
Evaluating the policy approach towards the undeclared economy in FYR Macedonia

Colin C. Williams*, Rositsa Dzhekova,
Josip Franic and Lyubo Mishkov

Sheffield University Management School (SUMS),
University of Sheffield,
Conduit Road, Sheffield, S10 1FL, UK
Email: C.C.Williams@sheffield.ac.uk
Email: rndzhekova1@sheffield.ac.uk
Email: jfranic1@sheffield.ac.uk
Email: lrmishkov1@sheffield.ac.uk
*Corresponding author

Abstract: This paper evaluates how the undeclared economy is being tackled in FYR Macedonia. Reporting the findings on the extent and nature of the undeclared economy in this country, FYR Macedonia is shown to have the largest undeclared economy of all European countries and such work is prevalent across all sectors and business types. Examining how the undeclared economy is being tackled, it is revealed that there is a need not only to move away from the current fragmented approach by establishing a single agency or committee to better coordinate the fight against undeclared work in FYR Macedonia but also for a shift away from the current focus upon deterrents and for more attention to be paid to a wider range of measures that enable undeclared work to move into the declared economy. Unless such an approach is pursued then it is likely to remain difficult to make further headway in tackling undeclared work.

Keywords: informal sector; shadow economy; entrepreneurship; tax evasion; economic development; public policy; Macedonia.

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Biographical notes: Colin C. Williams is a Professor of Public Policy in Sheffield University Management School (SUMS) at the University of Sheffield in the UK. His research interests include the informal economy, entrepreneurship and economic development, subjects on which he has published some 20 monographs and over 300 journal articles over the past 25 years. His recent books include *Confronting the Shadow Economy* (2014, Edward Elgar), *The Shadow Economy* (2013, Institute of Economic Affairs) and *Informal Work in Developed Nations* (2010, Routledge).

Rositsa Dzhekova is a Marie Curie Fellow at the Sheffield University Management School (SUMS) at the University of Sheffield. She is normally employed at Vitosha Research Ltd in Bulgaria and currently on secondment at Sheffield funded by the European Commission's Industry-Academia Partnerships Programme (IAPP).

Josip Franic is a Marie Curie Fellow and a doctoral research student in the Sheffield University Management School (SUMS) at the University of Sheffield studying the undeclared economy in Croatia. He is normally employed at the Institute of Public Finance in Croatia and currently on secondment at Sheffield funded by the European Commission's Industry-Academia Partnerships Programme (IAPP).

Lyubo Mishkov is a Marie Curie Fellow and a doctoral research student in the Sheffield University Management School (SUMS) at the University of Sheffield studying the undeclared economy in Bulgaria, and is currently on secondment at Vitosha Research Ltd in Bulgaria funded by the European Commission's Industry-Academia Partnerships Programme (IAPP).

1 Introduction

In recent decades, a burgeoning literature has revealed the persistence and even growth of the undeclared economy in a multifarious array of countries across the world (Dana, 1998, 2010, 2013; Hudson et al., 2012; International Labour Organisation, 2012; Rezaei et al., 2013a, 2013b, 2014; Schneider et al., 2010; Williams, 2007a, 2007b, 2011, 2014a, 2014b, 2014c, 2014d, 2014e; Williams and Gurtoo, 2013; Williams and Nadin, 2011a, 2011b; Williams and Round, 2010; Williams et al., 2010, 2013b). Indeed, this tendency of people and businesses to earn monetary income that they do not declare to the state for tax, social security and/or labour law purposes has been widely recognised to not only lower work quality standards and create risks for the health and safety of workers, but also to act as a brake on economic growth, put at greater risk the financial sustainability of social protection systems and undermine the legitimate business environment through unfair competition (European Commission, 2007; Gallin, 2001; Vanderseypen et al., 2013). The result is that greater attention has started to be paid to how this undeclared economy can be tackled (Dekker et al., 2010; Dzhekova and Williams, 2014; Franic and Williams, 2014). To contribute to this literature, the aim of this paper is to provide an evaluation of the policy approach towards the undeclared economy in FYR Macedonia.

Firstly, therefore, this paper provides a baseline assessment of the extent and nature of the undeclared economy in FYR Macedonia. Secondly, the institutional infrastructure for tackling undeclared work in this country is reviewed and thirdly, the policy approach and measures currently adopted for tackling the undeclared economy. Finding that there is a fragmented approach with no one single agency or central committee being responsible for coordinating the fight against undeclared work in FYR Macedonia and that only a narrow range of policy measures are currently adopted for tackling the undeclared economy, the fourth and final section of this paper concludes by calling for a more coordinated approach and a shift away from the current focus upon deterrence and towards an approach and measures that more effectively enable undeclared work to move into the declared economy.

