was just about 76% (on average) in the countries in the region. This rate is the lowest in Kosovo (at about 71%) and highest in Macedonia (at about 84%).

Graph 1: Activity rates by gender, 2014

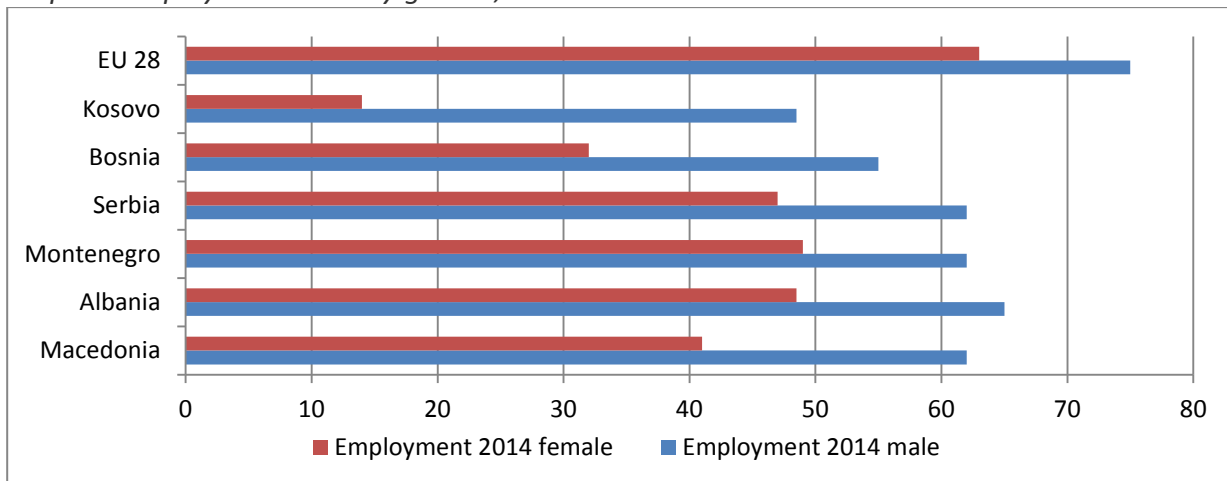


Source: Eurostat

It is especially clear that countries in the region have extremely low women activity rates. While average gender activity rate in EU is 12%, it is above 25% in Macedonia and Bosnia and staggering 46% in Kosovo, where women activity rate is just around 24%.

Employment rates show similar tendencies.

Graph 3: Employment rates by gender, 2014

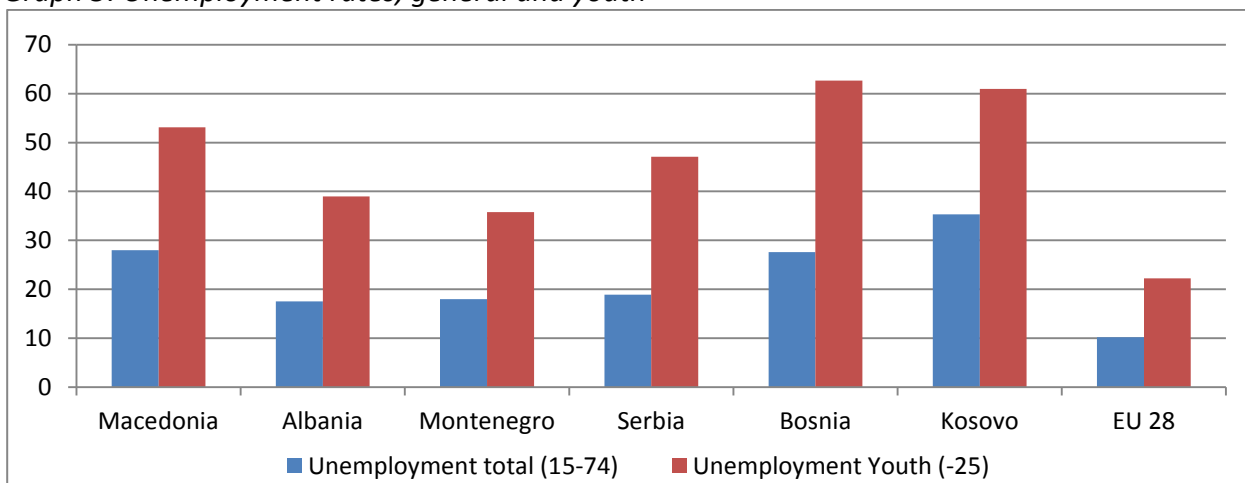


Source: Eurostat

Data show that only about 14% of women in Kosovo are employed and this indicator does not reach 50% in any of the countries, while in EU28 about 62% of the women are employed.

Unemployment rates in the region are very high and much higher than in EU28. Youth unemployment is a very serious problem in each of these countries. While in most countries youth unemployment rates are around two times higher than general unemployment rates, the ratio is almost 2.5 in Serbia and Bosnia, where these problems are even more pronounced.

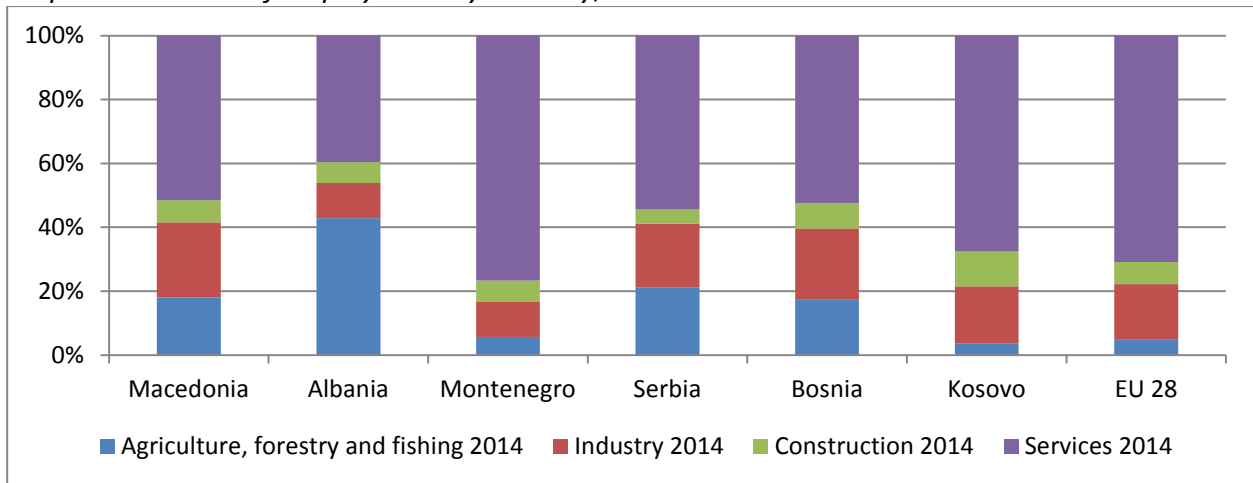
Graph 5: Unemployment rates, general and youth



