

SUMMARY OF THE PEER REVIEW ON: 'TACKLING UNDECLARED WORK: DEVELOPING AN EFFECTIVE SYSTEM FOR INSPECTION AND PREVENTION'

Prague (Czech Republic), 4-5 October 2012

1. INTRODUCTION

The Peer Review on *'Tackling undeclared work: developing an effective system for inspection and prevention'* was held on 4-5 October 2012 in Prague (Czech Republic) and hosted by the Ministry of Labour and Social Affairs of the Czech Republic. The meeting brought together Ministry officials and independent experts from ten countries (Croatia, Estonia, Germany, Greece, Ireland, Latvia, Lithuania, Serbia, Slovakia and Turkey), as well as representatives from the host country and DG Employment, Social Affairs and Inclusion at the European Commission.

The host country presented its measures to tackle undeclared work, which have been underpinned by recent changes to the Czech labour legislation and taken forward by a European Social Fund (ESF) project 'Effective System of Employment Development, Implementation of Comprehensive Inspections and Tackling Undeclared Work in the Czech Republic'. Since its launch in July 2011, the project has aimed to reduce illegal employment by setting up a new, unified system of inspection activities. This system has involved direct cooperation between the State Labour Inspection Office, Czech Social Security Administration, Czech Labour Office and other authorities in the recruitment and training of over 330 inspectors, as well as plans to procure fully equipped "mobile offices" for inspections. The project has also used 'CzechPoint', an existing e-government network of contact points, where target groups of jobseekers are regularly required to check-in at short notice in order to disrupt patterns of illegal work.

This summary draws on the contributions from national independent experts and government officials during the Peer Review. The papers prepared by the independent experts from the Host and Peer Countries before the Peer Review provide more detailed information on the issues mentioned in this summary and can be found on the website of the Mutual Learning Programme, <http://www.mutual-learning-employment.net/>. A table summarising the assessment of the Host Country example by the independent experts from the Peer Countries is also available on the website.

2. EUROPEAN POLICY CONTEXT

Undeclared work is a common concern in the European Union (EU) and has serious economic, budgetary and social implications in the Member States. In particular, it can have a negative impact on work quality, skills development and lifelong learning, the health and safety of workers (including access to health care) and social protection systems (e.g. pension savings). However, it should be noted that there is no common EU definition of undeclared work.

On average, the size of the shadow economy stood at 19.2% of GDP in 2011¹. A 2007 Eurobarometer survey on 'Undeclared work in the European Union'² found that roughly 11% of the EU population admitted to have bought goods or services that involved undeclared

¹ Schneider, F. (2011), 'Size and development of the Shadow Economy from 2003 to 2012: some new facts'.

² http://ec.europa.eu/public_opinion/archives/ebs/ebs_284_en.pdf

work and 5% of the citizens reported to have undertaken undeclared work themselves within the previous 12 months. These figures should however be taken as the lower limit of all undeclared work activities in the EU. The study reported that on average almost a quarter of the EU population is thought to be involved, although this number varies substantially between countries.

The extent, pervasiveness and significance of undeclared work led the EU to include this issue as a priority in a number of recent policy documents. Employment Guideline³, which forms part of the European Employment Strategy, stipulates that Member States should set up measures to reduce undeclared work. In addition, the Annual Growth Survey⁴, which sets out the priorities for 2012 in the field of employment, urges Member States to reinforce transitions from informal or undeclared work to regular employment. These employment priorities have been complemented by the Commission Communication entitled 'Towards a job-rich recovery'⁵, published in April 2012 as part of the Employment Package. The Communication introduces a set of measures that seek to complement the medium-term objectives of the Europe 2020 Strategy. Tackling undeclared work is one of the priorities in this Communication, emphasising the negative implications of the shadow economy on working standards, skills development and learning, pension rights and access to health care. The implementation of Directive 2009/52/EC on sanctions and illegal workers, as well as supporting undeclared workers to integrate into the regular labour market are proposed pathways to reducing undeclared work. The Communication also foresees the possible creation of an EU-level platform between labour inspectorates and other enforcement bodies.

In 2012, the European Commission, together with International Labour Organisation (ILO) and Eurofound, launched the project 'Measures for tackling undeclared work in the EU, the candidate countries and Norway since the crisis.' The main purpose of this project is to update the EU-wide systematic database on measures to combat undeclared work set up in 2009. Overall, this initiative responds to the clear need for closer cooperation between authorities within and between Member States and for comparable data at EU level in order to ensure that effective policies and measures are developed and implemented.