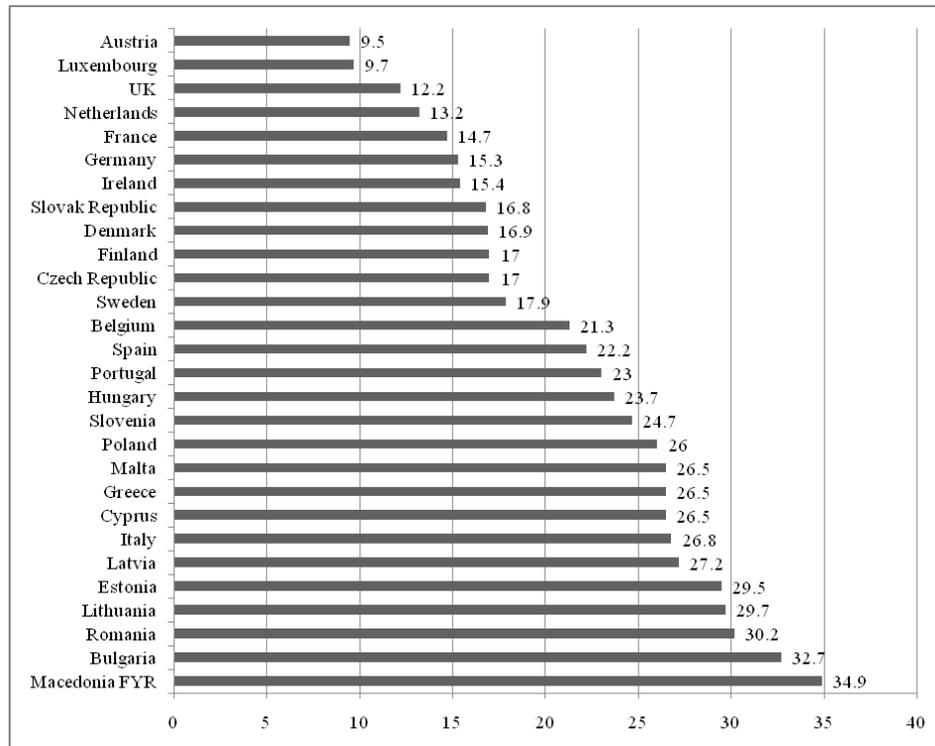
Before commencing, however, the undeclared economy needs to be defined. Although in many developing countries, enterprise-based and jobs-based definitions have been widely used (see Williams, 2013a, 2014c; Williams and Lansky, 2013), in

developed economies it has been activity-based definitions that have been more commonly used to define the scope of the undeclared economy. The most widely used activity-based definition, and the one adopted in this paper, defines the undeclared economy as:

“all legal production activities that are deliberately concealed from public authorities for the following kinds of reasons: to avoid payment of income, value added or other taxes; to avoid payment of social security contributions; to avoid having to meet certain legal standards such as minimum wages, maximum hours, safety or health standards, etc.” [OECD, (2002), p.139]

This definition has been widely adopted in Europe and other advanced economies (see European Commission, 2007; Vanderseyen et al., 2013; Williams, 2014b, 2014e; Williams and Round, 2007, 2009). The only absence about this production relative to the declared economy is that the activities are not declared to the authorities for tax, social security and/or labour law purposes. As such, illegal (criminal) activities are excluded, as are unpaid forms of work. In FYR Macedonia, a similar definition is used by the Public Revenue Office who define the undeclared economy as “all economic activities which are legal but unofficial and undeclared for tax purposes, from individuals, unofficial groups and organizations” [Risteski, (2009), p.1].

Figure 1 The size of the undeclared economy in European countries in 2007 (% of GDP)



Source: Derived from Schneider et al. (2010)

2 Extent and nature of the undeclared economy in FYR Macedonia

Various methods exist for measuring the size of the undeclared economy. These range from indirect measurement methods which use proxy indicators and/or seek indications of its size in data collected for other purposes, through to direct survey methods (Garvanlieva et al., 2012; Risteski, 2009; Stankovic and Stankovic, 2012). The most commonly used indirect survey method is the multiple indicators multiple causes (MIMIC) method of Schneider et al. (2010). As Figure 1 reveals, this finds that the undeclared economy in FYR Macedonia is the equivalent of 35% of GDP, which means that it is larger than in any other European Union member state. As such, the problem of undeclared work in FYR Macedonia is more acute than in other European countries.

