

Employment and Social Affairs Platform

Recommendations for Tackling Undeclared Work in Bosnia and Herzegovina

Draft

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Background context

This report provides a set of proposed activities for tackling undeclared work in Bosnia and Herzegovina (BiH). It incorporates a policy mix of repressive and stimulating measures aimed at transferring undeclared work into the declared economy. It also proposes recommendations for implementation of these measures.

The report is structured as follows. Firstly, a background context is presented by briefly reviewing extent, character and drivers of the undeclared economy in BiH. Then, we focus on the current organisation of the fight against undeclared work and adopted policy approaches. The next section elaborates targeted policy recommendations and actions.

Extent, character and drivers of the undeclared economy in BiH

Undeclared work is a widespread phenomenon in Bosnia and Herzegovina. If we examine the existing research, estimates of the prevalence of the undeclared economy range between 25%-35% of GDP (World Bank, 2005; ILO, 2009; EI, 2015; SELDI, 2016), while the most recent studies estimate undeclared work to be between 10%-30% (ILO, 2009; EI, 2015). Roughly, this implies that between 120-300,000 people are working undeclared.

We provide our own estimate of undeclared work based on a representative survey data from 2015 (Efendic and Williams, 2018). Our study finds that 34% of respondents earn some income through undeclared work. As some 8% of these individuals in our dataset have declared jobs at the same time, this means that 26% of respondents earn their income only through undeclared work.

In the next stage we estimate a model which controls for number of potential determinants of undeclared work, including those linked to individual influences, household characteristics, institutional environment and post-conflict specifics. The obtained results suggest that majority of these factors systematically affect the probability of participation in undeclared work. Individuals who are young, not educated, coming from rural areas and from economically weak families have the highest probability of participation in undeclared work. Although this finding can be treated as conventional, it provides a good signal to the policy makers about the category of population in BiH which is the most likely to participate in undeclared work.

There is a lot of research which tries to explain undeclared work in Europe or globally. The majority of these studies argue that undeclared work is a consequence of both formal and informal institutions in a country. Formal institutions prescribe, monitor and enforce formal rules, norms and laws regarding what is socially acceptable; this is often defined as “state morality”. Informal institutions, on the other hand, include unwritten rules, norms, customs, cultures and traditions in a society—and they are understood as “societal” or “citizens’ morality”. Whenever there is a gap between formal and informal institutions, that is between what is prescribed by the state as moral and acceptable and what is socially moral and acceptable, the undeclared work will be higher.

This research also reveals that undeclared work goes hand in hand with lower GDP per capita, higher corruption in the public sector, lower quality of governance, lower expenditure on labour market interventions used to help the most vulnerable groups, lower social expenditure, and social transfer systems that are ineffective in reducing the level of inequality and material deprivation. Therefore, tackling undeclared work implies a need for activities associated with increasing the level of GDP per capita, fighting corruption in the public sector, improving quality of governance, improving the level of expenditures on active labour market policies to enable vulnerable groups employment, improving redistributive justice, and developing effective systems of social transfers that reduce income inequality. In the following section we elaborate some of these measures which might be relevant for the context of Bosnia and Herzegovina.

Current organisation of the fight against undeclared work in BiH

There is no central institution at the state level in BiH that coordinates efforts of various institutions and departments (horizontally and vertically) in tackling undeclared work nor a single agency responsible for the tackling the undeclared work. Furthermore, apart some indirect measures being integrated into strategic documents (e.g. The Reform Agenda from 2015), there is no a systematic strategy or action plan in place for tackling the undeclared work. The governments at various levels in BiH have recognized this challenge, some of them are developing strategic documents and action plans that needs to be adopted, but more needs to be done to systematically tackle the problem of undeclared economy.

Currently, the responsibility over undeclared work is fragmented over several institutions/departments and government levels who perform their work often separately, while the coordination between different institutions/departments could be improved. It is thus not rare for entrepreneurs to cope with more than three different inspections in a short period of time covering similar issues concerning undeclared work.

At the policy level in BiH, it is possible to identify measures from both direct and indirect approaches at different institutional levels, including awareness raising campaigns. Most of the measures currently implemented are related to restrictive policies including penalties, administrative sanctions, work-site inspections, registering workers prior to first day at work, certification of businesses and peer-to-peer surveillance; including several incentive measures and campaigns to influence values, norms and beliefs. However, our impression is that the focus so far has been mainly on deterring undeclared work.

All in all, there is not enough coordination between different institutions/departments involved in tackling the undeclared economy. They do not share systematically a common strategy, common objectives nor common targets. The relevant laws are not harmonized enough both horizontally and vertically. Data sharing and matching operations are to some level harmonized, however, there are some barriers for inspectors of different institutions in accessing data from other institutions/departments (based on inputs from our interviews with state officials). The quality of governance, therefore, needs to be improved, including better coordination and shared strategies, objectives, targets, operations, data sharing and matching. Furthermore, social partners are identified to have potential contributions in tackling undeclared economy, and should be engaged on regular basis through consultations and operative activities on the ground.

Current policy approach

A range of tools exist for transforming undeclared work into the declared work. On the one hand, direct tools ensure that a rational economic decision is to engage into declared work. This is accomplished either by using deterrence measures to increase the costs of non-compliance ('sticks') and/or by making the conduct of declared work more beneficial and easier ('carrots'). On the other hand, indirect tools shift away from using 'sticks' and 'carrots', but focus more on dealing with the formal institutional failings to repair the social contracts between the state and its citizens. These measures are important to supporting mutual trust in the society.

Current policy approach in BiH used to tackle undeclared work can be described as rather repressive and static. The range of policy measures which relevant institutions/departments have at their disposal is based more on "sticks" measures, that is to increase the costs of non-compliance by increasing penalties and risk of detection. Due to complex institutional system and possibility for political interference at various levels, institutions/departments involved often fail to meet the expectations within the scope of this narrow deterrence approach. On the other hand, there is a limited effort in fixing the formal institutional failings to improve the services offered, trust in institutions and support the intrinsic feelings of being tax compliant. Several awareness raising campaigns by the governments in BiH were implemented in 2016 and 2017. However, our impression is that the approach in the campaigns was not efficient enough to draw a line between grey (undeclared) economy and 'black economy' or corruption, and promoted "the fight against undeclared economy" mainly through inspections and more restrictive penalties. Therefore, there is a need to shift from this deterrence approach towards a more encompassing and proactive one. Array of policy measures should be widened in the current deterrence strategy, but also to include policy measures which incentivize transfers from undeclared to declared work, which improve formal and informal institutions, and narrow the gap between state and societal morality in the very end.

