

Factsheet on Undeclared Work – GREECE

1.1 Nature and Estimated Scale of Undeclared Work

1.1.1 Definition of undeclared work

The term most widely used in Greece in order to describe unobserved (shadow) economic and employment activities is underground economy (*napaoikovopia*). The underground economy, as used in political and academic discussions in Greece, comprises both predominately legal and criminal activities exhibiting a common feature: they are not declared to the authorities either because they are illegal per se, or in order to avoid paying taxes and social security contributions. With respect to different organisations adopting different UDW definitions, as of 2014, the two main agencies involved in combating UDW in Greece (the Hellenic Labour Inspectorate, SEPE, and the United Body of Social Insurance, EFKA) are conducting inspections using the same definitions and the same operational methods.

1.1.2 Characteristics of undeclared work

UDW is thought to be very much concentrated in a limited number of sectors and occupations, notably in agriculture, construction, distributive trades, hotels and restaurants and among domestic workers. Agriculture has always been associated with informal activities and informal work is not the same as UDW according to the definitions. Yet it is common knowledge that the agricultural sector employs thousands of seasonal workers, mostly from the ranks of economic immigrants and the Roma. These people work, according to the press, without formal contracts and of course, without social security rights and obligations. UDW is most widespread in construction sector. Clandestine workers typically comprise of students, registered unemployed, multiple job holders and especially foreigners (both legal and illegal). There is also wide tolerance of UDW in construction by Greek society, as most household renovations and maintenance jobs are carried out by unregistered contractors. In the retail trade, there are unofficial reports by the press according to which the share of underground trade may be as high as 20% of the total (in terms of turnover), reaching as much as 40% in certain items, notably clothing. Finally, with regard to hotels and restaurants, estimating UDW is hindered by the existence of a huge number of tiny enterprises, some of which are seasonal in character. Clandestine workers here comprise all categories known to participate in UDW, namely multiple job holders, inactive (students, housewives and pensioners), unemployed people and immigrants.

With respect to the distribution of UDW by employer size, in 2014 there were almost 700,000 enterprises, the vast majority of which were micro enterprises. Micro enterprises comprised 97% of the total, employing less than 60% of the total number of persons employed and generating just over 37% of the total Gross Value Added (GVA)¹. Micro and small enterprises often resort to UDW in order to cut down costs, remain competitive and survive the crisis.

Regarding motivations, since the start of the crisis Employment Protection Legislation (EPL) has been made less strict and firing costs have been adjusted to lower levels. In addition, wage flexibility has increased thus reducing incentives for employers to resort to this type of work. The tax system however, may be one of the main reasons for the continuing prevalence of UDW. The tax burden has increased substantially during the last few years, thus increasing incentives to conceal incomes.

Lastly, with respect to unemployment benefits, provision is currently confined to a minority of the unemployed, while ordinary benefits expire after 12 months (at a time

¹ European Commission (2105), *SBA Factsheet: Greece*, Brussels.

when the majority of the unemployed are long-term unemployed). In general, unemployment benefits do not discourage job search in Greece and can hardly be blamed for the existence of undeclared work. It is possible though that by being grossly inadequate, benefits indirectly subsidise the propensity of seeking undeclared employment and the same holds for the extraordinary benefits for seasonal workers.

The situation as far as UDW is concerned, is likely to have been aggravated by the economic crisis. The crisis may have given birth to new forms of UDW, such as declaring to the authorities lower than actual earnings and/or hours of work and 'fake' dismissals (so as to receive unemployment benefits). Multiple job holding (moonlighting) is also believed to have increased, with persons holding a formal job in the morning and an informal one in the afternoon.