To analyse whether the undeclared economy is growing or declining in FYR Macedonia, Table 1 reports the results of different studies which all use indirect measurement methods. This reveals that whichever measurement method is employed, the finding is that the undeclared economy in FYR Macedonia is gradually decreasing in size over the past decade or so. Similar trends of gradual decline are identified in most other European countries (Williams, 2014c, 2014d).

Table 1 Changing size of the undeclared economy in FYR Macedonia, 2000–2011

	<i>Two-sector dynamic general equilibrium model (Elgin and Öztunali, 2012)</i>	<i>Electricity consumption (Garvanlieva et al., 2012)</i>	<i>MIMIC (Garvanlieva et al., 2012)</i>	<i>MIMIC (Schneider et al., 2010)</i>
2000	35.10	34.10	-	38.2
2001	34.86	33.23	-	39.1
2002	34.97	31.49	-	38.9
2003	35.06	34.22	34.22	38.4
2004	34.80	32.75	44.44	37.4
2005	34.89	32.67	40.18	36.9
2006	34.97	31.02	41.32	36
2007	34.90	28.14	52.48	34.9
2008	34.39	25.16	50.39	-
2009	-	23.38	41.58	-
2010	-	24.01	40.46	-
2011	-	-	46.99	-

This finding that there is a gradual decline in the size of the undeclared economy in FYR Macedonia is further reinforced when the results of various direct surveys are analysed. On the one hand, the *Labour Force Survey* conducted by the State Statistical Office of the FYR Macedonia indicates that in 2012, 22.5% of all employed were engaged in informal employment compared with 25% in 2011, 26% in 2010, 27% in 2009 and 29% in 2008 (State Statistical Office, 2013). On the other hand, the World Bank Enterprise Survey for FYR Macedonia identifies that in 2013, 55.6% of firms reported that they compete against firms operating on an undeclared basis, which is a considerable decline from 2009 when 73.9% of firms faced such competition. There is also a decline in the share of firms which identify that the practices of undeclared competitors represent a major constraint

on the growth of their business, from 55% in 2009 to 35% in 2013. These figures, nevertheless, remain higher than for all other EU Member States.

Whichever method is used to measure the size of the undeclared economy therefore, the finding is that the undeclared economy is larger in FYR Macedonia than in most, if not all, other European countries. However, it is declining in size in FYR Macedonia over time, akin to other European countries.

Turning to the nature of the undeclared economy, the first issue to consider is whether there are variations in its size across various sectors and business types. As Table 2 displays, which reports the findings of the World Bank Enterprise Survey 2013 so far as FYR Macedonia is concerned, the finding is that manufacturing businesses are more likely than those in retail or services to face competition from unregistered firms. At the same time, formal retail businesses are more likely to perceive such unfair competition as a major constraint to conducting business in the country. Medium-size enterprises (20–99 employees) are also more likely to face competition from those operating in the undeclared economy, followed by small firms. Domestic firms located in South Macedonia are also more affected by the practices of undeclared competitors.

Table 2 Extent of undeclared practices in FYR Macedonia, 2013: by sector, firm size and location

<i>Type of business</i>	<i>% of firms competing against unregistered or informal firms</i>	<i>% of firms identifying practices of competitors in the informal sector as a major constraint</i>
By sector:		
Manufacturing	66.3	35.5
Retail	54.0	39.8
Other services	51.5	31.6
By firm size:		
Small (5–19)	52.8	33.0
Medium (20–99)	75.6	46.8
Large (100+)	35.0	19.5
By location:		
Eastern Macedonia	38.4	18.5
North-West and West Macedonia	60.2	37.6
Skopje	56.7	36.8
South Macedonia	70.7	45.8
By ownership type:		
Domestic	58.9	37.1
10%+ foreign ownership	12.1	2.6

Source: World Bank Enterprise Survey 2013 (World Bank, 2014)

Examining the types of undeclared work conducted, an OECD study finds that one of the main types of undeclared activity is the under-reporting of economic activity to avoid paying turnover taxes, import duties, personal income and labour taxes (Ahmad, 2007). Within misreporting practices, under-reported salaries ('envelope wages') are a significant aspect (see Williams, 2009, 2013b; Williams and Padmore, 2013a, 2013b). Other common types of misreporting in the non-financial and household sectors include

over-reported intermediate consumption, non-registered employment and non-registered sales in trade (UNECE, 2008). This is similarly the situation elsewhere in Europe (Williams and Martinez, 2014a, 2014c, 2014d).