Policy recommendations

In this section we go through several types of policy measures that can be implemented in BiH with the aim of transforming undeclared work into declared work. We go through each type of policy measures and provide essential rationale for these policies. However, it is important to stress out that only a mix of these measures should yield significant results, as they are mutually complementary, but if implemented individually, they might be limited and less successful.

Strategic management initiatives

The re-shape of policy approach towards undeclared work should be based on the top-down approach. There is a need to make distinction between undeclared work and black economy or corruption, and also between undeclared work and surviving strategies of low-income individuals (e.g. self-production of food that is partly sold in the market). Regardless of the category, the governments' goal should be to enable the transfer from undeclared to declared economy. Therefore, it is important to change even the narratives in the process of implementation of any policy. "The fight against undeclared work" – a concept already in use

implies fights, struggles, winners and losers, should be changed to what is the main goal of this process “Transfer undeclared work into declared work”. Not only is this recognised in Recommendation 204 of the International Labour Organisation but also in the European Platform Tackling Undeclared Work (EU 2016/3441) which uses the term “tackling” in relation to undeclared work, which implies preventing, deterring and combatting undeclared work so as to transform undeclared work into declared work.

Programmes that tackle undeclared work should be designed to treat undeclared work as a supplementary resource but not a problem that needs to be solved. Such a philosophy needs to be embedded into relevant strategic documents, objectives, targets and action plans.

Adoption of a holistic approach ensures integration of involved institutions in terms of capacity and resources through a joined strategy. To achieve this, we propose several ideas, like setting up a body that will adopt strategies and action plans and coordinate all the efforts that institutions have at their disposal. It would ensure a joined-up approach and enable efficient coordination of operations, data gathering, sharing and analysis, which are essential to effectively tackle undeclared work.

Recommendation 1	A holistic strategic approach towards tackling undeclared work.
Goal	To enhance the effectiveness and efficiency of tackling the undeclared work by improving coordination across enforcement authorities at the level of strategy, operations, data gathering, sharing and analysis.
Implementation	Establish a coordinating body at the state level to take responsibility for joining-up the strategies, operations and data gathering, sharing and analysis of all public agencies and social partners involved in tackling the undeclared work.
Responsible Institutions	Cross-government, including Ministry of Labour and Social Policy in FBiH, Ministry of Labour, War Veterans and Disabled Persons’ Protection in RS, Labour Inspectorates, Ministry of Finance and Treasury BiH, Federal Ministry of Finance and Ministry of Finance in RS, Tax Administrations and Tax Authority, Health insurance directorates and funds, Employment Service, Ministry of Tourism, and Border Police, and Social partners.
Outcomes	<ul style="list-style-type: none"> • A coordinated national approach towards undeclared work at the level of strategy, operations and especially data gathering, sharing and analysis.
Indicators of achievement	<ul style="list-style-type: none"> • Production of shared cross-cutting strategic objectives and key performance indicators (KPIs) across bodies responsible for tackling undeclared work, in addition to the existing agency-level strategic objectives and KPIs. • Greater proportion of operations and inspections conducted on joint/shared basis. • Implement a joined-up strategic plan on data gathering, sharing and analysis to tackle undeclared work

Legislation changes should be implemented in such a way to enable the effectiveness of this approach, especially having in mind the complexity of BiH system of governance—i.e. according to our interviewee, to establish one-stop-shop system of registration of businesses

there is a need to amend around 20 different legislations and at different institutional levels. There is a need for a more vibrant and flexible system to be implemented, one that takes advantage of the information technology and allows its implementation in every aspect possible—e.g. to allow employers register new employees via e-mail. It should also minimize the need to be physically present at the Tax administration premises.

Recommendation 2	Harmonization and simplification of relevant legislations and procedures related to undeclared work
Goal	<p>To enhance the effectiveness and efficiency of the institutions involved through enforcing competitive and harmonized legislation that would minimize ambiguous situations in which companies, individuals and inspectors can find themselves.</p> <p>Allow employers to record employees by means as SMS text message, e-mail or over the internet, and minimize instances when employers need to visit physically the Tax administration premises.</p> <p>Efficiency of institutions should be improved through narrowing focus of their responsibilities.</p>
Implementation	<p>Harmonize legislation as to achieve minimum ambiguous situations in which the inspectors, companies and individuals can find themselves.</p> <p>Simplify administrative procedures as much as possible—i.e. establishing one-stop-shops and modernizing current procedures through IT solutions.</p>
Responsible Institutions	Cross-government, including Ministry of Labour and Social Policy in FBiH, Ministry of Labour, War Veterans and Disabled Persons' Protection in RS, Labour Inspectorates, Ministry of Finance and Treasury BiH, Federal Ministry of Finance and Ministry of Finance in RS, Tax Administration and Tax Authority, Health insurance directorates and funds, Employment Service, Ministry of Tourism, and Border Police, and Social partners.
Outcomes	<ul style="list-style-type: none"> • A more target-oriented legislation • Fewer administrative procedures that achieve the same goals • Improvements in efficiency of institutions/departments involved
Indicators of achievement	<ul style="list-style-type: none"> • Unified sanctions/penalties for similar law violations • Lower number of clients visiting the Tax administration offices for recording employees, etc. • Overall improvements in efficiency of various institutions.

The process of harmonization should be supplemented with relevant changes that will prevent misuse of the current legal framework. For example, attention should be paid to investigating the potential alterations of the welfare system, where some social security benefits are paid to the participant in the undeclared economy (even those working undeclared out of Bosnia and Herzegovina), but who normally should not enjoy these benefits.

