

PILOT RESEARCH OF THE LEVEL INFORMAL ECONOMY IN TOURISM SECTOR OF FEDERATION OF BOSNIA AND HERZEGOVINA

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Abstract

Tourism as an industry is a multilayered system within a national economy. Therefore, it is important to find out how this activity contributes to social development. This paper presents a pilot study of informal economic activity in the tourism sector for the Federation of Bosnia and Herzegovina through desktop research and comparison of official accommodation data and data availability via the Booking.com web site. Research *methodology* for the investigation of the informal sector, was conducted on desk-based techniques. Available online services and accommodation capacity such as Booking.com were compared with official data and accommodation addresses that we receive from the official Tourist office in the Federation of Bosnia and Herzegovina. Therefore, the *purpose* of this paper is to explore two most important tourist destinations in the Federation of Bosnia and Herzegovina with the higher number of tourist visits (Sarajevo and Herzegovina-Neretva Canton). The most important findings of this research are the estimation of unrecorded capacities in the tourism sector for those two most important tourism destinations in the Federation of Bosnia and Herzegovina. Research *findings* showed a significant difference in percentages in unregistered capacities compared to the registered capacities in the two tested counties in the Federation of Bosnia and Herzegovina, Sarajevo and Herzegovina-Neretva Canton. As well, there are significant differences between these two counties that confirmed the hypothesis. This comprehensive deep desk-based research that resulted in a significant number of non-registered capacities and addresses can *contribute* to the Federal government as next steps of the inspection bodies.

Keywords public policy, tourist destinations, informal economy, Booking.com, comparative analysis

1. INTRODUCTION

Unregistered economic activity has a significant impact on economic growth and development, as well in the area of public finances and trends in the labour market. Economic literature defines various terms and definitions to describe the phenomenon of informal or "grey" economy. Some economic theorists use other terms such as: unreported or unregistered economy. Generally, most definitions agree that the unofficial economy consists of all unregistered economic activities, and represents a deviation in official estimates of GDP (Smith, 1994). The first debate on the grey economy starts in a study on the tax evasion of income (Allingham and Sandmo, 1972, 327.). Although the concepts of grey economy and tax evasion are not synonyms, most activities in the "grey zone" involve direct or indirect tax evasion. The economic theory further explains that the unofficial economy can have direct and indirect effects. Direct effects are visible through

the reduction of the volume of collecting taxes from economic entities. Indirect effects are manifested in the reduction possibility of official statistics to accurately measure the level of economic activity. However the grey economy can significantly affect the credibility of structure in national accounts and macroeconomic indicators, which is particularly significant in comparative analyses at the international level. This paper presents a pilot study of informal economic activity in the tourism sector in the Federation of B&H using desktop research and a comparison of official indicators and offering capacity through the online platform Booking.com. Therefore, the aim of this paper is to show level of unregistered beds in the examples of two cantons (The Herzegovina-Neretva Canton and Sarajevo Canton). This two canton has the highest number of tourist visits over the year.

2. THE ISSUE OF INFORMAL ECONOMY IN TOURISM

For decades, researchers in the tourism sector tried to examine issues that were mainly focused on a formal economy. Workers in the informal tourism sector are unemployed or temporarily employed, with less level of contribution to local revenues. However, literature has found that informal enterprises contribute to economic development through the ability to attract a large amount of workforce. It is assumed that the informal sector directly deals with the need of a poorer layer to increase the level of its income by providing a solution to the inaccessibility of formal employment and low salaries (Timothy & Wall, 1997, 331). Tourism offers three employment opportunities: direct, indirect and induced (Frenchtling, 1994b, 377). Direct employment in tourism refers to jobs created by companies such as tourist accommodation, travel agencies, tour operators, transport companies, catering facilities. Indirect employment refers to jobs offered by companies that are closely related to tourism companies, such as companies that supply and produce goods and services to tourists and residents in destinations: stores, construction companies, hotel furniture hotels, etc. Tourism is considered as important tool, to offer more employment opportunities, including marginalized and difficult-to-employ labor categories, adolescents or graduates, lower skilled labor, etc. Tourism is considered a labor-intensive industry since relies to human capital (generally lower educational structure) (McIntosh, Goeldner & Ritchie, 1995). The development of tourism has led to the creation of skilled and less skilled jobs in developed and developing countries. However, increasing employment is one of the most important indicators of the social impact of tourism.

