Employment and Social Affairs Platform

RECOMMENDATIONS FOR TACKLING UNDECLARED WORK IN KOSOVO[*]: POLICY RECOMMENDATIONS

Draft

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[*] This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

Contents

List of abbreviations

EV- Enterprise Voucher Scheme
KPI- Key Performance Indicators
LI-Labour Inspectorate
MLSW- Ministry of Labour and Social Welfare
SV-Social Voucher Scheme

1.   Background context

This report sets out a comprehensive list of recommendations for tackling undeclared work in Kosovo* involving a policy mix based on both an incentive and inspection approach.

This section provides the background context by briefly reviewing firstly, the extent, character and drivers of the undeclared economy, secondly, the current organisation of the fight against undeclared work, and thirdly the current policy approach.[†] This will set the scene for the individual policy recommendations.

1.1   Extent, character and drivers of the undeclared economy in Kosovo*

Kosovo* is characterised by a high prevalence of undeclared work. According to a recent assessment of European Commission (2017), the undeclared economy is estimated to be equivalent to about 32% of GDP in Kosovo* whilst 45,000 employees work full time in the undeclared sector. The World Bank Enterprise Survey, meanwhile, reveals that 65.6% (about 7 in 10) of surveyed formal enterprises with five or more employees in Kosovo* assert that they compete against unregistered or informal firms, and 58.8% (about 6 in 10 formal enterprises) identify the practices of informal competitors as a major constraint.

Labour Force survey data reveal that nearly one quarter of employees (1 in 4) hold vulnerable jobs, i.e. are either unpaid family workers or self-employed without employees. A distinct feature of vulnerable employment in Kosovo* is that unpaid family work constitutes one third of vulnerable employment, a significantly higher proportion than the corresponding average for the EU28 (10.2%) and new member states (13.9%).[‡] This suggests that being an undeclared worker in Kosovo* is not a voluntary choice, but rather a 'survival strategy' in the absence of opportunities in the declared economy.

Evidence suggests that undeclared work is more prevalent when there is: lower GDP per capita; higher public sector corruption and lower quality governance; lower expenditure on labour market interventions to help the most vulnerable groups; lower social expenditure, and social transfer systems that are ineffective in reducing the level of inequality and severe material deprivation.

To tackle the undeclared economy in Kosovo*, therefore, there will be a need to continue to:

- improve the level of GDP per capita;
- improve governance and reduce public sector corruption;
- maintain and improve the levels of expenditure on labour market interventions to help the most vulnerable groups from its current low relatively base level;
- persist with increasing social expenditure; and couple this with
- developing more effective social transfer systems that reduce the levels of income inequality and levels of severe material deprivation in Kosovo* society.

Besides addressing these structural determinants, there are many additional organisational and policy initiatives that can be pursued to tackle the undeclared economy.

[†] Gashi, A., with Williams, C.C., 2018, Diagnostic Report on undeclared work in Kosovo*

[‡] According to the Key Indicators of the Labour Market 9th Edition (indicator KILM 3 for 2014). Unweighted average, Malta is not included (software downloaded from http://kilm.ilo.org/2015/install/).

1.2   Current organisation of the fight against undeclared work

Kosovo* does not have a single agency responsible for the fight against undeclared work, nor a central body responsible for ensuring coordinated action by the multifarious institutions and departments involved in tackling undeclared work. Instead, a more fragmented approach exists. Responsibility for tackling undeclared work is distributed across a range of institutions, with each taking responsibility for different segments of the undeclared economy. Whilst labour law violations are the responsibility of the Labour Inspectorate, tax non-compliance responsibility lies with the Ministry of Finance and social security and insurance fraud violations with the social insurance bodies. There is currently limited coordination in the fight against undeclared work across the multifarious institutions in strategic (particularly between Labour Inspectorate and Tax Administration), operational or data-sharing terms, and no common cross-cutting strategic objectives or targets. The quality of governance, therefore, needs to be improved. A more coordinated response is required.

Social partner involvement in relation to tackling undeclared work, moreover, remains relatively weak. Given that tackling undeclared work requires their participation, greater involvement of the social partners is required.

1.3   Current policy approach

A range of tools exist for transforming undeclared work into declared work. On the one hand, direct tools ensure that the rational economic decision is to engage in 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' and instead focus on dealing with the formal institutional failings so as to repair the social contract between the state and its citizens in order to foster a high trust high commitment culture.

In Kosovo*, a relatively narrow deterrence approach is currently adopted with a focus upon deterring participation in undeclared work by increasing the risks of detection. Limited emphasis is put on improving the benefits of and incentives for declared work, or more indirect preventative tools, such as awareness raising campaigns and dealing with the imperfections and failings of formal institutions (e.g., by facilitating procedural and redistributive justice and fairness, and pursuing wider economic and social policies). Although, Kosovo* Tax Administration applies a voluntary approach towards tax declaration, overall, there is a need to shift away from such a heavy reliance on deterrence measures to the broader use of preventative incentives, as well as awareness raising and a focus upon targeting and tackling the major drivers of the undeclared economy.

2.   Policy recommendations

2.1   Strategic management initiatives

There is currently a fragmented approach towards tackling undeclared work in Kosovo*. Whilst labour law violations are the responsibility of the Labour Inspectorate (within Ministry of Labour and Social Welfare), tax non-compliance responsibility lies with the Tax Administration (Ministry of Finance). Coordination and a joined-up approach at the level of strategy, operations and data mining, sharing and analysis is required to improve the effectiveness and efficiency of the fight against undeclared work.

Recommendation 1	**A holistic integrated strategic approach towards tackling undeclared work**.
Goal	To enhance the effectiveness and efficiency of the fight against undeclared work by improving coordination across enforcement authorities at the level of strategy, operations and data mining, sharing and analysis.
Implementation	Establish a coordinating body to take responsibility for joining-up the strategies, operations and data mining, sharing and analysis of all state agencies and social partners involved in the fight against undeclared work.
Responsible Institutions	Cross-government, including Ministry of Labour and Social Welfare, Labour Inspectorate, Ministry of Finance, Tax Administration, Ministry of Trade and Industry, Ministry of Innovation and Entrepreneurship, Employment Agency, Ministry of Culture, Youth and Sports, , and Border Police, plus social partners.
Outcomes	• A coordinated national approach towards undeclared work on the level of strategy, operations and data mining, sharing and analysis.
Indicators of achievement	• 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 mining, sharing and analysis to tackle undeclared work

It is now widely accepted that the aim of governments is not to eradicate the undeclared economy, but to move undeclared work into the declared economy. In article 1 of Decision (EU) 2016/3441 establishing the European Platform Tackling Undeclared Work, it is stated ‘"tackling", in relation to undeclared work, means preventing, deterring and combating undeclared work as well as promoting the declaration of undeclared work’. Until now, however, the focus of Labour Inspectorate has been focused narrowly upon deterring undeclared work rather than ‘preventing’ undeclared work and ‘promoting the declaration of declared work’. Although the Kosovo* Tax Administration relies on voluntary tax declaration and hence applies measures for awareness raising and educating citizens, according to stakeholders interviewed for this report, authorities in Kosovo* largely focus on deterring rather than preventing undeclared work. Therefore, it is necessary for Kosovo* enforcement authorities to widen their strategic objectives and to ensure that the definitions used in each enforcement authority capture the full range of types of undeclared work.