Recommendation 3	Establish an independent body or tailored teams that will investigate
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	possible abuses in social security benefits
Goal	To restore trust and improve the redistributive justice in public policy
Implementation	Appoint special inspectors to audit social security beneficiaries for possible abuses to restore trust in redistributive function of public policy. Special controls of people who enjoy social security benefits and work in undeclared sector is needed.
Responsible Institutions	Ministry of Labour and Social Policy in FBiH and Ministry of Labour, War Veterans and Disabled Persons' Protection in RS
Outcomes	<ul style="list-style-type: none"> • Improvement of redistributive justice
Indicators of achievement	<ul style="list-style-type: none"> • Number of audits performed

Once the legislation has been harmonized, the holistic approach adopted, and a single body established to lead the way in tackling the undeclared work at the country level, the lower and operational levels should follow the similar logic. The focus should be adopting the new rationale of preventing undeclared and promoting declared work instead of “destroying the undeclared sector” of the economy. Therefore, the administrative staff and inspectors should be educated to support the transition of undeclared to declared work, and their strategic goals and key performance indicators (KPIs) should be tailored in this way. A bonus policy should reward the effort of inspectors in helping the transition to declared work, and not “hunting down” the undeclared work.

Recommendation 4	Education of administrative staff and inspectors with the aim of transforming undeclared to declared work and tailoring their strategic objectives, KPIs and bonus policy
Goal	To enhance the effectiveness and efficiency of the institutions involved through improving relationships with businesses and making easier the transfer into declared economy.
Implementation	Shifting strategy on undeclared work from “penalization” towards “transformation into declared work”—inspectors should focus on mentoring employers to be tax-compliant instead of penalizing them
Responsible Institutions	Entity Labour Inspectorates and Tax Administrations at a minimum
Outcomes	<ul style="list-style-type: none"> • KPIs associated with transforming undeclared to declared work, and number of companies that evaded penalties by improvements through consultations with inspectors • Establishment of constructive relationships between employers and inspectors
Indicators of achievement	<ul style="list-style-type: none"> • Number of start-ups offered advice/support on how to be tax compliant • Number of existing businesses that escaped penalization through advice/support on how to be tax compliant

Policy measures to deter undeclared work

Deterrence measures detect and punish non-compliance. This is done through two channels: first, by increasing the risk of detection, which is felt by the companies and individuals; and secondly, by increasing fines and sanctions for those who are caught in breaking the law. Several studies argue that penalties might not be as efficient in reducing the undeclared work, while increasing the likelihood of detection does reduce the likelihood of undeclared work among employers more. Still, we believe that in some cases it might be logical to increase the fines. For example, the micro businesses need to pay 500 BAM fine for an undeclared worker who is identified by inspectors. If they pay the fine within eight working days, according to the current law, they need to pay 50% of the fine, which is less than the monthly amount of taxes and contributions paid for an employee with minimum wage. Hence, for the low-skilled workers, who often work for minimal salary, the fine for the company is lower than the monthly amount of taxes. Thus, if the likelihood of being inspected every month by the appropriate authority is low, the employer in this case has an economic justification (ignoring tax morality for the moment) not to declare all his employees. Therefore, the fines should be designed to be high enough to decrease incentives for not declaring workers, as this is the country where tax morality is lower than in the developed economies (e.g. EU).

Recommendation 5	Harmonizing legislation: harmonizing fines for undeclared work
Goal	To make the fines correspond to the type of violations
Implementation	Undeclared work should be fined more, but only after support in transition to declared work is misused. The fines should be increased to the level that excludes economic rationale for cheating.
Responsible Institutions	Ministry of Labour and Social Policy in FBiH and Ministry of Labour, War Veterans and Disabled Persons' Protection in RS, Tax Administrations
Outcomes	<ul style="list-style-type: none"> • System of fine harmonized • Predictability of the fines increased, which increases risk of detection
Indicators of achievement	<ul style="list-style-type: none"> • Number of court appeals on undeclared work, and possibly number of employers engaging in undeclared work

The potential offenders should be monitored—and they can only be found through time-consuming analysis of available data. Recall, the data sharing between relevant institutions involved in tackling the undeclared work is identified to be lacking. This needs to be improved. The proposed single body, which should lead the efforts in tackling the undeclared work, could help in data gathering and using the data for preventative purposes by all relevant institutions.

Recommendation 6	Improve efficiency of electronic systems for data gathering, data sharing and analysis.
Goal	To improve the perceived and actual risk of detection of businesses engaged in undeclared work
Implementation	Centralise available data on undeclared work and make it available to the

	centralized body for research and analysis and policy recommendations
Responsible Institutions	Labour Inspectorates and Tax Administrations, Pension and Disability Insurance institutions, Employment Bureaus, Health Insurance institutions
Outcomes	<ul style="list-style-type: none"> • Integrated data-sets • More reliable and credible research and analysis • Better decisions and better information for inspectors
Indicators of achievement	<ul style="list-style-type: none"> • Improved rate of detection of undeclared work

Normative notification letters should be sent to those who are found to be potential offenders, something already identified to be used and with positive feedback (interviews). In Estonia, the normative letters are sent to companies with lower declared salaries than the average salaries in their respective sectors which lead 46% of the companies that received the letters to increase salaries paid to their employees.

Recommendation 7	Proactive engagement through normative notification letters
Goal	To improve the perceived and actual risk of detection of businesses engaged in under-declared employment
Implementation	Send personalized appeals/notification letters to companies with below average wage levels compared to the sector of economy in which they operate, and those who are more likely to engage in undeclared work
Responsible Institutions	Labour Inspectorates and Tax Administrations
Outcomes	<ul style="list-style-type: none"> • Improved voluntary compliance
Indicators of achievement	<ul style="list-style-type: none"> • Number of newly registered employees and increased salaries after appeals

Apart from sending normative letters, the data should be used to improve efficiency in planning inspections. Developing a point-based system for assessing the validity of reported violations could improve efficiency, especially if matched with the available data, and more focus could be put on targeting the inspections. The inspections should be user friendly for companies and involved individuals, and time and costs efficient for the both sides.

