

Appendix

Policy Measures on Deterring Informal Economy /- Country Specific Case Studies

Bulgaria

Since the 1990s, the transition period in Bulgaria has given rise to enormous informal economy to such an extent that it started to undermine the stability of official state transfer channels. According to the EC barometer survey, it was estimated that more than 35% of the country's GDP comes from informal economic activity (Eurofound Bulgaria, 2009b). The majority of small and medium enterprises (SMEs) were involved in engaging employees without employment contracts, especially in the tourism, hospitality and construction sectors. In large companies, on the other hand, a significant portion of wages was reimbursed informally (envelope wages) creating a crisis in the social security system due to insufficient insurance coverage (Eurofound Bulgaria, 2009a). The following measures were implemented by the Government, and supported by NGOs and international stakeholders:

- In 2002 amendments to Labour Code, mandatory registration of employment contracts with National Social Security Institute were introduced,
- The government negotiated a minimum social insurance threshold for industry sectors and branches of economy, and for occupational categories, and since 2003 those thresholds are adopted annually in the State Budget Act.
- The results of these changes were that in 2003 about 300,000 additional employment contracts, alongside close to 60,000 new employers were registered. The revenues from social security increased by

more than 200 million euros. Furthermore, there was a reduction of more than 10% in the number of workers who received a higher wage than reported.¹

As the issues of informal work was not completely resolved, some NGOs undertook steps in enabling citizens/workers to educate themselves on the matter as well as to file anonymous complaints online. In the first month only 121 infringements were reported and forwarded to the appropriate institutions, including the state inspectors. However, the campaign did not yield the expected results. One of the main reasons for this was low support from formal institutions. Subsequently the Government through its institutions (Ministry for Labour and Social Policy and General Labour Inspectorate) introduced an additional campaign called “work legally” in 2008. In two months (during the peak of the tourism season), some 5,100 inspections (12% at night) were carried out in about 4,800 companies. Close to 25,000 violations of labour legislation were uncovered, and special recommendations including deadlines were given. Furthermore, close to 190 operations were halted, while some 1,630 persons were levied with administrative sanctions.²

The efforts to decrease informal economic activity continued after 2008. Both government and NGOs took part in a longer-term fight against informal work, employing both restrictive measures (i.e. inspections and sanctions) as well as social actor-based measures (i.e. changing attitudes). First, a “National Rules for Business Centre” project was initiated, and a centre was established to monitor informal economy (primarily informal work) and promote research and awareness on formal economy. During the project three national and 10 branch studies were developed, encompassing thousands of respondents and hundreds of interviewees. Also, more than a thousand people were educated through a distance learning platform. This project was supported by intensified measures from Government through inspections and sanctions. In just 3 years, between July 2009 and June 2012, close to 150 thousand audits were carried out in over

1 Eurofound (2009): Mandatory registration of individual employment contracts, Bulgaria. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/mandatory-registration-of-individual-employment-contracts-bulgaria>, accessed: March 2018

2 Eurofound (2009): ‘Work legally’ campaign, Bulgaria. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/work-legally-campaign-bulgaria>, accessed: March 2018

100 thousand enterprises that employ more than half of all employees in the country. As a result of these measures, more than 30,000 employees with reported part-time hours have signed full-time contracts, alongside more than 10,000 people who were discovered without employment contracts. Apart from intensifying inspections, the Government also enforced legislation which envisaged all trade enterprises to issue all of their invoices through fiscal devices connected to National Revenue Agency's central computers in real time. This measure further extended control over the informal economy. Since more than 300,000 fiscal devices were connected in the beginning of 2012, an increase of 10% in declared turnover was registered compared to the preceding period.³

Croatia

Croatia's main objectives were related to aligning its legislation with the EU *acquis*, and particularly the European Commission's requirements for transparency, competition and accountability mechanisms (Bejakovic et al., 2007; Simic-Banovic, 2015)⁴. In 2006, the Government introduced a project Hitrorez, a part of e-Croatia initiative, which was intended to cut the unnecessary regulative and administrative procedures which required more than 40 days to open a business. This administrative transformation was intended also to tackle the informal economy, through facilitating the formal way of doing business. Furthermore, the project unified and simplified various administrative procedures, and introduced the FINA e-card which replaced several e-cards already

3 Eurofound (2013): Joint effective control on informal work, Bulgaria. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/joint-effective-control-on-informal-work-bulgaria>, accessed: March 2018; Eurofound (2013): Rules for Business Centre, Bulgaria. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/rules-for-business-centre-bulgaria>, accessed: March 2018; Eurofound (2013): Connecting fiscal devices to the National Revenue Agency, Bulgaria. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/connecting-fiscal-devices-to-the-national-revenue-agency-bulgaria>, accessed: March 2018.

4 Bejaković, P., Šućur, Z. and Zrinscak, S., (2007), The social dimension in selected candidate countries in the Balkans: Country report on Croatia (December 14), ENE-PRI Research Report No. 39. Available at: <http://ssrn.com/abstract=2027419>; Šimić Banović, R. (2015). Cutting the red ribbon but not the red tape: the failure of business environment reform in Croatia. *Post-Socialist Economies*, 27(1), 106–128.

in use, speeded up businesses and business registration processes and eliminated unnecessary paperwork. However, although the project was implemented, its potentials have not been utilised properly and encountered many problems entrenched in the traditional way of doing business (Simic-Banovic, 2015).⁵

To tackle high unemployment in the youth population and prevent young people from turning to informal work, in 2009 the Government introduced grants to employers who provided working opportunities to young people for a period of one year. A total of one thousand young people took part in this program, which enabled them access to much needed experience and new skills—eventually increasing their employability. Furthermore, the Government introduced additional active labour market measures including upskilling, requalification, education and public works.⁶

Undeclared work in Croatia was a constant issue in agriculture. Since agriculture is a business heavily dependent on weather conditions, it made little economic sense for employers in the sector to declare workers—the taxes and contributions were usually paid on a monthly basis, whereas it was not a strange situation that only 5 days of work were achievable due to weather conditions. In order to prevent informal work in the sector, the Government introduced seasonal work vouchers, which included taxes and contributions. Each employer would purchase vouchers from the Employment service and was obliged to give a voucher to each employee for each day spent on work. This way, the employers were motivated to engage and declare seasonal workers through vouchers and the state could prevent the informal work and keep the appropriate taxes and contributions.⁷

5 Eurofound (2013): One-stop shop business registration, Croatia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/one-stop-shop-business-registration-croatia>, accessed: March 2018.

6 Eurofound (2013): Targeted incentives to register employees, Croatia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/targeted-incentives-to-register-employees-croatia>, accessed: March 2018.

7 Eurofound (2013): Seasonal work vouchers, Croatia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/seasonal-work-vouchers-croatia>, accessed: March 2018.