3. RESEARCH GOAL

According to the previously set problem to this research, the following objectives have been detected:

Make an estimation of the level informal sector in tourism based on the accommodation capacity. Estimate of the level informal sector exploring what is utilization rate in Sarajevo and Herzegovina-Neretva Canton (accommodation) by researching the online tourist platform Booking.com and comparing data with official registered data.

This kind of estimation pilot research, since there is no general accepted methodology in the economic science for estimation the size of the informal sector in the tourism sector. It is known that the role of social media increasing. However, it is still unclear what is the difference is in the number of capacities on social networks and those officially registered.

Determine whether there are significant differences in the percentage of undeclared capacity in the two cantons analyzed by the Booking.com platform.

In case there is a significant difference between the numbers of reported capacities between the two selected cantons, it will be trying to determine what approximately the difference is.

4. RESEARCH METHODOLOGY

- overview of relevant documents and literature;
- desk-based overview and analysis of secondary data sources;
- comparison and overview of all relevant data related to the sector for the Herzegovina-Neretva and Sarajevo counties
- program consultation with key stakeholders in the process of preparation and development of research

In order to choose proper methodology for estimate the level of informal activity in the tourist industry, consultative activities with Tourism Associations in Federation B&H are done. Namely, this institution has given us data with all registered, official data related to the register of all objects with permission to conduct a tourism activity and performed categorization. The obligation of the classification and labelling of accommodation facilities with stars refers to the following categories of accommodation:

1. Hotel heritage,
2. Hotel,
3. Aparthotel,
4. Tourist resort,
5. Tourist apartments,
6. Motel
7. Pension.

Mandatory classification on classification and categorization of facilities in which catering establishments are provided in the household, Article 4 defines the objects:

1. Room in the household,
2. Apartment in the household,
3. Studio apartment in the household,
4. House for rest in the household,
5. Camping in the household

Mandatory classification, minimum conditions and categories of camps from the group Camps and other types of catering facilities for accommodation by Article 5 define that:

In the CAMPS defined by the Rules, the following accommodation units shall be located:

A) Basic accommodation units in which guests can benefit from camping services:

1. Camping place,
2. Camping lot.

B) Accommodation units in buildings (in a cottage in a camp, in a bungalow or similar):

1. Room,
2. Studio apartment,
3. Apartment,
4. Sleeping room,
5. Bedroom.

5. THE ROLE OF INFORMATION AND COMMUNICATION TECHNOLOGIES (ICT) IN TOURISM

Information and communication technologies affect the entire society. What is particularly important for this research the impact on the tourism sector and the behavior of tourists ICT increasing every day. ICT sector has become a significant support to business processes in tourism and hospitality. During the early 1960s, tourism reservation systems began to evolve into online and mobile-based reservation systems by developing Internet. The use of reservation systems is one of the forms of electronic business that speeds up business processes in tourism and service activities, and large hotel chains used the first. The importance of reservation systems is reflected in the fact that they appear as online database systems that enable tourism organizations, hotel companies and chains and catering facilities to better manage their capacities and their greater availability through different distribution channels. The Eurostat confirms that the Internet is one of the main communication channels for the tourism sector (Eurostat, 2016). This means that it is very important for Bosnian Herzegovinian tourism industry to be present in the global virtual market.

5.1. Platform Booking.com

In 1996 Booking.com arrived in Amsterdam with Geert-Jan Bruinsma, as a startup project idea. In this days it was not even thought that it would take a leading position in online reservations accommodation in Europe nine years later. Namely, Geert-Jan came up with the idea that it would be useful to connect hotels and guests, and launched Bookings.nl. The site gradually grew. In 2005 it takes the lead place in online booking accommodation in Europe. The growth of the platforms did not go unnoticed and in 2006 it was followed by the purchase by Priceline Group and renamed the existing platform in Booking.com. Priceline Group, apart from owning and managing the Booking.com site, also owns platforms like KAYAK, Priceline.com, Agoda.com, Rentalcars.com and Open Table (Booking.com, 2016). Today, Booking.com is the world's leading online

booking portal based on the number of overnight stays booked per room (Priceline Group Inc., 2016: 4).

5.2. Analysis of the results of the research

Exploring the data of the Federal of Statistics, it is evident that the number of arrivals in 2016 compared to 2011 has doubled, which is particularly evident among foreign tourists. The same situation is with the number of tourist nights for the analyzed period.