Recommendation 8	Targeting and planning inspections which should implement an integrated control, instead of fragmented and more frequent inspections
Goal	To improve the perceived and actual risk of detection of businesses engaged in undeclared work
Implementation	<p>Develop a point-based system for assessing validity of reported violations and weather inspections should take place.</p> <p>Coordinate inspections between various enforcement authorities targeted at the same company.</p> <p>Improve business-friendly approach of inspections</p>

Responsible Institutions	Labour Inspectorates and Tax Administrations
Outcomes	<ul style="list-style-type: none"> • Improved detection of labour law violations and tax and social security contributions non-compliance
Indicators of achievement	<ul style="list-style-type: none"> • Number of coordinated inspections

According to our interviewees, a lot of undeclared work is happening among those companies that are actively working for the public sector. The companies that employ workers on undeclared basis should be informed about consequences for future collaboration with the public sector. In the next stage, such companies should be taken out from entering public procurement as a preventive measure, and only “white list companies” should be allowed to enter the selection process for public procurement.

Recommendation 9	Link the white list of companies (not having undeclared workers over the last 3 years) to the selection process for public procurement
Goal	To discourage those aspiring for public procurement contracts to engage in undeclared work
Implementation	Establish the white list of companies which can engage in public procurements
Responsible Institutions	All public institutions
Outcomes	<ul style="list-style-type: none"> • Improved deterrence from undeclared work
Indicators of achievement	<ul style="list-style-type: none"> • Decrease in number of companies in the black list

Incentives to formalise: supply-side measures

The governments should work more on increasing incentives of companies to declare their employers. These measures work in the direction of preventing companies and individuals to move into undeclared sector but also to incentivise companies and workers to transfer their current jobs to formal sector of the economy.

As a useful measure we recognize that the culture of tax compliance and tax morality should be cultivated. Therefore, establishing “the list of winners”, “the list of proud”, “the white list” of legitimate employers should be a step forward. These lists should be stimulative for the businesses to remain legal and those that are in the undeclared sector to become legitimate.

Recommendation 10	‘White list’ of legitimate employers (‘black list’ for internal use only)
Goal	To provide supply-side incentives to engage in undeclared work
Implementation	<p>Promote companies who are legitimate employers and who respect labour law stipulations fully.</p> <p>Promote culture of being tax compliant.</p>
Responsible Institutions	Ministry of Labour and Social Policy in FBiH and Ministry of Labour, War Veterans and Disabled Persons’ Protection in RS and other relevant bodies.

Outcomes	<ul style="list-style-type: none"> • Provides incentive and motivation to be tax compliant
Indicators of achievement	<ul style="list-style-type: none"> • Increase in number of legitimate employers

Furthermore, white list businesses should be provided with benefits that undeclared ones cannot enjoy—like providing business walking routes for tourists and customers where declared businesses are directly advertised and recommended. These leaflets would bring the issue of undeclared work to the attention of tourists and by-passing citizens and directly stimulate the compliant companies.

Recommendation 11	‘Business Walking Routes’ leaflets for tourists and/or ‘service providers leaflet’ in sectors where undeclared work is prevalent
Goal	To stimulate businesses to formalise
Implementation	Provide support in advertising activities to tourists and customers for white listed companies
Responsible Institutions	Ministry of Foreign Trade and Economic Relations and other relevant public or private bodies.
Outcomes	<ul style="list-style-type: none"> • Provide incentive to businesses to be compliant • Incentivise declared work
Indicators of achievement	<ul style="list-style-type: none"> • Increase in number of businesses on leaflets

The businesses should also meet and feel the business-friendly administration—they should be provided with easy compliance procedures. For example, micro businesses should be allowed to complete administrative procedures without a need to engage consultants. One way of doing this is through establishing micro-enterprise tax where multiple taxes are consolidated to one micro-enterprise tax. Paying a single (consolidated) tax is much easier for the micro-enterprises, and would send a message that the authorities are stimulating micro businesses.

Recommendation 12	Introduction of easy procedures (i.e. micro-enterprise tax) for paying taxes and contributions for self-employed and craftsmanship
Goal	To provide specific incentives to one-person and micro businesses to engage in declared work
Implementation	Consolidate multiple taxes into one micro-enterprise tax to be paid by self-employed and craftsmanship. Introduce new forms of employment like personal supplementary work, short-term work and small work to allow providers of such work easy transfer to declared economy by making payments of taxes easy.
Responsible Institutions	Cross-government
Outcomes	<ul style="list-style-type: none"> • Incentivise micro-businesses to formalise

	<ul style="list-style-type: none"> • Incentivize those with supporting informal work to formalize • Reduce undeclared work
Indicators of achievement	<ul style="list-style-type: none"> • Number of newly registered micro-businesses paying integrated tax

Incentives to formalise: demand-side measures

Demand side measures are targeting customers as the way to decrease undeclared economy and employment. If we start with the payment process, BiH economy still widely uses cash transactions. It is common practice that some businesses promote lower prices for paying in cash compared to paying via electronic cards or banking transfers. This practice needs to be avoided. One way of incentivizing customers to rely more on credit/debit card payments and less on cash is through incentivizing electronic payments. Several banks are already giving up to 10% of discounts on credit card payments, which proves that there is a possibility of actively engaging banking system in tackling the undeclared work.

Recommendation 13	Giving discounts on electronic payments, instead of the widely-used practice of cash discounts
Goal	To stimulate electronic payments and decrease the cash operations which give more space for undeclared activities
Implementation	<p>Inspect companies that give discounts for cash payments and require giving discounts on electronic payments in return for not issuing penalties for cash discounts.</p> <p>Consider discouraging easy access to cash.</p>
Responsible Institutions	Banks, Financial institutions, relevant government departments (especially Ministry of Finance and Treasury)
Outcomes	<ul style="list-style-type: none"> • Increase in tax revenues with increase of the electronic payments • Creating habits of paying using electronic means
Indicators of achievement	<ul style="list-style-type: none"> • Decreased use of cash, increased use of electronic payments, and hence decrease in undeclared economy

Changing citizens' values, norms and beliefs

The deterrence measures and incentives to formalize jobs provide economic justifications for moving to declared sector. However, those working as undeclared are not doing so purely for economic reasons—we have seen that the gap in individual's morality and state laws and regulations might explain partly undeclared work. Therefore, this aspect needs to be tackled by influencing citizens' values, norms and beliefs instead of purely providing economic benefits.