1.1.3 Estimated scale of undeclared work

The size of the undeclared economy is commonly estimated to be equivalent to some 25% of GDP in Greece. A catalyst for its prevalence is the relatively high level of self-employment and large share of micro- and small enterprises. Micro enterprises with 1-9 employees represent 96% of all enterprises in Greece, employing 55% of the labour force (compared with less than 30% in the EU-28). Greece also has the highest percentage of self-employed people in the EU28 at a rate of more than 32% (14% in the EU-28) According to the 2013 Eurobarometer survey, of all undeclared work in Greece, 67.3% was waged employment (with 13.3% wholly undeclared waged employment and 54% under-declared employment), 10.2% was undeclared self-employment and 22.5% was paid favours for close social relations. Undeclared work is undertaken by all social groups. However, there appears to exist a necessity driven 'lower tier' populated by younger people and those with financial difficulties, and a more voluntary-oriented 'upper tier' occupied by professional groups such as lawyers, doctors and accountants, who not only appear to gain greater rewards from their undeclared work but also from using undeclared labour such as for domestic cleaning and home maintenance (just 24% of unemployed people but 40% of self-employed and 34% of employed people purchase undeclared goods and services). It would thus be a mistake to adopt a laissez-faire approach towards the undeclared economy based on the belief that it is a survival strategy for populations excluded from the declared economy. What interventions are required, therefore, to tackle the undeclared economy.

Regarding recent trends, there are some indications according to which UDW may be falling. According to Schneider & Williams (2013), the size of the shadow economy (expressed as % of the GDP) declined monotonically from 28.2% in 2001 to 24% in 2012. To the extent that this trend is accurate, it can partly be attributed to increased efforts by the authorities to tackle tax evasion by improving the tax audit function, by introducing electronic cross-checking of the tax data and by organising public campaigns to discredit tax evaders. In this frame, it should be also noted that the fines imposed on employers for employing undeclared personnel have been made stricter since 2013. Falling trends may also reflect the recorded decline in the number of immigrants.

According to the results of joint inspections carried out by the Labour Inspectorate (SEPE) and the United Body of Social Insurance (EFKA, Greece's main social security institution) for 2016, undeclared workers were employed in 16.3% of companies inspected (5,577 out of 34,241). Of the 130,608 employees, 7.1% (9,270) were identified as undeclared workers, with fines imposed amounting to over EUR 97 million.

Inspections for 2016 revealed that businesses with undeclared workers accounted for 27.6% during the targeted inspections in textile production, 19.4% in the garment industry, 18.2% in activities providing personal services and 10.9% in sports and leisure/entertainment, and 10.0% in catering services.

1.2 Institutional Framework

1.2.1 Responsibilities for addressing undeclared work

In Greece the main authorities for addressing undeclared work are namely:

- the Ministry of Labour, Social Security and Social Solidarity and Hellenic Labour Inspectorate (SEPE) for labour law violations;
- the Ministry of Finance for tax non-compliance, and
- the United Body of Social Insurance (EFKA) for social security fraud.

1.2.2 Characteristics of the responsible organisations

Ministry of Labour, Social Security and Solidarity

The Ministry of Labour, Social Security and Solidarity takes overarching responsibility for labour law violations, and as tackling undeclared work in Greece is primarily perceived as concerning the social protection of workers, this Ministry is viewed as the lead Ministry in tackling undeclared work, taking responsibility for the definition and implementation of policies on employment, working conditions and social security, coordinating the system of labour administration, including the Labour Inspectorate (SEPE) and the Labour Force Employment Organization (OAED).

Hellenic Labour Inspectorate (SEPE)

This was established in 1955 and restructured to its present form in 1999. In accordance with Article 2 of Act 3996/2011: the "project of the Labour Inspection Corps is the supervision and control of the implementation of the provisions of labour legislation, the investigation of the insurance cover and illegal employment of workers, reconciliation and settlement of labour disputes, and the provision of information to workers and employers concerning the most effective means of complying with the current provisions". It reports to the Ministry of Labour, Social Security and Solidarity, so as to ensure a unified policy for monitoring the implementation of labour legislation. In accordance with Law 2639/1998 (FEK A' 205) on 'regulation of labour relations, establishment of a Labour Inspectorate and other provisions'. SEPE is responsible for:

- a) monitoring the implementation of labour legislation (labour accidents, health and safety etc);
- b) the investigation of incidents of illegal labour and uninsured labour; and
- c) the provision of information and proposals regarding the effective application of labour legislation.