Stankovic and Stankovic (2012) and Tevdoski (2011), meanwhile, note that undeclared work is particularly prevalent in relation to seasonal jobs, temporary or part-time work and affects mostly those with low educational qualification levels, as well as low earners. Examining the level of undeclared jobs within non-standard employment (part-time, fixed-term and own-account jobs/self-employed) based on data from the *Labour Force Survey* of the State Statistical Office, moreover, Novkovska (2008, 2013) finds that in 2007, 77% of undeclared waged work was non-standard and temporary employment, while only 11% of declared waged employment was non-standard and temporary. Indeed, further analysis of the *Labour Force Survey* reveals that the age groups most likely to engage in undeclared work are young people aged 15–24 (40% of all employed in that age group participate in the undeclared economy), as well as those older than 65 years (over 85% of all employed from that age group). Analysing gender variations, the survey reveals that men are slightly more likely to work in the undeclared economy than women (23.3% of men compared to 21.3% of women for 2012 (State Statistical Office, 2013).

With respect to own-account work (self-employment), the International Labour Organisation's Labour Force Survey conducted in 2010 shows that 34.7% of non-agricultural self-employment is undeclared, with 48.6% of all sole traders (own-account enterprise owners) operating on an undeclared basis (International Labour Organisation, 2011a). This is a similar level to other countries and displays the existence of a large hidden enterprise culture in FYR Macedonia (Williams, 2007a, 2007b, 2013a; Williams and Round, 2007, 2009; Williams and Yousseff, 2014). The share of undeclared self-employment is much higher in rural areas, where 44.8% of the self-employment is undeclared compared to 28.3% in urban areas. When it comes to dependant wage employment meanwhile, the survey reveals that 9.2% is undeclared wage employment (21.4% of agricultural employees and 8.8% of employees in all other sectors). Undeclared wage employment is higher in rural areas where 14.5% of all wage employees are undeclared, while in urban areas only 6.9% of waged employment is undeclared.

Given this overview of the extent and nature of the undeclared economy in FYR Macedonia, attention now turns to an evaluation of how undeclared work is being tackled by examining firstly, the institutional infrastructure and secondly, the policy approaches and measures being adopted.

3 Institutional infrastructure for tackling undeclared work

A 2010 study of 31 European countries (Dekker et al., 2010) reveals that eight countries (26%) have either a single agency responsible for the fight against undeclared work or central coordinating committee responsible for ensuring coordinated action by the multifarious departments involved in tackling undeclared work. Furthermore, the study found that there are three main pillars where the authorities' efforts are focused: labour, social security and taxes (Table 3). FYR Macedonia, similar to other transition countries in Central and Eastern Europe, belongs to the group of countries where the main focus in tackling undeclared work is on labour law violation. Although there is no single body

responsible for coordinating the fight against undeclared work, the labour inspectorate within the Ministry of Labour and Social Policy (MLSP) is the lead agency when it comes to combating undeclared work.

Table 3 Undeclared work policies in Europe: focus on three pillars

<i>Focus on labour</i>	<i>Focus on social security</i>	<i>Focus on taxes</i>
Bulgaria	Belgium	Austria
Cyprus	France	Denmark
Czech Republic	Switzerland	Estonia
Greece	Liechtenstein	Germany
Hungary		Finland
Italy		Ireland
Iceland		Netherlands
Latvia		Norway
Lithuania		Sweden
Malta		UK
Luxembourg		
Poland		
Portugal		
Romania		
Slovakia		
Slovenia		
Spain		

Source: Dekker et al. (2010)

In FYR Macedonia, although the labour inspectorate within the MLSP is the lead agency, many other government departments and agencies are responsible for different aspects of the fight against undeclared work. Indeed, the MLSP, develops drafts of legislation, proposes programmes and measures related to labour market regulation, including in the field of tackling undeclared work. As such, the MLSP implements state policy through its specialized units, namely the Employment Agency, State Labour Inspectorate, Social Assistance Agency and their regional structures. It regulates the activity of labour market institutions at national and regional level. It also participates in the development of the main parameters of social security and payments related to it. Besides this Ministry, others with responsibility include the Ministry of Finance and Public Revenue Office, the Public Revenue Office which is responsible for detecting tax non-compliance, the Ministry of Economy (which includes the State Market Inspectorate, State Inspectorate for Technical Inspection and State Inspectorate for Construction and Urban Development) which is responsible for amongst other things strengthening control over undeclared commercial activities, and the Customs Administration and Ministry of Interior responsible for border control, including 'shuttle trade'.