Cyprus

The informal economy in Cyprus is most present in the construction and tourism sectors, where informal work tends to affect the most vulnerable groups of workers, such as migrants and Turkish Cypriots. In this context, sector specific measures have been developed in order to tackle this issue. In April 2007, special tripartite commissions—where Government, employers and employees were represented—were brought up to tackle informal work in the construction sector. The specific objectives of these commissions were to understand the issue and examine ways to tackle informal work—and detailed lists that emphasize relevant terms in contracts for construction in the public sector were sent to operators of works still in progress, so that inspections could be scheduled. The inspections were carried out by a joint group of the labour and social security departments. The second focus was to overcome the issue of Turkish Cypriots declaring themselves as self-employed and sole contractors which enabled them to avoid registration in the social insurance scheme and evade taxes and contributions. The inspections from 2008 showed that close to 4% of employers were not enrolled in the social insurance scheme and more than 27% of employees were not declared for tax purposes. These numbers represent an improvement from the 2003 data when 11% of employers and 30% of employees were missing from the social insurance scheme.⁸

These mixed inspections were intensified in the period after 2009, and four teams were operating in the main districts. The focus was again on the construction and hospitality sectors. From April 2009 till May 2012, close to 7,500 inspections were carried out, 4,300 of which were in the construction sector.⁹

Changes in standard contracts in public works and services have also been introduced due to an increase of violations in the construction sector—only 2 public works locations were found to be in full compliance out of 26 inspected. The changes included a series of measures like:

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- 8 Eurofound (2009): Tripartite committee to combat informal work in construction sector, Cyprus. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/tripartite-committee-to-combat-informal-work-in-construction-sector-cyprus>, accessed: March 2018.
 - 9 Eurofound (2013): Mixed teams of inspectors, Cyprus. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/mixed-teams-of-inspectors-cyprus>, accessed: March 2018.

- Contractors who have committed violations of labour legislation (i.e. informal employment) will be excluded from public tenders,
- A fivefold increase of penalties for illegal employment,
- Informing relevant bodies of engagement of employees in advance.¹⁰

To help the inspectors carry out their work, the Ministry of Labour and Social Insurance introduced amendments to the Social Insurance Law in 2012. The most prominent amendment imposed on employers the obligation to submit a certificate of employment to the nearest Social Insurance Service for each of their employees by the end of the month in which the employee started working. Violations were fined with 200 euros, while repeated violations were fined with an additional 400 euros per worker.¹¹

Czech Republic

Illegal and informal employment of foreign workers was always a bigger issue than informal employment of domestic workers in Czech Republic. Therefore, in 2000 a Multi-ministerial Body for Combating the Illegal Employment of Foreign Workers was established, where government representatives, social partners and research institutions were brought together to monitor illegal employment, produce recommendations for legislative improvements, and coordinate and control various activities of institutions that are directly involved in the issue of illegal and informal employment of foreign workers. The establishment of this body contributed significantly to expert debate, raising awareness and knowledge about the issue as well as encouraging networking, debate, and exchange of ideas. The recommendations of this body influenced amendments to the Employment Act in 2007 which tightened restrictions on employment of foreign workers in a way that reduced illegal employment. The establishment of this body was influential in terms of inspections and checks that were intensified, and which averaged around 10 thousand checks per year

10 Eurofound (2013): Changes to standard contract in public procurement, Cyprus. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/changes-to-standard-contract-in-public-procurement-cyprus>, accessed: March 2018.

11 Eurofound (2013): Amendment to Social Insurance Law, Cyprus. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/amendment-to-social-insurance-law-cyprus>, accessed: March 2018.

from 2001 to 2007. However, since the body did not have the legal status of a government advisory body or a formal institution, its powers and reach were limited.¹²

The first steps against illegal employment were undertaken in 2004 when the Employment Act introduced illegal employment as a concept and strengthened control and sanction mechanisms. These amendments came after a special “Report on certain measures being applied and prepared to restrict the grey economy” was issued by the government. Apart from defining illegal employment (informal work), the Act also strengthened the jurisdictions of inspection authorities and imposed stricter rules on employment of foreign workers (i.e. for the first time foreign workers were required to have a working permit). Sanctions were also introduced, from up to 360 Euros for foreign workers breaching the Law to up to 73,000 Euros for domestic natural or legal persons enabling foreign workers to engage in these activities. However, it proved difficult to enforce the Act and sanctions as the inspection bodies had a hard time determining illegal employment—particularly because the phenomenon is a consequence of a mutually beneficial verbal agreement between employer and employee, and because other legislation allows for short-time informal employment that can be arranged verbally.¹³

Afterward, the focus shifted yet again to the illegal employment of immigrants primarily from Ukraine—as Ukrainian citizens make up close to 30% of all illegal employees in the country. These high numbers were a consequence of an informal institution called the “client system” in which workers from Ukraine used informal channels to come and work in Czech Republic. The combined project of the Ministry of Interior and Ministry of Labour and Social Affairs titled “Assistance system for the employment of Ukrainian citizens in the Czech Republic” resulted in setting up a network of advice centres—3 in Ukraine and 5 in the Czech Republic. The centres operated as a mediator between workers from Ukraine and employers and institutions in the Czech Republic. Workers were given information

12 Eurofound (2009): System to improve access to employment for Ukrainian citizens, Czech Republic. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/system-to-improve-access-to-employment-for-ukrainian-citizens-czech-republic>, accessed: March 2018.

13 Eurofound (2009): Employment Act and the fight against illegal labour, Czech Republic. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/employment-act-and-the-fight-against-illegal-labour-czech-republic>, accessed: 22 March 2018.

about legal employment opportunities, legal entry and residence encompassing help with all the administrative procedures. The Ukrainian workers furthermore benefited from the centres which arranged contacts with legal employers, acted as mediators, and offered socio-legal consultations and help including dealings with embassy. Similarly, consultancy regarding employment of foreigners, administrative improvements and online systems for finding workers as well as assistance in dealing with formalities was made available to Czech employers. The initiative was labelled as successful, as the message was sent to both employers and workers that the “client system” is not necessary to provide work for people coming to Czech Republic, as the assistance and advice centres operated in a similar way but carried more security and less risk. However, the project was difficult to administer and coordinate as it covered a wide area of services.¹⁴

The employment office of the Czech Republic contributed to the struggle against the informal work. Their two-year project implied that all the people unemployed and registered at the Employment office should regularly (2-3 times a week) report to the “Czech POINT” counter at the nearest post office. The project was intended to make it harder for people unemployed and registered in the Register of Unemployed to engage in illegal work. However, it was found that these measures were non-productive, and even the Ombudsman demanded a cancellation of the attendance obligation which was perceived as violating human dignity.¹⁵

Afterwards, the focus was yet again given to inspections—in 2012 the total number of planned inspections increased to astonishing 200,000; out of which 35 thousand were inspections of illegal work. The legislation adopted in 2012 also imposed heavier sanctions for illegal work and evading employment contracts. The inspections were equipped with moving Czech POINT counter office vehicles in order to have all information at their disposal. The inspections plan was met in the first six months and the

14 Eurofound (2009): Multi-ministerial body to combat illegal employment of foreign workers, Czech Republic. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/multiministerial-body-to-combat-illegal-employment-of-foreign-workers-czech-republic>, accessed: March 2018.