3. HOST COUNTRY EXPERIENCE

Undeclared employment is a significant concern in the Czech Republic, driven by a range of economic, social, legislative and cultural factors. Moreover, the recent economic crisis has reinforced these factors, observed in the relative societal tolerance towards undeclared work.

It is estimated that undeclared work results yearly in approximately 0.2 billion EUR of uncollected taxes, unpaid revenues and health and social insurance payments. Undeclared employment is most common in sectors where there are high levels of self-employment (e.g. construction, repair and other vocational trades) and/or where inspections are most likely to be ineffective (e.g. accommodation, hospitality, information and communication).

There are various types of undeclared work, but the most common in the Czech Republic is the 'švarc system'⁶. This illegal system refers to a practice where an individual undertakes the "normal" duties of an employee, whilst maintaining the legal and more financially advantageous status of a self-employed person.

The švarc system is mostly applied in the above-mentioned sectors where there are high numbers of private entrepreneurs benefiting from financial incentives. In essence, it results in

³ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:308:0046:0051:EN:PDF>

⁴ http://ec.europa.eu/europe2020/pdf/annual_growth_survey_en.pdf

⁵ Communication from the European Commission (2012); Towards a job rich recovery; COM (2012) 173 final.

⁶ This type of undeclared work received the name 'švarc systém' after the Czech small entrepreneur, Miroslav Švarc, who applied this practice in his enterprise in the early 1990s. He was consequently prosecuted and received an 18-month prison term.

a loss of income for the state, but it is financially beneficial for both employers and employees. As an illustration, Table 1 below shows the actual values of net and gross salaries, health and social insurance, tax and state revenues triggered by the švarc system. Whilst the system is clearly advantageous for employees, it does have a downside: employees are not entitled to paid holidays or free meals at work and are liable for damages in the workplace.

Table 1 Comparison of declared and undeclared work schemes (in 2012)

	Declared work	Undeclared work
Monthly gross salary	24.000 CZK	30.000 CZK
Monthly net remuneration	18.600 CZK	26.467 CZK
Monthly costs for the employer	32.161 CZK	30.000 CZK
Spending package, 60%	n/a	tax base 72.000 CZK*
Income tax	2.760 CZK	0 CZK
Health & social insurance paid by the employer	8.160 CZK	0 CZK
Health & social insurance paid by the employee	2.640 CZK	3.533 CZK
State revenues	13.560 CZK	3.533 CZK

Source: Strielkowski, W. (2012) *Does it pay off to do undeclared work in the Czech Republic? Host Country Paper of the Peer Review on tackling undeclared work: developing an effective system for inspection and prevention (Prague, 4-5 October 2012)*

However, strictly speaking in the Czech context, it is “misdeclared work.” The work is actually declared (and this has been the case according to law until recently) and the state only loses out on tax and social security payments. Given the varying interpretations of the švarc system, it is not surprising that some countries consider the system to be legal, as in the case of Latvia.

Another feature in the Czech Republic is that the general public is highly supportive of the švarc system, particularly since the financial difficulties of the economic crisis. A survey carried out by Ambruz and Dark/Deloitte⁷ in 2012 found that 63% of firms were in favour of the švarc system.

In order to better combat undeclared employment, the Czech Republic has undertaken two important measures: legislative changes and the implementation of the ESF project ‘Effective System of Employment Development, Implementation of Comprehensive Inspections and Tackling Undeclared Work in the Czech Republic’.

3.1. Legislative changes

On 1 January 2012, two new legislative measures to combat undeclared work were introduced. Act No 435/2004 Coll. introduced a number of provisions in relation to undeclared work:

- Changes in the definition of undeclared work, which now refer to seven main characteristics: acting on the employer’s behalf, regular remuneration in equal amounts, exclusive work for one employer, working with the employer’s tools and facilities, strict working hours, damage liability and narrow specialisation;
- Increase in the size of penalties for employers and employees (ranging from 3 955 EUR for employees to 9,887 EUR for employers);

⁷ Ambruz and Dark, *Legalizace švarcsystému? Pro jsou dvě třetiny firem (Legalization of „svarc system? Two-thirds of the firm are in favour)*, 2012, Internet: <http://www.ambruzdark.cz/legalizace-svarsystemu-pro-jsou-dve-tretiny-firem>

- Centralisation of competences for combating undeclared work into one single authority;
- Exclusion of employers punished for illegal employment of third-country nationals from public funding; and
- Obligation for employers and employees to ensure that the legality of the employment can be proved at all times (e.g. work or residence permit for third-country nationals).