At present however, the coordination between the State Labour Inspectorate and other enforcement agencies remains limited, judging by the lack of formal coordination procedures and joined-up strategies, as well as the lack of common targets across

different departments (Williams et al., 2013a). Joint inspections take place mainly in the field of safety at work, and increasingly within tax collection campaigns (between the labour inspectorate and the Public Revenue Office). Some efforts are underway to implement network software enabling the labour inspectorate to access relevant data from other institutions, such as the Central Registry (commercial register), the Public Revenue Office and the Employment Agency, among others. Nevertheless, there is little in the way of shared strategies and targets.

Turning to the role of social partners, there is also room for improvement in terms of their involvement in decision-making with regard to tackling the undeclared economy. While during the 1980s the trade union density (trade union members as percentage of all employees in dependent employment) in FYR Macedonia amounted to 97%–98% (due to fact that all employees were members of a trade union during socialism), this density was only about 28% in 2010 (Eurofound, 2012). A possible reason for this drop is the general lack of public trust in trade unions, which are not seen as important social actors. They are also seen as close to the political elites and unable to promote and protect the interests of employees. Trade unions have often publicly supported political parties and their election candidates. In 1998 some union leaders were even nominated as left-oriented political party candidates in the parliamentary elections. A similar lack of trust exists when it comes to the main employers' organisation, whose density was also below 24% in 2010 (Eurofound, 2012). Indeed, there is only one employers' organisation that meets the national representativeness criteria, namely the Employers' Organisation of Macedonia (EOM), which covers about 23% of the private sector employees.

Bipartite and tripartite social dialogue at present occurs mainly through the Economic and Social Council (ESC), a consultative body established in 1996. The Government is represented by the Ministries of Labour, Economy, Finance and the deputy prime minister. The trade unions participating in the ESC are the Federation of Trade Unions of Macedonia and the Confederation of Free Trade Unions of Macedonia, while the only representative of employers participating in the ESC is the Employers Organization of Macedonia. Each social partner has four members in the ESC, with the Minister of Labour acting as the Council's president (there is no rotation principle). The powers of the current ESC were reinforced in September 2010 through a new agreement for social dialogue.

In the recent past, the ESC has failed to play a significant role due to lack of interest or conflict between its members. For example, no single meeting was held between May 2008 and September 2011. However, there have been some improvements in the last few years, especially following the new agreement of 2010. The ESC members started holding regular meetings. Nevertheless, in 2011 the government changed the Law on Employment and Unemployment Insurance without consulting social partners, although the law is subject to obligatory social dialogue (Anceva, 2012). There is thus some room for improvement in social dialogue in FYR Macedonia.

4 Policy approach and measures adopted in FYR Macedonia

Examining the scholarly literature on tackling undeclared work, there are two contrasting policy approaches (see Table 4). On the one hand, there is a dominant direct controls approach, which detects and punishes non-compliance and/or provides rewards for those engaging in compliant behaviour. The underlying premise is that people are rational

actors who behave in a manner to maximise their expected utility. In other words, they disobey the law if the expected penalty and probability of detection is small relative to the profits gained. Based on this premise, governments must seek to deter these supposedly rational economic actors by making the benefits of non-compliance smaller than the benefits of compliance. To deter engagement therefore, the goal is to change the cost/benefit ratio facing those participating or considering participation in non-compliance (e.g., Allingham and Sandmo, 1972). In this deterrence approach, this is achieved by focusing on the cost side of the equation and increasing the actual and perceived risks and costs associated with participation by firstly, raising the perceived or actual likelihood of detection and/or secondly, raising the penalties and sanctions for those caught.