To repair the contract between the state and its citizens, both the state and citizens need to be aligned in relevant dimensions of the socio-economic circumstances. When it comes to

citizens, they might choose to support undeclared work because they feel that they have been manipulated by the government, or that the government is not doing its part. Therefore, it is good to remind the citizens of what the government is doing to fulfil its part of the deal. One way of doing this is through public awareness campaigns, already partly used, which increases the awareness about importance of being a declared worker and, hopefully, influence citizens' values, norms and beliefs.

Recommendation 14	Launch public awareness campaigns on the benefits of declared work
Goal	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work
Implementation	Insist on marketing tools to trigger emotions, which should lead to long-term improvements in tax morality. The messages should focus on how the taxpayers' money was used to trigger voluntary tax compliance.
Responsible Institutions	Cross-government, Ministry of Labour and Social Policy in FBiH and Ministry of Labour, War Veterans and Disabled Persons' Protection in RS, Tax Administrations and Labour Inspectorates
Outcomes	<ul style="list-style-type: none"> • Reducing tolerance of undeclared work • Decrease in number of undeclared workers • Increased reporting by workers and citizens of those that employ on undeclared basis • More transparency
Indicators of achievement	<ul style="list-style-type: none"> • Decrease in non-compliance cases found by inspectors • General public less tolerant of undeclared work

We believe that the citizens need to be more educated and empowered to demand the declared sector. Raising awareness about the gross and net payment can be beneficial to achieving this goal. This type of direct education can imply signs like "Paying your taxes enabled this!" on public goods and services. Furthermore, some taxpayers should be even publicly promoted for their generous contributions through paying taxes.

Recommendation 15	Educating citizens about the tax system and tax morality
Goal	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work
Implementation	<p>Introduce signs such as "Paying your taxes enabled this!" on public construction projects, parks, public goods, ambulances, in hospitals, schools, etc. This sends a clear message to public that their taxes are used to afford various public goods and services.</p> <p>Send "Thank you" letters to, at least, large tax payers informing them about how their taxes are spent, and what recent achievements have been available particularly due to taxes.</p>
Responsible Institutions	Cross-government in cooperation with Social partners
Outcomes	<ul style="list-style-type: none"> • Improved understanding about the relationship between paying taxes and the public goods and services

Indicators of achievement	<ul style="list-style-type: none"> • Decrease in undeclared work • Greater awareness that taxes afford public goods and services
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Some countries have incorporated formal education about the importance of tax compliance in the primary, secondary and tertiary education. Education of the youth about importance of tax compliance can contribute in two ways: 1) they are expected to be more tax compliant, and 2) they can influence their surroundings (parents, neighbours, etc.) on the matters of tax compliance.

Recommendation 16	Incorporate tax compliance crash courses in undergraduate schools and university curriculums
Goal	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work
Implementation	Introduce crash courses about the reasons to pay taxes and benefits of declared work in civic education programs (schools, universities, etc.). Organize a national week/day of undeclared work in schools and universities. Involve media and celebrity endorsement.
Responsible Institutions	Federal Ministry of Education and Science and Ministry of Education and Culture in cooperation with other ministries
Outcomes	<ul style="list-style-type: none"> • Improved understanding among children and students about benefits of paying taxes • Indirect pressure on parents from children to be tax compliant
Indicators of achievement	<ul style="list-style-type: none"> • Greater awareness of benefits of declared work

A step forward is to organize various crash courses and thematic competitions on the importance of tax compliance for youth, which will yield longer-term benefits. These competitions should be broadcasted on national television, and the winners should be taken to road trips and visit many schools. This way they could be made as role-models for their generation.

Recommendation 17	Thematic competitions (e.g. “best essay on”) on why being tax compliant and declaring employees
Goal	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work
Implementation	Organise competitions like: best essay, best video, picture, etc. on importance and benefits of paying taxes. Distribute essays, videos, pictures that won the competition across the country, and organize tours in “Week on undeclared work” to promote the competition winners.
Responsible Institutions	Ministry of Finance and Treasury, Federal Ministry of Education and Science and Ministry of Education and Culture, Tax Administrations
Outcomes	<ul style="list-style-type: none"> • Building a culture of compliance • Rather than preaching messages, it encourages self-reflection and self-

	education
Indicators of achievement	<ul style="list-style-type: none"> • Reduced tolerance of undeclared work

Reforming formal institutions

The social contracts between the state and the citizens needs to be repaired from the both sides. The state needs to improve its role as well, and it can do so through changing internal processes to improve perception of citizens about fairness and justice; and through changing the products of formal institutions by pursuing progressive economic and social policies. Therefore, the inspectors whose purpose is often perceived as to penalize the citizens and entrepreneurs should change and adjust themselves as well. A more consultative, user-friendly, client-oriented inspector is needed; this can be achieved through tailored educations.

Recommendation 18	Continuous training of inspectors
Goal	<p>To shift away from “prison guards” inspectors to those who are also consultants, those who help being declared.</p> <p>To include inspectors in staff-exchange with neighbouring countries, but also EU member states.</p>
Implementation	<p>Use ILO toolkit for training of inspectors in tackling undeclared work.</p> <p>Use inspectors in exchange programs with other countries to bring know-how of countries that efficiently deal with undeclared work.</p>
Responsible Institutions	<p>Labour Inspectorates and Tax Administrations</p> <p>ILO trainers</p>
Outcomes	<ul style="list-style-type: none"> • Improved efficiency and effectiveness in inspectors’ work • Capacity building • Building a customer-oriented and consultant approach • Improved satisfaction of staff and reduced stress caused by nature of job
Indicators of achievement	<ul style="list-style-type: none"> • Improvements in staff productivity related to KPIs

It is not only inspectors who need to adjust, but a general improvement in provision of public goods and services needs to be visible to get more support from the citizens. Better healthcare, better public transportation, better water supply system, etc., are all signs that paying taxes pays off as it improves the quality of living. These are more medium to long term objectives, but there is a need to recognize them as channels of long run support of declared economy.

