**The Potential Of Corruption In The 3T (Infront-Outermost-Developed) Regional Undergorund Economy Activities**

**Abstract.**

Underground economy activity is a phenomenon that requires specific and continuous consideration, especially in deciding the willingness of this economic activity to minimize, monitor and avoid phenomena that are counterproductive to regional income. The goal of this analysis is to recognize and analyze the practices of the underground economy, the capacity for corrupt activity and tax evasion. The analysis tool used is a qualitative phenomenological method with a purposefully select approach to the identification of knowledge sources (informants) with subjects such as liquor producers, "pangku" coffee shops, street food vendors in the 3T area ( infront-outermost-developed ) the region of Bengkayang. The data collection method was carried out using a triangulation approach, namely an in-depth interview, observation and recording/documentation. The data analysis approach was conducted by means of data reduction, data presentation and verification. The findings of this study suggest that the presence of corrupt activity in the form of collecting bribes and offering bribes is carried out in cash without going through an automated money processing mechanism by giving false receipts. Growing the amount of corruption will contribute to an increase in the velocity of money in society. The need for massive surveillance of individuals and the introduction of pentahelix elements to shape synergies between actors and to start integrating and developing electronic/digital structures in any financial activity using the e-government system. The findings of this research cannot be generalized since each region has different culture and customs characteristics.

**Keywords:** underground economy; qualitative phenomenological method; corruptive behavior; tax evasion; pentahelix

[**JEL Classification**](https://www.aeaweb.org/econlit/jelCodes.php?view=econlit) : E26, E61, H27, J30, O17, O38, O43

**INTRODUCTION**

National income is one of the benchmarks for the country's economic performance. Through the correct calculation of national income, it is hoped that it will be able to contribute to society, and is connected to which sectors contribute to the development of society and which sectors need to be strengthened in order to support the development of that sector. Underground economic practices are an important part of numerous countries, both developed and emerging. Economic operations are carried out both lawfully and unlawfully, which are not detected in the calculation of national income/GDP (Schneider & Hametner, 2014).

The findings of Feige (1990) study of the underground economy are classified into four groups: (1) the illegal economy: commercial activity that breaks laws such as the selling of stolen goods, slavery, smuggling, bribery, trafficking and drugs, (2) the unreported economy: Failure to disclose income to the tax authority concerned, (3) an unrecorded economy: lack of statistical evidence on income for the government and (4) an informal economy: commercial actors that receive income without a business license, a job arrangement and a loan from an official financial institution (Azwar & Mulyawan, 2017). Measuring the level of the underground economy is not an easy assignment with a challenging level of precision. Optimal fiscal policy related to tax collection and administration needs to be more positive and pro-economic actors so that they can become registered business actors and contribute to GDP that can improve the income tax subsidies policy of the SME ( Small Medium Enterprises ) industry (Asaminew, 2010). Underground economic activity is an enterprise that produces revenue beyond the knowledge of the tax authority with a view to tax evasion, and involves the informal sector and the black market, which is commonly referred to as the illegal market, and there has to be a separate approach in its execution since the two markets have different consequences.

The parallel market was created as a result of too rigid government controls and prohibitions on products entering the market. The unregulated sector market in terms of revenue is illegal with the lawful allocation of sales and market share, while the production and distribution of products on the black market is illegal and is in violation of state law. Informal sector descriptions include small business units, self-employed employees, unregistered enterprises, access to minimum credit facilities and positions in border and peripheral regions (Faal, 2003).

According to Lofchie (1989) in Wardiyanto (2009), tax management policies frequently fail (unsuccessful implementation), problems often emerge due to the poor expertise of professionals, bureaucrats and civil servants in tax matters and the indiscipline of business players, mistrust of state agencies, the existence of disputes between government workers and the dominant group and the indiscipline of government officials themselves in the execution of the promises they have created (Pravasanti, 2018).

The findings of the research conducted by Blanchard (2006) explain that the approach of raising tax rates is intended to raise the amount of government revenue, but this move will lead to future tax deviations, so that there is a disincentive to the population in carrying out economic activities; on the other hand, increasing tax rates will enable people to enter the underground economy (Azwar & Mulyawan, 2017). Increased underground economic growth will cause problems with poor fiscal decentralization policies and low wages due to knowledge of paying low taxes, particularly growing regional economic growth per district (Kanao et al., 2010). The stereotype of the general population against performers in the underground economy gives the perception that they are slum, filthy, disorderly, and the place they occupy is an irregular and well-ordered trade facility that also dominates some public spaces, making these business actors feel unorganized, pleasant street vendors in particular (Schneider, 2014).