Source: Eurostat

The structure of employment varies significantly across region.

Graph 6: Structure of employment by industry, 2014

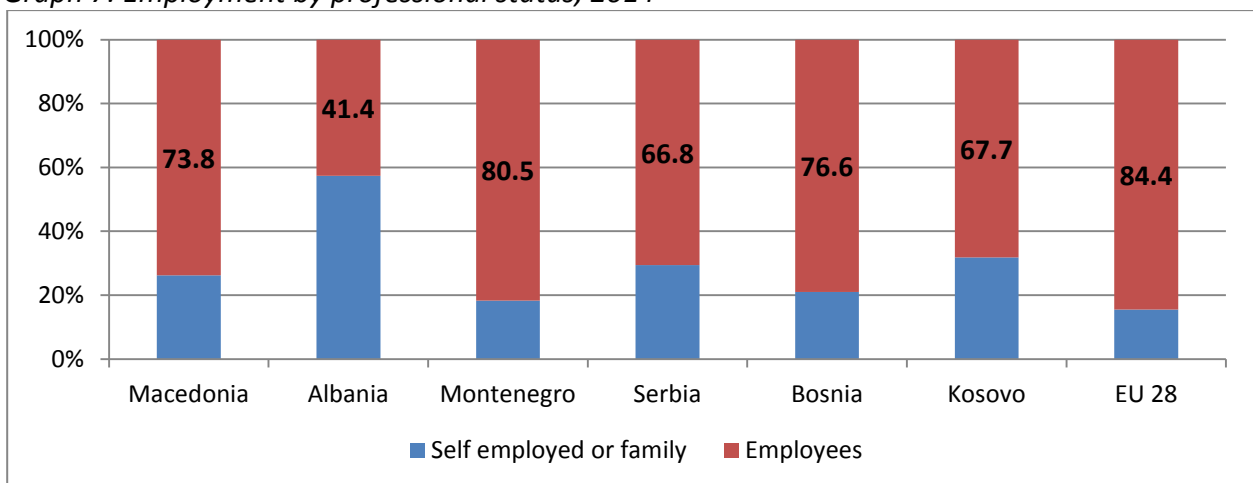


Source: Eurostat

Relative weight of services was generally lower than in EU28, although there are significant differences. Namely, in Montenegro more than 76% of employees work in service, but this can probably be explained by the importance of the tourism industry. The share of services was by far the lowest in Albania, at just below 40%. By contrast, share of employment in agriculture, fishing and forestry was much higher in Albania than in any other country in the region (or EU28) at 42.7%. Shares of industry are mostly consistent at about 15-20% (with exceptions in Montenegro and Albania at around 11%), while share of construction is mostly about 5-7% (with exception of Kosovo where it was at 11%).

Most of the employed work as employees, but that share is much lower in countries in the region than in EU, where this share is almost 85%. None of the countries in the region have a share that high – it is the highest in Montenegro at 80.5%, and lowest in Albania at just 41.4% (which is expected, taking into account high agrarian employment).

Graph 7: Employment by professional status, 2014



Source: Eurostat

In summary, countries in the region suffer from very low activity rates (especially among the women) and very high unemployment rates (especially among the young). Low employment rates make the hidden economy problem more difficult as it is politically difficult to tackle the problem. Also, economic structure, where share of agriculture is still very high provides for ample opportunities for gray economy. On the other hand, we do not have detailed data on employment in services, but we assume that this is dominated by retail and hospitality industries, which are conducive for gray economy. Additional problem is that share of self employed is on average much higher than in EU28.

DIFFERENT FORMS OF INFORMAL EMPLOYMENT

Profile of informally employed

In general public, informal employment and informal economy are usually associated with the activity of unregistered individuals, such as street vendors, housewives or craftsmen. But the real picture is much more complex and, starting from the characteristics of the "Enterprise" and the employment of workers, including many forms of informal employment, according to a widely accepted definition of the International Labour Organisation:¹

- self-employed and those who work individually on their own account; can be professional and technical personnel (lawyers, accountants, doctors, etc.) or poorly qualified workers (street vendors, etc.);
- employers in their informal enterprises; their status stems from the informal character of their company; a common example of such enterprises in these countries can be found in the area of recycling,
- contributing domestic workers, independent of whether they work in formal or informal family enterprise; informality of their work comes from the fact that they don't have explicit and formal employment contract and that are not covered by labor legislation and social security, etc.,
- informally employed, regardless of whether they work in formal or informal sector, if their employment is not covered by labor legislation, taxation of wages, social security and various employment rights, which includes formal employment,
- members of informal cooperatives and
- self-employed in the production of goods exclusively for the needs of their household; here are included small farms.²

The informal economy, in general and in the six surveyed countries, usually takes place in small companies or individually, with little growth potential, uses of labor-intensive

¹ R. Hussmanns: *Defining and measuring informal employment*, ILO, s.a, pp. 6-7.

²The inclusion of a subsistence agricultural production in the informal economy is justified from the point of view of employment, as these households do not pay taxes and contributions on earnings, although they may regularly pay other taxes (on land, etc.).

production methods, employing workers with low skills, has low capital...³ Most informal employees in general and in our sample are self-employed are working independently or have very little informal company, where informality is a way to reduce labor costs.