Act No 262/2006 Coll. brought about changes in the definition of 'independent work' and included provisions for more formal labour relations in order to reduce covert labour arrangements.

3.2. Project 'Effective System of Employment Development, Implementation of Comprehensive Inspections and Tackling Undeclared Work in the Czech Republic'

Underpinned by the above-mentioned legislative changes, the State Labour Inspection Office (SLIO) launched an ESF project in July 2011 entitled 'Effective System of Employment Development, Implementation of Comprehensive Inspections and Tackling Undeclared Work in the Czech Republic'. The project aims to reduce illegal employment by setting up a new, unified system of inspection activities. The rationale behind the project is to unify the inspection activities in order to achieve greater effectiveness and efficiency and increase the number of inspections to at least 200,000 per annum. A unified inspective service would also reduce the administrative burden on enterprises.

The project has a total budget of approximately 32 million EUR and will run until December 2013. It aims to undertake the seven key project activities:

- Activity 1: Implementation of inspections and optimisation of the performance of the SLIO by collaborating with project partners. As part of this activity, inspections under the new inspection system were piloted with a particular emphasis on ensuring effective cooperation between the various inspection bodies. An evaluation of these pilot inspections was used to transpose corrective measures.
- Activity 2: Creating a methodology and a new organisational structure and support system for the implementation of activity 1. In 2013, the Information System of the three institutions will be interconnected which will ensure the exchange of data between the partners for the purpose of tackling undeclared work.
- Activity 3: Training of inspectors and employees of the State Labour Inspection Office. A training course including e-learning study materials has been developed for the training of the inspectors.
- Activity 4: Pilot verification, system operation and control activities through the new inspection system using "CzechPoint". CzechPoint is an e-governmental network of contact points (located mainly in post offices). The system aims to prevent the officially registered unemployed from working illegally as they are regularly required to check-in at the CzechPoint offices during working hours and the appointment is only announced up to three days in advance. The system using CzechPoint was piloted and officially launched in October 2011.
- Activity 5: Mandatory publicity, education and counselling of employees. Small promotional items with EU logos have been distributed with information on illegal employment. Dissemination through the mass media has however not yet been undertaken due to the perceived negative attitudes of the general public towards the project.

- Activity 6: Project management; a consulting company was hired to provide legal advice on government procurement issues which are highly complex in content and administration.
- Activity 7: Project audit; a sub-contractor was selected to carry out three project audits.

This project has been built on the close cooperation arrangements between the SLIO, Czech Social Security Administration, Czech Labour Office and other authorities. The SLIO has been tasked with conducting random inspections and checks of enterprises. The Czech Social Security Administration has been working on developing an improved methodology for the new inspection system. They have also assisted the SLIO in the acquisition of the mobile offices. The Czech Labour Office has been responsible for managing the system and inspection activities through CzechPoint. They have also supported the implementation of inspections by, for instance, recruiting and employing the inspectors. Other organisations have also been involved with various tasks, including the Chamber of Commerce and Czech-Moravian Confederation of Trade Unions.

The inter-institutional and wider stakeholder cooperation aims to generate significant benefits in the field of undeclared work. It is anticipated that the unification of the inspection activities will lead to increased effectiveness and optimisation of the check-ups and increase the inspection capacity. The cooperation should also, on the one hand, ensure the smooth implementation and management of the inspection activities, and on the other hand, reduce the administrative burden on enterprises which are often overwhelmed by the large number of inspections carried out by various state inspectorates.

3.3. Project results so far

Overall, it is foreseen that the project will reduce undeclared employment in the labour market by 10% in the short-term and up to 30% in the long-term, and legalise 10,000 jobs each year. The project is still on-going and it is therefore premature to fully assess its results. There are however a number of preliminary findings, which are summarised below.

With regards to the inspectors, 330 inspectors had been recruited and trained and are currently carrying out inspections across the Czech regions. There have however been some challenges relating to the high turnover of personnel, which is most likely due to the combination of low remuneration and incentives, as well as the unattractiveness of the job.