On the labor side, the constraints on jobs have caused this economic field to continue to grow and to become the option of underground economic players whose only aim is to survive. This characterizes the underground economy market, namely the relatively limited size of operation, local resource reliance, time and space versatility and relatively simple accessibility (Herlina wa ode, 2015). This characterizes the underground economy segment, namely the relatively limited size of operation, local resource reliance, time and location versatility and relatively simple accessibility (Tanzi & Fund, 2014). There is a positive connection between the degree of corruption and the actions of underground economic players, as shown by the amount of money in circulation in a limited context (currency) as seen from a monetary point of view, the circulation of currency that cannot be calculated against the measurement of GDP can be counterproductive to state and regional revenues, this needs to be the object of concern central and state governments, too. The complex bureaucratic pressure makes underground economic players choose alternate routes in all areas and seek security to keep their company going (Ouédraogo, 2017).

To date, the activities of underground economic actors in Indonesia have not been clearly established and specified, it is important to carry out a continuous analysis in order to devise policies that are applicable to the circumstances that respond to the conditions of economic actors in each area of Indonesia. Economists in Indonesia have taken a range of estimates and approaches to strengthen their measurements in calculating the growth of these economic players, with the goal of contributing to the mechanism of state/regional development.

The estimated findings using the consumption-rate growth indicator that is higher than economic growth, with an approximate outcome of 40% of GDP, show that there are corporate practices that do not pay taxes, dishonest actions or hidden business that do not make a meaningful contribution to GDP (Nizar, 2015). The findings of the research carried out by Faal (2003) from a monetary approach have clarified that the importance of the underground economy in Guyana from 1964 to 2000 with a rate of change in the tax burden could change the market for currency by introducing a major tax component. Estimates indicate that the scale of the underground economy in Guyana during that time was 54.06 per cent of GDP and the approximate total tax opportunity value of 19.58 per cent of GDP, the higher the amount of underground economic activity, the higher the potential for tax losses on average GDP. Measurement of the scale of the underground economy gives rise to demand for variable currency-M1 (monetary money) as a result of the implementation of Tanzi's standard model of demand for money (Samuda, 2016). Theoretically, the bank interest rate would have a negative effect on the demand for money, which means that if there is a decline in the amount of demand for money, the public chooses to save money in the form of a deposit (Kristianto, 2019). However, it is different whether the society chooses to rotate money for commercial activities rather than save in the form of investments under the basis that the return of the benefits is greater if the funds are used for business, even though the interest rate of the deposit rises (Furuoka & Munir, 2014).

The aim of the study is to define and analyze the practices of the underground economy as well as the capacity for corrupt activity using a social group approach. Several cases of corruption that occurred in West Kalimantan on a provincial basis continued to rise from 2006 to 7 cases and from 2020 to 16 cases (Korupsi, 2019). This analysis utilizes a qualitative phenomenological approach to analyze the findings of research on contributions to local government policies. With a geographical scale, the border area of the 3T (infront-outermost-developed) Bengkayang region is the border area of Indonesia-Malaysia.

**RESEARCH METHOD**

Research was conducted in Bengkayang, Bengkayang District, Bengkayang Regency, West Kalimantan Province, with spatial management conditions that were not optimal and business actors were still conservative, particularly those who did not have business permits and did not know the benefits of taxes for regional growth. The state of economic actors who still lack oversight and are still paying fees with undefined benefits (extortion). This research uses a qualitative phenomenological approach, a technique that attempts to explain phenomena what research participants perceive holistically in a descriptive relational form that is achieved spontaneously. This study closely tracks the actions, incidents, processes of individuals/groups in the conduct of their business. This research carefully tracks the actions, incidents, processes of individuals/groups in the conduct of their business. The data collection method was carried out by triangulation, which involves in-depth interviews, direct observation and documentation. This data was gathered by researchers from informant sources who deliberately did not publish their names (Table 1), using a purposefully select, methodology in which researchers identified places and individuals/groups intentionally and intentionally, including (legal and illegal) street vendors, coffee shops and manufacturers, liqueur with 8 informants (Creswell, 2014).

