

PERC/LO-N Regional project – Tackling taxation, informal economy, and corruption in the Western Balkans – towards better governance and democracy

Kick-off regional meeting

13-14 March 2013, Hotel Hilton, Sofia

REPORT

Participants: in total 66: 34 women and 32 men

The kick-off meeting within the Project “Tackling taxation, informal economy, and corruption in the Western Balkans – towards better governance and democracy” was held on 13-14 March 2013 in Sofia. The meeting marked the beginning of the three-year project (2013-2015), which will be implemented in cooperation with the trade unions from Albania, Bosnia and Herzegovina, Montenegro, Croatia, Macedonia, Serbia, and Kosovo, supported by the Kingdom of Norway, along with the trade union LO Norway, International Trade Unions Confederation Pan European Regional Council, and legal, economic, communications/campaign experts from the following SEE trade unions: BSPSH and KSSH- Albania, KSBiH- Bosnia and Herzegovina, UATUC, NHS and HUS- Croatia, CATUS and UGS Nezavisnost- Serbia, CTUM – Montenegro, SSM, UNASM and KSS – Macedonia, BSPK- Kosovo.

The meeting was organized by the Pan European Regional Council – Regional Office Sarajevo, based on the Plan for the implementation of the project. The co-financer of the meeting was the Friedrich Ebert Stiftung Regional Office Belgrade.

The meeting was attended by the legal, economic, communications/campaign experts, presidents of trade unions from all seven Western Balkan countries, colleagues from CITUB and Podkrepa – Bulgaria, H.E. Ms. Guro Katharina Vikør, Ambassador of the Kingdom of Norway to Bulgaria, project-coordinator Siri Relling, and experts Ellen Baken and Kristian Brustad from LO Norway, ETUI experts Bruno Sergi and Grigor Gradev, external experts Martin Hutsebaut and Krastyo Petkov, Director of FES Regional Office Belgrade, Roland Feicht, and ITUC/PERC Regional Office Sarajevo staff. H.E. Ms. Guro Katharina Vikor – Ambassador of the Kingdom of Norway to Bulgaria; Plamen Dimitrov, President of CITUB – Bulgaria, Grigor Gradev, PERC Executive Secretary; and Roland Feicht, Director of the FES Regional Office Belgrade welcomed the participants and extended their introductory remarks at the beginning of the Conference.

In the introductory part, **Siri Relling** briefly presented the LO Norway trade union and the way in which this new Project on tackling the taxation, informal economy, and corruption was designed. She continued that the previous Project on the pension system reform was evaluated as a success, and that the legal and economic experts, including the trade union leaders recognized in it the matters and topics which should be dealt by the trade unions in the future. These provided the base and orientation for the current project. She pointed out that the project would be implemented at the regional level, and that some activities would be conducted at the national level, and also how important it is that the countries with several trade union organizations agree on the core team of three experts who would take part in the future regional activities. Members of this core team will work closely with other experts from all the organizations operating in their respective countries, and will pass on them the information and coordinate the work of bigger teams at the national level.

Then, **Enisa Salimović**, ITUC PERC Project coordinator presented the entire plan for the Project implementation for years 2013, 2014, and 2015, methodology and future activities.

First thematic session: Problems and challenges in the SEE economies – overview of the situation:

Prof. Bruno Sergi prepared the presentation on the topic “Current challenges and possibilities for changes”. He is at the same time the Mentor of the SEE Trade union Network of Economists. He stated that the members of the Network of economic experts recognized several relevant challenges and problems in the economies of their respective countries, such as: (1) cutting the wages and pensions; (2) increase of inequality and unfairness in the distribution of wealth; (3) rigid conditions of IMF and other international institutions, whereas the governments frequently misuse the assistance obtained from the international financial institutions while pursuing bad national strategies and policies; (4) difficulties in the labor markets and unclear situation as to who is responsible to create new jobs; (5) amendments to the labor legislation reduce the workers’ rights, wages, and basic standards of decent work. B. Sergi presented some data and indicators for the Western Balkan countries about: the annual economic growth, GDP percentage, country ranking for the business benefits, competition index, position about the freedom of economy, data related to VAT, data about fiscal differences and public debt, percentage of unemployment, amounts of monthly income and inequality, poverty index, indicators of corruption, influence of fiscal consolidation on GDP and unemployment, particularly long-term unemployment. He stated the following as a possibility for appropriate changes: (1) harmonization of labor legislation and law against discrimination of the Western Balkan countries with the EU standards; (2) application of appropriate social legislation; (3) regulation of currently unstable and poorly arranged labor market; (4) larger effects of social dialog; (5) free movement of labor within EU market (Croatia soon); (6) investments into the knowledge (one of the possibilities could be internet economy). He stated the following as basic priorities for the EU budget 2014-2020: employment, innovations, effective governance with natural wealth. Enisa Salimović moderated the first session.

Second thematic session: Revisiting taxation policies and systems – priorities for public and trade union interests: Moderator – Siri Relling.

The first presenter within the topic ”Taxation policies from European perspective”, was **Martin Husebaut**. He briefly presented already prepared document, which aims at the assessment of budgetary and taxation policies in Europe from the position of equality, efficiency, and sustainability, including how good governance of taxation matters and combating tax frauds may help in better collection of national revenue. He talked about the objectives of taxation policies; principles of taxation; importance of good governance of budgets and taxation matters; budgetary policies and taxation in EU; revenues and government expenditures; functional classification of general government expenditure; fiscal revenues and their governance; tax structure; taxation of consumption, labor, capital; other tax (on environment, property); and conclusions about the taxation policies in EU.

Presentation about “How does a social state function – Norwegian case”, was presented by **Ellen Baken** from LON. She pointed out that citizens in Norway have trust in system, which is constantly improving, and that there has to be a consensus on all important issues, that the institutions function, that the state regulates taxation policies so as to secure what the citizens need, respecting the equality, fairness, economic and social security.

A member of the SEE TU Network of economic experts **Boris Feis- UATUC Croatia** had a presentation “Good system of taxation and controlling instruments as prerequisite for better governance”, and he talked about the taxes and their role in economy, types of public revenues, tax burden as percentage of GDP, indices of tax rates on income, profit, wealth, social security, tax system in Croatia, fiscal revenues and influence on labor price, fiscal expenditures, informal

economy and tax evasion, financial outflow based on tax evasion, corruption, and crime, laws on tax evasion in Croatia, tax supervision, and measures to prevent tax evasion. He emphasized in the conclusions that the tax system as part of system of public revenues/expenditures has to be such to support economic activities aimed at maximization of sustainable human development. The system of asymmetric pseudo-liberal capitalism, supported by various forms of monetary expansion, aimed at maximization of profit, results also in significant evasion of tax revenues.

Discussions, questions, answers:

Ljubica Nikolić from CTUM – Ellen Baken should clarify how the membership dues are paid in Norway; clarification – dues are deducted from the wages of trade union members;

Kol Nikollaj from KSSH Albania – pointed out that the presentations are very useful, and he was especially interested in the best model of tax system, if it is progressive rate or any other. M. Hutsebaut responded that there is no best model, but rather that the harmonized “flat” taxes are not good, and that it would be better to advocate progressive tax rates.

Zlata Zec from UGS Nezavisnost, Serbia – she found particularly useful the presentations of Ellen Baken and Boris Feis, and she commented on differences between well organized social state, such as Norway, where everything is based on agreement and consensus, and Serbia, where there is no consensus on any issue. She recognized the basic pillars, which serve as foundation for the Norwegian constitutional system and that the balanced system is the best for citizens, given that it at the same time offers and receives, that is, the balanced distribution of burden should be advocated, model of social and societal responsibility, and functioning of all the state institutions.

Fatima Fazlić – KSBiH reacted that they disagree that the only way out lies in the foreign investments, and suggested that we should talk more about the national production, that is, both the national production and foreign investments are equally important.

Third thematic session: Rethinking “informal economy” – evolution of concept and current challenges for SEE trade unions, moderated by Branislav Čanak.