Recommendation 19	General improvements in services offered by the formal institutions
Goal	To improve the internal processes of the formal institutions to increase the perceived benefits of being tax compliant
Implementation	General and measurable increase in quality of services and public goods provided by institutions

Responsible inst.	Cross-government and all institutions
Outcomes	<ul style="list-style-type: none"> • Improvement in goods and services provided • Increased satisfaction of citizens leading to increase in tax compliance
Indicators of achievement	<ul style="list-style-type: none"> • Increase in satisfaction and tax compliance

When reforming formal institutions, it is always beneficial to consult relevant supporting institutions and experts from the field. For example, the Regional Cooperation Council hopes to implement Mutual Assistance Projects, which entail a three-day visit from experts to help the Labour Inspectorates establish modern management practices. In order to start the Project, the Ministers should write formally to the RCC requesting this assistance. This should be more widely used, as we have got indications that sometimes there is lack of such initiatives.

Recommendation 20	Modernisation of management processes in bodies responsible for tackling undeclared work
Goal	To improve the internal process of the formal institutions involved in transforming undeclared work into declared work
Rationale	The Labour Inspectorates should request their Ministers to write formally to the Regional Cooperation Council requesting a Mutual Assistance Project. This will entail a three-day visit from experts from other countries to help the LI think through the establishment of modern management practices via the review of various performance enablers. The outcome will be a set of recommendations for improving these performance enablers.
Responsible institutions	Labour Inspectorates Regional Cooperation Council
Outcomes	<ul style="list-style-type: none"> • Improvement in the management and effectiveness of the LI
Indicators of achievement	<ul style="list-style-type: none"> • Mutual Assistance Project (MAP) visit by the RCC and a set of recommendations for improving performance enablers.

Improving the involvement of social partners

Another party which is always good to include are the social partners. They can play a great role in detecting the undeclared work and leveraging the outcome in favour of declared sector. Therefore, signing a three-partite agreement between the Government, the institutions tackling the undeclared work (Tax and Social security bodies) and Social partners to join forces in preventing undeclared work would send a powerful message. It would also imply a stronger involvement of social partners in tackling the undeclared work. If this combines with the awareness raising campaigns among business community about the benefits of declared work, then a voluntary employer-led initiative to transfer and help transfer to declared sector is to be expected.

Recommendation 21	Signing a tripartite agreement between Government, Tax and Social security bodies and Social partners to join forces in preventing
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	undeclared work
Goal	Greater involvement of social partners in tackling the undeclared work
Implementation	Signing agreement between Government, Tax and Social security institutions and Social partners to join forces in tackling and preventing undeclared work to send a strong message about determination to tackle undeclared work.
Responsible institutions	Cross-government, Tax Administrations, Social security bodies, Social partners
Outcomes	<ul style="list-style-type: none"> • Improved perception about resolve to tackle undeclared work
Indicators of achievement	<ul style="list-style-type: none"> • Three-partite agreement signed • Decrease in undeclared work

While awareness of the general public about the benefits of the declared economy is important, we have found indications on the ground that even the business community should be targeted with such campaigns. These activities should target non-material benefits and incentives of the business people to declare their workers.

Recommendation 22	Awareness raising campaign among business community about the benefits of declared work
Goal	Greater involvement of social partners in tackling the undeclared work
Implementation	Ensure establishment of this effective cooperation and exchange of information <i>vis-a-vis</i> a better detection of undeclared work and necessity of increase of social fairness. Support could be provided by the Tax Administrations and/or Labour Inspectorates
Responsible institutions	Employers' Association, Ministry of Labour and Social Policy in FBiH, Ministry of Labour, War Veterans and Disabled Persons' Protection in RS, Tax administrations
Outcomes	<ul style="list-style-type: none"> • Reduced tolerance of undeclared work • Increase in number of reports to inspectorates • Increase in transparency
Indicators of achievement	<ul style="list-style-type: none"> • Number of meetings held



Recommended actions for tackling undeclared work

Recommendation	Goal	Implementation	Responsible institutions	Outcomes	Indicators of achievement	Start date & duration
STRATEGIC MANAGEMENT INITIATIVES						
A holistic strategic approach towards tackling undeclared work.	To enhance the effectiveness and efficiency of tackling the undeclared work by improving coordination across enforcement authorities at the level of strategy, operations, data gathering, sharing and analysis.	Establish a coordinating body at the state level to take responsibility for joining-up the strategies, operations and data gathering, sharing and analysis of all public agencies and social partners involved in tackling the undeclared work.	Cross-government, including Ministry of Labour and Social Policy in FBiH, Ministry of Labour, War Veterans and Disabled Persons' Protection in RS, Labour Inspectorates, Ministry of Finance and Treasury, Federal Ministry of Finance and Ministry of Finance in RS, Tax Administration and Tax Authority, Health insurance directorates and funds, Employment Service, Ministry of Tourism, and Border Police, and Social partners.	<ul style="list-style-type: none"> • A coordinated national approach towards undeclared work at the level of strategy, operations and especially data gathering, sharing and analysis. 	<ul style="list-style-type: none"> • Production of shared cross-cutting strategic objectives and key performance indicators (KPIs) across bodies responsible for tackling undeclared work, in addition to the existing agency-level strategic objectives and KPIs. • Greater proportion of operations and inspections conducted on joint/shared basis. • Implement a joined-up strategic plan on data gathering, sharing and analysis to tackle 	Q1 of 2019 (ongoing)



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					undeclared work	
Harmonization and simplification of relevant legislations and procedures related to undeclared work	<p>To enhance the effectiveness and efficiency of the institutions involved through enforcing competitive and harmonized legislation that would minimize ambiguous situations in which companies, individuals and inspectors can find themselves.</p> <p>Allow employers to record employees by means as SMS text message, e-mail or over the internet, and minimize instances when employers need to visit physically the Tax administration premises.</p> <p>Efficiency of institutions should</p>	<p>Harmonize legislation as to achieve minimum ambiguous situations in which the inspectors, companies and individuals can find themselves.</p> <p>Simplify administrative procedures as much as possible—i.e. establishing one-stop-shops and modernizing current procedures through IT solutions.</p>	<p>Cross-government, including Ministry of Labour and Social Policy in FBiH, Ministry of Labour, War Veterans and Disabled Persons' Protection in RS, Labour Inspectorates, Ministry of Finance and Treasury, Federal Ministry of Finance and Ministry of Finance in RS, Tax Administration and Tax Authority, Health insurance directorates and funds, Employment Service, Ministry of Tourism, and Border Police, and Social partners.</p>	<ul style="list-style-type: none"> • A more target-oriented legislation • Fewer administrative procedures that achieve the same goals • Improvements in efficiency of institutions/departments involved 	<ul style="list-style-type: none"> • Unified sanctions/penalties for similar law violations • Lower number of clients visiting the Tax administration offices for recording employees, etc. • Overall improvements in efficiency of various institutions. 	<p>Q1 of 2019 (ongoing)</p>