**Table 1. Research Informants**

|  |  |  |
| --- | --- | --- |
| Name | Type of Business | Location |
| A1 | Coffee Shop 1 | Bengkayang market traditional |
| A2 | Coffee Shop 2 | Bengkayang market traditional |
| A3 | Street Vendor 1 | Bengkayang market traditional |
| A4 | Street Vendor 2 | Bengkayang market traditional |
| A5 | Liquor producer 1 | Bengkayang market traditional |
| A6 | Liquor producer 2 | Bengkayang market traditional |
| A7 | Grocery Store 1 | Bengkayang market traditional |
| A8 | Grocery Store 2 | Bengkayang market traditional |

Note : Name does not match identity

Source: Processed data (2021)

The data analysis methodology was carried out in a three-stage descriptive narrative, namely: data reduction, data presentation and data verification to draw conclusions (Miles et al., 2014). The steps of the data processing can be seen in the picture below:

|  |
| --- |
|  |

 **Figure 1. Analysis of results by Miles and Huberman**

**RESULT AND DISCUSSION**

Qualitative research is performed to understand the role of the underground economy in the regional economy of the 3T (infront-outermost-developed) area. Underground economy itself is all types of economic activity which are not registered and do not contribute to the creation of a gross national product (Badulescu, 2011). The underground economy itself can be divided into four sectors, namely the criminal economy, the unreported economy, the unrecorded economy and the informal economy. Illegal economy is an economic activity that breaches or violates applicable legal rules, then the unreported economy is an economic activity where the money received is not disclosed to the tax authorities, and the unrecorded economy is an economic activity that is not reported to the tax authorities it should be registered, but not recorded, in government figures, as well as in the informal economy, where economic players, for the most part, do not have official approval from the authorities (Feige, 1990).

In connection with the role of the underground economy in the regional economy of the 3T region, this study conducted interviews with actors in the underground economy, consisting of grocery stores, street vendors, coffee shops and alcohol vendors, portrayed by two business actors. The findings of the interviews revealed that most of the informants explained that the reason for starting a company was to make a profit, which meant that the group ran a grocery store, street stalls, coffee shops and liquor sellers with the intention of putting the ends together.

The findings of the interviews suggested that the majority of the informants explained that the reason for starting a company was to make a profit, indicating that the group ran a grocery store, street stalls, coffee shops and beer vendors with the intention of putting the ends together. The findings of the report further explained that the operating hours enforced also met the regulations in place. That is, more than 8 working hours a day. This describes that a company run by the informant is a business that does not conform with the relevant legislation, in particular with respect to predetermined working hours. This describes that a business owned by the informant is a business that does not conform with the applicable regulations, in particular with respect to predetermined working hours. With respect to business licences, each informant clarified that all grocery store business owners, street sellers, coffee shops and beer vendors do not have NPWP or social security. There were several explanations put forward by the informants for not providing an NPWP and social security for their company, as explained by the following traders in the grocery store:

*“Tidak ada sosialisasi masalah NPWP dan ijin usaha dari pemerintah – perlu adanya sosialaisasi terkait NPWP dan Ijin Usaha serta manfaat dr pajak tersebut dan pemahaman mengenai NPWP” (Grocery store 1).*

The next explanation is because you don't feel the need to feel the effect of getting an NPWP on your company, so you don't feel the need to have an NPWP, as described in the following sentence.

*“NPWP dirasa tidak perlu atau dibutuhkan, karena tidak ada manfaat dan selama ini merasa usaha melanggar hukum, usaha tidak tetap” (Grocery store 2).*

*“NPWP Tidak begitu penting dan bermanfaat” (Street Vendor 1).*

*“NPWP dan ijin usaha tidak diperlukan karena merasa usaha kecil dan tidak diperhitungkan, merupakan usaha sampingan apparat dan anggota dewan” (Coffee shop 1).*

Another explanation why business actors have indicated that they do not wish to have an NPWP is the complex and long-standing bureaucracy. This was mentioned by one of the following business actors.