A typical example is Montenegro. The self-employed account for 70% of the total number of informal employees, of which more than half are employed in agriculture. Among informal employees, the highest participation rates have young and old, while those in middle age are more represented in the formal economy. What qualifications is lower the greater the likelihood that a worker will be engaged in the informal economy. A considerable number of beneficiaries for the poor and other social protection programs is working in the informal economy, thus attaining a double benefit.⁴

What is the ratio of earnings in the formal and informal sectors? A recent survey of 73 countries showed that in low income countries and developing countries in Europe and Central Asia wages of employees in the informal economy are no less than in formal. As country income grows, the wages in informal sector lag behind.⁵ In Serbia, before the crisis of 2008 there was a significant difference in favor of employees in the formal sector, but it was significantly reduced during the crisis. In addition, employees in the formal sector are concentrated in sectors where wages are higher, and they have more qualifications and longer working hours than those in the informal sector, which are the main reasons of differences in earnings.⁶

Informal employment in the formal sector

It was mentioned that even in the formal sector a part of the business often takes place in an informal way, either through tax evasion and avoidance of general business regulation, or through the grey employment in various forms. One way is when wages of formal employees are paid in cash, thereby circumventing the payment of taxes and social contributions. There is also combined pay: part of employees earnings is payed as a regular minimum wage, with paid duties which provide a social insurance rights; the second part is paid in cash (excluding state taxes on earnings), which reduces the cost of the employer and / or increases in net earnings of workers. Finally, part of the employee's salary may be paid through various types of contracts for which the duty is lower than on regular earnings (service contract or copyright contracts in the former Yugoslavia).

So, for example, in a formal sector in Kosovo there are a large number of employees without

³C. Mihes (ed.): *A comparative Overview of Informal Employment in Albania, Bosnia and Herzegovina, Moldova and Montenegro*, ILO, 2011.

⁴*A report according to a human measure - the informal economy: overcoming exclusion and marginalization*, Ministry of labor and social protection of Montenegro, 2015.

⁵T. H. Gindling, N. Mossaad and D. Newhouse: *Earnings Premiums and Penalties for Self-Employment and Informal Employees around the World*, IZA, Discussion Paper No. 9723, February 2016, p. 19.

⁶N-H. Blunch: *Bound To Lose, Bound To Win? The Financial Crisis and the Informal-Formal Sector Earnings Gap in Serbia*, IZA, Discussion Paper No. 9231, July 2015, p. 28.

a valid employment contract, which are registered as employed, but for which no one pay social security contributions. This number is based on discrepancies in employment statistics and statistics of contributions, estimated at about 11% of the total number of employees. In the opinion of the employers themselves, informal employment is even greater because in their sector is on average 37% of workers are not registered with tax authorities. The largest percentage is in agriculture, industry, health and social work etc.

The situation is similar in Serbia. According to a survey of employers (companies and entrepreneurs) in their enterprises only 1.9% of employees work without a contract, and only 3.8% of workers have contracts, but receive part of the earnings without paying taxes and contributions. This obviously insincere result is in a great contrast with the evaluation of the same respondents about the behavior of other employers in the same sector: then it is estimated that 23.9% of workers have no contract and that 24.7% have an employment contract, but a part of the salary receive in cash (without taxes and contributions). If we add these two numbers, it turned out that almost one half of employees in the formal sector belong to the informal economy, although an overlap between these two categories is probable.⁷

And in Macedonia the practice of combined payment of wages in the formal sector to the duties paid, and in cash (envelope payment) or through short-term service contracts is well developed, so that it is estimated that in this mode work one-third of employees.⁸