Table 4 Typology of policy approaches and measures for tackling the undeclared economy

<i>Approach</i>	<i>Method</i>	<i>Measures (examples)</i>	
Direct controls: deterrents	Improved detection	Data matching and sharing	
		Joined up strategy	
		Joint operations	
	Increase perception of risk	Advertising the penalties for undeclared work Advertising the effectiveness of detection procedures	
Direct controls: incentives	Preventative	Simplification of compliance Direct and indirect tax incentives Supply chain responsibility Support and advice to start-ups	
		Curative	Supply-side incentives (e.g., society-wide amnesties; voluntary disclosure; smoothing transition to formalisation) Demand-side incentives (e.g., service vouchers; targeted direct taxes; targeted indirect taxes)
	Indirect controls: reduce asymmetry between formal and informal institutions	Change informal institutions (values, norms and beliefs)	Tax education Normative appeals Education and awareness raising of benefits of declared work
			Change formal institutions (laws and regulations)

On the other hand, there is an emergent indirect controls approach. Its starting point is that where there is an institutional incongruity between the laws, codes and regulations of formal institutions and the norms, beliefs and codes of conduct of informal institutions,

what formal institutions deem to be illegal activities are seen as legitimate in terms of the norms, values and codes of conduct of the society (De Castro et al., 2014; North, 1990; Webb et al., 2009, 2013, 2014; Williams and Vorley, 2014). To tackle the undeclared economy therefore, there is a need to reduce this institutional incongruence.

This can be achieved in two ways. Firstly, policy can seek to change the norms, values and codes of conduct of the population regarding the acceptability of undeclared work. This can be achieved using awareness raising campaigns about the costs of undeclared work and benefits of declared work, tax education campaigns and normative appeals. Secondly, policy can also seek to change the formal institutions to align with the norms, values and codes of conduct of informal institutions. On the one hand, this involves changing internal processes within the formal institutions to improve the perception that there is tax fairness, redistributive justice and procedural justice. Tax fairness here refers to the extent to which people believe they are paying their fair share compared with others (Wenzel, 2004). Redistributive justice refers to whether they receive the goods and services they believe that they deserve given the taxes that they pay (Richardson and Sawyer, 2001) and procedural justice to the degree to which they believe that the tax authority has treated them in a respectful, impartial and responsible manner (Braithwaite and Reinhart, 2000; Murphy, 2005). On the other hand, it involves changing the *products* of formal institutions by pursuing wider economic and social developments that engender a greater commitment of citizens to compliance (Williams, 2014c, 2014d).

4.1 Policy approaches and measures in FYR Macedonia

Table 5 reviews the implemented approaches and measures to tackle the problem of undeclared work in FYR Macedonia compared with 31 European countries. From this, it is evident that it is the direct controls approach which is dominant in FYR Macedonia and more particularly, a direct controls approach based on the use of deterrents (including penalties and measures related to improving detection). However, even here, there are gaps in policy provision. For example, there is no obligatory registration of workers prior to starting work (a practice in 74% of the other EU countries), which makes it difficult for labour inspectors to deal with the undeclared economy. When turning up to a workplace, an employer can simply claim that the worker has started work that day and has not yet been registered. In addition, a sector-specific approach is absent, except when it comes to targeted inspections in certain high-risk sectors. For example, more inspections could be used to target construction sites, hotels, restaurants, etc., as is the case in Romania, Latvia, Portugal and Sweden (Eurofound, 2013) or introducing an obligatory ID registration for workers in these sectors, as is the case in Belgium (Eurofound, 2013).

Turning to the incentive measures implemented, these policy measures tend to target the workforce which is about to enter the labour market so as to prevent undeclared work, while paying less attention to the formalisation (curative) of those already operating in the undeclared economy. Nevertheless, considerable progress has been made in some areas, such as reducing compliance costs for doing business and easing the tax burden through a number of supply-side measures, such as tax incentives, a flat-tax system, tax rate simplification, as well as simplified procedures for company registration and paying taxes. In the realm of introducing indirect controls, however, there has been very little progress. Indeed, such an approach and its accompanying measures are near enough entirely absent.

Table 5 Policy measures used to tackle undeclared economy in FYR Macedonia compared with 31 European countries

<i>Policy measure</i>	<i>Used in FYR Macedonia</i>	<i>% of 31 European nations using measure</i>
<i>Direct controls</i>		
<i>Penalties</i>		
Administrative sanctions for purchasers/companies	✓	87
Administrative sanctions for suppliers/employees		83
Penal sanctions for purchasers/companies	✓	74
Penal sanctions for suppliers/employees		52
<i>Measures to improve detection</i>		
Data matching and sharing	✓	83
Workplace inspections	✓	100
Registration of workers prior to starting work or on first day of work		74
Coordinating strategy across government		57
Certification of business, certifying payments of social contribution and taxes		65
Use of peer-to-peer surveillance (e.g., telephone hotlines)	✓	39
Coordination of operations across government		61
Coordination of data sharing across government	✓	65
Mandatory ID in the workplace		65
<i>Measures enabling compliance:</i>		
<i>Incentives: preventative measures</i>		
Reduce regulations	✓	48
Simplify compliance procedures	✓	87
Technological innovations (e.g., certified cash registers)		43
New categories of work (e.g., for small or mini-jobs)		35
Direct tax incentives (e.g., exemptions, deductions)	✓	61
Social security incentives	✓	35
Ease transition from unemployment into self-employment	✓	65
Ease transition from employment into self-employment		44
Changing minimum wage upwards	✓	48
Changing minimum wage downwards		9
Training and support to business start-ups	✓	61
Micro-finance to business start-ups	✓	52
Advice on how to formalise		61
Connecting pension schemes to formal labour	✓	61
Introducing supply chain responsibility		17
Restricting free movement of (foreign) workers		43

