IMPACT OF INFORMAL LABOR IN GOVERNMENT BUDGET REVENUES AND PENSION CONTRIBUTIONS
CONTENT

• Introduction: Goals of the project
• Background Information on Informality
• Methodology
• Results
  • First Approach
  • Second Approach
  • Third Approach
• Discussion
• Recommendations & Conclusions
GOALS OF THE PROJECT

• First goal: Measure the government budget losses and pension contributions forgone as a result of informal labor
• Second goal: Determine the main challenges and implications of fighting labor informality in Kosovo
CAUSES & CONSEQUENCES

- Causes of Informality
  - Poverty
  - Focus on FDI, neglecting agricultural sector
  - Rule of Law
- Consequences of Informality
  - Workers’ safety
  - Budget deficits
  - Incapability to voice concerns through unions
  - Attract resources away from the formal sector
  - Unreliable economic indicators
## LABOR INFORMALITY IN KOSOVO

**Panel A (total by gender and area)**

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Male</th>
<th>Female</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal</td>
<td>31%</td>
<td>35%</td>
<td>18%</td>
<td>24%</td>
<td>38%</td>
</tr>
</tbody>
</table>

**Panel B (by age group)**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>15-24</td>
<td>50%</td>
</tr>
<tr>
<td>25-34</td>
<td>35%</td>
</tr>
<tr>
<td>35-54</td>
<td>28%</td>
</tr>
<tr>
<td>55-64</td>
<td>21%</td>
</tr>
</tbody>
</table>

**Panel C (by education level)**

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lsec</td>
<td>57%</td>
</tr>
<tr>
<td>Usec voc</td>
<td>33%</td>
</tr>
<tr>
<td>Usec gen</td>
<td>27%</td>
</tr>
<tr>
<td>Tertiary</td>
<td>4%</td>
</tr>
</tbody>
</table>
METHODOLOGY

• Secondary research
  • World Bank
  • Riinvest Report
  • Labor Force Survey
  • Kosovo Pension Saving Trust

• Primary Research
  • Interview with expert from Riinvest Institute
  • Interview with expert from KAS
  • Interview with head of Inspectorate at the Executive Agency of Labor Inspectorate
  • Interview with expert from the Department of Employment
RESULTS: FIRST APPROACH

- 338,364 employed people from the age of 15 to 64 (Labor Force Survey 2013).
- 277,267 active contributors to the Kosovo Saving Pension Trust (Annual Report 2013).

<table>
<thead>
<tr>
<th>Average Salary</th>
<th>Tax on income per worker</th>
<th>Total Budget Loss</th>
<th>Total Pension Contributions Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>150</td>
<td>2.80</td>
<td>2,052,859</td>
<td>10,997,460</td>
</tr>
<tr>
<td>200</td>
<td>4.40</td>
<td>3,225,921</td>
<td>14,663,280</td>
</tr>
<tr>
<td>250</td>
<td>6.30</td>
<td>4,618,933</td>
<td>18,329,100</td>
</tr>
</tbody>
</table>
RESULTS: SECOND APPROACH

- 338,364 employed people from the age of 15 to 64 (Labor Force Survey 2013).
- 37% of the total employed workforce is not legally declared”(“To Pay or Not to Pay” 2013)

<table>
<thead>
<tr>
<th>Average Salary</th>
<th>Tax on income per worker</th>
<th>Total Budget Loss</th>
<th>Total Pension Contributions Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>150</td>
<td>2.80</td>
<td>4,206,552</td>
<td>22,535,100</td>
</tr>
<tr>
<td>200</td>
<td>4.40</td>
<td>6,610,296</td>
<td>30,046,800</td>
</tr>
<tr>
<td>250</td>
<td>6.30</td>
<td>9,464,742</td>
<td>37,558,500</td>
</tr>
</tbody>
</table>
RESULTS: THIRD APPROACH

- 3,371 out of 37,518 workers were legalized, meaning that they were undeclared (Expert from Executive Agency of Labor Inspectorate, personal communication, Jan 16, 2015)

<table>
<thead>
<tr>
<th>Average Salary</th>
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<th>Total Budget Loss</th>
<th>Total Pension Contributions Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>150</td>
<td>2.80</td>
<td>1,023,220</td>
<td>5,481,540</td>
</tr>
<tr>
<td>200</td>
<td>4.40</td>
<td>1,607,918</td>
<td>7,308,720</td>
</tr>
<tr>
<td>250</td>
<td>6.30</td>
<td>2,302,246</td>
<td>9,135,900</td>
</tr>
</tbody>
</table>
DISCUSSION & ANALYSIS

• South-Eastern Europe 25% informal labor (Hazans 2011).

• Why such a large discrepancy between the results of the three approaches?
  • Employed people who declared themselves as unemployed (hope to get help, hide informality)
  • Potential deficiencies in collecting data
  • Insufficient capacities to carry out the survey
  • Other motives and biasness
DISCUSSION & ANALYSIS (CONT’D)

• Challenges in fighting informal labor in Kosovo:
  • Poor environment for doing business
  • Poor business planning
  • Lack of capacities of the EALI
  • Unqualified/unskilled workers
  • Lack of collaboration between institutions
OTHER IMPLICATIONS OF LABOR INFORMALITY IN KOSOVO

• Very low tax morale
  • 60% said it is relatively easy to evade taxes
  • 40% justified tax evasion

• How big of a problem is labor informality?
• Business Barriers: Unfair competition
RECOMMENDATIONS & CONCLUSIONS

• Further research to measure labor informality
• Increase capacities of EALI
• Organize business planning activities (workshops, trainings etc.)
THANK YOU

QUESTIONS?