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	be improved through narrowing focus of their responsibilities.					
Establish an independent body that will investigate possible abuses in social security benefits	To restore trust and improve the redistributive justice in public policy	Appoint special inspectors to audit social security beneficiaries for possible abuses to restore trust in redistributive function of public policy. Special controls of people who enjoy social security benefits and work in undeclared sector is needed.	Ministry of Labour and Social Policy in FBiH and Ministry of Labour, War Veterans and Disabled Persons' Protection in RS	• Improvement of redistributive justice	• Number of audits performed	Q1 of 2019 (3 months)
Education of administrative staff and inspectors with the aim of transforming undeclared to declared work and tailoring their strategic objectives, KPIs and bonus policy	To enhance the effectiveness and efficiency of the institutions involved through improving relationships with businesses and making easier the transfer into declared economy.	Shifting strategy on undeclared work from “penalization” towards “transformation into declared work”—inspectors should focus on mentoring employers to be tax-compliant instead of penalizing them	Labour Inspectorates and Tax Administrations at a minimum	<ul style="list-style-type: none"> • KPIs associated with transforming undeclared to declared work, and number of companies that evaded penalties by improvements through consultations with inspectors • Establishment of constructive relationships between employers and inspectors 	<ul style="list-style-type: none"> • Number of start-ups offered advice/support on how to be tax compliant • Number of existing businesses that escaped penalization through advice/support on how to be tax compliant 	Q1 of 2019 (ongoing)
MEASURES TO DETER UNDECLARED WORK						
Harmonizing	To make the fines	Undeclared work should be	Ministry of Labour and	• System of fine	• Number of court appeals	Q1 of



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legislation: increasing fines for undeclared work	correspond to the type of violations	fined more, but only after support in transition to declared work is misused. The fines should be increased to the level that excludes economic rationale for cheating.	Social Policy in FBiH and Ministry of Labour, War Veterans and Disabled Persons' Protection in RS and Tax Administrations	harmonized • Predictability of the fines increased, which increases risk of detection	on undeclared work, and possibly number of employers engaging in undeclared work	2019 (12 months)
Improve efficiency of electronic systems for data gathering, data sharing and analysis.	To improve the perceived and actual risk of detection of businesses engaged in undeclared work	Centralise available data on undeclared work and make it available to the centralized body for research and analysis and policy recommendations	Labour Inspectorates and Tax Administrations, Pension and Disability Insurance institutions, Employment Bureaus, Health Insurance institutions	• Integrated data-sets • More reliable and credible research and analysis • Better decisions and better information for inspectors	• Improved rate of detection of undeclared work	Q1 of 2019 (ongoing)
Proactive engagement through normative notification letters	To improve the perceived and actual risk of detection of businesses engaged in under-declared employment	Send personalized appeals/notification letters to companies with below average wage levels compared to the sector of economy in which they operate, and those who are more likely to engage in undeclared work	Labour Inspectorates and Tax Administrations	• Improved voluntary compliance	• Number of newly registered employees and increased salaries after appeals	Q1 of 2019 (ongoing)
Targeting and planning inspections which should implement an integrated control, instead of fragmented and more frequent	To improve the perceived and actual risk of detection of businesses engaged in undeclared work	Develop a point-based system for assessing validity of reported violations and weather inspections should take place. Coordinate inspections between various enforcement authorities targeted at the same company.	Labour Inspectorates and Tax Administrations	• Improved detection of labour law violations and tax and social security contributions non- compliance	• Number of coordinated inspections	Q1 of 2019 (ongoing)



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inspections		Improve business-friendly approach of inspections				
Link the white list of companies (not having undeclared workers over the last 3 years) to the selection process for public procurement	To discourage those aspiring for public procurement contracts to engage in undeclared work	Establish the white list of companies which can engage in public procurements	All public institutions	• Improved deterrence from undeclared work	• Decrease in number of companies in the black list	Q1 of 2019 (6 months)
SUPPLY SIDE INCENTIVES						
‘White list’ of legitimate employers (‘black list’ for internal use only)	To provide supply-side incentives to engage in undeclared work	Promote companies who are legitimate employers and who respect labour law stipulations fully. Promote culture of being tax compliant.	Ministry of Labour and Social Policy in FBiH and Ministry of Labour, War Veterans and Disabled Persons’ Protection in RS	• Provides incentive and motivation to be tax compliant	• Increase in number of legitimate employers	Q3 of 2019 (6 months + ongoing)
‘Business Walking Routes’ leaflet for tourists and/or ‘service providers leaflet’ in sectors where undeclared work is prevalent	To stimulate businesses to formalise	Provide support in advertising activities to tourists and customers for white listed companies	Ministry of Foreign Trade and Economic Relations	• Provide incentive to businesses to be compliant • Incentivise declared work	• Increase in number of businesses on leaflets	Q3 of 2019 (6 months + ongoing)
Introduction of easy procedures (i.e. micro-	To provide specific incentives to one-person and micro	Consolidate multiple taxes into one micro-enterprise tax to be paid by self-employed and	Cross-government	• Incentivise micro-businesses to formalise • Incentivize those with	• Number of newly registered micro-businesses paying integrated tax	Q3 of 2019 (12 months +