The current range of policy measures is narrow compared with EU Member States. There is thus a need to facilitate a shift from using deterrence measures (i.e., increasing penalties and improving the risks of detection) to putting more emphasis on preventative measures to encourage the shift from undeclared to declared work. These additional strategic objectives on transforming undeclared work into declared work, and offering formalisation support and advice, would be also strongly supportive of the intended reform of the Labour Inspectorate.

Recommendation 2	**Modernise the Labour Inspectorate's and Tax Administration's strategic objectives and KPIs in relation to undeclared work**

Goal	Broaden the responsibilities of the Labour Inspectorate and Tax Administration to include a preventative approach towards undeclared work.
Implementation	• Include as a strategic objective of the LI and TA to 'transform undeclared work into declared work'.
Responsible Institutions	Labour Inspectorate and Tax Administration

Outcomes	• Adopt additional KPIs associated with transforming undeclared work into declared work, and preventative measures, which are related to:
	• the number of start-up businesses offered advice and/or support on how to operate legitimately, the success of which is measured by the level of customer satisfaction" (grouped by the type of support and advice provided, with the first year used to produce a baseline figure for future years).
	  o the number of existing businesses offered formalisation advice and/or support, the success of which is measured by the level of customer satisfaction" (grouped by the type of support and advice provided, with again the first year used to produce a baseline figure for future years);
	  o % of legitimized labour relations resulting from the total number of controlled labour relations (with the first year used to establish a baseline figure).
	• These objectives should be SMART (Specific, Measurable, Achievable, Relevant & Time-bound).

Indicators of achievement	• The number of start-up businesses offered advice and/or support by the LI and TA on how to operate legitimately; • The number of existing businesses offered formalisation advice and/or support by the LI and TA.

There is also a need to improve the performance measurement of the agencies involved in the fight against undeclared work. This requires that there is a transparent and forward-looking management-by-objectives strategy with clearly described responsibilities. Information on the results of whether it achieves its KPIs is then shared in a fixed and easily understood format and in accordance with an agreed time interval. This might use different channels to communicate the results of its performance on achieving its KPIs, including reports and face-to-face information given at an individual or team level. The time interval is short enough to give useful current feedback but also long enough to be sure that data quality is high. Furthermore, there is a cascaded system of top-down and bottom-up dialogues throughout the organisation, strictly based on the performance indicators. In doing so, all relevant members of staff are involved, and the main characteristics of these performance dialogues are: respect and fairness, open dialogue, empowerment, reward and recognition. Decisions taken in the dialogue are directly and fully implemented, monitored, assessed and (if necessary) revised. Responsibilities for all these activities are clearly defined to ensure accountability.

Recommendation 3	**Improvements in performance measurement**
Goal	To improve the management-by-objectives approach within the enforcement agencies responsible for tackling undeclared work
Implementation	• Systems should be put in place to share whether the enforcement agency achieves its KPIs in a fixed and easily understood format.

	Different channels should be used to communicate the results of its performance (e.g., reports and face-to-face information) for different audiences (e.g., staff, the public).
	• This should be followed up by a cascaded system of top-down and bottom-up dialogues. In doing so, all relevant members of staff and stakeholders are involved, and the main characteristics of these dialogues are: respect and fairness, open dialogue, empowerment, reward and recognition. Decisions taken in the dialogue are implemented, monitored, assessed and (if necessary) revised.
	• Implementing a system of financial appreciation; 1.500 Kuna for every executed proposal of a staff member.
	• This should be coupled with a staff satisfaction survey conducted on a regular annual or bi-annual basis, with evaluation and feedback mechanisms of actions taken
Responsible Institutions	Labour Inspectorate, Tax Administration
Outcomes	• Better communication of performance both internally within the enforcement agency and to wider stakeholders. • Greater dialogue on the KPIs and management-by-objectives • Evaluation of staff satisfaction integrated into the management process to improve human resource management within the enforcement agencies.
Indicators of achievement	• Provision of reports and face-to-face information on performance results. • Evidence of top-down and bottom-up dialogues with staff. • Evidence that decisions taken in the dialogue are implemented, monitored and assessed. • Conducting of staff satisfaction survey which evaluates effectiveness of the performance measurement system and dialogue, and displays actions are taken in response to feedback received.

2.2 Policy measures to deter undeclared work

Deterrence measures detect and punish non-compliance. This is achieved by firstly, raising the perceived or actual likelihood of detection and/or secondly, increasing the penalties and sanctions for those caught. The evidence-base is that penalties do not significantly reduce the likelihood of undeclared work among either citizens or businesses, but that increasing the perceived or actual risk of detection does reduce the likelihood of undeclared work among businesses (but not citizens). Based on this evidence-based finding in relation to Kosovo*, several policy measures can be pursued to do so. One area where improvements can be made is on the proportionality of fines.

Recommendation 4	**Widening the spread of fines**
Goal	To allow proportionate treatment of cases of different seriousness
Implementation	• to widen the spread of fines giving enforcement bodies a broader width of penalties <u>or</u> • to make the system of fines less rigid to allow more flexibility and proportionality within the sanction system

Responsible Institutions	Ministry of Labour and Social Welfare
Outcomes	Makes sanction system more proportionate; offences of the same seriousness are punished with the comparable sanctions; increases the predictability of the system thus having a better deterrent effect.
Indicators of achievement	Improved rate of proportionality of decisions by courts.

Another realm where improvements can be made is on ensuring that being caught acts as a deterrent by increasing the perceived and/or actual risks of detection using a range of policy initiatives.

Recommendation 5	**Register of employers fined for undeclared work**
Goal	To allow the labour inspectorate, state bodies, employees, and companies to check whether an employer was penalised for undeclared work
Implementation	- To create a public register and to develop criteria for listing offenders - To list offenders for a certain period of time - To consider other implications resulting from listing on the register
Responsible Institutions	Labour Inspectorate
Outcomes	Increases the deterring impact and gives persons, employees and companies the opportunity to decide whether they want to do business with persons or companies listed on the register.
Indicators of achievement	Usage of register for due diligence purposes by public.