SEPE has the authority to freely enter all workplaces in the private and public sector, at any time of the day or night, and without prior notification. It carries out necessary examinations, monitoring or investigations of all types, with a view to determining whether the provisions of labour legislation are being observed. It can temporarily suspend operation of the whole or part of an enterprise, if the labour inspectors deem that workers' safety and health are directly at risk.

The total staff of SEPE at the end of 2016 was 736 employees, of whom 335 were labour relations inspectors, 249 health and safety inspectors and 44 inspectors under training. The labour inspectors are civil servants selected by a state personnel selection commission. Candidates for labour inspection posts must have a university degree in economics, public administration, social studies, or law and very good knowledge in at least one European language. Informatics ability is also a prerequisite. Candidates for the technical and medical posts are required to have a degree in engineering or medical studies respectively. A training period of three weeks takes place after the nomination as labour or technical and medical labour inspector. SEPE responds to grievances, or targets certain sectors or enterprises for inspections. SEPE sets annual plans and publishes annual reports, posted on the site of the Ministry of Labour, Social Insurance and Social Solidarity.

Manpower Employment Organization (OAED).

This is the public body responsible for the implementation of employment policy and services. In particular, OAED is responsible for information on the labour force and the unemployed, for the professional orientation of the labour force, the delivery of technical education and training, facilitating the link between labour demand and supply, and the payment of benefits such as unemployment benefits, maternity benefits etc. OAED is responsible for maintaining the registry of unemployed in Greece, which, according to the Governor of OAED (interview 26 April 2016) is interoperational with SEPE and IKA. OAED is co-owner of ERGANI and data is cross-checked.

They are also connected with the revenue administration, from which they draw data on taxpayers. OAED draws hiring announcements from ERGANI, gets the AFM (taxation number), cross-checks this, and seizes unemployment benefits if the person is employed.

Furthermore, the unemployed are obliged to appear physically once every three months to sign that they are unemployed. In cases of employment, the unemployment benefits are suspended. According to the same source, the problem with undeclared work is that they work without appearing in any data sets.

United Body of Social Insurance (EFKA)

The Law 4387/201613 created a new legal organ of public law, namely EFKA (Uniform Social Insurance Fund), which will subsume the existing social insurance funds for principal insurance, i.e. IKA (employees), ETAA (engineers, doctors, lawyers), OAEE (self-employed), OGA (agricultural workers), NAT (seafarers), TAYTEKW (public welfare organizations employees), and ETAT (bank employees). EFKA is a legal entity supervised by the Ministry of Labour, Social Security and Social Solidarity.

EFKA carries out inspections in much the same way as SEPE, albeit with a different focus. Inspections by IKA seek to check whether social insurance legislation is being complied with. EFKA's inspections are carried out by local branches as well as by the Special Insurance Control Services (EYPEA). The latter are administrative units specifically set up for fighting social security contribution evasion. Since 2014, a large amount of inspections at enterprises and work sites are carried out by mixed units consisting both of EYPEA (Special Insurance Control Service) and SEPE (Labour Inspectorate) employees.

Ministry of Finance

The Ministry of Finance, meanwhile, takes responsibility for that aspect of the undeclared economy related to tax non-compliance. This Ministry is responsible for tax revenue and more particularly in relation to the undeclared economy, tax non-compliance, and includes the Financial and Economic Crime Unit (SDOE) which is the tax inspectorate and takes responsibility for investigating tax non-compliance, the Public Revenue Service and the General Secretariat of Information Systems (GSIS).

1.2.3 Cooperation and collaboration between authorities and cross-border authorities

During the last few years, a number of measures were taken in order to improve the services engaged in monitoring unlawful employment (EFKA (IKA), SEPE, SDOE) and increase collaboration between them. In this respect, a Ministerial Decision (M.D. No. 11321/11115/802/2.6.2014 (ΦΕΚ 1851/ Β' 12.6.2014) has envisaged the coordination of inspections through the cooperation of IKA and SEPE. The inspections at enterprises and work sites are now being carried out by mixed units consisting both of EYPEA (Special Insurance Control Service) and SEPE (Hellenic Labour Inspectorate) employees, working on the basis of a common UDW definition and imposing the same fines. The fines imposed by SEPE are communicated to the tax authorities, whereas the fines imposed by EFKA (IKA) are communicated to the social security organisations.