Source: Update of Williams et al. (2013a: Table 7)

Table 5 Policy measures used to tackle undeclared economy in FYR Macedonia compared with 31 European countries (continued)

<i>Policy measure</i>	<i>Used in FYR Macedonia</i>	<i>% of 31 European nations using measure</i>
<i>Measures enabling compliance:</i>		
<i>Incentives: curative measures</i>		
		64
Stimulate purchasers to buy declared goods and services		
Service vouchers	✓	26
Targeted direct tax incentives	✓	61
Targeted indirect taxes		17
Stimulate suppliers to formalise		
Society-wide amnesties		9
Individual-level amnesties for voluntary disclosure		17
Formalisation advice to business	✓	30
Formalisation support services to businesses		30
Targeted VAT reductions		17
Free record-keeping software to businesses		13
Fact sheets on record-keeping		22
Free advice/training on record-keeping		22
Gradual formalisation schemes		13
<i>Indirect controls</i>		
		69
Campaigns to inform undeclared workers of risks and costs of working undeclared		61
Campaigns to inform undeclared workers of benefits of formalising their work		57
Campaigns to inform users of undeclared work of the risks and costs		61
Campaigns to inform users of undeclared work of the benefits of declared work	✓	52
Use of normative appeals to people to declare their activities		52
Measures to change perceived fairness of the system		26
Measures to improve procedural justice of the system (i.e., degree to which people believe government has treated them in a respectful, impartial and responsible manner)		17
Measures to improve knowledge of tax, social security and labour law	✓	65
Adoption of commitment rather than compliance approach (e.g., 'responsive regulation')		30
Campaigns to encourage a culture of commitment to declaration		39

Source: Update of Williams et al. (2013a: Table 7)

Table 6 FYR Macedonia 2014 National Action Plan to tackle the undeclared economy: responsible institutions and policy measures

<i>Responsible Institution</i>	<i>Planned actions for 2014</i>
MLSP and the Employment Agency (enabling regular employment):	<ul style="list-style-type: none"> • Measures to improve regulations related to seasonal workers and registered unemployed persons • Subsidising the employment of social benefit recipients and their potential employers • Improving the regulation establishing jurisdiction for determination of undocumented workers by the market inspection and PRO • Support for formalisation of undeclared work by unemployed/unregistered businesses
Ministry of Finance and Public Revenue Office (increasing tax compliance):	<ul style="list-style-type: none"> • National campaign for increasing citizens' tax morale and public awareness of the benefits of paying taxes.
Ministry of Education and Science (youth education):	<ul style="list-style-type: none"> • Educating students in secondary school on the negative effects of undeclared work
State Labour Inspectorate (labour inspections and control):	<ul style="list-style-type: none"> • Strengthening inspection and control on a sectorial basis • Strengthening cooperation between regional inspectors • Publishing a 'Black List' of firms with detected irregularities
Public Revenue Office (tax revenue collection and control):	<ul style="list-style-type: none"> • Detecting taxpayers performing undeclared work (with SLI) • Detecting taxpayers in temporary employment • Detecting undeclared taxable income of individual taxpayers • Implementing and monitoring the fiscal cash registers system
Customs Administration and Ministry of Interior (customs duties collection and control):	<ul style="list-style-type: none"> • Strengthening border control (legal and illegal border passages) and determining customs duties payable • Enhancing control over individuals crossing the borders ('shuttle trade')
Ministry of Economy (incl. State Market Inspectorate, State Inspectorate for Technical Inspection, State Inspectorate for Construction and Urban Development (market regulation):	<ul style="list-style-type: none"> • Strengthening control over undeclared commercial activities at restricted places (green markets, pavements and squares) • Strengthening control over undeclared work in catering and tourism • Strengthening control over concessionaires performing geological research and exploitation of mineral resources • Regionalisation of the State Inspectorate for Technical Inspection • Strengthening control over marketed products in line with the Law on Product Safety and the Law on Construction Products • Strengthening control in relation to consumer rights observance