15 Eurofound (2013): Unemployed attendance scheme, Czech Republic. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/unemployed-attendance-scheme-czech-republic>, accessed: March 2018.

inspections discovered several shortcomings of the legislation which were used to further improve the legislation.¹⁶

Estonia

In January 2005, a roundtable was held at the Estonia's Tax and Customs Board where social welfare organizations, public institutions and social security bodies signed an agreement to join forces in trying to prevent the practice of informal work, which oscillated around 14% of total workers. The primary goal of the agreement was to raise public awareness about the negative consequences and losses caused by the informal employment. The ten partners that signed the agreement represented a significant portion of the Estonian labour market, while the declarative nature of the agreement sent a strong message that social welfare organizations, public institutions and social security bodies were intensifying their cooperation in order to get rid of the informal work. This was to be done through measures which spanned from raising public awareness and persuading dishonest employers to comply, to analysing the legislation and proposing improvements while focusing on the industries with acute informal employment problems, to engaging public agencies and setting up an inter-organizational system of information and control. Some indicators suggest that the initiative brought positive results—the wage groups at largest risk of engaging in informal employment decreased by 10%, while the wage groups of people earning more increased.¹⁷

Two more information campaigns were launched in 2005 and 2006. In January 2008, a third information campaign was initiated with the aim of improving tax compliance and raising awareness about the benefits of tax compliance, as well as the social losses caused by tax fraud and evasion. Additionally a public debate was initiated to discuss the risks related to informal income as well as the large-scale impacts of this practice on society. Posters and handouts were distributed in both Estonian and Russian,

16 Eurofound (2013): Undeclared work inspections, Czech Republic. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/data-base/informal-work-inspections-czech-republic>, accessed: March 2018.

17 Eurofound (2009): Social partner cooperation agreement, Estonia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/data-base/social-partner-cooperation-agreement-estonia>, accessed: March 2018.

and TV and radio programmes addressed the issue as well. People were invited to report tax frauds and inadequate payment of informal wages. However, it is difficult to assess the results and impact of the campaign.¹⁸

The second part of the campaign consisted of personalized appeals/notification letters sent to companies with below average wage levels compared to the business sector they were operating in—a total of 2,000 employees and 1,000 companies. As a result, 46% of the companies that received the appeals adjusted their wage levels, 43% of employers had no reaction to the appeals while in 8% of cases tax compliance worsened. The letters achieved the strongest results in instances where both employee and employer were notified—56% of these notifications resulted in improved tax compliance.¹⁹

Information campaigns continued from 2010 to 2012. The later campaigns were based much more on marketing tools and were intended to trigger emotions and result in longer-term improvements in tax morality—i.e., pictures of firefighters were displayed on the back of trolleys with messages like “Should we take the trolley bus to an emergency call-out? This can happen if you do not pay your taxes!” The focus was to improve the voluntary tax compliance by concentrating on how taxpayers’ money was used. The campaigns were measured in terms of visibility as well as how people responded to the messages sent out, and were regarded as successful.²⁰

Apart from information campaigns, Estonia tried to tackle informal work by raising the minimum wage. The Estonian Institute of Economic Research (year of publication) found that there are much higher risks for household members with lower income levels to receive and accept informal wages than those with higher income levels. Throughout the period beginning in 2002 the minimum wage rose rapidly culminating in 2008 with a more than 20% increase compared to year before. Due to economic crisis it remained at the same level until 2011, when the government and

18 Eurofound (2009): Information campaign on informal wages, Estonia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/information-campaign-on-informal-wages-estonia>, accessed: March 2018.

19 Eurofound (2009): Notification letters from Tax and Customs Board, Estonia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/notification-letters-from-tax-and-customs-board-estonia>, accessed: March 2018.

20 Eurofound (2013): Information campaign on tax compliance, Estonia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/information-campaign-on-tax-compliance-estonia>, accessed: March 2018.

social partners negotiated a raise of close to 5%. However, increases in the minimum wage have not been shown to have direct links to reduction in informal work.²¹

In 2012, Estonia also increased inspections to combat tax fraud and informal work, and engaged additional inspectors. However, the Estonian way of implementing inspections consists of first executing comprehensive research to identify the companies practicing informal work. After 1,300 companies were identified and around 30 million Euros in unpaid tax from those companies was estimated, notification letters were distributed in order to give companies the opportunity to improve their tax compliance on their own. The inspections were carried out only in the companies that either did not improve their compliance or did not give satisfactory explanations for their business activities. In the end, only 500 inspections were carried out, while an increase of 11 million Euros in tax income was registered.²²

Hungary

With over 80,000 micro and small enterprises, the construction sector in Hungary is highly susceptible to informal work. Some observers estimate that close to 200,000 employees engage in informal work activities, which is greater than the number of people legally employed in companies with four and more employees. The common practice among employers was to report their employees at minimum wage and supplement the difference through envelope wages. In order to combat this practice, trade unions and employer organisations in the construction industry negotiated a sectoral collective agreement in November 2005. The agreement involved changes to legislation in order to restore order in the industry and make it attractive again for young employees and apprentices. The core of changes concerned the compulsory tariff wage system which set wages above the national minimum. Some 20 pay levels were adopted for employees, with

21 Eurofound (2013): National minimum wage agreements, Estonia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/national-minimum-wage-agreements-estonia>, accessed: March 2018.

22 Eurofound (2013): Targeted control of enterprises for informal work, Estonia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/targeted-control-of-enterprises-for-informal-work-estonia>, accessed: March 2018.

minimums set for all unskilled, semi-skilled and skilled workers. The collective agreement was renewed for 2006, 2007 and 2008, while the government introduced a new system, in which labour costs in public tenders were calculated on the basis of the minimum hourly wage set by the employment contracts. In two reports, the Ministry of Finance deemed the above measures as successful. However, the collective agreement did not set up any mechanisms for monitoring and control, meaning that no social partner was able to control the effective implementation of the collective agreement in the workplaces.²³

Apart from the construction sector, the agriculture and tourism are also prone to informal work in Hungary. Both require a large seasonal work force, and the previous regime was tolerant towards people making money in the grey economy. This made the agriculture and tourism highly prone to informal work, as there were few incentives motivating employers to declare their employees. In order to address this problem, the government adopted a simplified employment act in order to simplify the complicated and slow administrative procedures required for employing workers. The new legislation simplified employment registration by allowing employment to be declared by a short SMS text after the initial registration in the system. Furthermore, fixed amounts of taxes were set on a daily basis for both industries, which furthermore simplified the procedure and motivated employers to declare their workers. However, during simplified employment workers were not eligible for full social security—only accident health care services and job seeking allowances—and the pension eligibility for this type of employment was restricted. Nonetheless, the simplified employment institution was largely used and in July 2010 more than 500,000 simplified employments were registered.²⁴

Simplified employment brought many benefits to seasonal workers but has not eradicated the practice of informal work. Notification of authorities was not always easy and smooth, either due to geographical locations without internet connection or due to the unwillingness of

23 Eurofound (2009): Reducing informal work in construction sector, Hungary. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/reducing-informal-work-in-construction-sector-hungary>, accessed: March 2018.