A further realm where improvement is required is on data mining, sharing and analysis. There is a lack of full data sharing across the multiple data systems. This is not wholly a technocratic but also an organisational problem, and needs to be resolved. To resolve this, these electronic systems could be integrated organisationally and under some coordination body. This might be moving them into a newly-established 'Undeclared Work Information Unit'. The Grey Economy Information Unit in Finland is a good practice example of where data mining has been integrated into a single national body.

Recommendation 6	**Improve the effectiveness of electronic systems for data mining, data sharing and data analysis**.
Goal	To improve the perceived and actual risk of detection of businesses engaged in undeclared work
Implementation	• Akin to proposals on health and safety data, a single centralised database should be created where requests for information on

	individual businesses or sectors can be sent.
	• A first step is to visit the Grey Economy Information Unit in Finland to gather information on how it works. A plan can then be prepared on the organisation of how such a unit would operate in Kosovo*
Responsible Institutions	Ministry of Labour and Social Welfare, Ministry of Finance, Pension Fund, Health Insurance Fund (when starts to be implemented), Employment Agency
Outcomes	• Join-up the various data-sets and enable more effective data mining, sharing and analysis across government • Inspectors will receive better information to plan more effective inspections • Inspectors will be able to develop segmentation strategies that focus resources where the risks are the greatest.
Indicators of achievement	• Improved rate of detection of undeclared work

Not all forms of undeclared work can be detected using inspections. Evidence for Kosovo* has shown that in 2016, about 1 in 10 of formal employees receive from their formal employer not only an official declared wage but also an additional undeclared ('envelope') wage (SELDI, 2017). Such under-declared employment is difficult to detect using inspections. Instead, data mining is required. To use data mining in a preventative and curative manner, businesses perceived to be potentially engaging under-declared workers (e.g., with below average wage rates for their sector or size, or for the occupation) should be sent friendly normative notification letters so as to 'nudge' them towards legitimacy. The selection of suitable cases has to be done by executive personnel and should be supported by selection guidelines. Experimentation with various types of notification letter will enable what works and what does not to be evaluated.

Recommendation 7	**Normative notification letters (using data mining)**
Goal	To improve the perceived and actual risk of detection of businesses engaged in under-declared employment
Implementation	Databases should be used to detect businesses perceived to be potentially engaging under-declared workers by identifying 'outliers' who have below average wage rates for their sector or size, or occupations employed. These 'outliers' should be sent friendly normative notification letters so as to 'nudge' them towards legitimacy. The selection of suitable cases should be done by executive personnel and be supported by selection guidelines. This should be initially implemented as a pilot study in a particular sector, industry or locality, and various kinds of notification letter should be used to evaluate which types work and which do not.
Responsible Institutions	Labour Inspectorate and Tax Administration
Outcomes	• Businesses paying 'envelope wages' will be encouraged to put their affairs in order in a cost-effective manner. • Widens tax base
Indicators of achievement	• Proportion of businesses contacted that improved their compliance

	and reported increased wage levels.

With effective data mining and analysis, risky businesses can be better identified for preventative purposes (e.g., for identifying the businesses to whom normative notification letters should be sent). Effective data mining, however, can also enable the effective detection of risky businesses for the purpose of conducting inspections. Using data mining allows a targeting of inspections to occur. The targeting of inspections using data mining requires an effective risk assessment system to be developed.

Recommendation 8	**Targeting and planning inspections**
Goal	To improve the perceived and actual risk of detection of businesses engaged in undeclared work
Implementation	• Develop a points-based system for assessing the validity of reported violations, and whether an inspection should take place, supported by data mining. • Use the inspectors time freed from following-up on reported violations by developing a strategic targeted approach towards inspections based on those sectors and business types in which undeclared work is more prevalent. • Coordinate inspections between various enforcement authorities targeted at the same business, which would increase impact, and be more business-friendly.
Responsible Institutions	Labour Inspectorate and Tax Administration
Outcomes	• Improved rate of detection of labour law violations, tax non-compliance and social insurance fraud. • Set a target of conducting x% of inspections based on a more strategic and targeted approach. • Set a target of conducting x% of inspections as joint inspections with other inspectorates
Indicators of achievement	• To increase by x% p.a., the number of inspections which are targeted inspections and to decrease the overall percentage of inspections which are responses to reports of violations. • x% of inspections to be conducted as joint inspections.

Public works contracts are contracts over which the government has control and the inclusion of clauses in contracts is possible. A means of increasing the risk of detection is to introduce a clause in public works contracts that the firm to which the contract is awarded undertakes not to engage any undeclared workers and will put in place measures to ensure that any sub-contractors engaged will not employ undeclared workers. Including such a clause will place a substantial obligation on main contractors to whom contracts are awarded to abide by tax, social security and labour legislation and importantly, to ensure that any sub-contractors they employ will not employ undeclared workers. In addition, it would help to make the submission of bank guarantees obligatory for i) ensuring that salaries and ii) social security, will be paid. The main contractor has to declare (i) the assignment of a maximum three levels of sub-contractors (ii) his/her liability for non- paid tax and social insurance contribution for the staff of the sub-contractor, (iii) his/her duty of proof for the lawful employment of the employees of the sub-contractors.

Recommendation 9	**Introduce supply chain responsibility in public works contracts**
Goal	To improve the perceived and actual risk of detection of businesses engaged in undeclared work
Implementation	• Introduce into public works contracts awarded a clause in the contract certifying that the winning firm undertakes not to engage any undeclared workers and will put in place measures to ensure that any sub-contractors engaged will not employ undeclared workers. • Pilot study within a selected Ministry in relation to public contracts within a relatively well-defined sector in which undeclared work is considered prevalent
Responsible Institutions	Selected Ministry
Outcomes	• If main contractors are found by the state inspectorates to have engaged undeclared workers in their supply chain, then a ban on bidding for public works contracts could be imposed for a specified period, and they would be removed from the 'white list' (see below). • Reduces opportunities for undeclared work. • Shifts detection of undeclared work beyond solely a state responsibility by involving private businesses in the active detection of undeclared work.
Indicators of achievement	• Pilot study introduces this clause into public works contracts and inspections are used to reveal if it is effective in preventing undeclared work in the supply chain.

2.3   Incentives to formalise: supply-side measures

Incentive measures seek to make it easier to undertake, and reward, compliant behaviour (i.e., declared work). To achieve this, these incentives can be either: *preventative measures* to stop people moving into the undeclared economy in the first place; or *curative measures* to incentivise workers and businesses to make the transition to the declared realm. These can be either (a) supply-side incentives targeting businesses and workers in the undeclared economy or (b) demand-side incentives targeting their customers with rewards for using declared goods and services. Until now, although deterrents have been widely used, incentive measures to prevent and cure participation in undeclared work have not been pursued. Here, several supply-side incentive measures are recommended to change the cost/benefit ratio confronting businesses and workers when considering participation in undeclared work.