Source: Non-exhaustive list of measures based on the national Action Plan for the reduction of the grey economy for 2014 (MLSP, 2014)

There is little evidence, moreover, that this is changing. As Table 6 displays, in the most recent *Action Plan for the reduction of the grey economy* (Ministry of Economy, 2013; MLSP, 2014), the focus remains on the use of direct controls for tackling the undeclared economy. Although there is some move towards incentives within the direct controls approach, with for example the MLSP announcing in 2013 that it would implement innovative measures such as measures similar to the Belgian voucher system (ICF and GHK, 2013), the focus remains on direct controls in general and deterrence measures more particularly.

However, there are some signs of recognition that indirect controls which reduce the institutional incongruence between formal and informal institutions can be used to reduce the undeclared economy. The Ministry of Finance and Public Revenue Office has been given responsibility for organising a national campaign for increasing citizens' tax morale and their public awareness of the benefits of paying taxes in a bid to change the values, norms and codes of conduct of informal institutions so as to bring them into line with formal institutions. Nevertheless, the current Action Plan gives little or no explicit attention when tackling the undeclared economy to changing formal institutions in order to promote tax fairness, procedural justice and distributive justice, and there is no explicit recognition that wider economic and social developments may also have a significant impact on the size of the undeclared economy.

5 Conclusions

This paper has evaluated how the undeclared economy is being tackled in FYR Macedonia. Reporting the findings on the extent and nature of the undeclared economy in this country, it is revealed that FYR Macedonia has the largest undeclared economy of all European countries and such work is prevalent across all sectors of the economy and business types.

Examining how the undeclared economy is being tackled, it is revealed that there is currently no single agency with sole responsibility for tackling the undeclared economy. Instead, responsibility for different facets is fragmented across a range of government institutions, although akin to many other transition economies, the labour inspectorate has tended to take lead responsibility. One way forward therefore, is to establish a single agency or central committee to better coordinate the fight against undeclared work in FYR Macedonia.

To analyse the policy approaches and measures adopted in FYR Macedonia, this paper has differentiated between a dominant direct controls approach, which detects and punishes non-compliance and/or provides rewards for those engaging in compliant behaviour and an emergent indirect controls approach, which depicts undeclared to result from the asymmetry between the laws, codes and regulations of formal institutions and the norms, beliefs and values of informal institutions. To tackle the undeclared economy therefore, this seeks to change not only the informal institutions (e.g., using awareness raising campaigns, tax education and normative appeals) but also formal institutions (e.g., by pursuing tax fairness, procedural justice and redistributive justice, and wider economic and social developments), so as to align the formal and informal institutions.

Analysing the policy approaches and measures adopted in FYR Macedonia, this paper has revealed that policy remains entrenched in the pursuit of a direct controls approach in general, and one based on deterrence measures more particularly. Although there is now

a shift towards using incentives to change the cost/benefit ratio, especially through the use of preventative measures, there is little attention being paid to curative measures. More widely, little consideration has so far been given to the policy measures advocated by the indirect controls approach. Although the 2014 Action plan has given responsibility to the Ministry of Finance and Public Revenue Office for organising a national campaign for increasing citizens' tax morale and their public awareness of the benefits of paying taxes in order to seek to change the values, norms and codes of conduct of informal institutions, little or no attention is being paid to changing formal institutions. On the one hand, this involves the implementation of changes to internal processes within formal institutions to improve the perception that there is tax fairness, procedural justice and redistributive justice. On the other hand, it involves changing the products of formal institutions by pursuing wider economic and social developments that engender a greater commitment of citizens to compliance. Previous studies reveal that this would require the creation of a more equal (as measured by the gini-coefficient) society in which there is greater labour market intervention to protect vulnerable groups, higher levels of social protection and more effective redistribution via social transfers (Williams, 2014a).

If this paper therefore encourages greater reflection in both FYR Macedonia and beyond on the range of policy approaches and measures being used when tackling undeclared work, and more particularly on the role that indirect controls measures might play, then it will have achieved its main policy-oriented intention. If it also leads to the wider recognition that it is the asymmetry between the codified laws and regulations of formal institutions and the values, norms and codes of conduct of informal institutions that determines the persistence of an undeclared economy, then it will have achieved its wider scholarly intention.

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