So far, 14,304 inspections have been launched, of which 10,304 inspections have been completed. The inspections have identified 1,285 illegally employed persons, which has resulted in 123 fines for administrative offices, four offences related to undeclared work and 49 penalties for offences pending.

Slower progress has been made in the procurement of inspection equipment, most notably the 'mobile offices' (i.e. motor vehicles with IT equipment), the main part of the project. The public tenders were revoked twice due to the limited number of bidders and poor quality of the bids. This has had implications for the mobility of the inspectors, although they have been temporarily allowed to use official vehicles of the SLIO or private vehicles. At the time of the Peer Review, the SLIO announced that they had found a contractor for the mobile offices and expected to place the order in October 2012.

Following its launch in October 2011, the system using CzechPoint is now fully operational. In the initial six-month period, there was a significant increase in the number of jobseekers visiting the CzechPoint centres: from 13,514 visits in October 2011 to 210,994 in January 2012, and then slightly decreasing to 146,186 in March 2012. These results have shown that almost 400,000 EUR was saved in expenditure from the state budget for employment services to jobseekers.

In terms of ensuring the post-2013 sustainability of the project, the SLIO foresees that at least 300 of its inspectors will remain employed and continue to carry out their duties. The mobile offices purchased under the project are also seen as an investment and will continue to be used in the future.

3.4. Lesson learnt - success factors and challenges

a. Success factors

The following success factors for the project have been:

- **Critical importance of inter-institutional cooperation, including the integration of various databases.** The project has led to closer cooperation between the state authorities (i.e. SLIO, Czech Social Security Administration, Czech Labour Office, Ministry of the Interior and Czech Post). An essential part of their cooperation is based on the use of CzechPoint, as well as the planned integration of databases in 2013. Due to the project, inspections are no longer carried out separately and sporadically by various state inspection offices. This new unified approach has resulted in a more effective monitoring system; and
- **Value of CzechPoint in hampering undeclared work.** CzechPoint has strengthened the control mechanism that prevents jobseekers from engaging in undeclared work and thereby reduced illegal employment. CzechPoint has also reduced the administrative burden associated with the management of jobseeker records.

b. Challenges

The following challenges have been identified:

- High complexity in the preparation of the public procurement of the mobile offices;
- High personnel turn-over and difficulties in keeping staff motivated, which may be caused by the low financial incentives and unattractiveness of the position;
- Few of the uncovered employers and employees have been properly penalised, which can be explained by the limited competences to impose financial penalties; and
- Low societal tolerance of undeclared work, ineffective dissemination of information on the project and therefore negative attitudes towards clamping down on such activity and thus towards the project itself.

For more detailed information on the Czech context and their system of prevention and inspection on undeclared work see: the [Host Country Discussion Paper](#) prepared by the Independent expert, Wadim Strielkowski and the [Official Paper](#) prepared by the State Labour Inspection Office

4. DISCUSSION AND LEARNING

The Peer Review provided an opportunity for a fruitful exchange between the participants, all of whom expressed a high interest in comparing their own national experiences with the the Czech case. The main points emerging from the discussions are summarised below.

4.1. Main causes of undeclared work

Tackling undeclared work - and its effects on economies and labour markets – is a key issue for all the countries participating in the Peer Review. However, it is to be expected that these countries attribute varying levels of importance to the issue, often depending on the national economic climate and employment levels. In the Czech Republic, for instance, fighting

undeclared work has become high on the political agenda due to the huge (estimated) revenue losses that the state cannot “afford”, particularly in the aftermath of the economic crisis.

Participants of the Peer Review stressed the fact that the nature of undeclared work differs from one country to the other. However, they came to a general consensus that economic and labour market conditions are some of the common causes. In general, in countries with low economic growth and high levels of unemployment (which are normally combined with low labour demand, as well as a prevalence of low basic skills), the shadow economy has greater weight than in those countries with a more favourable economic situation.

This general trend has been exacerbated in countries hard hit by the economic crisis (e.g. Lithuania, Greece and Latvia). For example, Greece has faced a massive drop in the demand for their products and services and firms have been forced to resort to undeclared work as the only way to cut costs and “survive”.