Kosovo* does not apply a 'black list' for undeclared enterprises, though this was proposed by stakeholders interviewed during this assessment. However, a 'white' register of compliant business is recommended, as it would provide an incentive for businesses to operate legitimately. Cleaning businesses are perceived as more prone to undeclared work, also operating with poor working conditions and limited rights for workers (often paid below minimum wage). One measure to redress this could be through issuance of business certification schemes for the cleaning businesses.

Recommendation 10	**'White list' of legitimate employers (not 'black list') for public**

	procurement contracts
Goal	To provide supply-side incentives to engage in undeclared work
Implementation	All firms who wish to tender for public contracts would have to obtain a 'Clearance Certificate'. This certification could be kept simple and refer to the absence of wage, tax and social insurance arrears, and sanctions imposed in recent years. Pilot study in a selected Ministry in relation to public procurement in a specific industrial sector where undeclared work is prevalent (e.g. cleaning businesses).
Responsible Institutions	Selected Ministry
Outcomes	• Provides an incentive and positive benefit of being compliant by rewarding those who are compliant with access to public contracts.
Indicators of achievement	• Reduction in number of businesses excluded from receiving a 'clearance certificate'

Besides encouraging legitimate business start-ups using preventative approaches, those currently operating in the undeclared economy requires support and advice on how to legitimise their operations. The type of business advice and support required to formalise business ventures differs from that required by formal start-up or growth businesses (Caianello and Voltura, 2003; Copisarow, 2004; Copisarow and Barbour, 2004; Meldolesi and Ruvolo, 2003; Williams, 2005).

In the 2017 Annual Platform Survey, 61% of Member States responding asserted that they provide formalisation support services to existing businesses, although there are variations between EU regions. Although all Nordic nations and 86% of West European Member States responding provided formalisation support services to existing businesses, just 44% did so in East-Central Europe and 25% in Southern Europe.

An example of a 'formalisation service' is **Street (UK)**, established in 2000 to offer loans, advice and business support to self-employed people and micro-enterprises wishing to undergo a transition to formalisation (www.street-uk.com).

Recommendation 11	**Formalisation support and advice to businesses**
Goal	• Make it easier and/or incentivise, established businesses to operate on a declared basis by offering bespoke formalization support and advice
Implementation	• Provision of advice and business support to self-employed people and micro-enterprises wishing to undergo a transition to formalisation • Besides advice and support, incentives could be provided, for example promotional aid, training, trade fairs, and facilitation in internationalization of their markets.
Responsible Institutions	Ministry of Finance, Ministry of Innovation and Entrepreneurship, jointly with employer associations.
Outcomes	• Provides an incentive and positive benefit of operating in formal sector. Incentives are provided to facilitate entrepreneurs to compete on grounds other than labour cost.

Indicators of achievement	• To increase the share of self-employed and micro-enterprises operating in the formal economy

2.4 Incentives to formalise: demand-side measures

Incentive measures to make it easier to undertake, and reward, compliant behaviour (i.e., declared work) can also be demand-side incentives targeting those who purchase goods and services in the undeclared economy with rewards for using declared goods and services. Until now, such demand-side incentives have been seldom used in Kosovo*.

Recommendation 12	**Decrease incentives to use cash and increase incentives to use electronic payments to reduce undeclared work**
Goal	Incentivise consumers to purchase declared goods and services
Implementation	• To discourage the use of cash and incentivise an increase in electronic payments, so as to reduce the opportunities for undeclared work, Kosovo* should: (1) implement a lower ceiling on cash transactions, (2) consider discouraging easy access to cash, (3) make point-of-sale (POS) terminals available across all sectors, including the mandatory acceptance of digital payments, with a subsidy for the installation of POS terminals in enterprises with an annual turnover of less than €XX operating in sectors with intermediate or high risk of undeclared transactions, (4) central and regional governments to shift more fully towards electronic payments, especially with regard to pension payments, and (5) provide incentives for using cards at the point-of-sale. This might involve: • A discount at X rate for customers of the transaction value for digital payments through POS terminals (payment cards and e-money) for the purchase of goods and services, or • A refund of 0.8% discount for suppliers taking electronic payments through POS terminals for the purchase of goods and services.
Responsible Institutions	Banks Financial institutions All government departments Social partners
Outcomes	• Tax revenues increase with the growth of the use of payment cards. It is estimated that a discount of XX% for customers of the transaction value for digital payments through POS terminals (payment cards and e-money) for the purchase of goods and services, would yield a 1% net increase in budget revenues. • Subsequently, as the electronic payment targets are met, and the use of digital payments consolidates as part of the consumer habits, incentives can be gradually withdrawn, resulting in an increase in the fiscal benefit.
Indicators of achievement	• Decreased use of cash and increased use of electronic payments.

There is an anecdotal evidence, that in Kosovo*, a high proportion of undeclared work takes place in home repair and renovation, and domestic services. Encouraging homeowners with a

tax rebate when they employ registered workers will encourage homeowners to engage declared persons to provide such services. Tax rebate schemes for domestic services, and home repair and renovation, have been demonstrated in other EU Member States (for example: Denmark, Germany, Belgium, Sweden) to be a major incentive to engage declared workers and reject undeclared workers. The tax rebate does not need to be high - normally it applies to the cost of the labour only and consists of a relatively small percentage of the costs of labour (e.g., 20%) although some economies go up to 50% rebate of labour costs.

Recommendation 13	**Introduce a tax rebate incentive scheme for home owners to receive a rebate of tax when they employ (i) domestic workers, and (ii) registered building contractors or registered tradespeople who provide house repair and renovation services.**
Goal	Incentivise consumers to use declared goods and services
Rationale	• A pilot study should be undertaken in a particular region for a limited range of activities, to be evaluated after 24 months
Responsible Institutions	Ministry of Finance Tax Administration
Outcomes	• Offers an incentive to citizens to employ declared workers and raises awareness of the negative effects of employing undeclared workers. • It has a two-fold benefit in increasing income possibilities for registered builders and trades persons and it raises the quality of housing repair and maintenance.
Indicators of achievement	• Survey of pilot study to evaluate whether purchasers would have used undeclared work previously to get the work done

A recent study by Williams (2018), reports that in the 2017 Annual Platform Survey, 26% of responding Member States were using service vouchers. Service vouchers are a demand-side incentive measure which targets purchasers of goods and services in the undeclared economy with the intention of moving undeclared work into the declared economy. A service voucher is a means of payment, subsidised by government, which allows a private user to pay an employee for conducting tasks. By providing service vouchers to those employing labour, which pays a portion of the fee given to the worker, the intention is to encourage them to purchase services on a declared rather than undeclared basis. Two types of services vouchers exists, namely, the enterprise voucher (EV) schemes used by companies, and social voucher (SV) schemes used by households. Drawing on evaluation of services voucher schemes, key lessons drawn by Williams, (2018) are as follows:

- Social Voucher schemes should be used to: pay for regular and occasional labour; to formalise household services (including caring services), with service vouchers limited to the specific tasks where undeclared work is prevalent in each Member State, and allow the direct employment of a private individual by a household, as well as establish authorised provider organisations which employ service voucher workers.
- Enterprise voucher (EV) schemes, meanwhile, should: only be used to pay for occasional labour; and target the agricultural sector and only be used in other sectors if they protect workers' rights.
- Both Social Voucher (SV) and Enterprise Voucher (EV) schemes should: be targeted only at spheres where undeclared work is prevalent; target spheres where labour inspection is difficult (e.g., households); set a limit on the number of service vouchers an employer can

purchase, not on the level of income of a service voucher worker; allow users to acquire and submit vouchers online; the price of a service voucher should be the minimum price an employer pays for one hour's work; be based on prior research to decide the price of service voucher for a user (and level of subsidy required), so that they are competitively priced compared with using undeclared work; and enable workers to gain access to key social security benefits comparable to those held by people employed, and cover unemployment benefits, accident insurance, pension benefits, sickness benefits, maternity leave and health benefits, and ex-ante and ex-post evaluations should be conducted of the extent to which service vouchers reduce undeclared work, and whether they substitute for permanent formal employment contracts.

Although there is no evidence for Kosovo*, there is anecdotal evidence that a large share of population purchase goods or services in the undeclared economy, mainly for repairs or renovations to the home, cleaning the home, for babysitting at home, pastry and food making. Service vouchers for households, similar to Belgium model could contribute to transformation from undeclared to declared work.

Recommendation 14	Service Vouchers for households
Goal	To encourage individuals/households to purchase services on a declared rather than undeclared basis.
Implementation	Provision of service vouchers, a means of payment, subsidised by government, to be used by private users/households to pay an employee for conducting tasks for cleaning, repair, baby sitting. Pilot initiatives should be used in particular localities, or for specific tasks/sectors where undeclared work is prevalent, and ex-ante and ex-post evaluations should be conducted.
Responsible Institutions	Ministry of Finance Tax Administration
Outcomes	• Offers an incentive to citizens to employ declared workers • Incentivises working in declared sector as it allows them to gain access to pension benefits, sickness benefits, maternity leave and health benefits (when starts being introduced in Kosovo*).
Indicators of achievement	• Number of households purchasing services such as cleaning, baby sitting, etc. The extent to which the service voucher scheme reduces undeclared work/transforms undeclared work into declared work. • Number of active and employed persons increases (particularly among women)

2.5 Changing citizens' values, norms and beliefs

The problem with using solely the above deterrents and incentives tools is that those operating on an undeclared basis are not always purely rational economic actors purely calculating the costs and benefits. They can be also often social actors who engage in undeclared work because there is lack of alignment between their own morality and the laws and regulations, such as due to a lack of trust in the state and what it is seeking to achieve.

There is therefore a need to repair the social contract between the state and its citizens. Undeclared work occurs where formal institutional failings lead to citizens' norms, values

and beliefs differing to the laws and regulations, meaning that what formal institutions deem illegal activities are seen as socially legitimate in the eyes of citizens. To tackle undeclared work therefore, there is a need to repair the social contract. To align citizen morality with state morality, one option is to change the norms, values and beliefs of citizens regarding the acceptability of undeclared work, so that these are in symmetry with the laws and regulations. One option is to organise a public awareness campaign on the benefits of declared work to increase the level of voluntary compliance.

Recommendation 15	**Launch of a Public Awareness Campaign on** **a) Benefits of Declared Work** **b) Costs and risks related to undeclared work**
Goal	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work
Implementation	- Target younger people who are more likely to view undeclared work as socially acceptable, as well as perhaps professional groups such as doctors, lawyers and accountants. The media used and messages need to be tailored to these selected groups. - MLSW/Labour Inspectorate website use – landing page as part of ministry´s website - Materials uploaded to the MLSW/ Labour Inspectorate website - Materials uploaded to the Social media (FB, YouTube, etc.) - Ensure full awareness about the MLSW/ Labour Inspectorate competencies vis-a-vis detection of undeclared work and related consequences on individuals For campaigns on informing suppliers of the risks and costs of working undeclared, "slogans" suggested at the September 2017 Platform Dissemination seminar include: "Declare it all, or risk everything" "Not good for me, not good for" "You pay for it later" "Little gain, lot of pain" "You get what you pay for" "We are watching you" "Don't do it" "Avoid future taxes, make payments now" "You deserve it all" "Don't sell your future" - Short-term gain, long-term pain" Or the Slovenian one 'Let's stop undeclared work".
Responsible Institutions	Ministry of Labour and Social Welfare, Labour Inspectorate, other line-ministries (Ministry of Finance/Tax Administration/Customs; Ministry of Innovation and Entrepreneurship, etc.). Selected journalists dealing with social matters with focus on social fairness

Outcomes	• Reducing the tolerance of undeclared work will result in lower levels of undeclared work.
	• The percentage of citizens engaged in undeclared work will fall.
	• There will be an increase in the number of reports to of non-compliance to inspectorates.
	• It will widen the tax base
	• More transparency
Indicators of achievement	• Decrease in number of reports of non-compliance to inspectorates
	• Reduction in tolerance of undeclared work
	• Decrease in undeclared work

Most employees only consider 'take home pay'. There is little understanding of 'gross pay' and thus the value of paying taxes. A campaign to educate citizens about the tax system and tax morale is therefore required.

Recommendation 16	**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	• Send an annual letter to all tax payers which sets out what portion of their taxes is spent on which public goods and services.
	• Introduce signs such as 'your taxes are paying for this' on public construction projects (e.g., new roads), on ambulances, in doctor's waiting rooms, in hospitals and schools. This conveys a clear message to the public that their taxes are being used to pay for these public goods and services.
	• An example from Macedonia awareness raising campaign, illustrated through pizza could be implemented.
Responsible Institutions	Ministry of Labour and Social Welfare, Ministry of Finance/Tax Administration/Customs; Ministry of Innovation and Entrepreneurship; Ministry of Trade and Industry in close cooperation with Trade Unions and business chambers and associations
Outcomes	• Improved citizens understanding about the relationship between paying taxes and the public goods and services received.
Indicators of achievement	• Resultant reduction in undeclared work
	• Greater awareness that taxes pay for public goods and services.

Tolerance of undeclared work is highest among younger age groups. In many economies, such as Canada, young people have been therefore targeted to educate them before they enter the workforce about the benefits of declared work.