*“Ijin usaha tidak ada karena dirasa rumit dan birokrasi dalam pengurusan panjang” (Coffee shop 2).*

For business performers, having an NPWP in the name of the business they operate is one of the elements that means that the business they run may be said to be a legitimate business. There is a requirement, however, that there is no socialization of the value of NPWP for enterprises, so that business actors find it difficult to receive NPWP and deem NPWP not necessary to provide reasons for business actors to stay in the underground economy.

This is also reflected in the research by Rothenberg (2016) who conducted research on the informal economy sector in Indonesia, that market actors in the informal sector or the underground economy will live in an illegal position because they do not experience any loss due to the illegal status of their companies. Fundamentally, the underground economy carried out by these local entrepreneurs will become a drain on the regional economy as well as on the national economy (Montenegro, 2010).

Entrepreneurs in the underground economy do not have the resources or adequate expertise to legitimately record their business with the tax authorities, so this has a detrimental effect on state tax revenues, which may have the ability to be collected but which cannot be collected due to the lack of NPWP and consistent documentation on the business of the underground economy business owners (Williams, 2015).

This is also explained by Rothenberg et al (2016) that the presence of unregulated entrepreneurs who are also part of the underground economy may have a negative effect on tax revenue, business dynamics and competitiveness. As far the economic contribution is concerned, according to the study informant's admission, these underground economy entrepreneurs are liable to be able to run their companies. The fee in question is in the form of a cleaning fee and a protection fee (Williams & Horodnic, 2017).

*“Adapun iuran yang di beri adalah iuran sukarela, tanpa adanya paksaan dari pihak Yang bersangkutan, Dan iuran yang diberikan diperuntukkan pribadi bukan untuk dinas, biasa pelaku usaha memberikan uang keamanan berkisar 200-300 ribu per orang. Pemberian iuran tersebut setiap bulan dimana pihak keamanan yang datang berkisar dua sampai tiga orang” (Coffee shop 1).*

*“Manfaat membayar uang keamanan jika ada Razia sudah terlebih dahulu diberikan informasi dari pihak oknum” (Coffee shop 2).*

*“Jika ada razia ada pemberitahuan dari oknum apparat, iuran masuk pribadi bukan ke instansi” (Liquor producer 2).*

Qualitative research is performed to understand the role of the underground economy in the regional economy of the 3T ( infront-outermost-developed ) zone. Underground economy itself is all types of economic activity which are not registered and do not contribute to the creation of a gross national produc Less contribution to the regional economy, so that people use it for personal benefit (Strapuc & Hlaciuc, 2019). If we pay attention to the market situations of underground economic actors in the midst of economic hardships created by the Covid-19 pandemic, it indicates that business actors can still thrive, although in other circumstances many large-scale and legitimate business actors have suffered deficits. This is stated in the following statement.

*“Selama wabah menggalami penurunan sepi pembeli, harga bahan baku naik dari supplier dan harga jual tetap” (Street vendor 1).*

*“Pelaku usaha warkop ini juga menjual miras secara sembunyi, pembelian barang dari daerah perbatasan dan juga menerima pesanan untuk pelanggan yang perlu minuman keras lain” (Coffee shop 2).*

*“Seminggu bikin arak 2 kali tergantung permintaan, seminggu 200-300 kilo harga jual 25 ribu” (Liquor producer 1).*

On the basis of this argument, it can be clarified that underground economic operators are still able to survive to operate a company in spite of the tough economic circumstances created by the Covid-19 pandemic. Overall, the findings of the qualitative study suggest that the underground economy industry actors have the ability to be able to contribute tax revenue when the business they are doing is reported with the tax authorities and has an NPWP to help the regional economy of the 3T districts, one of which is Bengkayang Regency.

This confirms the findings of research conducted by Rasbin (2013) that during the period 2001 to 2013, the underground economy accounted for 8.33% of Indonesia's GDP per cent. The scope for tax losses is also very high, exceeding 1% of Indonesia's average quarterly GDP.