The Peer Review discussions also highlighted that the structural aspects of the economy are important influences. This includes restrictive labour law and high non-labour costs for employers (covering administration, health provision, parental leave, training etc.), differential tax rates (between, for example, the status of employed and self-employed), low wages (and hence low retained earnings), high marginal tax rates (from benefits to work) and restrictive labour laws. In countries like Croatia or Slovakia, the excessive employer tax burden is one of the main factors motivating firms not to declare their employees and forcing them to keep part of the regular work undeclared as a way to avoid taxes and delivery payments to the administration.

In addition, the presence of a large number of documented and undocumented (illegal) economic immigrants is considered to be a contributing factor in the prevalence of undeclared work in countries like Greece and the Czech Republic.

Public perception and understanding also play a strong role in the level of undeclared work. In many countries, undeclared work is often considered to be a normal practice and almost a necessity for the survival of firms and individuals in those areas particularly affected by the recent economic crisis, for instance, in Croatia, Greece and the Czech Republic.

It was highlighted that the high tolerance towards undeclared work in some countries is partly explained by the citizens’ perception of their government’s “unfairness” and their lack of trust in government. From a behavioural point of view, everyday employers and citizens are making a “risk-reward calculation”, assessing whether the immediate and short-term gains of undeclared work outweigh the likelihood of being caught and the size of the penalty.

4.2. Types of undeclared work

Before describing the different types of undeclared work present in the participating countries, it is important to note that there is no common EU definition of undeclared work. However, looking at the countries present in the Peer Review, some common types emerge.

The most common type of undeclared work is the ‘švarc system’ (explained in the previous section). The švarc system was discussed during the Peer Review as a form of undeclared work. However, strictly speaking in the Czech context, it is “misdeclared work” (see above on page 3). Similar to this is the ‘Scheinselbstständigkeit’ in Germany, which is used by self-employed workers who are actually mimicking employment relationships. While this and equivalent systems are beneficial for both contracting parties (employer and employee), the state loses its associated income.

Many participants pointed to ‘envelope wages’ (cash-in-hand payments to supplement often minimum wages and sometimes pay the whole salary illegally) as a major form of undeclared work in their countries. For example, in Estonia, 17% of salaries were illegally paid cash-in-

hand in 2011. It is important to note that this form of undeclared work is practically impossible to detect in normal workplace inspections as the employees normally have a legal work agreement. Given this challenge, in Latvia, the number of minimum wage recipients is considered an indicator of the potential prevalence of the envelope wage phenomenon; there is also anecdotal evidence that envelope payments are given to employees with much higher salaries than the minimum wage.

Other types of undeclared work mentioned during the Peer Review were undeclared overtime and false or absent work agreements. The former is widely spread across a few countries (e.g. Slovakia) as a form of tax evasion. Moreover, the crisis may have given birth to new forms of undeclared work, such as declaring lower-than-actual earnings to the authorities or carrying out “fake” dismissals so as to receive unemployment benefits (e.g. Greece).

In most of the participating countries, the above forms of undeclared work tend to be concentrated in certain sectors and occupations where there is a high labour demand with low value added and low-level skills required. Construction, care services, agriculture, hospitality, transport, wholesale/retail trade, personal services and seasonal work are the most affected. Participants acknowledge that, when it comes to inspections, difficulties increase in certain sectors such as home-care services.

It was also highlighted that at the company level, micro, small and family-run businesses seem particularly susceptible to undeclared work due to their tight financial margins. And at the individual level, young people, students, women and pensioners are at a greater risk of working illegally due to their more vulnerable position in the labour market, non-marketable skills and their need for a second income to make ends meet. Due to the recent economic crisis, the situation has become more critical for these groups who might find undeclared work to be the only way to survive. Hence, the negative social impact of undeclared work is by no means negligible.

4.3. Measures to tackle undeclared work

Undeclared work is present and tolerated to some extent in many countries and the way it is tackled depends on every national situation. The different measures put in place by the participating countries range from prevention to restriction, through to detection, negotiation and finally action.

Preventive approaches can include a mix of measures, from public awareness-raising through to more structural changes in the country's economy. Other preventive measures pointed out during the Peer Review were large-scale campaigns carried out in some countries (e.g. Estonia, Ireland and Lithuania) to make the general public aware of the problems undeclared work brings to the economy and the penalties for those employed illegally. The success of the Estonian approach was demonstrated by the fact that after evaluating their latest campaign in 2011, 59% of 15-74 year-olds remembered it and 65% of respondents found it to be effective in terms of raising awareness.