24 Eurofound (2013): Labour Inspectorate campaign, Hungary. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/labour-inspectorate-campaign-hungary>, accessed: March 2018.

employers to declare their seasonal workers. In order to curb these obstacles, the Labour Inspectorate undertook inspections and published yearly reports with objectives, changes in regulations and employer-employee wrongdoings on which to focus in the coming year. The inspections focus on the legal formalities of declaring employment, existence of written contracts, breaches of obligations, discovering discrepancies between legal and informal work and issuing penalties and fines. Penalties span from 100 Euros to 35 thousand Euros, and from the point of view of the Inspectorate, they have achieved significant success in tackling informal work. Since 2007, when the inspections of informal work began, decreasing trends of discovering informal work have been recorded: from more than 16 thousand companies with over 70,000 involved employees in 2007 to some 4 times fewer companies and 5 times smaller number of employees in 2011.²⁵

Latvia

In 2004, the shadow economy in Latvia was anywhere between 17%, as estimated by the Central Statistical Office, and 25% of GDP according to Ministry of Finance estimate. The pivotal issue in the shadow economy was informal work as it deprived workers of social security and other services and restricted budget revenue and fair competition. The key ingredients facilitating informal work were identified as:

- A complicated taxation system,
- Inadequate controls,
- A lack of cooperation among the authorities,
- An increase in economic crime,
- The possibility to register fictitious companies,
- Unemployment, and
- A low level of public awareness regarding labour law.

25 Eurofound (2013): Simplified Employment Act, Hungary. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/simplified-employment-act-hungary>, accessed: March 2018.

The government came up with a strategy to combat this issue through four groups of measures: (i) increasing the capacity of the State Labour Inspectorate, (ii) improving cooperation between inspection authorities, (iii) increasing public awareness, and (iv) education of pupils and students.²⁶

Greater coordination between controlling authorities implied improving cooperation and exchange of information among organizations, which eventually led to establishing a coordination mechanism in 2005 for information exchange to tackle informal work at an early stage. However, it took some time for the coordination mechanism and activities to yield significant results. For instance, in a 2007 Assessment of informal work report published by University of Latvia it was concluded that despite improvements, coordination activities were still poor while complicated databases held by agencies involved in the struggle against informal work were often non-compatible and useless to other agencies. On the other hand, no single agency was keeping records on details from employment contracts or work regimes.²⁷

The State Labour Inspectorate (VDI), the agency with the responsibility to control and repress informal work, has the authority to propose amendments to legislation in order to improve working conditions. 'Measures for the prevention of illegal employment' were drafted with key principles to improve the capacities of VDI to control companies, especially those in construction, wholesale and retail, forestry, beauty and health care. The insufficient staff and low salaries of inspectors were considered as important factors hampering the VDI's capacity to decisively tackle informal work, and it was proposed to enhance salaries through additional funding from EU structural funds. Since 2004, VDI submitted several amendments to improve legislation and most were adopted, except the proposal to temporarily prohibit engagement in business activities to employers who consistently fail to declare their workers. In 2006 the decision was made not only to penalise employers but also employees who accept work without a contract. However, despite the legislative improvements and increased capacities of VDI, as well as the frequency

26 Eurofound (2009): Control measures to limit illegal employment, Latvia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/control-measures-to-limit-illegal-employment-latvia>, accessed: March 2018.

27 Eurofound (2009): Improved cooperation between inspection authorities, Latvia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/improved-cooperation-between-inspection-authorities-latvia>, accessed: March 2018.

of inspections and penalties, informal employment did not decrease but rather showed signs of increase. Still, an additional 31 thousand people were registered as employees, which increased the budget revenue by some 8 million Euros.²⁸

Another measure from the key principles was the intensification of information campaigns meant to raise awareness and educate people on the requirements of labour law and the importance of having employment contracts. Also, the consequences of informal work were communicated to both employers and workers. In June 2006, the State Revenue Service (VID) sent around nine thousand letters to companies asking them to increase salaries to their workers based on the assumption that part of their remuneration was distributed through envelope wages. In 2007, VID launched additional campaign to enhance public awareness and educate people on the harm caused by receiving envelope wages—over 100 thousand people received black envelopes containing strong messages as well as explanations on the losses caused by accepting envelope wages. Since 2007, VID also started naming the offenders/companies that were giving envelope wages to warn workers about possible breaches of their rights. In 2008, VID launched yet another extensive media campaign to explain the negative consequences of receiving envelope wages—like restrictions on getting loans, ineligibility for unemployment benefits and social services, and lower retirement remuneration. However, it was recorded that the campaigns organised by the VID were seldom aggressive and were annoying to wider public.²⁹

In 2010, the government adopted the “Action plan for combating shadow economy and ensuring fair competition for 2010–2013,” which included a total of 63 measures aimed at particular industry sectors. The plan was to make shadow economic activities as unattractive as possible, and increase the attractiveness of the formal economy. The measures included:

- Simplification of tax regime and consolidation of multiple taxes into one micro-enterprise tax,
- Obligatory declaration of material possessions (including cash and valuables) of the population,

28 Ibid.

29 Eurofound (2009): Awareness-raising campaigns, Latvia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/awareness-raising-campaigns-latvia>, accessed: March 2018.

- Paying mandatory tax and social contributions to previously informal income visible through mandatory declaration of material possessions,
- Increasing employers' responsibilities for declaring workers (and hence informal work)—i.e., if it was not possible to determine the starting date of a work contract the tax authority was authorised to charge 3 months of taxes and contributions for each violation.

The results of the above action plan were visible from the start, as the increased responsibility of employers resulted in decreasing levels of shadow economy and informal work in 2011 compared to the preceding year.³⁰

In addition to the Action plan, the Latvian Employers' Confederation launched a nation-wide campaign titled 'Against the shadow economy—for fair competition'. The campaign was implemented over a period of two months, and the results were presented and discussed at a related business conference. The campaign was multi-layered and provocative, starting by displaying slogans "I spit on it!" in yellow letters on black tape over a white background—the uncovering of which in the later stages stirred public debate on the effects of shadow economy. "I spit on it!" over "Happy childhood?", "Young families?" and "Well provided old days?" gained a lot of attention and was subject to various discussions—from media to social networking platforms. An online tool was introduced where each individual could calculate its own participation in the shadow economy, while public engagement campaigns operated in central squares and were covered in the media. While envelopes were distributed to citizens passing by—more than 50% of whom expressed greater interest in being engaged on minimum salary and receiving higher wages through envelopes than regular salaries. The campaign took place simultaneously with the government's Action plan activities, so it is hard to distinguish its independent impact, but it is clear that the campaign attracted public attention and engagement.³¹

30 Eurofound (2013): Action plans to combat informal work, Latvia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/action-plans-to-combat-informal-work-latvia>, accessed: March 2018.

31 Eurofound (2013): Employers' campaign against the shadow economy, Latvia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/employers%2592-campaign-against-the-shadow-economy-latvia>, accessed: March 2018.

The Free Trade Union Confederation of Latvia also contributed to the struggle against the shadow economy and informal work by organising national competitions for students in 2011 and 2012. The pupils and students competed in knowledge of labour law and work safety regulations, and the winners in all categories were motivated by individual and team prizes. Measures like these proved to be especially valuable in the long term, as they also served as opportunities to produce effective study materials as well as to increase the interactivity of target populations—i.e. students appreciated videos on labour rights and safety at work and took an active part in their dissemination.³²

Lithuania

The economic transition provided a fertile ground for the shadow economy in Lithuania. Undeclared work was widespread, peaking in the period 1999–2000. A response from the government of Lithuania was to issue a ‘Decree on the Coordination of Undeclared Work Control’ in 2001, which authorised the State Labour Inspectorate (VDI) with the coordination of overall control and inspection operations in the country concerning informal work. The central coordination group for the control of informal work was set up, comprised of experts from various institutions, including the police force. The primary objective of the control group was to execute more efficient control and prevention of informal work through coordination of the efforts of different institutions. The group was also authorized to undertake research and analysis of various causes of informal work, setting up an agenda for prevention, approval of general ways of accounting for informal work, and analysis of international practices and experiences. Although no special evaluation was carried out, it appears that the system brought about prevention of informal work.³³

Inspections of informal work in Lithuania have been in place since 1997, and since 2006 around two thousand inspections were carried out

32 Eurofound (2013): SMARTS student competition, Latvia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/smarts-student-competition-latvia>, accessed: March 2018.