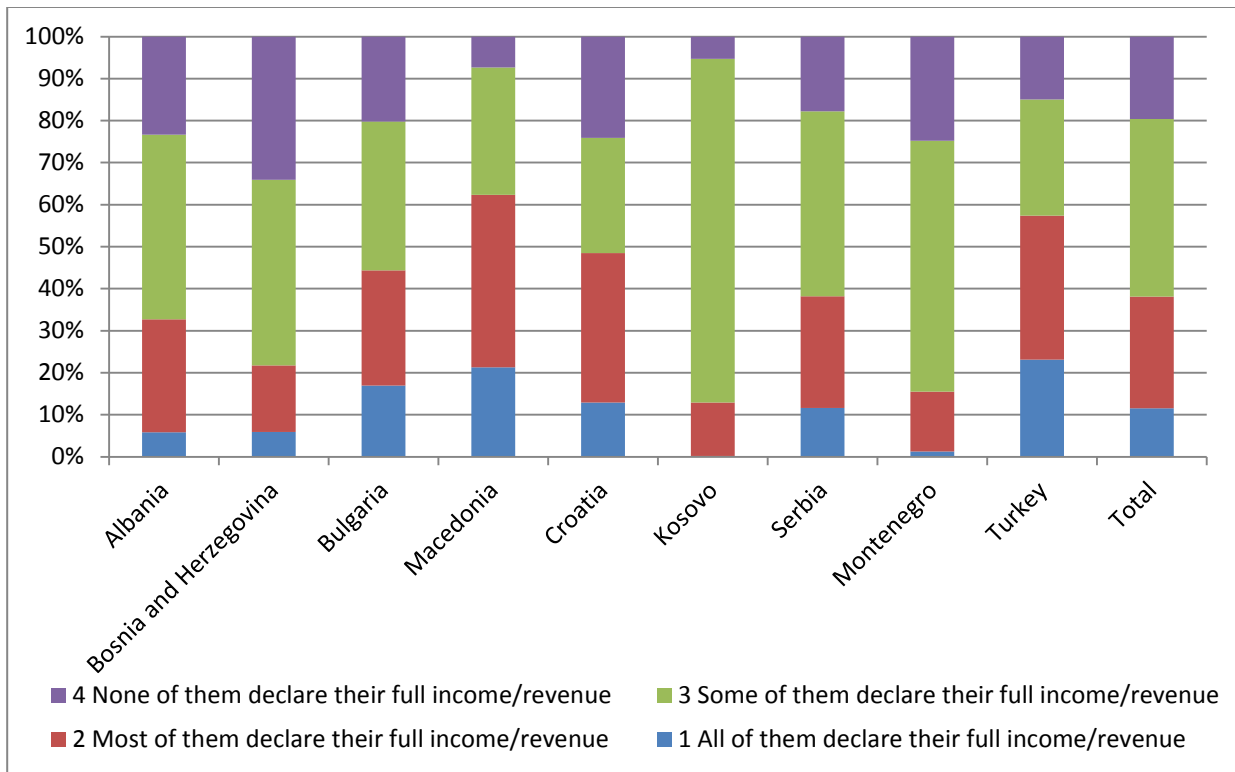
FINDINGS OF THE SELDI SURVEY

It is clear that **perception of gray economy** in the region is very high. On average, only 11.5% of the surveyed believe that “All of the people they know declare full income in their tax declarations”, while 19.6% believe that none report full income. This is somewhat puzzling as most of the countries in the region do not have tax systems which depend on self reporting by citizens. In fact, in most countries, only a very small subset of citizens is even expected to self report their income.

Question: Approximately what part of the people you know declare their full income in their tax declarations

⁷ See *The shadow economy in Serbia: New findings and recommendations for reform*, FREN, 2013, pp. 70-78.

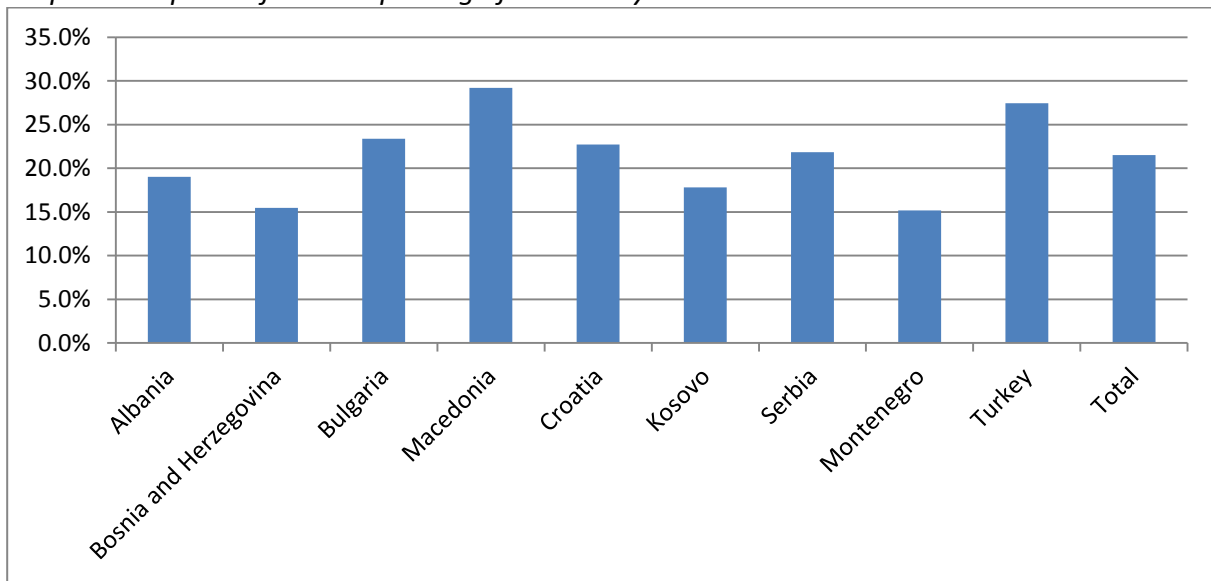
⁸ *Hit and Miss - The Dynamics of Undeclared Labor in Macedonia*, CSD and CRPM, Policy Brief No. 31, November 2014, p. 11.



Source: SELDI Survey 2016

Based on this question, we have made a summary indicator by weighing the answers (“All” – 1, “Most” – 0.66, “Some” – 0.33 and “None” -0). We can see that the perception is the highest (index is the lowest) in Montenegro and Bosnia, while it is the lowest in Macedonia and Turkey.

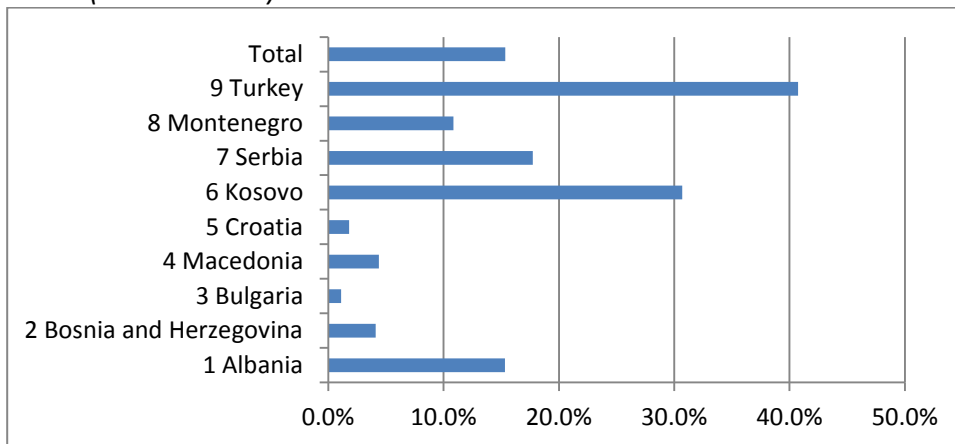
Graph: Perception of underreporting of income by individuals



Source: SELDI Survey 2016

In addition to perception-related questions, the survey also asked the people whether they have a written contract with their employer. There is a strong variation across the region – while the numbers are generally low in Croatia, Macedonia, Bulgaria and Bosnia (below 5%), the average for the region is 15%, due to very high numbers in Turkey (41%), Kosovo (31%) and to a lower extent in Albania, Serbia and Montenegro (15%, 17% and 11% respectively).