In the case of Estonia, there has been a strong development of e-services with the aim of easing the legislative and administrative burdens for firms and individuals. Other effective measures have been the anonymous whistle-blowing described by Ireland and Latvia or the 'Letter Project' implemented in Estonia as a way to improve tax behaviour among firms. The aim of this project was to reduce the cost of labour and the amount of time spent on controls, as well as to provide an opportunity for the firms to voluntarily start paying their taxes. This measure has proved to be an extremely cost-effective measure, as well as very successful in raising awareness.

As indicated in the previous section, undeclared work tends to be concentrated in certain sectors. Consequently, these sectors might require a more specific measure. For example, Greece has recently introduced a special voucher⁸ which can be used as a means of compensation for those occupations, such as domestic workers (cleaners, gardeners, private teachers, child and elderly care providers, etc.), where undeclared work is more extensive. The voucher has brought important changes as regards the method of payment and insurance for domestic workers.

A combination of preventive and detective measures has also been pointed out during the Peer Review. For instance, in Estonia, inspection methods, such as document controls have been combined with monitoring and counselling of firms which were considered to be at risk of tax evasion with the primary aim to improve future tax behaviour. A similar example was described by Ireland, where a Special Investigations Unit (SIU) has been established to investigate potential cases of fraud and to conduct face-to-face interviews with suspected claimants.

In terms of more restrictive measures, examples can be found in Germany and the Czech Republic where large-scale controls have been implemented and fines increased. In the case of Germany, penalties against undeclared work were raised to up to 300,000 EURO for illegal employment and non-payment of social contributions.

In countries where the undeclared work of foreigners has become a specific issue, enhancing cooperation between the police, customs administration and the foreign office is crucial. For instance, in Germany, this cooperation has led to a joint centre, called GASIM (*'Gemeinsames Analyse- und Strategiezentrum illegale Migration'*).

In order to achieve a greater cooperation between the different authorities involved in tackling undeclared work, it was pointed out that co-operation agreements defining roles, procedures and ways of communication are needed. This better coordination could lead to co-ordinated inspections which would make the fight against undeclared work more effective. When it comes to further increase the efficiency of the system and ensure quick resolving of the cases, all the participating countries agreed on the importance of integrating databases, based on certain data protection legal arrangements needed.

Another important aspect of restrictive approach is the improvement of the inspectorate service. All countries emphasised the importance of improving inspectors' remuneration and training, with prospects of career development and job security. In line with this, bonus and payment-by-results systems are operated in some countries, such as Latvia. In some cases, there may be value in organising inspectors into specialist teams, which helps to give a professional cadre to the service, as well as deal with more dangerous or large-scale cases. The inspectorate also needs to have the power to exercise its duties, which means an increased legal basis. In this sense, the importance of having a clear legal framework, defining undeclared work and its penalties was highlighted. In the case of Germany, the new unit *'Finanzkontrolle Schwarzarbeit'* of the Federal Customs Administration was given extended authority to combat undeclared work (e.g. extensive rights to control tax and social

⁸ The so-called "labour ticket" (*"ergosimo"*), is an employment coupon which may comprise an alternative type of insurance for occasional employees. This alternative form of insurance has been foreseen by Law 3863/ 2010 (on the revision of the national insurance scheme), and was meant to target mainly domestic staff and people employed in the sectors of agriculture and healthcare (seasonal workers). The labour authorities are currently planning to utilize the labour ticket practice as an instrument to combat undeclared work among the young (up to 24 years of age). More concretely, the new measure will enable enterprises in other sectors and especially in those sectors involving increased levels of atypical-undeclared employment, to employ and pay only a part of the salary of their newly employed staff (non-permanent, occasionally employed). As a side effect, the measure is expected to help eliminate a large part of the bureaucracy involved in the case of recruitment of temporary workers (conclusion of a contract, notification of employment, termination, etc.). Two types of labour tickets are envisaged: a monthly ticket amounting to 230€, and a daily ticket amounting to 10€. The measure is expected to benefit 60,000 individuals (30,000 per year of implementation), in 2013-2014 at a total cost of 165,000,000 – 180,000,000 €.

security contributions, authorisation to make unannounced site visit to control workers and production sites).