33 Eurofound (2009): Coordination of informal work control, Lithuania. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/coordination-of-informal-work-control-lithuania>, accessed: March 2018.

every year with the aim of uncovering and preventing informal employment. 80% of the inspections are carried out directly by State Labour Inspectorate, and 20% by other partners in consultation with the VDI. Each year, approximately 900 informal workers are discovered—30% to 40% of whom are employed in construction. While 150–300 cases end up in court hearings, a majority of them receive administrative penalties. In the case of Lithuania, it seems that the inspections serve as a positive measure to raise awareness aimed at combating informal work.³⁴

Inspections were carried out in the core centre of Vilnius, where the Tourism and Promotion Division of the Culture and Education Department has been organising campaigns and inspections to prevent informal work in the tourism sector since 2002. Tour guides operating in the city had to be certified and carry proper licences. Informal tour guides when discovered were fined, but also instructed on how to obtain the tourist guide licence. This programme succeeded in decreasing number of illegally working tour guides, and also safeguarding the market for officially certified ones.³⁵

The economic crisis of 2009 exacerbated problems of low income and wages and aggravated the heaviness of tax burden, indirectly contributing to an increase in informal work as well. In order to tackle this new wave of informal work, the State Labour Inspectorate started to shift its focus from performing inspections to business consulting, public information and awareness raising campaigns with the hope that increased public awareness about the consequences of informal work would change public attitudes toward it. The campaigns were implemented through various media channels which were used to also disseminate the secure line for members of the public to report informal work. According to VDI, this approach yielded positive results evident in the increased number of reports made by the citizens.³⁶

34 Eurofound (2009): Preventing informal work among tour guides, Lithuania. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/preventing-informal-work-among-tour-guides-lithuania>, accessed: March 2018.

35 Eurofound (2009): Inspection of informal work, Lithuania. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/inspection-of-informal-work-lithuania>, accessed: March 2018.

36 Eurofound (2013): Information and awareness-raising campaign, Lithuania. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/information-and-awareness-raising-campaign-lithuania>, accessed: March 2018.

In 2011, VDI set up standing groups to control and inspect for informal work in the five largest cities. Each standing group included of two VDI inspectors (lawyers) and was equipped with a car and video and photography devices. These groups were authorized, once they discovered informal work, to record everything and build up a court case against the offenders, as well as to represent the public interest during the court process. According to VDI, in 2011 alone the detection of informal work doubled compared to a year before.³⁷

Due to special relationships between Lithuania and Latvia, some of the companies operating in both countries tried to seize the opportunity of labour and capital mobility and engage in informal work to reduce costs. The control of one company with headquarters in another country was difficult and problematic. Therefore, the Lithuanian and Latvian State Labour Inspectorates joined forces to exercise control on one another's behalf in their respective countries to reduce cross-border violations. Although no informal workers were discovered in little inspections that were carried out, the message was sent that borders were not an obstacle in tackling this informal phenomenon.³⁸

Malta

Malta's problems with informal work were felt most through abuse of the social security benefits intended for people without jobs. In 2005, the Ministry for the Family and Social Solidarity set up a Benefit Fraud and Investigation Directorate, whose purpose was to investigate abuses of the social benefits system. The director of this institution was authorized to appoint inspectors, who analysed the financial documents submitted to other institutions and had the authority to demand all necessary documents for conducting on-site investigations, and if necessary involve the police. In 2007, the Directorate conducted over 1,780 on-site inspections where various

37 Eurofound (2013): Standing groups to control illegal work, Lithuania. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/standing-groups-to-control-illegal-work-lithuania>, accessed: March 2018.

38 Eurofound (2013): Cross-border cooperation, Lithuania. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/cross-border-cooperation-lithuania>, accessed: March 2018.

cases of unemployment benefits abuses were discovered and prosecuted—ending up with a saving of around 3.5 million Euros annually. The key factor in success was the collaboration between the Directorate and private and public entities.³⁹

In order to prevent unemployed people from claiming social benefits while at the same time working without contracts, the Employment and Training Corporation (ETC) undertook a variety of initiatives to reduce and prevent informal employment. One of its pivotal measures was to introduce obligatory courses for the unemployed, which indirectly serve as an early warning signal for detection of informal work. Through maintaining an updated register of unemployed people and providing obligatory skills improvement and retraining courses, the ETC could monitor informal employment by observing people avoiding taking the courses. Every unemployed person is assigned to an employment adviser with whom they regularly meet with the aim of setting up a Personalized Action Plan, which identifies the appropriate training for the individual in order to improve his/her skills and make them more attractive in the labour market. The unemployed are obligated to follow the training regime specified, and if they fail to do so they are required to provide proper justification for their absence. If it is determined that the reasons are not justified (particularly if there are indications of informal work) the person is eliminated from the unemployed register and from receiving unemployment benefits. This makes it more difficult for people employed in the informal sector to abuse the system over the long term.⁴⁰

Malta's ETC and its Law Compliance Unit try to identify jobseekers who are receiving unemployment benefits and are registered as unemployed and ready for work, but at the same time work in the informal economy. The ETC and LCU organized intensive media campaigns to raise awareness about informal work and empower the general public to report abuses through a free telephone service, which was widely advertised. Over 1,270 people were reported and found to be violating the law—they were receiving unemployment benefits while working informally. However, 57% of those people since declared their employment, and a further

39 Eurofound (2009): Benefit fraud and investigation directorate, Malta. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/benefit-fraud-and-investigation-directorate-malta>, accessed: March 2018

40 Eurofound (2009): Obligatory training for unemployed persons, Malta. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/obligatory-training-for-unemployed-persons-malta>, accessed: March 2018

39% stopped claiming unemployment benefits. Many of the reports that were received turned out to be false. One lesson from Malta's information campaigns is that they have greater impact if they last for periods of three months or longer.⁴¹

The most recent problem with informal work in Malta concerned immigrants from Africa, who were exploited as cheap and easily dismissed labour. Until 2012, individuals holding refugee status as well as those granted protection or humanitarian status, could participate in formal economy with an employment licence. However, illegal residents were obstructed from participation in the formal economy. In an effort to survive, these individuals would get involved in informal work and could be exploited as a cheap labour force. In order to curb this activity, ETC and the government introduced new rules and legislation regarding the minimum standards for employers of illegally staying third-country nationals. This regulation prohibited employment of illegal migrants, and put obligations on employers to take action to prevent informal employment. Sanctions were put in place for breaching the legislation.⁴²

Poland

In 2004, informal economy in Poland was a permanent feature of its labour market. Sarzalska and Szydłowski⁴³ estimated that between 764 and 1,317 thousand people were involved in informal employment. In order to reduce these numbers, the Polish government tried to limit the informal economy and shift the economic, social and cultural factors that determine its scope. In achieving the shift from omnipresent to limited informal economy, the government relied on traditional measures like increased inspections of companies, employees and their organizations (trade unions and employer organizations). Many institutions were involved – from customs, social

41 Eurofound (2009): Media campaign to curb informal work, Malta. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/media-campaign-to-curb-informal-work-malta>, accessed: March 2018.