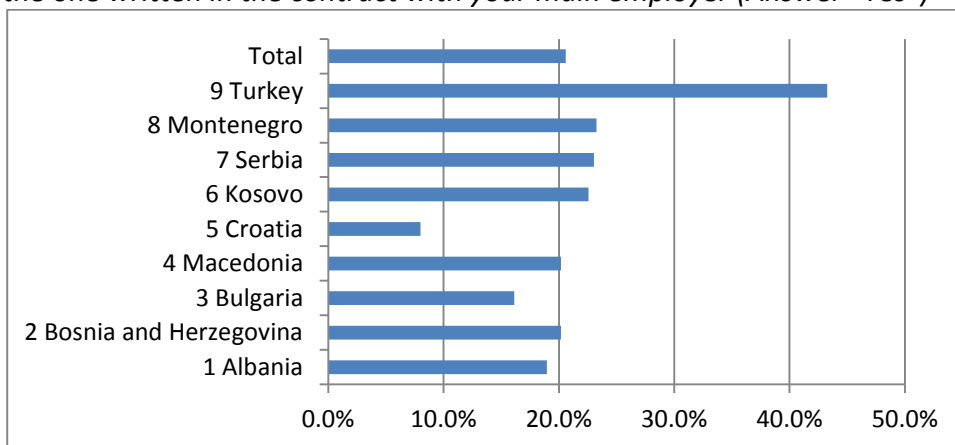
Question: Do you personally have a written contract with the employer for whom you mainly work? (Answer “No”)



Source: SELDI Survey 2016

There are also many employees (about 20% on average, without much variation across countries, excluding Turkey and Croatia) whose actual remuneration for their work is higher than the one written in the contract. The main (and presumably the only) reason for understating the actual amount of the salary is wage taxation.

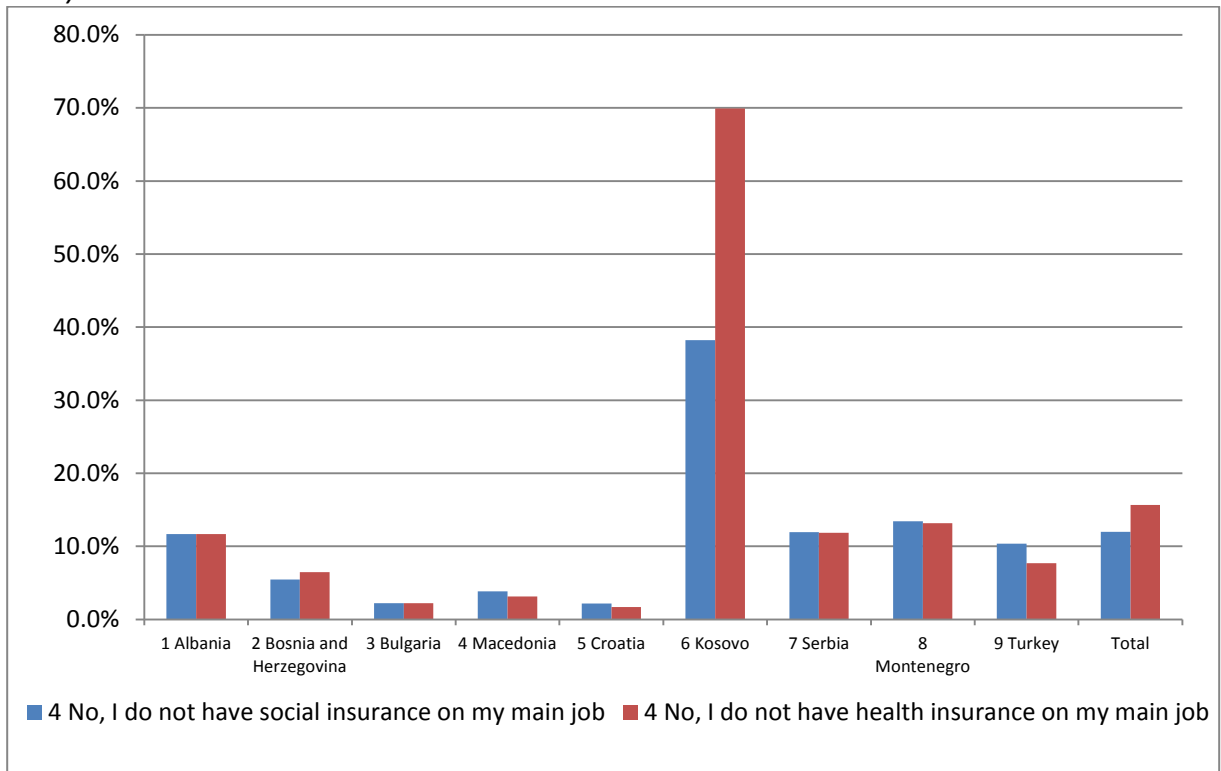
Question: In the past month, was the actual remuneration from your main job higher than the one written in the contract with your main employer (Answer “Yes”)



Source: SELDI Survey 2016

On average, around 10% of the employees (with the important exception of Kosovo, which has different pension and health insurance systems) have the social security and health insurance on their job. The basis for the pension and health insurance is in many cases lower than the actual remuneration, presumably due to taxes and contribution. Kosovo is again a significant exception. Turkey has an exceptionally high number of people who report having lower reported pension/health insurance basis, although tax wedge in Turkey at about 38% is not exceptionally high⁹.