**Table 2. Informans Profile**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **A1** | **A2** | **A3** | **A4** | **A5** | **A6** | **A7** | **A8** |
| **Education** | SMP | SMP | SMP | SMP | SMA | SMA | SMA | SMA |
| **wage** | < UMR | < UMR | < UMR | < UMR | < UMR | < UMR | < UMR | < UMR |
| **Employee Social Security** | No | No | No | No | No | No | No | No |
| **working hours** | > 8 hours | > 8 hours | > 8 hours | > 8 hours | > 8 hours | > 8 hours | > 8 hours | > 8 hours |
| **NPWP** | No | No | No | No | No | No | No | No |
| **Business license** | No | No | No | No | No | No | No | No |
| **Retribution** | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Source: processing the data from the observation data collection

**Note:** The educational attainment profile of informants is high school, the wages charged to workers are lower than the minimum wage, there is no social security facility for employees, normal working hours are more than 8 hours a day, dosen’t have NPWP number and business licenses and the business is not registered in Bengkayang local government, the monthly levy consists of cleanliness and protection.

**Table 3. Data on information relating to taxes and licenses**

|  |  |  |
| --- | --- | --- |
|  | **Retribution** | **Taxes / License** |
| **A1** | There is no change in the payment of the garbage/cleaning revenge, just pay, the shop area is always filthy. NPWP is not that essential, vengeance is a formality. | There is no socialization on the topic of NPWP and government business licenses-there is a need for socialization related to NPWP and Business Permits, as well as the advantages of these taxes and the awareness of NPWP. |
| **A2** | Overlapping the payment of dues, certain economic actors are exempt from paying payments relative to all economic actors. | Npwp is found needless or required, since there is little profit because however far it appears like the company is in violation of the legislation, the business is not permanent (moving) |
| **A3** | Support payments from officers as defense money | NPWP According to the individual involved, not so necessary and useful |
| **A4** | Food sector players are distinguished from coffee shops, with a 10% contribution from turnover. | NPWP According to him, not so essential and useful |
| **A5** | The fees charged are voluntary donations, without pressure from the group involved, and the fees paid are meant for personal use, not for official purposes. Company operators typically have security money of between 200 and 300 thousand per person. The commitment is made every month where the security forces coming in are between two and three people. | NPWP and business licenses are not necessary because they believe that small companies that are not taken into account are side enterprises of officials and members of the board of directors. |
| **A6** | The advantage of paying protection money in the case of a raid is already given details from the unscrupulous. | Company licenses do not exist because they sound cumbersome and bureaucratic in the administration of Long. |
| **A7** | Support payments from officers as defense money | NPWP According to him, not so essential and useful |
| **A8** | When there is a raid there is a notice from the apparatus, the payments will go to the Agency directly, not to the Agency. | NPWP According to him, not so essential and useful |

**CONCLUSION AND SUGGESTION**

This research concluded that the operation of the underground economy is the sum of possible acts of corruption happening within entities and the amount of income tax raised. Increasing the number of acts of corruption within the organization may lead to an increase in the supply of money as a result of the financing of the deficit as a result of corruption. In reference, an increase in the amount of income tax collected can also increase the amount of revenue collected. In Indonesia, corruption has risen last year, as has the volume of income tax collected. As a result, the money supply, which is the volume of cash owned by the public and the demand for deposits in the rupiah currency, has risen. The rise in capital owned by the government means that there is an increase in the amount of money available to the community to carry out business operations, be it the official economy or the underground economy. The need to introduce a digitally interconnected structure between government departments and authorities relevant to payment transactions, including through the payment of levies, fees, business transactions and the introduction of e-government So that public access to governance is more available under the oversight of a special government performance management institution focused on transparency, responsibility, acceleration, responsiveness and openness (Hari Kristianto et al., 2020).

This is aimed at mitigating claims of alleged bribery, corruption and criminal abuse with the help of security services who are clean and part of the society. As far as the underground economy is concerned, the findings of the study suggest that the underground economy business owners do not have an NPWP, which means that the business they run is not licensed with the tax authority and imposes a burden on local government tax revenues. The reasons that business actors do not have to legally register a business are that they do not have expertise, do not believe that it is necessary, and the complex regulation of legality by the tax authority. As a result, underdeveloped regions that should have the ability to collect profits from underground commercial operations carried out by business actors have become a burden. It is therefore necessary for local governments to urgently collect data and implement programs to enable underground economic players to legally run the economy and participate in official economic activities. In this way, 3T regional tax revenue will rise and promote regional economic development. Socialization, assistance and preparation of the population on an ongoing basis on important knowledge to promote regional development are important.

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