42 Eurofound (2013): New rules against employing third-country nationals, Malta. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/new-rules-against-employing-third-country-nationals-malta>, accessed: March 2018.

43 Sarzalska, M. and Szydłowski, A., 'Praca niejawna w gospodarce' [Hidden work in the Polish economy], in *Zatrudnienie 2006*, Warsaw, MPiPS, 2007, p. 178.

insurance office, police, to ministries and public employment offices. Inspectors were authorised to issue fines, demand fulfilment of legal requirements or propose prosecution. However, the inspections yielded limited results.⁴⁴

After failing to limit informal economy with inspections, the efforts were shifted to understand the causes of the phenomenon. Research on the informal economy confirmed that households were frequent users of services that weren't reported to the tax and social security authorities, according to survey implemented by Central Statistical Office in 2004. In an effort to shift these activities to formal economy, the government introduced amendments to the employment act in 2005 which offered tax deductions to households that report such employment engagements. On the other side, the unemployed persons were only liable to be engaged through "activation employment contract," and thus become part of the formal economy. However, due to other conditions, like one prescribing that contracts be signed for at least one year, these proposals met a wave of public criticism, which later proved to be appropriate as most of the potential beneficiaries remained in the informal economy.⁴⁵

Youth below 25 years old were also identified as highly susceptible to engaging in the informal economy, as in 2002 almost 25% of the unemployed were from this age category. Therefore, the Ministry of Labour and Social Policy designed the 'First Job' programme, intended to protect the high school students from unemployment. On the demand side, the programme primarily targeted companies that were not willing to employ youth without experience. In the three years up to 2005 in which the programme was operational, around 800,000 beneficiaries were involved. However, due to scale it was hard to measure the real employment after the programme completion, and thus the impact it had on reducing the informal economy.⁴⁶

44 Eurofound (2009). Employment legality controls, Poland. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-ineurope/database/employment-legality-controls-poland>, accessed: March 2018.

45 Eurofound (2009). Regulations for legalising domestic work, Poland. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-ineurope/database/regulations-for-legalising-domestic-work-poland>, accessed: March 2018.

46 Eurofound (2009). First Job programme, Poland. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-ineurope/database/first-job-programme-poland>, accessed: March 2018.

When the 'First Job' programme ended, the government initiated the 'First Business' programme in 2005. 'First Business' focused on supporting and promoting entrepreneurship and self-employment among young people. The programme involved training on setting up and maintaining a business, particularly the financial part of it including taxes, as well as subsidies intended to cover part of the establishment and maintenance costs. The programme still operates, and it has been providing around 25,000 young people with self-employment opportunities each year, promoting entrepreneurship culture in the formal economy.⁴⁷

In 2007, new legislation regarding the National Labour Inspectorate (NLI) was introduced. The change in legislation assigned responsibilities related to the informal economy to institutions like the Customs Service, Border Guard, Social Security Institution, Fiscal Control and Police, which operated under the supervision of NLI in regard to informal employment. It also sought to improve efficiency of control over informal employment. With the consolidation of responsibility over informal employment controls, the inspectors from any of the included institutions gained authority to order the companies to pay employees appropriately, and to settle debts for taxes and contributions accordingly—something that was reserved to NLI inspectors before that. However, despite increased capacities, the legal framework (i.e. ability to employ someone on trial period on informal basis) limited the expected results. Further improvements were suggested by NLI, especially with regard to foreign workers.⁴⁸

Following the enlargement of the EU in 2004, Poland efficiently closed its borders to non-EU residents from neighbouring countries who sought informal employment, but was later forced to reverse this decision due to workforce shortages. In 2006, the Ministry of Labour and Social Policy enacted conditions for short-term employment of foreigners without work permits. The conditions stipulated that the foreigners were able to work in Poland for up to three months in every consecutive six months, while this condition was further relaxed in 2008 in favour of foreign citizens to six months of work every year. The main objective was to attract foreign

47 Eurofound (2009). First Business programme, Poland. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-ineurope/database/first-business-programme-poland>, accessed: March 2018.

48 Eurofound (2009). Coordinated approach to fight against undeclared work, Poland. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/coordinated-approach-to-fight-against-undeclared-work-poland>, accessed: March 2018.

workers to Poland, but also to reduce the probability of engaging in informal economy. This policy permitted foreign citizens to reside in Poland no longer than three months per year without a working contract and permit.⁴⁹

Following the pressure from civil society organizations and economic experts, the Polish parliament passed a law legalising the illegal residents in Poland and giving them social rights. As illegal immigrants could not take formal employment, they were pushed towards informal economy by default. In 2011 the government offered an overall amnesty of illegal migrants to legalise their stay first temporarily, and in the long run to integrate them into the society and formal economy. The action lasted for six months in 2012, and anyone could submit an application to legalise their stay. Later on, concerns were raised with regard to the intentions of residence permit seekers.⁵⁰

In 2010, the Ministry of Finance introduced cash registers which registered every sale electronically. While business operators initially objected to the change in legislation, the decision was eventually regarded as justified and successful. The main objective of cash registers were to improve efficiency in collecting taxes and curb tax evasion. However, the immediate effect was less than expected as only a third of entrepreneurs bound by the law notified the tax administration about implementing the cash register. However, the introduction of these procedures was well received by wider public who saw it as a just and appropriate way to improve equality under the law for all companies. Therefore, the government opted to increase fiscal pressure and double down the minimum limit on annual revenue above which adoption of cash register was required.⁵¹

In 2011, the government passed another law that allowed parents to choose for their infants and children an alternative path to public day care, such as hiring a babysitter. Apart from the social component, the envisaged effects of the law were twofold: first, to give mothers higher labour

49 Eurofound (2009). Employment of migrant workers without work permits, Poland. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/employment-of-migrant-workers-without-work-permits-poland>, accessed: March 2018.

50 Eurofound (2013). Amnesty for illegal migrants, Poland. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-ineurope/database/amnesty-for-illegal-migrants-poland>, accessed: March 2018.

51 Eurofound (2013). Mandatory cash registers for entrepreneurs, Poland. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-ineurope/database/mandatory-cash-registers-for-entrepreneurs-poland>, accessed: March 2018.

market mobility, and second to introduce informal nannies and babysitters into the formal economy. The law stipulated signing the activation contract between the parents and nanny, and while the incentive for parents was to be available for the labour market and have higher mobility and flexibility at home, nannies were motivated to receive paid health and pension insurance by the state, whereas they had to cover their income tax themselves. Even though the exact number of nannies has never been established, the initial proposition was that more than 25% of them would be interested in using the benefits this law provided. However, in the end only 5% of the estimated number of nannies were registered with the social security in the aftermath of the new legislation.⁵²

Romania

The Romanian Labour Inspectorate (IM) is a specialised government agency established in 1999 whose main aim is to ensure that employers comply with their obligations related to labour relations, working conditions, and financial reporting. It has an office in each county of Romania. In the period to 2009, almost half of the fines issued were related to informal work. In order to tackle the problem more effectively, the IM focused on employing its resources based on industry sectors, so that staff could be specialized in particular sectors. Sectoral inspections seem to have yielded positive results, as the trend of issuing informal-work-related penalties and fines declined over the years—also due to the fact that sectoral inspections raised awareness of risk among employers. However, the problem of informal work is still widespread in Romania, as the head of IM stressed: “this is due to the ‘complicity between the victim and their executioner’—the employer and employee cover each other by refusing to testify in court.” Savings on taxes and social security contributions get divided between employer and employee through declaring minimum wages and paying the difference in cash.⁵³

52 Eurofound (2013). *Crèches Act to legalise childcare workers, Poland*. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-ineurope/database/creches-act-to-legalise-childcare-workers-poland>, accessed: March 2018.