Recommendation 17	**Educate schoolchildren and university students of the benefits of declared work**
Goal	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work
Implementation	• Introduce in the civic education curriculum lessons on why people

	pay tax, the benefits of social insurance and declared work, and the costs of undeclared work.
	• Introduce a national Undeclared Work-week, addressing school children and explaining the benefits of compliance and the costs of being non-compliant.
	• Involve sportspeople, singers or actors in order to have 'celebrity endorsement' for a large social media campaign addressed to young people on the benefits of declared work.
Responsible Institutions	Ministry of Education, Science and Technology, Municipalities, in close cooperation with the Ministry of Labour and Social Welfare, Ministry of Finance/Tax Administration/Customs; Ministry of Innovation and Entrepreneurship, Ministry of Trade and Industry, etc.)
Outcomes	• Improved understanding of children and students about the benefits of paying taxes and social insurance, and working declared. • Resultant peer pressure on parents from children will reduce undeclared work.
Indicators of achievement	• Greater awareness of benefits of declared work and costs of undeclared work among younger people

An effective approach for changing values, norms and beliefs is to encourage citizens to reflect and to consider for themselves why paying taxes/working declared is important, rather than be told why they should do so. Such reflexive self-learning is far more effective than information campaigns at embedding knowledge and understanding.

Recommendation 18	**National competition on why pay your taxes/why work declared**
Goal	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work
Implementation	• Use a celebrity role model from (for example from sports) to make a social media video on 'why pay your taxes' or 'why reject envelope wages' or 'why work declared' so as to use appropriate role models for the target group for celebrity endorsement. • This video will be used to launch a competition for people to make their own video on the subject of 'why pay your taxes'. • An additional option is to integrate this competition with the above recommendation to introduce this issue in the civic education curriculum. If this is done, schoolchildren can produce such videos in their civic education classes. • The sequencing of such a competition with other policy measures below is important. It should be run following, rather than prior to, public institutional reforms to be effective.
Responsible Institutions	Ministry of Labour and Social Welfare, Ministry of Finance/Tax Administration/Customs; Ministry of Innovation and Entrepreneurship; Ministry of Trade and Industry in close cooperation with Trade Unions and business chambers and associations.
Outcomes	• Encourages self-reflection by a wide segment of the target population (e.g., young people) to consider the advantages of

	paying taxes and disadvantages of failing to do so.
	• Rather than preach messages, it encourages self-reflection and self-education.
Indicators of achievement	• Reduced tolerance of participation in undeclared work by the target group.

2.6 Reforming formal institutions

Given that values, norms and beliefs are not aligned with the formal rules due to the failings of formal institutions, it is difficult to change citizens' norms without changing the formal institutions. This can involve either:

- Changes in the internal processes of the formal institutions to improve the perception amongst citizens that there is procedural and distributive fairness and justice; and/or
- Change in the products of formal institutions by pursuing wider economic and social developments (e.g., increased social expenditure levels, more effective social transfers).

Recommendation 19	**Training of labour inspectors**
Goal	Produce more effective trained labour inspectors
Rationale	• There is currently limited official training of labour inspectors on tackling undeclared work.
	• The Labour Inspectorate should make use of the ILO toolkit for the training of labour inspectors in tackling undeclared work.
Responsible Institutions	Labour Inspectorate ILO trainers
Outcomes	• Improved efficiency and effectiveness of inspectors in tackling the undeclared economy.
	• Capacity-building of the inspectorate.
	• Facilitates organisational culture change towards a more customer-friendly approach.
	• Monitor via annual staff satisfaction survey
Indicators of achievement	• Improvements in productivity of staff in achieving KPIs

To support capacity building, there is a need to identify and review the various potential performance enablers. These include target setting, performance measurement, process definition and standardisation, quality management, ex-ante and ex-post evaluation, management of change and innovation, partnership building, human resource management and budget allocation.

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 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 economies 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	LI Regional Cooperation Council
Outcomes	• Improvement in the management and effectiveness of the LI
Indicators of achievement	• Mutual Assistance Project (MAP) visit by the RCC and a set of recommendations for improving performance enablers.

2.7 Improving the involvement of social partners

Improving detection does not have to be solely a responsibility of the state authorities. Social partners can also play a role in detecting undeclared work working in cooperation with the state.

To achieve this, a voluntary employer-led initiative to rid the supply-chain of undeclared work can be implemented. Either the employer at the top of the supply-chain will take responsibility for ensuring that this is the case, or an initiative based on joint liability could be adopted. This would involve social partners in detecting and eradicating undeclared work in the supply chain, and also provide a clear incentive for smaller businesses lower in the supply chain to be compliant so that they receive contracts from larger firms.

Recommendation 21	**Introduce employer-led voluntary supply chain responsibility initiative**
Goal	Greater involvement of social partners in the fight against undeclared work
Implementation	• In this voluntary employer-led initiative, firms in the supply-chain could be requested to show those higher in the supply chain that they comply wit-h tax and social security obligations through external auditors and/or refer to the absence of wage, tax and social insurance arrears, and sanctions imposed in recent years. • This might be conducted as a pilot initiative by 10-15 larger employers under the auspices of their Corporate Social Responsibility (CSR) strategy.
Responsible Institutions	Kosovo* Chamber of Commerce Corporate Social Responsibility Network in Kosovo*
Outcomes	• Increases detection of undeclared work by involving social partners in its detection. • Reduces opportunities for undeclared work. • Provides a clear 'demonstration effect' to smaller firms that larger employers take compliance seriously and that they need to similarly do so. • Shifts detection of undeclared work beyond solely a state responsibility by involving private businesses in the active detection of undeclared work.
Indicators of achievement	• Successful implementation among a selection of larger employers in Kosovo*

A broader social partner led initiative is to use local 'role models' organised by for example chambers of commerce to act as mentors to nascent entrepreneurs starting-up businesses.

Recommendation 22	**Provision of one-to-one formalisation advice and support**
Goal	Greater involvement of social partners in the fight against undeclared work
Implementation	• Use local role models/mentors by developing a 'buddy system' whereby legitimate entrepreneurs buddy with younger nascent entrepreneurs to help them legitimise, and provide support and advice on legitimate business development. • Technical assistance could be sought to secure EU funds for this awareness raising initiative.
Responsible Institutions	Kosovo* Chamber of Commerce
Outcomes	• Enables business start-ups to do so legitimately. • Enables business operating on a partially undeclared basis to receive advice on how they can put their affairs in order.
Indicators of achievement	• Successful implementation of mentoring system for younger nascent entrepreneurs

To raise awareness among businesses of the benefits of declared work (and costs of undeclared work) so as to increase the level of voluntary cooperation, and reduce the need for enforced compliance, social partners could also run (with support from the Labour Inspectorate and/or Tax Administration) awareness campaigns. In 2011, the Latvian Employers' Confederation (Latvijas Darba Devēju konfederācija, LDDK) launched a national level campaign 'Against the shadow economy – for fair competition' (Williams, 2018). The campaign included six parts: an advertising campaign with the slogan ‚I spit on it' (Man uzspļaut); an online tool – a test for measuring an individual's ‚shadow'; actions involving white envelopes; a discussion with business representatives on fair competition; analysis of the results of an online test and the elaboration of conclusions and proposals; and a discussion in the Latvian Parliament on combating the shadow economy in Latvia. The whole campaign attracted the population's attention and provided involvement. The ‚I spit on it' advertisement was widely discussed almost as soon as it appeared. Discussions covered issues such as the reasons for and consequences of evading tax, the quality of public services and the efficiency of state management. The low efficiency of public spending and low level of public services was often mentioned as a reason for tax evasion, but individuals' own habits were also critically assessed.

