



Corruption and the Informal Economy in Transition Countries: Case Study the Analysis of Enterprises in Kosovo

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Abstract *As a result of the longer transition the Balkan countries are faced with problems of different nature, including the corruption and informality in economy. Theoretical and empirical studies in Kosovo and the region show that there are favorable conditions for the existence and growth of corruption and informality. In our country believed that international institutions as EULEX even though they are called upon to help prevent corruption and informal economy, they as well as the local institutions have disappointed the citizens in a very high percentage. Based on data come up to conclusions that the corrosion and informal economy are rising, and that as a result of long transition in all spheres like the social life, the future of perspective, the impact of economic crisis, then the impact of factors as the external support from international institutions factor as integration and captivity. Thus, the motivation to get into the business of informality and corruption are different, but many officials or businessmen on of the key factor considered the legislation, slow action of justice, competition, administrative burdens on business ethics, and professionalism of human resources.*

Key words:

Corruption,
informality, business
ethics, human
resources

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1. Introduction

Corruption is one of the most challenges of our time, a challenge that can and must to ending. We are aware that corruption, to a large extent or small, is a threat to democratic institutions and fundamental rights, it undermines inhibits development and deepens poverty in the country and beyond. The corruption phenomenon occurs frequently and is prevalent in countries which have problems with the rule of law which characterize the administration especially Eastern European countries. Corruption is present and quite problematic especially for countries undergoing transition periods, as these countries are usually characterized as ineffective in combating this phenomenon which has direct impact on the social, political and economic.

2. Literature review

The informal economy and corruption are two phenomena which are very difficult to definite, because their appreciation changes depending on the time of political and social context. From the aspect of economic transition analysis, our country has gone through a long transitional period could probably be called as the state to which the transition has been the longest compared to other countries in southeast Europe, the consequences of the economic crisis, political, social, were quite large, it was also very

influenced in transition endless (Gjinovci, 2013). According to Komoni (2008), the informal economy otherwise appointed as illegal economy, informal, parallel economy, black market etc. The researches have identified some of the distinguishing characteristics of the informality, the informal economy as part of the national economy that is not subject to tax and legal regulations (AKB, 2012).¹ According to Kadri (2002), informal sector businesses also appear in the formal sector, the paying taxes reduces economic power and social position of tax payers and this negative effect promotes resistance to paying taxes. While Jelcic (1985), to avoid paying taxes on more or less as a phenomenon is present in all systems of human social organization. The dimension of the corruption problem is quite large, as more than 66% of the respondents answered that directly or indirectly offered bribes, (Kushtrim, 2008). According to Gjonça (2004), to fight corruption and put it in controls, it is very easy, just need to diagnose and to take activity to prevent and isolated it. Eigen (2004), the countries in the region have multitude of anti-corruption laws, but they also have judges appointed and beholden to politicians who are selective about the enforcement of these laws, what good are these laws when crooked

¹ Alliance of the Kosovo's Businesses (AKB).

politicians know they will not be applied. Zeneli (2013), the Albanian economy, but the economies of other countries in the region suffer from informality. It is believed that 0-40% goes informality in these countries.² According to data from Global International (2010), the Balkan countries face growing corruption.³

3. The purpose of the study

In this study, is done research in the field of corruption and informal economy in developing countries respectively in transition.

The purpose of this paper is:

- To analyzed the impact of corruption and informal economy in economies in transition,
- To analyze the effects of corruption, and the analyzed the impact of the informal economy in ethical businesses.

Topics addressed in this research may be particularly important for staff who wish to make changes or impact analysis for the economy and corruption in organizations operating in Kosovo market and beyond.

4. Methodology of research

For the preparation of this publication has been used in literature scope of the informal economy and corruption, exploitation of materials collected from the documents and the results of respondents who are involved in this research.

Based on the specifics of this research is the combined use of research methods such as qualitative and quantitative research, which has helped to collect surveys, conducted in the economic operators.

5. Results of the survey

5.1 Corruption in transition

Today the Balkan countries faced with the problem of economic and politic nature. The corruption is present in region before the 1999, which is also present in European Union countries like Greece,⁴ Italy, Romania and the Bulgaria states (the part of EU countries). Even countries like Bosnia and Herzegovina, Serbia, Macedonia, Montenegro, Albania and Kosovo confronted with problems of corruption. Corruption in these countries is part of life; it is ruining the economy and the future of conscious citizens.