53 Eurofound (2009). *Builders’ Social Fund, Romania*. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/builders-social-fund-romania>, accessed: March 2018.

The largest problem of informal employment in Romania lay in the textile, retail and food industries, but most importantly in the construction sector, as confirmed by many studies on informal work (Stanculescu and Ilie, 2001). Trade unions and employer organisations in the construction sector are aware of and confirm the issue with informal work, estimating that one in three workers in the sector is without a contract. In 1998, the Construction Workers' Social Fund (CSC) was established—the members of the Fund were construction companies and producers of construction materials, and the Fund offers welfare services to its members which provide an alternative to winter seasonal unemployment between November and March. After signing a sectoral agreement with the Romanian Association of Employers in Construction, the Fund was given a pivotal role. Measures have been applied to ensure that no single contribution to the Fund could be used to remunerate welfare to other contributors. Distinct records for each member of the CSC have been created, thereby preventing informal workers from receiving welfare during the off season. This joint initiative enabled social partners to jointly tackle the issues in the construction sector.⁵⁴

In order to further the understanding of informal work in Romania, the OECD commissioned a study on informal employment. The report came out in 2008 and it analysed the incidence and characteristics of informal employment in Romania, which according to the report ranged between 20% and 50%, depending on how the phenomenon was defined. The results were debated at a seminar with invited experts in the field, where high government officials stressed the importance of the report for future struggles in dealing with informal employment.⁵⁵

Only a year later, the Romanian government signed a Memorandum of Understanding with the European Commission with the purpose of implementing mechanisms for monitoring, controlling, and reducing illegal work. The aims of the mechanisms were to appropriately measure the extent and diversity of illegal work, continuously monitor its development, and coordinate actions to efficiently channel prevention, inspection and control activities. First, an Inter-ministerial Committee Against Undeclared Work was set

54 Eurofound (2009): Sectoral campaigns of the Labour Inspectorate, Romania. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/sectoral-campaigns-of-the-labour-inspectorate-romania>, accessed: March 2018.

55 Eurofound (2009): Report on informal employment, Romania. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/report-on-informal-employment-romania>, accessed: March 2018.

up in 2010, followed by a national strategy to reduce the rate of informal work and the drafting of an accompanying Action and Implementation Plan for 2010–2012. Amendments to the existing legislation were adopted with the aim of increasing awareness of the negative effects of informal work, but also of increasing the fines for both employers and employees in order to prevent their engagement in informal work. Consequently, reports indicated increases in both individual and joint inspections, as well as improvements in their efficiency.⁵⁶

The National Trade Union Bloc implemented a two-year project to enhance understanding and improve the level of information on the labour market and workplace related issues. The project outlined that there was no organization in Romania that represented the workers' perspective in drafting studies and strategies related to labour market. Consequently, Observatory was set up as a platform through which social partners' voices could be heard, and one of the first things initiated through this platform was a report on the informal economy and its impact on the labour market. The study revealed that in Romania around 2.9 million people were employed in the informal economy, which accounted for around 32% of the workforce. More than 87% of those informally employed work in agriculture, forestry and fishing. Informal labour was found to be more frequent among people with low educational attainment, unskilled and low-skilled workers, young, elderly and retirees. The study also estimated that if only 20% of the informally employed shifted to the formal economy, the related budget revenues (not counting the declared business revenues and wages) would account for 1.2% of GDP.⁵⁷

Slovakia

Prior to 2000, informal work was only controlled through labour inspectors and regulation of working conditions on site. However, in 2000 a law on labour inspection was adopted and the inspection activities needed to be

56 Eurofound (2013): National strategy to reduce illegal work, Romania. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/national-strategy-to-reduce-illegal-work-romania>, accessed: March 2018.

57 Eurofound (2013): Trade union study on the informal economy, Romania. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/trade-union-study-on-the-informal-economy-romania>, accessed: March 2018.

coordinated. In 2001 an agreement was signed by the Ministry of Labour and Ministry of Interior and their departments in order to implement coordination of regulations and jurisdictions in cooperation with local governments and employer organisations. In 2005 and 2006 additional legislation was adopted concerning informal employment and labour inspections. Inspections are conducted each year by Slovakia's labour authorities, and based on the information from labour inspectorate offices it seems that the majority of employers comply with the legislation on informal employment. This is mainly due to strong sanctions for breaches of the law on informal work, which include barring employers from receiving state assistance and from participation in public procurement.⁵⁸

As of 2005, every company is obliged to register their employees with the Social Insurance Agency before the beginning of employment. The obligation begins one day before the actual start of work by the employee agreed in the employment contract. Each day overdue was chargeable at 3.5 Euros, and since 2004 the Agency has been authorised to issue fines of up to 16.600 Euros. In just one year, more than 5 million registrations and withdrawals were recorded. There were some issues, however. Some employers argued that the requirement was burdensome, a problem that was addressed by allowing the registration to be performed electronically. However, since there were issues with electronic signatures and certificates, the registration was performed via text message or electronically without electronic signatures, and printed registrations were sent by post or over-the-counter submission within 3 days of the electronic registration. This implies that the innovative solutions like electronic registration are often dependent on broader changes and amendments to the legislation, for example establishment of an agency to certify electronic signatures.⁵⁹

In 2004, new legislation on employment services and amendments to the labour law addressed informal employment. First, employment services were introduced as intermediaries between employers and employees, with employers engaging an agency who would send workers where personnel had been requested. This accelerated the process of job brokering, where the employer would get workers and the agencies would pay

58 Eurofound (2009): Coordination of inspection activities at workplaces, Slovakia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/coordination-of-inspection-activities-at-workplaces-slovakia>, accessed: March 2018.