The checks conducted by SEPE involve a sample of companies from all sectors of economic activity, whereas the checks conducted by EFKA (IKA) focus on sectors which are known to exhibit high incidences of UDW, namely hospitality services, personal services, retail trade, transport services, manufacturing activities, construction, car repair companies, cleaning services and security services.

1.3 Policy Focus and Measures

1.3.1 Policy approach

The intention to combat undeclared work has always been a core policy objective in Greece, emphasised on various occasions. The need to limit its extent, for example, has figured prominently in the various National Reform Plans and other official documents. Recently taken measures include the introduction of an operational plan to combat UDW (ARTEMIS), stricter fines, simplifications reducing the administrative burden for companies, mandatory reporting of hiring and dismissals through ERGANI, and reductions in non-wage costs. Earlier taken measures include a special voucher used as a compensation for those professions where undeclared work is extensive, mainly domestic workers (Law 3996/2011) and attempts to modernise the policy on immigration.

In 2016 the ILO, the Greek Government and the social partners, as part of a project funded by the European Commission on "Supporting the transition from informal to formal economy and addressing undeclared work in Greece", has produced a report on the Diagnosis of Undeclared Work in Greece. The Diagnostic Report was endorsed by the Greek Government and the social partners in a high level tripartite validation meeting on 6 July 2016. The validated report provides a set of policy recommendations that reflect the ILO's vision of a balanced approach combining incentives with compliance measures, as enshrined in the ILO Recommendation n.204 on the transition from the informal to the formal economy, adopted at the International Labour Conference in June 2015. In addition, on 19 July 2016, the national social partners (GSEE, SEV, GSEVEE, ESEE, SETE) signed a Joint statement - declaration, which refers to labour market issues, including the extension of the collective labour agreements. After reaching a tripartite agreement on the main characteristics and drivers of informality, the next step was to design, through tripartite dialogue, a road map for addressing undeclared work in Greece. This road map aims to contain a balanced regulatory and policy framework for preventive and appropriate corrective measures that will facilitate the transition to the formal economy and tackle undeclared work. It was validated in October 2016 with an implementation period of 36 months, starting on January 2017.

1.3.2 Measures to tackle UDW

According to Law 4144/2013, aimed at combating illegal employment, the Hellenic Labour Inspectorate will remain the body responsible for the enforcement of labour law. However, the new Law (4144/2013) provides that the Financial Police is equally competent to control undeclared employment of workers. The new law also attempts to fight undeclared employment of workers who illegally receive unemployment benefits. In addition to other penalties provided by law, the new law introduced a special fine of EUR 3 000 for each worker who is employed while receiving unemployment benefits. If the worker who is receiving unemployment benefits was fired and consequently rehired by the same employer, the fine amounts to EUR 5,000 per employee.

Another law adopted recently (Law 4225/2014), aimed at improving the situation with regard to the prevention of undeclared and uninsured employment. It provides: a) a significant increase in fines in case of work declared only to the Ministry of Labour but not to the competent social security organization, b) the responsibility of social security authorities to check within 30 days whether the stated social security contributions were in fact paid by the companies, and c) the immediate registration of any change in employees' work hours through "ERGANI" Information System (Article 55 of Law

4310/2014). In the previous scheme, changes in the work hours required the company to submit the revised work schedules to the Labour Inspectorate within 48 hours of the introduced changes. Thus, some employers could change the work schedules at will and declare the modification only if an inspection was carried out. Pursuant to the new provision, any change in employees' work hours should be registered with the Labour Inspectorate no later than the same day of the modification and in any case, before employees' new shift by submitting to the "ERGANI" Information System the appropriate electronic form, which includes modified work schedules.

The fines imposed in cases of UDW were also increased substantially, as of 15 September 2013. According to the relevant Ministerial Decision, the fine for each undeclared employee is now EUR 10,550, about 18 times the minimum wage. The intention behind this Ministerial Decision was to make uninsured and undeclared work unprofitable for employers. Further the fines are imposed immediately and on the spot by inspectors, with assistance from the Ministry's information systems and network. Soon after the issuance of the new Ministerial Decision, many employers opted for the 'legitimization' of undeclared workers among their personnel, in order to avoid paying the fines, resulting in a substantial increase in new hiring.