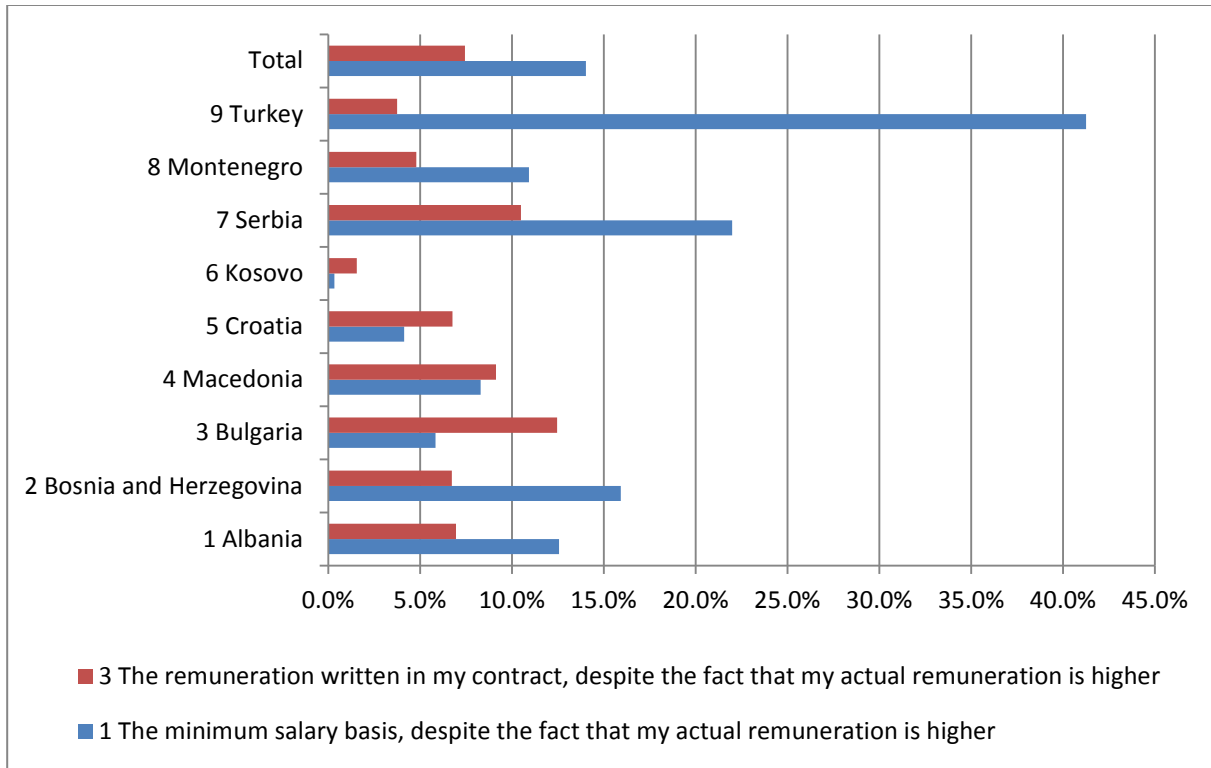
Question: Do you have social security and medical insurance on your main job? (Answer “No”)



Source: SELDI Survey 2016

Question: What is the basis for your social security payments on you main job?

⁹ OECD Taxing Wages <https://www.oecd.org/tax/tax-policy/taxing-wages-turkey.pdf>



Source: SELDI Survey 2016

SOME CAUSES OF INFORMAL EMPLOYMENT

The causes of informal employment in countries that we observe are closely linked to the general causes of the existence of the gray economy - from high taxes and contributions, through restrictive regulation of business and institutional weaknesses to the unfavorable situation on the labor market, which has already been discussed. Here we list some specific causes that are specifically linked to the labor market and its regulation.

Ambivalent political stance. In the long-term transitional crisis and global crisis since 2008, for many individuals in countries that observe the work in the informal economy was the only realistic way to achieve employment and earnings, and thus the way of settling social (and political) tensions. Thus, the political tolerance of the informal sector has become broad, especially since the formal sector usually does not show the progress that could absorb the employees in the informal sector (jobless growth).

Another reason for tolerances can be found in corruption, where there is an easy way for government officials to make money from entrepreneurs in the informal economy, which, by definition, violate at least one law and therefore show considerable willingness to pay racket.

Restrictive labor legislation. Another important driver of gray economy can be strict labor

market regulations. Specifically, if it is too difficult to hire or fire workers, or if legally mandated minimum salary and other rights are too rigid, it may be much cheaper and easier for employers to hire workers illegally. Countries that we look at are mostly labor legislation modeled on the European Union, which means they have developed regulation of employment protection (EPL). As a number of empirical studies have shown,¹⁰ such a rigid labor legislation encourages the development of informal employment, because employers avoid formal employment, particularly of young people and are looking for more flexible forms of labor force engagement through non-standard (part-time, temporary work, etc.) or informal employment.

Until 2011, the World Bank used to prepare the Labor Market Regulations as part of the Doing Business Report. However, due to the political sensitivity of the topic, they have discontinued the preparation of the summary indicator and the inclusion of the indicator in the overall doing business score, but US based Heritage foundation has continued with its calculation.

Region on average has labor market regulations which are somewhat more flexible than EU, but it should be noted that EU has among the most rigid market regulations in the world. In the region itself, Albania has the most rigid labor market regulations, while Montenegro has the most flexible ones.

	Labor Freedom
Asia-Pacific	65.0
Europe	59.5
Middle East / North Africa	61.4
North America	74.1
South and Central America / Caribbean	56.7
Sub-Saharan Africa	55.3
World	59.7
Region	63.7
Albania	51.5
Bosnia and Herzegovina	59.4
Macedonia	66.7
Montenegro	72.0
Serbia	66.2
Kosovo	66.3

¹⁰ S. Djankov and R. Ramalho: *Employment laws in developing countries*, Journal of Comparative Economics 37:1, 2009; H. Lehmann and A. Muravyev: *Labor Market Institutions and Informality in Transition and Latin American Countries*, University of Bologna - School of Economics, Working Paper DSE N° 854, 2012.

Minimum wage. From the prescribed level of minimum wage depends demand for less skilled labor. When the minimum wage is set too high the formal sector decreases demand for workers, with their migration into the informal sector.

In Serbia, the ratio of minimum and average wages in recent years is about one-half (50.1% in February 2016), which is very high in international comparisons. This level was reached in 2012, during the parliamentary elections. It was a government concession to the unions in order to ensure political support for the ruling coalition, which is certainly a form of corruption as the abuse of government authority in order to acquire their own political benefit. Too high a minimum wage inevitably had negative consequences: on the one hand, it brought a reduction in demand for low skilled labor, and, on the other, led to the spread of non-compliance with the act on level of minimum wage. The first effect brought a decline in formal and increase in informal employment, a second violation of the legal regulation and moral decay.

The benefits of social security. One of the most important incentives for the existence and development of informal employment can be a complex design of taxes and social security contributions on wages and social benefits of these workers in the informal economy. For the transition from informal to formal economy doesn't mean only registration of worker but also direct change of its position toward the State in respect of payment of duties and social rights: for paying taxes and social security contributions on wages and total income he acquires the rights to pension and health insurance and unemployment benefits.