59 Eurofound (2009): Registration system for work contracts, Slovakia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/registration-system-for-work-contracts-slovakia>, accessed: March 2018.

social insurance contributions. The second amendment allowed external work contracts, by which employers were not obliged to pay the full taxes and contributions amounting to 35% of the employees' wages, but only 1.05% for accident insurance. Reducing labour costs enabled the employers to engage a larger number of workers and contribute to dealing with unemployment and informal work. However, there has been a significant rise in external contracts since 2009.⁶⁰

During the crisis in 2009, GDP dropped by almost 5% while unemployment grew, with a simultaneous increase in informal employment. In order to address the trend of growing informal work legislative measures of tightening control and sanction mechanisms were introduced. First, the employers' obligations to report employees have been expanded, so that apart from the Social Insurance Agency employees from 2009 were required to be reported to Labour Inspectorate as well. An increase of power and authority of the inspectors followed: inspectors were authorized to report illegal employment to prosecutors, lists of entities violating laws were created and inspectors were given the authority to suspend external work and arrangements through employment agencies. Fines were also increased, and inspectors' field of work was broadened geographically, while police were also included in the inspection activities. The overall objectives were achieved—labour records and administration improved and the number of cases of informal work decreased.⁶¹

In 2011, specific measures based on the EU directive on illegal migration were adopted to suspend illegal employment of migrants, especially from Ukraine and the Balkans. Minimum standards for sanctions and measures against employers of third-country migrants have been adopted in compliance with the EU legislation. Employers became liable to inform the Office of Labour, Social Affairs and Family within a short period of time. Illegally working migrants could be expelled from the country and fined up to 330 Euros, while their employers were subject to penalties between 2 and 200,000 Euros. This is one of many examples where transposition of EU directives in

60 Eurofound (2013): Tighter control over informal work, Slovakia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/tighter-control-over-informal-work-slovakia>, accessed: March 2018.

61 Eurofound (2013): Measures to curb employing migrants illegally, Slovakia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/measures-to-curb-employing-migrants-illegally-slovakia>, accessed: March 2018.

national legislation has strengthened domestic institutions and increased the risks for employers engaging in illegal employment of immigrants.⁶²

Slovenia

The extent of informal economy in Slovenia is somewhere between 15% and 25% of GDP according to various estimates. In 1997, Slovenia adopted a programme for detecting and preventing informal work, which foresaw introduction of relevant legislation as well as more stringent monitoring activities. A Commission for detecting and preventing illegal work and employment has been established, with representation from experts from relevant ministries and also from relevant Inspectorates, Tax administration, Customs administration, and the Uniformed Police Department. These efforts did not replace the existing inspections, but rather improved and strengthened them, including intensifying cooperation between the actors involved. The Labour Inspectorate introduced an automated telephone service to enable reporting potential illegal employment. The intensified inspections yielded in sharp decrease in irregularities and breaches of regulations—in 2005, compared to two years earlier, the rate of discovered illegal employees fell by more than 31%.⁶³

In 2000, Slovenia adopted the Act on Prevention of Illegal Work and Employment, which was amended in 2006. It provided the legal framework for the Ministry of Labour, Family and Social Affairs to implement policies to tackle informal work. It introduced the categories of personal supplementary work, short-term work and small work. Personal supplementary work includes activities like carrying out supportive tasks in the household, picking and selling forest fruits and herbs, and under certain conditions making craft products. It may be carried out on the condition that the annual income derived from this work is below the minimum annual salary in Slovenia. Short-term work is defined as working occasionally (up to 40 hours a month) in a family business with fewer than 10 employees. Small work

62 Eurofound (2013): Promoting external work contracts, Slovakia. Available at: <https://www.eurofound.europa.eu/data/tackling-informal-work-in-europe/database/promoting-external-work-contracts-slovakia>, accessed: March 2018.

63 Eurofound (2009): Measures to turn undeclared work into regular employment, Slovenia. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/measures-to-turn-undeclared-work-into-regular-employment-slovenia>, accessed: March 2018.

on the other hand is a work carried out by someone who is not full-time employee and does not receive a pension. This type of employment is regulated by an employment contract with maximum of 20 hours a week or 40 hours a month.⁶⁴

The introduction of these types of employment was meant to decrease the frequency of informal work. From the data collected, it was estimated that about two thousand persons a year were registered to perform personal supplementary work. The major factor behind this achievement was the simplification of the registration procedure. On the other hand, strong suggestions were made to limit further increases in registering supplementary workers, as it was found that this measure was easily abused in a way that people registered for occasional work were performing this work continuously over the year.⁶⁵

The simplification of procedures for registering employment, in particular for foreigners and seasonal workers, motivated the Slovenian Government to pursue further improvements in removing administrative barriers and simplifying rules and procedures. The Ministry of Public Administration was assigned with creating a more efficient and user-friendly public administration, which led to the adoption of the “Programme of measures for the reduction of administrative burdens” in 2005. These efforts focused on two objectives: removing administrative burdens, and systematic examination of all new regulations to prevent additional administrative burdens. Apart from cutting down administrative burdens, the goal was to design a legislative environment which would meet a positive reaction from companies and individuals. In 2006, 15 out of 34 measures the Programme envisaged were implemented. Also, the Act on Prevention of Illegal Work and Employment was updated to reduce the quantity of documents needed for registering employment. Compared to the previously requested 15 pieces of documentation, the amended act requested only 4 documents to be submitted when employing a foreign worker. Another significant improvement was the lifting of mandatory notification of the Employment service. It was found out that the Health Insurance Institute was already notified about employment and changes

64 Eurofound (2013): Mandatory employment contract for undeclared workers, Slovenia. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/mandatory-employment-contract-for-undeclared-workers-slovenia>, accessed: March 2018.

65 Ibid.

in employment, and a system of data sharing has been set up, relieving employers of the obligation to register workers twice.⁶⁶

In December 2006, the Act on Prevention of Illegal Work and Employment was further amended to protect workers. This amendment is accompanied by a simplified procedure for proving the elements of employment relationship, which made the inspection process easier for Labour Inspectorate. The protection of workers was a particularly focus of the new amendments. If the employer was found with workers on informal basis, they would be obligated to declare their workers within three days, and to declare their employment as permanent. Failure to comply would allow the worker to pursue judicial protection.⁶⁷

In 2008, Slovenia amended the Kindergarten Act aimed at reducing unregistered childcare work, meaning that the individuals can provide at home child care services only upon registering with the Ministry of Education and satisfying the relevant conditions. Otherwise, home child care was deemed as illegal. The following audit on the availability of pre-school education concluded that registration reduced the number of childcare providers in the informal sector.⁶⁸

In 2010, the Ministry of Labour, Family and Social Affairs in cooperation with supervisory authorities and social partners launched a public campaign “Let’s stop informal work!” The campaign lasted several months, and involved posters, brochures, radio ads, ads in business magazines and web banners. It was encouraged by the discussions and conclusions of the parliamentary Labour, Family and Social Affairs Committee on informal work in 2009. The specific focus of the campaign was to bring the following messages to the general public, businesses, workers and consumers:

66 Eurofound (2009): Simplification of administrative procedures, Slovenia. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/simplification-of-administrative-procedures-slovenia>, accessed: March 2018.

67 Eurofound (2009): Joint action to detect and prevent undeclared work, Slovenia. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/joint-action-to-detect-and-prevent-undeclared-work-slovenia>, accessed: March 2018.

68 Eurofound (2013): Kindergarten Act, Slovenia. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/kindergarten-act-slovenia>, accessed: March 2018.

- Inform about the benefits of paying taxes and social security contributions, and the dangers posed by informal work does to the welfare state and public services,
- Raise awareness of consumers—i.e. no warranty for goods purchased on informal basis,
- Promote a culture of compliance and respecting the rules,
- Stress the negative effects of informal work such as unfair market competition.

Considering the harsh economic conditions that followed the economic crisis, a decrease in number of registered unemployed persons in 2011 was considered a success for the campaign.⁶⁹

69 Eurofound (2013): Let's stop undeclared work campaign, Slovenia. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/lets-stop-undeclared-work-campaign-slovenia>, accessed: March 2018.