Table 1: **Tourist arrivals and tourist nights 2011 – 2016 years (000)**

	Tourist arrivals			Tourist nights		
	Total	Domestic	Foreign	Total	Domestic	Foreign
2011	436	146	290	870	270	600
2012	496	164	332	998	320	678
2013	577	166	411	1.135	309	826
2014	576	163	413	1.095	292	803
2015	723	186	537	1.439	342	1.097
2016	812	199	613	1.620	346	1.274

Source: Institute for Statistics of FBiH, Statistical yearbook 2017

According to a report by the Tourism Management magazine from 2015, Bosnia and Herzegovina is one of the fastest growing tourist destinations.

Table 2: **Tourist arrivals and tourist nights (000)**

	2011	2012	2013	2014	2015	2016
Total	436	496	577	576	723	812
Sarajevo Canton	213	259	318	301	364	409
Neum	51	51	61	52	81	96
Mostar	36	34	29	36	57	75
Other places	136	152	169	187	221	232
<i>Domestic tourist</i>	146	164	166	163	186	199
Sarajevo Canton	45	56	52	48	56	58
Neum	14	13	13	10	13	15
Mostar	17	14	10	12	18	24
Other places	70	81	91	93	99	102
<i>Foreign tourist</i>	290	332	411	413	537	613
Sarajevo Canton	168	203	266	253	308	351
Neum	37	38	48	42	68	81
Mostar	19	20	19	24	39	51
Other places	66	71	78	94	122	130

Source: Institute for Statistics of FBiH, Statistical yearbook 2017

When analyzing data by type of tours, it is evident that the number of arrivals and overnight stays in all selected tourist resorts has increased since 2011 and almost tripled in 2016.

Table 3: **Average detention of tourists – day**

	2012	2013	2014	2015	2016
Total	2,0	2,0	1,9	2,0	2,0
Sarajevo Canton	1,9	1,9	1,9	1,9	2,0
Neum	3,0	2,6	2,3	2,7	2,4
Mostar	1,5	1,6	1,5	1,5	1,5
Other places	1,7	1,6	1,7	1,7	1,7

Source: Institute for Statistics of FBiH, Statistical yearbook 2017

Data on the number of tourist nights by types of tourist's resorts indicate that the number of overnight stays, especially foreign tourists, increased almost twice in the analyzed period, in all accommodation capacities.

Table 4: **Tourists nights by type of tourists resorts (2011 - 2016)**

	2011	2012	2013	2014	2015	2016
Total	870	998	1.135	1.095	1.439	1.620
Hotels and similar accommodation	830	933	1.089	1.033	1.347	1.496
Holiday and other short-stay accommodation	8	12	24	41	62	76
Camps and camping grounds	1	-	12	11	11	15
Other accommodation	31	53	10	10	19	33
<i>Domestic tourist</i>	270	320	309	292	342	346
Hotels and similar accommodation	237	267	295	276	321	316
Holiday and other short-stay accommodation	6	7	8	9	11	19
Camps and camping grounds	-	-	1	-	1	1
Other accommodation	27	46	5	7	9	10
<i>Foreign tourist</i>	600	678	826	803	1.097	1.274
Hotels and similar accommodation	593	665	794	758	1.026	1.180
Holiday and other short-stay accommodation	2	5	16	31	51	57
Camps and camping grounds	1	-	11	10	10	15
Other accommodation	4	8	5	4	10	22

Source: Institute for Statistics of FBiH, Statistical yearbook 2017

As well it is interesting that some capacities are only popularized so it is expected that there will be a significant increase in the number of tourists as overnight stays. The main lack of this research is the fact that due to the scope and scope of the data, data collection from the Airbnb site is not included.