It is also worth noting that the level of social security contributions has been reduced by approximately 5pps since 2012. A more employment-friendly tax system may prove beneficial not only for the level of employment but also for the levels of UDW.

Mention should also be made of an IT system, ERGANI, which has been established through a Ministerial Decision (5072/6/25.2.2013 (ΦΕΚ 449/B'/25.2.2013), with the aim to record (in real time) all employment flows in the private sector of the economy. Starting from early 2013, all employers are obliged to report electronically recruitments, voluntary departures and dismissals, as well as data on overtime, part-time and job rotation, firm-level agreements and annual leave. The results from the electronic registration of all enterprises and employees are regularly published in the frame of a dedicated action plan to combat UDW, ARTEMIS, enabling the detailed stocktaking of the entire dependent employment in Greece. Published information contains the sectoral and geographical distribution of enterprises, the classification of enterprises by size, the breakdown of employees by age, working time, salary, etc. It is evident that apart from monitoring of the trends in the wage market, ERGANI contributes to a reduction of the administrative burden for enterprises and enables the implementation of targeted and efficient controls in the field of combating UDW.

In addition, during the last decade or so, Greece has taken steps to modernise its migration policy. Policy reforms in this field included three regularisation exercises (amnesty), simplification of the permit procedures, and eased residence permit renewal procedures. Although the number of immigrants still residing illegally in Greece is thought to be substantial, it is thought that in the absence of these measures it is likely that the situation with respect to UDW would have been worse.

Lastly, the three year roadmap for fighting undeclared work (from January 2017 until December 2019) was ratified and provides a set of 25 policy recommendations to implement a holistic integrated strategic approach to tackle undeclared work in Greece.

Out of these 25 recommendations, we highlight:

- Establishment of a national body for the implementation of the roadmap and the national strategy to combat undeclared work as subgroup of the Supreme Work Council (SWC/ASE).
- Action Plan against Bogus Self-Employment.
- Strengthening the exchange of data and establishing common rules for risk analysis between different competent authorities.
- Ratification of the International Convention no129.

- Increasing responsibility in public works. Framework for public works will hold the contractor responsible for violation of labour laws by the subcontractors
- Obligation of electronic payments.
- Pilot program of targeted audits with the collaboration of SEPE, PECA, ADRC and Financial Police in the Region of Attica in the period May - September.
- Changing the institutional framework for imposing fines on undeclared work.
- Combating new forms of work-related delinquency.
- Establishment of electronic overtime register.
- Establishment of a personnel table for major technical projects.
- Upgrading Geographical Competence & Institutional Support of Labour Inspectorate Body.
- Legislative framework for operation of Information Centres.

The organisational structure of SEPE includes the creation of four new regional divisions and a new Directorate in the Aegean area to effectively tackle the violation of labour law in the tourism sector. Also, for the overall upgrading of the SEPE's service delivery, the Support Directorate has been re-established by creating departments for legal support and information management systems.

In the framework of its overall activity, SEPE puts special emphasis on conducting targeted country wide campaigns in specific sectors, in order to tackle the shift of violation of labour law from fully undeclared to partially undeclared work, while making full use the Integrated Information System of SEPE.

1.3.3 Good practice

The recording of all employment flows on a database (ERGANI) appears to be a good policy example (please see above).

1.3.4 Challenges and barriers

According to all existing evidence, undeclared work (UDW) is quite pronounced in Greece, and the task of reducing its size constitutes a major challenge for the authorities. In spite of the efforts to combat UDW, it is commonly acknowledged that successive governments and past measures have failed to tackle the phenomenon and that UDW, with all its consequences, continues to thrive. UDW should be treated not only as a purely economic but also as a social phenomenon. People often view undeclared employment as something legitimate, and this might perhaps explain why previous policy efforts (comprising of altering administrative procedures and making fines more severe), have partly failed. What is needed is a well-organised, multi-dimensional plan, comprising actions in a number of policy fields (including awareness campaigns), and zeal to overcome all obstacles (regulatory, administrative, technical).