² Zeneli V. (2013), The Albanian economy suffers from informality (date 11.06.2013) <http://www.panorama.com.al/2013/03/26/zeneli-ekonomia-shqiptare-vuan-nga-informaliteti/>.

³ Report of international transparency, Global Corruption Barometer 2010, 2010 (date 11.06.2013) <http://www.guardian.co.uk/news/data/blog/2010/dec/09/global-corruption-index-worldwide-transparency-international>.

⁴ http://en.wikipedia.org/wiki/Tax_evasion_and_corruption_in_Greece

5.2 Corruption and its impact on the domestic economy

Kosovo is one of the youngest countries in the Balkans, after the war in the country was installed international administration which had installed a sort of protectorate. The international administration was somewhat delayed in installing mechanisms to prevent corruption, for many years had failed to create a genuine system of justice without hanging. Budget of the Republic of Kosovo for several years was managed by internationals mother pretext that cannot be managed by locals of all this was sensing the de motivation the no corruptions and motivation the corruption officials.⁵ For many years of international administration action called as UNMIK⁶ had affairs after corruption separate investigations, which have affected the motivation of the corrupt individuals and de-motivating people with principles. UNMIK administration had installed prosecutors, judges and police, which consisted of various official member countries of the UN. Slow action or omission of international institutions had led to increased corruption in the country, a phenomenon unknown formally for citizens until after 1999.

Also, the deployment of EULEX phenomenon of corruption was not prevented, despite numerous reports of citizens they had the status remains, unresolved, pending or had ceased investigated. It is believed that the level of corruption in a society is a reflection of the political and security situation and the legal status of the state. More generally, corruption has generally degrading effect on the social system and contemporary. As such, it poses a threat to the stability of the country and beyond. Limits of corruption are as inaccessible as it is the elusive human greed. Acts of corruption related to the violation of legal provisions and professional code of ethics of the employees, in order to obtain illegal property or any interest, right, priority etc.

Corruption characterized for secrecy and discretion in the forms of manifestation. Usually, secrecy is the mechanism that serves to achieve the objectives of organized crime, which is closely associated with money laundering. It turns out that these works include extensive areas, so for a comprehensive action of the thought that these works are difficult to detect, investigate and punish. Another feature is the adaptation of corruption; corruption is a phenomenon that fits in society, regardless of social regulation. Here it is important to note that corruption is present especially in societies in transition, where we are dealing with the transformation of property relations,

⁵ <http://www.unmikonline.org/regulations>.

⁶ United Nations Interim Administration Mission in Kosovo.

population by liberalizing the economy, lack of regulation or legal gaps, etc. Balkan countries face today with transition effects. Passing the Balkan countries of socialist-communist one-party, democratic, pluralistic system in this region has become a land, suitable locations for corruption and criminal activities. Danger to society from corruption manifested, above all, the lack of funds in the state budget, increasing unemployment, increasing citizen's, dissatisfaction with the government of the country not being manifested in trust in political and economic system, the decline of interest in investment by domestic investors and foreign investors, etc. Are not immune to corruption or developed countries, but more suitable ground for the development of corruption are especially developed countries and those in transition and as a result of the weakness of the economic system, political and judiciary. Since the consequences of corruption are multidimensional phenomenon, corruption should be treated as something serious from the region and beyond. Psychological aspects of corruption are more related to the effects of socio-economic differentiation that are not based on personal merits and abilities of people, but from other indicators, such as leading positions in our decision which is often not determined the professional skills of selected leaders, but by other political aspect, social, friendly, clan and tribal. Simply put in a system where corruption by state benefit most those least give father the state in everyday life that they called "listening", thus ignoring and not giving the opportunity human resources/personnel that have professional qualifications and experience in creating management structures affects the slow economy and the consequences for citizens. According to the survey conducted by MSI in 2003, has surveyed the public about the factors that go in favor of corruption. Even according to this survey is the low salary of public officials. Nearly 91% of respondents claimed that this is a potential source of corruption, and other issues the respondents were less pronounced: the lack of control of administration (34%), ineffective judicial system (31%), problems caused by the communist past (30%) and rapid enrichment motivation (30%). According to the UNDP survey of 2004, as primary respondents identified corruption mostly low salaries of officials in the public sector because of corruption (48%), followed by the desire for rapid enrichment of people positions (10%), crises (7%), the inefficiency of the judicial system (6%) and incomplete legislation (5%) etc. Although the problem of corruption is considered as one of the biggest problems that Balkan countries perceived intensity of the respondents to this problem by MSI (2003) differs from one country to another. According to a study conducted in 2002 by SELDI in eight Balkan countries corruption is pervasive as a