Recommendation 23	**Awareness raising campaign among business community of the benefits of declared work**
Goal	Greater involvement of social partners in the fight against undeclared work
Implementation	• Ensure establishment of strong network for cooperation, exchange of information, full awareness about the MLSW/LI competencies vis-a-vis detection of undeclared work and necessity of increase of social fairness. Support material/presentations for these road shows

	could be provided by the Tax Administration and/or Labour Inspectorate
Responsible Institutions	Kosovo* Chamber of Commerce American Chamber of Commerce, Women for Women Association, Sectoral Associations in close cooperation with Ministry of Labour and Social Welfare, Labour Inspectorate, Employment Agency (EARK) other line-ministries (Ministry of Finance/Tax Administration/Customs; Ministry of Innovation and Entrepreneurship, Ministry of Trade and Industry, etc.)
Outcomes	• Reducing the tolerance of undeclared work will result in lower levels of undeclared work. • The percentage engaged in undeclared work will fall. • There will be an increase in the number of reports to inspectorates. • It will widen the tax base • Increase in transparency
Indicators of achievement	• Number of meetings held and number of participants attending.

3.   Recommended actions for tackling undeclared work

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
STRATEGIC MANAGEMENT INITIATIVES						
1. A holistic integrated strategic approach towards tackling undeclared work.	To enhance the effectiveness and efficiency of the fight against undeclared work by improving coordination across enforcement authorities at the level of strategy, operations and data mining, sharing and analysis.	Establish a coordinating body to take responsibility for joining-up the strategies, operations and data mining, sharing and analysis of all state agencies and social partners involved in the fight against undeclared work.	Cross-government, including Ministry of Labour and Social Welfare, Labour Inspectorate, Ministry of Finance, Tax Administration, Ministry of Trade and Industry, Ministry of Innovation and Entrepreneurship, Employment Agency, Ministry of Culture, Youth and Sports, , and Border Police, plus social partners.	A coordinated national approach towards undeclared work on the level of strategy, operations and data mining, sharing and analysis.	• 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	Q1 2019 (ongoing)

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
					joined-up strategic plan on data mining, sharing and analysis to tackle undeclared work	
2. Modernise the Labour Inspectorate's and Tax Administration's strategic objectives and KPIs in relation to undeclared work	Broaden the responsibilities of the Labour Inspectorate and Tax Administration to include a preventative approach towards undeclared work.	Include as a strategic objective of the LI and TA to 'transform undeclared work into declared work'.	Labour Inspectorate and Tax Administration	Adopt additional KPIs associated with transforming undeclared work into declared work, and preventative measures, which are related to: o the number of start-up businesses offered advice and/or support on how to operate legitimately, the success of which is measured by the level of customer satisfaction" (grouped by the type of support	• The number of start-up businesses offered advice and/or support by the LI and TA on how to operate legitimately; • The number of existing businesses offered formalisation advice and/or support by the LI and TA.	Q1 2019 (6 months)

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
				and advice provided, with the first year used to produce a baseline figure for future years); o the number of existing businesses offered formalisation advice and/or support, the success of which is measured by the level of customer satisfaction" (grouped by the type of support and advice provided, with the first year used to produce a baseline figure for future years). o x% of legitimized		

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
				labour relations resulting from the total number of controlled labour .1relations (with the first year used to establish a baseline figure) These objectives should be SMART (Specific, Measurable, Achievable, Relevant & Time-bound).		
3. Improvements in performance measurement	To improve the management-by-objectives approach within the enforcement agencies responsible for tackling undeclared work	• Systems should be put in place to share whether the enforcement agency achieves its KPIs in a fixed and easily understood format. Different channels should be used to communicate the results of its performance (e.g., reports and face-to-face information) for different audiences (e.g., staff, the public). • This should be followed up by a cascaded system of top-down	Labour Inspectorate, Tax Administration	• Better communication of performance both internally within the enforcement agency and to wider stakeholders. • Greater dialogue on the KPIs and management-by-objectives • Evaluation of staff satisfaction	• Provision of reports and face-to-face information on performance results. • Evidence of top-down and bottom-up dialogues with staff. • Evidence that decisions taken	Q1 2019 (ongoing)

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
		and bottom-up dialogues. In doing so, all relevant members of staff and stakeholders are involved, and the main characteristics of these dialogues are: respect and fairness, open dialogue, empowerment, reward and recognition. Decisions taken in the dialogue are implemented, monitored, assessed and (if necessary) revised. • Implementing a system of financial appreciation; 1.500 Kuna for every executed proposal of a staff member. • This should be coupled with a staff satisfaction survey conducted on a regular annual or bi-annual basis, with evaluation and feedback mechanisms of actions taken		integrated into the management process to improve human resource management within the enforcement agencies.	in the dialogue are implemented, monitored and assessed. Conducting of staff satisfaction survey which evaluates effectiveness of the performance measurement system and dialogue, and displays actions are taken in response to feedback received.	
POLICY MEASURES TO DETER UNDECLARED WORK						
4. Widening the spread of fines	• To allow proportionate	• to widen the spread of fines giving enforcement bodies a broader width of penalties or	Ministry of Labour and Social Welfare	• Makes sanction system more proportionate;	• Improved rate of proportionality of decisions by	Q2 2019

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
	treatment of cases of different seriousness	• to make the system of fines less rigid to allow more flexibility and proportionality within the sanction system		offences of the same seriousness are punished with the comparable sanctions; increases the predictability of the system thus having a better deterrent effect	courts.	
5. Register of employers fined for undeclared work	• To allow the labour evaluative29e, state bodies, employees, and companies to check whether an employer was penalised for undeclare	• To create a public register and to develop criteria for listing offenders • To list offenders for aa certain period of time • To consider other implications resulting from listing on the register	Labour Inspectorate	• Increases the deterring impact and gives persons, employees and companies the opportunity to decide whether they want to do business with persons or companies listed on the register.	• Usage of register for due diligence purposes by public.	Q2 2019