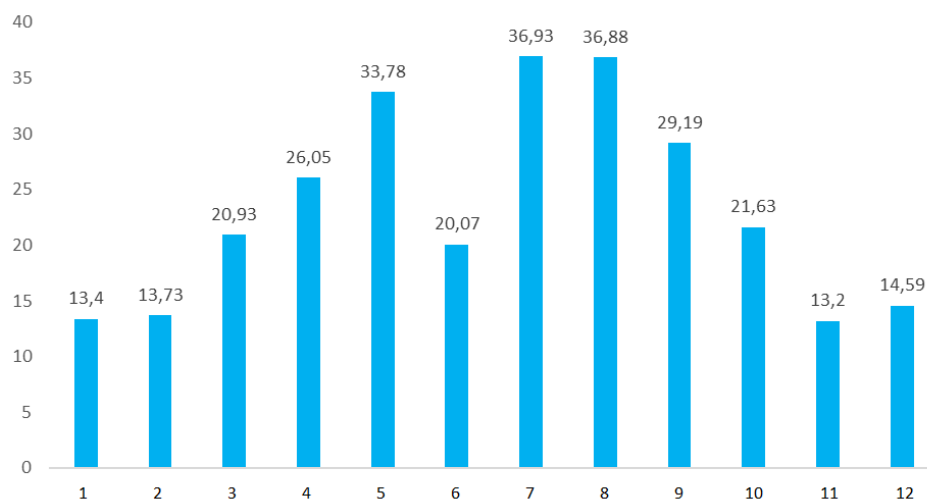
Table 5: Accommodation capacity – Sarajevo Canton (2016)

Accommodation type	Nuber of accomodation	Number of beds	Number of rooms
Hotel	70/89	8.149	4.017
Hotel heritage	10	246	110
Motel	6/10	182	84
Pension	4	89	44
Sleeping room	60	659	257
Hotel resort	1	120	52
Hostel	13/37	430	116
Youth hotel	1	59	19
Rental rooms	-	871	292
Apartments	998	51	14
Spa	(1)	(342)	(176)
Total	165	10.856	5.005

Source: Tourism Associations in Federation B&H

This activity can certainly be tested in some future iteration. Likewise, a significant disadvantage is the presentation of the number of employees in tourism activities according to the data of the Federal Tax Administration, i.e. data that could not be obtained.

Graph 1: Utilization of accommodation capacities by Months County of Sarajevo (%); (2016)



Source: Department of Informatics and Statistics Canton Sarajevo

This research was conducted in a way that each address that was located in the address book of objects received from the Tourism Associations in Federation B&H. Each address was checked and compared with the objects and addresses that are located on the Booking.com portal. After checking each facility, if there are data on Booking.com, bearings are checked in each of the objects found. Significant number of missing objects were identified in the data of the Tourism Associations in Federation B&H, which were registered on the portal Booking.com. For objects that are found as registered on the Booking.com portal and not found in the official data, we estimated number of potential beds. During this research we conduct interviews with employment in the tourism sector. We were warned that this sector has about 80% of undeclared activities. It should be emphasized that when assessing informality through accommodation capacities and this bed, however, there is a rough assessment of non-registered activities. Estimation was based on the examination of objects image (published on Booking.com) of the objects with the most visible number of rooms. Thus, the estimation was made in a way that for every visible room or apartment it has three or four beds. In the case of an apartment or single to four beds rooms in hotels, without an extra bed. Thus, a simple comparison objects obtained from the FB&H Tourism Association and data Booking.com, we found a significant difference. For example, only 165 facilities with 5.005 rooms were registered in Sarajevo, officially, in which 10,865 beds were registered. Bookin.com platform shows that there are registered 1,402 tourist facilities offering tourist accommodation for Canton Sarajevo. When these data are compared with the monthly utilization of capacities in the Sarajevo Canton (the annual average utilization rate is about 20%). The total amount of the collected residence tax in Sarajevo is around 420,000 KM for 2016. According to the information provided by the Canton Sarajevo Tourist Board about accommodation facilities registered in the Tourism Association of Sarajevo Canton, three buildings in the Old Town in June 2016 did not have a single night reported to Tax Office. In the Municipality of Centar, overnight stays were not recorded in five accommodation facilities, while in Novi Sarajevo eight accommodation units did not have any overnight stays. According to the official data of the Bureau of Statistics in the Sarajevo Canton in 2016, the number of 409,000 arrivals was recorded, and the collected fees were about the same.

Table 6: Accommodation capacity Herzegovina-Neretva Canton (2016)

Accommodation type	Number of accomodation	Number of beds	Number of rooms
Hotel	78	7.693	3.752
Hotel heritage	4	88	44
Youth hotel	1	250	111
Motel	28	937	423
Pension	31	834	328
Hostel	6	123	31
Hotel resort	3	261	99
Rental rooms		10.527	6.018
Total	151	20.713	10.806

Sorce: Tourism Associations in HNK

It is significant that for 1/3 of the total collected income from the residence tax was more in the Herzegovina Neretva Canton than in the Sarajevo County. Thus, the income from the residence tax in the Herzegovina Neretva Canton in 2016 amounted to 630,621 KM, which can again be explained as an unrealistic indicator if, according to official data, the number of arrivals in Mostar and Neum in 2016 was around 170,000.