problem in Albania (69.4%), Romania (56.9%) and Bosnia and Herzegovina (48.3%) etc.

5.3 Informality in developing countries

Since it is a very complex phenomenon, causes and factors that affect the performance of the informal economy are many. Among the key factors that influence the decision to enter the area of informality: slow operation of law and the justice system and other mechanisms, the low level of control, corruption and macroeconomic instability and destruction of the payment system the former federation. In the expansion and development of the economy and contribute to the high rate of unemployment, falling production and living standards, loss of confidence in the banking system, the large number of displaced persons expelled, lack of labor market.

5.3.1 Reasons for informal economy

In developing/ transition country as our high level of regulation is therefore significantly greater circumference of informality and corruption, hindering the activities manifested in the legal economy and access to non-legal economy. Mismatch with the market economy and the desire for quick enrichment present motive for this economic secret activity.

Excess labor, poor economic development, economic restructuring and slowly social integration, lack of programs and financial support from the European Union, the development of individual businesses or self-financing through bank loans affect high growth economy. This means that, in essence, it comes to economic factors-social nature.

Besides the causes and socio-economic factors, the factors which influence the development of the informal economy are the psychological factors as loss of confidence in law and its economic measures, the presence of high levels of risk in business, personal motives regarding work experience, education level etc. Expansion of the gray economy and provide support unequal conditions of business due to lack of legal provisions, but also the consequence of failure of existing legal provisions. High tax rates, especially in terms of inefficient functioning of the tax administration, provide suitable circumstances for tax evasion, the gray economy. If all these were added to the complexity of the tax system and its frequent changes, it is clear that this is a basis for the development of the informal economy. A disturbing phenomenon for organizations that operate in the formal market is that the numbers of organizations/businesses operate is dealing with the economy growing, why not create real competition from informality. Possess no official statistics on the informal economy but is believed by 40% to 50%. Barriers faced

by the businesses listed as disloyal of concurrence, corruption, informal economy etc. (Abdixhiku, 2007).

6. Conclusion

Success in prevention of corruption and informal in economy, largely depends from the public understanding of the problem and its willingness to participate in these activities. Although not a new phenomenon, subject to corruption draws special attention to citizens. State in accordance with fundamental principles of its legal system, processes and applying policies and coordinated action to prevent corruption and informality, advancing the rule of law, public affairs and management of public property, as well as integrity, transparency and accountability in public institutions.

In order to prevent corruption and informality need to take the following measures:

- a) The creation of independent institutions to prevent corruption,
- b) To improve and strengthen measures to prevent corruption successfully and efficiently, advancing, facilitate and support international cooperation and technical assistance in the fight against corruption, including restitution, confiscation of goods created by corruption,
- c) To strengthen the integrity, responsibility and management of public affairs and public property, to supervise and coordinate the implementation of approved policies,
- d) Expanding the knowledge on prevention of corruption, establishment of cooperation with countries in the region and beyond,
- e) The behavior of national anti-corruption strategy, reducing opportunities for corruption through reforms in economic, political, judicial.

With deliberate prevention of corruption and informality needed to laws and regulations which will be implemented in order investigation and prosecution of corruption, as well as freezing, confiscation of property derived from corruption and return of funds obtained by performing the offenses which would affect singles awareness and wider public officials. Knowledge of prevention of corruption is important for prevention and creating awareness of citizens to strengthen the system of state regulation and the possibilities of prevention. Success depends on the prevention of corruption and political influence that the international literature known as political corruption.

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