A person transferring its employment from informal to formal sector (particularly one with low wage) faces the account of costs and benefits for which it is not certain which side would prevail. A decrease in net earnings is very unlikely, but the question is how much importance I attributed to the employee compensation in the form of newly acquired social rights. The formalization shows less favorable if the social security system is poorly financed, and brings less than the nominal law: for example, the pension system is unreliable, state health care of insufficient quality, and unemployment insurance is underdeveloped.

For employees in the informal economy a similar problem is frequent: the families of workers who move from informal to formal economy lose in whole or part of revenues from various types of social assistance to the poor and family benefits. Previously, he received them because income from informal employment was not reported, while the newly acquired from formal employment is now viewable to state social services. This is another disincentive for transition to formal economy.

One example could be found in Serbia, where design of social contributions (especially the high minimum base) and design of means-tested benefits aimed at families and the poor indicate that workers with low wages in the informal sector should give up a significant amount of their salaries if they want to move into the formal sector. Because of that, it is

unlikely that the value of the newly acquired social security transfers and other similar benefits, such as protective labor legislation, will overcome these large implicit costs.¹¹

Remittances. For many countries in transition, especially for the Western Balkan countries, emigration has been or is now a powerful valve to ease the problem of unemployment and poverty through employment and remittances as a way to transfer income to households from rich immigration to poor emigration country. For all countries that we observe remittances are an important source of income and their share in GDP ranges from 16.1% in Kosovo to 8.4% in Serbia in 2014. These countries belong in the highest quarter of countries for which data are available - from Kosovo at 19th place to Serbia at 39th place.¹²

By all accounts, the link remittances and informal employment is positive, ie remittances positively affect the level of informal employment - as shown by empirical studies that encompass this area.¹³ This influence is manifested through two channels. First, remittances bring capital to emigrant families which is required to start a new independent business in petty trade, crafts and the like, which are usually part of the informal economy and informal employment. Second, remittances increase family income security, similar to the social safety net, which encourages other members of the family emigration to accept riskier jobs in the gray economy with higher wages, but not more secure jobs in the formal economy with lower earnings.

EFFECTS OF INFORMAL EMPLOYMENT

Employment. The most positive effect of the informal economy is the employment of those who could not find jobs in the formal sector, for any reason. For them, informal employment is the only way for working activities and for their income with whose help they may be able to survive and even break the cycle of poor.

The answer to the question of whether the employees in the informal economy have been better if they are employed in the formal is difficult to make, due to technical difficulties and due to various factors in different countries. Thus, the formal economy often has a higher labor productivity than informal, which enables workers to earn more, but a formal pay taxes and contributions, reducing them in net terms.

Social insurance. Non-payment of social security contributions usually leads to the loss of

¹¹ J. Koettl: *Does formal work pay in Serbia? The role of labor taxes and social benefit design in providing disincentives for formal work*, Technical Note, World Bank, 2010, p. 9.

¹² Data from the World Bank:

<http://pubdocs.worldbank.org/pubdocs/publicdoc/2016/4/859861460572710216/remittancedata-inflows-april2016-0.xls>.

¹³ A. Ivlevs: *Remittances and informal employment: evidence from transition economies*, mimeo, http://www.parthen-impact.com/parthen-uploads/78/2015/add_1_258067_zUAucaiw5X.pdf, 19.4.2016. Covered countries are Kazakhstan, FYR Macedonia, Moldova, Serbia, Tajikistan and Ukraine.

the right to social insurance, ie pension, health and unemployment insurance,¹⁴ as workers in the informal sector are forced to pay of private health services and pre-modern, family insurance in old age and unemployment benefits. This loss of social security can seriously aggravate the situation of these workers and their families, but hits them lighter when pensions are low and pension insurance insecure,¹⁵ when the public health care is insufficient and the population is turning to the private sector,¹⁶ when unemployment benefits are low and eligibility periods are all the shorter.

On the other hand, loss of income of social security worsens its financial position, which then results in a reduction of the rights or existing insured workers or in increased burden of employees in the formal sector. Same goes with revenue loss from wage taxes.

Protection of workers. There is no doubt that the protection of informal sector workers in all segments is low and significantly lower than in the formal sector: with dismissals, working hours and annual leave, health and other conditions of work, overtime pay and so on. Even wage nipping is frequent. In this way, many workers are below the minimum civilizational standards, especially as they are not protected by the two usual powerful mechanism of the market economy: a significant demand for labor (when the economy near full employment) and reputational motive of employers.

POLICY OF COUNTERING INFORMAL EMPLOYMENT

Conceptual problems

Informal employment has an important but controversial role. On the one hand, it reduces unemployment and brings people of jobs and income, while, on the other, those jobs are often poorly paid, and safety of the workers is very low. It contributes to reducing poverty, but mainly only to a small extent. Economic growth typically reduces its role, but a crisis often increases it.

Even economic theory fails to deal with these contradictions: there are at least three competing visions that attempt to explain the essence of informal employment. After the first, neoclassical, there is a dual, segmented labor market which was created either on the basis of the difference between pre-modern and modern sectors in developing countries, or because of the characteristics of the formal labor market from which many workers are excluded, for example because of the barriers to entry (labor law), minimum wages and

¹⁴ A part of health care is usually provided independently of social insurance (children, old etc.).

¹⁵ For instance, in Serbia pensions are nominally reduced for 10+% in 2015.

¹⁶ For instance, in Serbia dental services are not free of charge anymore for majority of population.

strong labor unions, all of which prevents balancing of the labor market.¹⁷ Workers in the informal sector mostly involuntarily doing inferior jobs in this sector, for lower wages than in a formal. During the recessions employment in the informal sector is higher due to the reduction in formal employment.

Alternative conception sees the labor market not as segmented but as competitive, whereby an individual decides freely to which part will be oriented - formal or informal.¹⁸ On the formal labor market wages are usually higher and worker safety greater, but also informality has its advantages: flexibility of working hours (especially useful for women with children), it is better to be your own boss than to be employed in a hierarchical firms, benefit of independent location, far less regulations and administrative work, etc. Young people may regard lack of social security (pension, health) for engagement in informal employment as less important for the moment. These two sectors not necessarily move in opposite directions during the business cycles.