Table 7: **Sojourn Tax HNK (2016)**

Years	Total
2011	269.962,68
2012	270.410,04
2013	327.055,29
2014	557.795,94
2015	571.786,30
2016	630.621,39

Source: Tourism Associations in HNK

It is very important in the data analysis to point out that certain objects are categorized differently on the Booking.com portal and the Tourism Associations address book. This was as well the reason why the assessment went towards determining the capacity through the bearings, and the number of objects was left out in the analysis. Although the grades of individual colleagues from different institutions went in the direction of saying that in the territory of the Sarajevo Canton on each registered bed we can count on one more unregistered bed. This analysis showed that the existing number of registered beds can only be increased by viewing the Booking.com portal with an additional 7,000 - 10,000 beds, so it can be approximate in the percentage of about 40% - 60% of unregistered beds in the area of Sarajevo Canton. The same estimate resulted in the number of about 5,000 additional unregistered beds in the area of Herzegovina-Neretva County or expressed in percentages of about 19% of unregistered beds. Analyzing primarily the estimates of tourism employees of the Federation of B&H, the Tourist Association of the Sarajevo Canton and the Herzegovina-Neretva Canton, estimates went up to 80% of informal activities in the tourism sector.

Table 8: **Accommodation capacity – Sarajevo Canton and Herzegovina-Neretva Canton (Booking.com)**

	Sarajevo - Canton	Herzegovina - Neretva Canton
Apartments	998	245
Guest houses	150	178
Hotels	89	71
Holiday homes	57	10
Villas	41	7
Hostels	37	33
Bed and brekfasts	13	42
Motels	10	19
Homestays	5	5

	Sarajevo - Canton	Herzegovina - Neretva Canton
Holiday park	1	2
Lodges	1	1
Total	1402	613

Source: Tourism Associations in Federation B&H

Taking in to account the results of a comparative analysis of the official data of the Tourist Association and Data on the Booking.com portal, we can estimate that the level of informal economy in tourism only in 2016 ranged between 40 and 60% of GDP. It is necessary to emphasize once again that this assessment is limited to the number of undeclared beds supplemented with a framework estimate of unreported overnight stays, and not for the total consumption of tourists and employees in this sector.

6. GUIDELINES AND RECOMMENDATIONS CONCLUDING

The most significant findings of this research is based on roughly estimate of unrecorded capacities in the tourism sector for the Federation of B&H. Namely, during the selection of the methodology for evaluation, a number of qualified experts have been consulted, addressing the mentioned area, but experts from the Republic of Croatia who analyzed informal sector. Given that, according to the opinion of the experts, it is a completely new approach to the informal sector research.

This approach to the assessment of the informal sector is, in all likelihood, the result of tracking the latest trends that are subject to all social spheres, including tourism, and this is a publicly available online advertising such as Booking.com and Airbnb. First research findings showed a significant difference in percentages in unregistered capacities compared to the registered capacities in the two tested counties in the FB&H, namely the Canton Sarajevo and Herzegovina-Neretva Canton. As well there are also significant differences between these two cantons, which also confirmed the hypothesis. According to this work, the authors made a rough estimate of some of the informal economy in tourism, ranging from 40 to 60% of GDP. The results are not comparable to any grey economy research because of a specific estimate methodology that is not previously used for similar analysis in the region. Namely, extensive and in-depth desk-based research has resulted in a significant number of non-registered capacity and addresses, which can be clear guidelines for the next steps and the work of the inspection bodies. In future estimation of the informal economy assessment would be significantly complemented by additional microeconomic knowledge, such as the water consumption of the domicile population throughout the year and estimates of tourist consumption. Furthermore, by employing a survey, both employees and employers would be able to assess the consistency of estimation with the methodology. As one of the most important activities in the future in FB&H it would help to create a unique base for the registration of tourist such as eVisitor in the Republic of Croatia. This portal had greatly contributed to this sector by facilitating more efficient and more efficient revenue collection as well as modernization of turbidity efficiency and raising its competitiveness.

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By-laws

Mandatory classification on classification and categorization of facilities out of group of hotels
Mandatory classification on classification and categorization of facilities out of group of camps and other type of catering accommodation facilities

Online portals

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