Rajko Kosanović, a member of the SEE TU Network of economic experts, had a presentation “Influence of informal economy on the economic development”. He defined the informal economy, and he talked about the types and causes of informal economy, areas in which it appears, understanding of what “social valve” is, negative effects on the state, employees, citizens, extent, and the mode of assessment of such engagement, masking of informal economy, proposals how to combat this phenomenon, and the role of trade unions in this combat. He said that informal economy is: (1) making profit of unregistered work (illegitimate business entities); (2) unregistered work (unregistered workers who work for the legitimate business entities), and (3) money laundering and financial malpractices (unlawful transactions, tax evasion, etc.). He presented some data about Serbia: more than 700,000 to 800,000 workers work in “grey economy”; grey economy makes 35 to 40% GDP; it is believed that the budgets suffer the damage of around three to four billion euro annually; the annual turnover in “grey economy” is up to 10 billion euro.

Grigor Gradev: the projects related to informal economy have been earlier also implemented (e.g. project of ITUC – FNV), but the situation is still worrying; this phenomenon spreads in all countries and it significantly affects their economies; various models of informal economy are developed; it was believed that it was a temporary transitional phenomenon and that everything would be regulated in time; but this turns to be the most dynamic part of the market economy. From a survival strategy it has developed various forms including these that resemble a business model for maximising profits of both employers and workers. The international financial

institutions understood the extent of this problem, how it spreads and the World bank had practically recognized the strategic importance of this challenge. OECD stated in a report that it is their assessment that nearly two-third of the global workforce can be engaged in such economic activities in the future. It is important for trade unions to engage in these matters, design their own policies to combat informal economy, yet it remains the issue as to who are the workers engaged in the different patterns of shadow economic activities, where they are, what are their interests, and how to work with them.

Discussion: several participants took the floor on this topic and they mainly talked about this problem related to the states, economies, citizens, and trade unions which have to analyze the current situation, propose relevant legal solutions, seek better functioning of controlling mechanisms, pursue trade unions actions and campaigns (on national and regional level) against informal economy, etc. They hope that this project would contribute to a more successful combat of trade unions against the epidemic informal economy.

Fourth thematic session: The challenge of “corruption” – focus/governance problems/TU policy impact / moderator Martin Hutsbaut.

In the introduction, **Grigor Gradev** talked about the problem of corruption, present in all the Western Balkan countries and the need to differentiate various patterns particularly bribery from state capture. Different forms require different policies, instruments and institutional/public support. This is now the problem of governance and developing model. The problem of informal economy is very much related to the corruption, to power networks of combined political/business interests leading to huge loss of revenues, the poverty increase, including the dissatisfaction and mistrust of citizens to the system. Bulgaria is a typical example for which people say not only that there is mafia, but rather that mafia has its state.

Krastyo Petkov had a presentation under the title “Living in corrupted state – what criminal transition brought – Bulgarian case”, and he stated three phases of corruption in Bulgaria: (1) identification after 1990; (2) influence after 1998, when CARD and Transparency International published their reports; (3) policies and measures since 2007, after joining EU. Then, he introduced the indices of perception of corruption in Bulgaria and other EU states, including the SEE states, pressure of corruption and presence, distribution of share of corruption in total transactions, especially the data for Bulgaria, negative effects, conclusions, and topics for consideration of trade unions. One of the basic observations: pursuing economic and social reforms based on neo-liberal model of transition is a key generator of development of corruption and negative effects of these reforms. He stated the following as key negative effects of corruption: low influx of revenues (paying “under the desk” and poverty generate the development of corruption); bad privatization and deregulation; growing crime (the state is corrupted by mafia groups, whereas state institutions, legislative authorities and elite in power are drawn into the corrupt networks). Petkov offered some topics for consideration for trade unions: trade unions are not strong enough to combat the corruption alone; it is not enough to criticize; passive attitude of the tactic of loser; making alliance with civil society in combating corruption could have positive outcome; in case of Bulgaria, the overall change of system would be necessary to destroy the criminal networks.