A third theory combines the two above-mentioned visions, segmenting the informal labor market in two parts. The first is the "upper level", which includes entrepreneurs and self-employed who could participate in the formal economy, but choose informal economy. The second is the "lower level", which includes those who can not be involved in the formal sector, but seek assurance basic existence in the informal economy.¹⁹

The importance of conceptual considerations is not only analytical but also because a basic understanding of the mechanisms and nature of the informal economy should be the basis for the conduct of the state policy towards the informal employment. The answer to the main policy question - whether and to what extent to rely on repression - must be sought in the preceding question: whether the repression will primarily lead to formalization or to liquidation of informal economy. The latter is not the right direction.

Policy towards informal employment

In developed countries, policy towards the informal economy mainly relies on repressive methods: detection of violation and penalties for offender.²⁰ This approach is based on two elements: (1) the belief that the threat of punishment will represent an incentive for the offender to move into the formal economy, what should be based on their own utility calculations and (2) on the assumption that the transition to the formal economy is possible and easily attainable and that it will not significantly downgrade the business actors' results

¹⁷ Foundation of this theory could be traced to the two-sector model of economic growth of Arthur Lewis from 1950ties. For contemporary version see R. La Porta and A. Shleifer: *Informality and Development*, Journal of Economic Perspectives, Number 3, Summer 2014.

¹⁸ See W. F. Maloney: *Informality Revisited*, World Development 32: 2004; this model is primarily based on Latin American experience.

¹⁹ H. Lehmann: *Informal Employment in Transition Countries: Empirical Evidence and Research Challenges*, IZA DP No. 8687, December 2014.

²⁰ C. C. Williams and S. Nadin: *Tackling undeclared work in the European Union*, CESifo Forum, 2/2012, 20 Focus.

comprising with informal economy, as business possibilities in formal sector are virtually limitless.

For countries that we observe, such a simple approach is not realistic because they are by dominated segmented labor market and by weakness of the formal sector to ensure the growth of demand for labor, essentially in line with the third-mentioned theory. One small part of employees in the informal sector can work in the formal sector, i.e. they consciously avoids tax and regulatory obligations, while the greater part of workers business in the informal sector work there involuntarily, looking for a way to survive. Therefore, the application of a strong repressive methods mainly led to the reduction of economic activity, and much less to its transfer from the informal to the formal sector. This would be harmful from an economic and social viewpoint. However, in our countries deterrence measures have been given primary importance,²¹ but the application was rather poor due to the weakness of state executive institutions and because of conscious tolerance.²²

An alternative to repression is a complex approach, based on a combination of preventive, curative and awareness raising activities. Such an approach has been present for a decade in the European Union, mainly because of persistent informal employment in some southern countries and because of the large scale of informal employment in the newly admitted Eastern European countries. While at the EU level was adopted in 2003,²³ this program is not sufficiently implemented and deterrence remains the fundamental mechanism of countering informal employment.

Some of measures related to informal employment (without going into the whole problem of the informal economy) which are applicable for countries that we look at can be selected, but depending on the specifics of each of them:²⁴

- when and to the extent that the informal economy is a deliberate way to avoid taxes and/or administrative regulation it is good to combine three complexes of measures:

²¹For Montenegro: *Tackling undeclared work in Montenegro*, Eurofund, 2016; For Serbia: *National program for countering shadow economy*, Chapter 4, December 2015; for Macedonia: C. C. Williams, R. Dzhekova, J. Franic and L. Mishkov: *Evaluating the policy approach towards the undeclared economy in FYR Macedonia*, Int. J. Entrepreneurship and Small Business, No. 2, 2015.

²²Na primer, broj inspektora rada je skroman i nedovoljan: u Crnoj Gori 27 (2013), u Makedoniji 72 (2014), a na Kosovu 50 (2015).

²³„Member States should develop and implement broad actions and measures ... which combine simplification of the business environment, removing disincentives and providing appropriate incentives in the tax and benefits system, improved law enforcement and the application of sanctions”, European Commission: *Council decision on guidelines for the employment policies of the Member States*, Official Journal of the European Union, L. 197/13, 2003.

²⁴*Promoting pro-poor growth: Employment*. OECD, 2009, pp. 95-108; *Stepping up the fight against undeclared work*, European Commission, 2007; *Policies to Reduce Informal Employment: A International Survey*, The World Bank, 2011.

- the improvement of the tax system, while reducing the tax burden when possible, especially of wages, in order to create financial incentives for the transition to formal employment,
- the reduction of the regulatory burden, while improving administrative procedures, particularly in the regulation of labor relations in general and of atypical and seasonal jobs in particular,
- the reinforcement of control and improvement of penal policy.
- When is the extent to which the participation of workers in the informal economy is the only way that the poor engage in work activity, the best policy is to encourage the productivity of their work with:
 - active labor market policies by improving their skills (training, education, and related tax incentives) and
 - encouraging the creation of new enterprises (credit, the development of small enterprises, etc.) for entrepreneurs in the informal economy.
- When the private sector growth is low or even non-existent, and creation of new jobs totally insufficient, it is necessary to apply all methods of encouraging economic growth, both in big and small companies in the formal sector.
- Changing views about informality could be an important part of the policy, particularly information and education on total costs while working informally, such as lack of access (1) to social protection related to formal work (sick leave and maternity benefits, etc.), health, unemployment and pension insurance, etc. and (2) availability of financial or technical assistance to SMEs by the public sector, etc.

Certainly, this broad strategy and policy platform for formalization of informal activities could be executed only gradually, in the long term framework.

The wider concept of solving problems of the informal economy is beginning to be applied in the countries of the Western Balkans,²⁵ but without much enthusiasm, and without much success - mainly in the strategies and plans.²⁶

²⁵A report according to a human measure - the informal economy: overcoming exclusion and marginalization, Ministry of labor and social protection of Montenegro, 2015.

²⁶ One such a wide plan is *National program for countering shadow economy* for Serbia, December 2015.