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enterprise tax) for paying taxes and contributions for self-employed and craftsmanship	businesses to engage in declared work	craftsmanship. Introduce new forms of employment like personal supplementary work, short-term work and small work to allow providers of such work easy transfer to declared economy by making payments of taxes easy.		supporting informal work to formalize • Reduce undeclared work		ongoing)
DEMAND SIDE INCENTIVES						
Giving discounts on electronic payments, instead of the widely-used practice of cash discounts	To stimulate electronic payments and decrease the cash operations which give more space for undeclared activities	Inspect companies that give discounts for cash payments and require giving discounts on electronic payments in return for not issuing penalties for cash discounts. Consider discouraging easy access to cash.	Banks, Financial institutions, relevant government departments (especially Ministry of Finance and Treasury)	• Increase in tax revenues with increase of the electronic payments • Creating habits of paying using electronic means	• Decreased use of cash, increased use of electronic payments, and hence decrease in undeclared economy	Q4 of 2019 (12 months)
CHANGING CITIZENS' VALUES, NORMS AND BELIEFS						
Launch public awareness campaigns on the benefits of declared work	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work	Insist on marketing tools to trigger emotions, which should lead to long-term improvements in tax morality. The messages should focus on how the taxpayers' money was	Cross-government, Ministry of Labour and Social Policy in FBiH and Ministry of Labour, War Veterans and Disabled Persons' Protection in RS, Tax Administrations	• Reducing tolerance of undeclared work • Decrease in number of undeclared workers • Increased reporting by workers and citizens of	• Decrease in non-compliance cases found by inspectors • General public less tolerant of undeclared work	Q1 of 2020 (6 months)



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		used to trigger voluntary tax compliance.	and Labour Inspectorates	those that employ on undeclared basis • More transparency		
Educating citizens about the tax system and tax morality	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work	Introduce signs such as “Paying your taxes enabled this!” on public construction projects, parks, public goods, ambulances, in hospitals, schools, etc. This sends a clear message to public that their taxes are used to afford various public goods and services. Send “Thank you” letters to, at least, large tax payers informing them about how their taxes are spent, and what recent achievements have been available particularly due to taxes.	Cross-government in cooperation with Social partners	• Improved understanding about the relationship between paying taxes and the public goods and services	• Decrease in undeclared work • Greater awareness that taxes afford public goods and services	Q3 of 2019 (ongoing)
Incorporate tax compliance courses in undergraduate schools and university curriculums	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work	Introduce crash courses about the reasons to pay taxes and benefits of declared work in civic education programs (schools, universities, etc.). Organize a national week/day of undeclared work in schools and universities. Involve media and celebrity endorsement.	Federal Ministry of Education and Science and Ministry of Education and Culture in cooperation with other ministries	• Improved understanding among children and students about benefits of paying taxes • Indirect pressure on parents from children to be tax compliant	• Greater awareness of benefits of declared work	Q3 of 2020 (ongoing)
Thematic	Change values,	Organise competitions like:	Ministry of Finance and	• Building a culture of	• Reduced tolerance of	Q1 of



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competitions (e.g. “best essay on”) on why being tax compliant and declaring employees	norms and beliefs regarding the benefits of declared work and costs of undeclared work	best essay, best video, picture, etc. on importance and benefits of paying taxes. Distribute essays, videos, pictures that won the competition across the country, and organize tours in “Week on undeclared work” to promote the competition winners.	Treasury, Federal Ministry of Education and Science and Ministry of Education and Culture, Tax Administrations	compliance • Rather than preaching messages, it encourages self-reflection and self-education	undeclared work	2020 (6 months)
REFORMING FORMAL INSTITUTIONS						
Continuous training of inspectors	To shift away from “prison guards” inspectors to those who are also consultants, those who help being declared. To include inspectors in staff-exchange with neighbouring countries, but also EU member states.	Use ILO toolkit for training of inspectors in tackling undeclared work. Use inspectors in exchange programs with other countries to bring know-how of countries that efficiently deal with undeclared work.	Labour Inspectorates and Tax Administrations ILO trainers	• Improved efficiency and effectiveness in inspectors’ work • Capacity building • Building a customer-oriented and consultant approach • Improved satisfaction of staff and reduced stress caused by nature of job	• Improvements in staff productivity related to KPIs	Q1 of 2019 (ongoing)
General improvements in	To improve the internal processes of	General and measurable increase in quality of services	Cross-government and all institutions	• Improvement in goods and services provided	• Increase in satisfaction and tax compliance	Q1 of 2019



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services offered by the formal institutions	the formal institutions to increase the perceived benefits of being tax compliant	and public goods provided by institutions		• Increased satisfaction of citizens leading to increase in tax compliance		(ongoing)
Modernisation of management processes in bodies responsible for tackling undeclared work	To improve the internal process of the formal institutions involved in transforming undeclared work into declared work	The Labour Inspectorate should request its Minister to write formally to the Regional Cooperation Council requesting a Mutual Assistance Project. This will entail a three-day visit from experts from other countries to help the LI think through the establishment of modern management practices via the review of various performance enablers. The outcome will be a set of recommendations for improving these performance enablers.	Labour Inspectorates Regional Cooperation Council	• Improvement in the management and effectiveness of the LI	• Mutual Assistance Project (MAP) visit by the RCC and a set of recommendations for improving performance enablers.	Q1 of 2019 (3 months)
IMPROVING THE INVOLVEMENT OF SOCIAL PARTNERS						
Signing a tripartite agreement between Government, Tax and Social security	Greater involvement of social partners in tackling the undeclared work	Signing agreement between Government, Tax and Social security institutions and Social partners to join forces in	Cross-government, Tax Administrations, Social security bodies, Social partners	• Improved perception about resolve to tackle undeclared work	• Three-partite agreement signed • Decrease in undeclared work	Q1 of 2020 (6 months)



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bodies and Social partners to join forces in preventing undeclared work		tackling and preventing undeclared work to send a strong message about determination to tackle undeclared work.				
Awareness raising campaign among business community about the benefits of declared work	Greater involvement of social partners in tackling the undeclared work	Ensure establishment of this effective cooperation and exchange of information vis-a-vis a better detection of undeclared work and necessity of increase of social fairness. Support could be provided by the Tax Administrations and/or Labour Inspectorates	Employers' Association, Ministry of Labour and Social Policy in FBiH, Ministry of Labour, War Veterans and Disabled Persons' Protection in RS	<ul style="list-style-type: none"> • Reduced tolerance of undeclared work • Increase in number of reports to inspectorates • Increase in transparency 	• Number of meetings held	Q1 of 2020 (6 months)



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