Discussion: *Branislav Čanak* – UGS Nezavisnost Serbia, *Slobodan Antovski* – UNASM Macedonia, *Ismet Bajramović* – KSBiH, *Arjola Alika* – BSPSH Albania, *Rajko Kosanović* – CATUS Serbia. They all presented examples and agreed that their countries face corruption, which is complicated and deeper than originally considered (psychologically, sociologically, culturally...). This problem existed also before, but it quickly spread during the bad concept of

privatization in Western Balkan countries, and it is often connected with political elite and some circles – corrupted networks. It is often present in the area of public procurement.

Fifth thematic session: Building proper communication policies / Moderator Ellen Baken.

Kristian Brustad, an expert for communications in LON, had a presentation, and he primarily talked about the strategy of communications and the need to prepare it correctly. He added that it does not suffice to make actions, but to present them properly. He emphasized the importance of well designed use of media, including that this project and its implementation, positions and proposals by trade unions have to be well presented with their arguments so that the citizens can understand them well; that we have to attract emotions and reactions of the public about the matters of tax policies, informal economy, and corruption. It is also important that we know our objectives, dangers on the way which can result in the failure of our ideas and how to avoid them; the trade unions have to harmonize their interests at the national level, and as such present them in media. He presented the model of communication in LON, and he will give his professional assistance to the experts in this project, so that they can successfully monitor and present the trade unions strategies and policies about these matters to the public.

Discussion: *Gezim Kalaja* – BSPSH Albania and *Mimoza Vujošević* – UNASM Macedonia asked the question about the use of public broadcasting service, which in the Western Balkan countries serve the political structures in power; *Lejla Čaušević* – Sučeska from KSBiH emphasized the importance of use of media, that there were other projects about this too, but also that the media was not used sufficiently; she added that this should be well planned in this project and subsequently use the media. *Kol Nikollaj* – KSSH Albania stated that trade unions in Albania can hardly get any media space in Albania, and also that they had a situation when they were the breaking news. Given that the trade union capacities are currently weak, this project should help the experts improve their skills for better presentation in media, and perhaps establish within trade unions the Public relations department. *Ana Miličević* – Pezelj from CATUS Croatia emphasized the importance of the existing bilateral cooperation with LON – project in her organization supported by LON, thanks to which they developed their capacities for good communication (they modernized the SSSH web page), and also that it is crucial for trade unions to have a good communications with their members.

CONCLUSIONS: the priority areas for trade unions, the most important issues and activities – regional and national specifics, future steps:

Several participants of the Sofia meeting (*Živko Mitrevski* – SSM Macedonia, *Ismet Bajramović* – KSBiH, *Goran Veskov* – KSS Macedonia, *Miroslav Brzica* – HUS Croatia, *Vladan Obradović* – CATUS Serbia, *Zlata Zec* – UGS Nezavisnost Serbia, *Biljana Cklamovska* – UNASM Macedonia, *Fatima Fazlić* – KSBiH, *Dafina Mehaj* – BSPK Kosovo, *Gezim Kalaja* – BSPSH Albania, had their final remarks, and we can arrive at the following conclusions from their remarks:

1. Western Balkan trade unions would like to thank the Kingdom of Norway government and LO Norway for the projects of support, and they acknowledge the implementation of this project, methodology which already gave good results (based on previous project related to pension system reforms in the Western Balkan countries), and they recognize a good selection of topics for each of the three project segments. They would also like to thank Foundation Friedrich Ebert for their support;

2. The matters of tax policies, informal economy, and corruption are very important for trade unions; these are the problems which slow any progress of the countries in the region, and they will be on the lists of the trade unions priorities during this three-year project period, but also after the completion of the project;
3. Trade unions from the countries participating in the Project and their experts will during the implementation of the project cooperate within their respective national teams, exchange information and give joint proposals in reference to certain issues, and they will also agree on the composition of the core national teams consisting of one legal, one economic, and one expert for communication/campaign, and they will provide the ITUC/PERC Sarajevo Office with their names no later than the end March 2013;

Report prepared by:

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