In terms of tools and systems, inspectors need to be equipped with vehicles and the latest information technology in order to be mobile and “connected”. Their effectiveness can be further enhanced by the strategic analysis and planning of inspections. Risk profiling, targeted controls and operating a 24/7 service have all been cited in this context.

Discussions during the Peer Review also pointed out the critical need for cooperation between the different state authorities and other labour market players in the fight against undeclared work. A good example of this type of cooperation was described by Lithuania, where a central coordination group comprising representatives from various organisations⁹ was created in 2001 to enforce the control of undeclared work. The main tasks of this group are analysing and assessing the conditions of undeclared work; forecasting and approving measures to improve controls and reduce the incidence of undeclared work. This cooperation has been proven to contribute to greater efficiency in the prevention of undeclared work, savings in state funds, the professionalisation of the experts involved in the process and the development of new and more effective measures to prevent the incidence of undeclared work.

Examples of other useful measures discussed include:

- Selective social security contributions and targeting regulations by sector;
- Lower rates of taxes for certain (in-difficulty) sectors;
- Regulatory impact assessments in order to reduce the level of red tape overall;
- Tests of specific inconsistencies, such as those between the employed and self-employed status;
- A balanced combination of activation, monitoring and sanctions of unemployed people to dissuade individuals from engaging in undeclared work; and
- Payment packages can also be helpful based on the principle that some tax is better than no tax (e.g. Serbia and Turkey)¹⁰.

Whatever the approach followed by each country, it was commonly agreed during the Peer Review that political will plays an important role in order to make any measure credible and sustainable.

5. CONCLUSIONS

The main conclusions of the discussions held at the Peer Review are summarised below.

- The **nature of undeclared work varies from one country to the other**, depending on the economic, social and political context. Therefore, the development of measures to tackle undeclared work should be tailored accordingly.
- **Establishing partnerships, networking and cooperation** between the different stakeholders is critically important. Undeclared work is a complex issue and therefore

⁹ State Tax Authority, State Social Insurance Fund Board, SLI, Tax Police Department and the Police Department.

¹⁰ Further reading on the subject of undeclared work was suggested by the Irish ministry official, namely the article ‘Enforcement problems in ‘informal’ labour markets: a view from Israel’, Guy Davidov (2006), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=921275

the different state authorities and labour market actors should play a key role in the development of measures. In order to achieve this cooperation, the existence of formal agreements (with clearly defined roles, procedures and responsibilities), joint inspections and the integration of databases are needed.

- **Data sharing** is a very important element in order to ensure the efficient investigation and quick resolution of cases. However, this can only happen if corresponding legal arrangements related to data protection are put in place.
- **Political will and backing to tackle undeclared work** is needed to support the capacity and credibility of any measure. As a consequence, changes in government and other political fluctuations can impact on the continuity of measures to tackle undeclared work.
- There is a need for a **clear and robust legal framework** which clearly defines undeclared work, gives authority to inspectorates to refer cases and helps to enforce penalties.
- The range of measures to tackle undeclared work can be understood in terms of a process, from **prevention** and **deterrence**, through to **detection**, **negotiation** and finally **action**. Specific measures for unemployed people, combining activation, monitoring and sanctions, can also be effective.
- **Awareness-raising among the general population** to improve tax behaviour has proven to be successful. Public acceptance is a much under-estimated factor, which has a strong influence on the level of undeclared work. From a behavioural point of view, everyday employers and citizens are making a “**risk-reward calculation**”, assessing whether the immediate and short-term gains of undeclared work outweigh the likelihood of being caught and the size of the penalty. This tendency seems to have increased and become widely accepted in those countries particularly affected by the economic crisis.
- The **simplification of procedures and legislative flexibility** are important to facilitate and encourage the legal tax behaviour of firms and individuals. The development of electronic registries, as well as a set of e-services not only supports legal behaviour, but it also offers a good opportunity to governments to analyse such behaviour.
- **The reform of tax and social security regimes** is necessary in order to make “declared work pay”. The development of selective tax regimes and legislations might be an option to engage employers and individuals who are on the financial margins and in “difficult” sectors.
- The need to **improve the inspectorate service** has been unanimously recognised by the Peer Review participants. Inspectors’ remuneration, training, job security, equipment, as well as their “power” to exercise their duties are all key aspects that need to be enhanced in order to increase the effectiveness of the service.

Further reports from the Peer Review will be published on the Mutual Learning Programme website (<http://www.mutual-learning-employment.net/>).