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
	d work					
6. Improve the effectiveness of electronic systems for data mining, data sharing and data analysis.	• To improve the perceived and actual risk of detection of businesses engaged in undeclared work	• Akin to proposals on health and safety data, a single centralised database should be created where requests for information on individual businesses or sectors can be sent. • A first step is visit to the Grey Economy Information Unit in Finland to gather information on how it works. A plan can then be prepared on the organisation of how such a unit would operate in Kosovo*	MLSW, Ministry of Finance, Employment Agency	• Join-up the various data-sets and enable more effective data mining, sharing and analysis across government • Inspectors will receive better information to plan more effective inspections • Inspectors will be able to develop segmentation strategies that focus resources where the risks are the greatest.	• Improved rate of detection of undeclared work	Q2 2019 (ongoing)
7. Normative notification letters (using data mining)	To improve the perceived and actual risk of detection of businesses engaged in under-declared	Databases should be used to detect businesses perceived to be potentially engaging under-declared workers by identifying 'outliers' who have below average wage rates for their sector or size, or occupations employed. These 'outliers' should be sent friendly	Labour Inspectorate and Tax Administration	Businesses paying 'envelope wages' will be encouraged to put their affairs in order in a cost-effective manner. Widens tax base	Proportion of businesses contacted that improved their compliance and reported increased wage levels.	Q3 2018 (4 months for pilot study & evalua

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
	employment	normative notification letters so as to 'nudge' them towards legitimacy. The selection of suitable cases should be done by executive personnel and be supported by selection guidelines. This should be initially implemented as a pilot study in a particular sector, industry or locality, and various kinds of notification letter should be used to evaluate which types work and which do not.				tive)
8. Targeting and planning inspections	To improve the perceived and actual risk of detection of businesses engaged in undeclared work	• Develop a points-based system for assessing the validity of reported violations, and whether an inspection should take place, supported by data mining. • Use the inspectors' time freed from following-up on reported violations by developing a strategic targeted approach towards inspections based on those sectors and business types in which undeclared work is more prevalent.	Labour Inspectorate and Tax Administration	• Improved rate of detection of labour law violations, tax non-compliance and social insurance fraud. • Set a target of conducting x% of inspections based on a more strategic and targeted approach. • Set a target of conducting x% of inspections as joint	• To increase by x% p.a., the number of inspections which are targeted inspections and to decrease the overall percentage of inspections which are responses to reports of violations. • x% of inspections	Q3 2018 (ongoing)

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
		• Coordinate inspections between various enforcement authorities targeted at the same business, which would increase impact, and be more business-friendly.		inspections with other inspectorates	to be conducted as joint inspections.	
9. Introduce supply chain responsibility in public works contracts	To improve the perceived and actual risk of detection of businesses engaged in undeclared work	• Introduce into public works contracts awarded a clause in the contract certifying that the winning firm undertakes not to engage any undeclared workers and will put in place measures to ensure that any sub-contractors engaged will not employ undeclared workers. • Pilot study within a selected Ministry in relation to public contracts within a relatively well-defined sector in which undeclared work is considered prevalent	Selected Ministry	• If main contractors are found by the state inspectorates to have engaged undeclared workers in their supply chain, then a ban on bidding for public works contracts could be imposed for a specified period, and they would be removed from the 'white list' (see below). • Reduces opportunities for undeclared work. • Shifts detection of undeclared work beyond solely a state responsibility by	Pilot study introduces this clause into public works contracts and inspections are used to reveal if it is effective in preventing undeclared work in the supply chain.	Q3 2018 (12 months for pilot study and evaluative)

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
				involving private businesses in the active detection of undeclared work.		
INCENTIVES TO FORMALIZE: SUPPLY-SIDE POLICY MEASURES						
10. 'White list' of legitimate employers (not 'black list') for public procurement contracts	To provide supply-side incentives to engage in undeclared work	All firms who wish to tender for public contracts would have to obtain a 'Clearance Certificate'. This certification could be kept simple and refer to the absence of wage, tax and social insurance arrears, and sanctions imposed in recent years. Pilot study in a selected Ministry in relation to public procurement in a specific industrial sector where undeclared work is prevalent	Selected Ministry	Provides an incentive and positive benefit of being compliant by rewarding those who are compliant with access to public contracts.	Reduction in number of businesses excluded from receiving a 'clearance certificate'	Q3 2019 12 months for pilot study & evaluative)
11. Formalisation suppose and advice to businesses	Make it easier and/or incentivise, established businesses to operate on a declared basis by offering bespoke	• Provision of advice and business support to self-employed people and micro-enterprises wishing to undergo a transition to formalisation • Besides advice and support, incentives could be provided, for example promotional aid, training, trade fairs, and	Ministry of Finance, Ministry of Innovation and Entrepreneurship, jointly with employer associations	• Provides an incentive and positive benefit of operating in formal sector. Incentives are provided to facilitate entrepreneurs to compete on grounds other than labour	• To increase the share of self-employed and micro-enterprises operating in the formal economy	Q2 2019 (ongoing)

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
	formalization support and advice	facilitation in internationalization of their markets.		cost.		

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<tr><td colspan="7" align="center">INCENTIVES TO FORMALIZE: DEMAND-SIDE POLICY MEASURES</td></tr>
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Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
12. Decrease incentives to use cash and increase incentives to use electronic payments to reduce undeclared work	Incentivise consumers to purchase declared goods and services	• To discourage the use of cash and incentivise an increase in electronic payments, so as to reduce the opportunities for undeclared work, Kosovo* should: (1) implement a lower ceiling on cash transactions, (2) consider discouraging easy access to cash, (3) make point-of-sale (POS) terminals available across all sectors, including the mandatory acceptance of digital payments, with a subsidy for the installation of POS terminals in enterprises with an annual turnover of less than €X operating in sectors with intermediate or high risk of undeclared transactions, (4) central and regional governments to shift more	Banks Financial institutions All government departments Social partners	• Tax revenues increase with the growth of the use of payment cards. It is estimated that a discount of X% for customers of the transaction value for digital payments through POS terminals (payment cards and e-money) for the purchase of goods and services, would yield a X% net increase in budget revenues. • Subsequently, as the electronic payment targets are met, and the use of digital payments	Decreased use of cash and increased use of electronic payments.	Q3 2019 (ongoing)

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Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
		fully towards electronic payments, especially with regard to pension payments, and (5) provide incentives for using cards at the point-of-sale. This might involve: • A discount of X% for customers of the transaction value for digital payments through POS terminals (payment cards and e-money) for the purchase of goods and services, or • A refund of X% discount for suppliers taking electronic payments through POS terminals for the purchase of goods and services.		consolidates as part of the consumer habits, incentives can be gradually withdrawn, resulting in an increase in the fiscal benefit.		
13. Introduce a tax rebate incentive scheme for home owners to receive a rebate of tax when	Incentivise consumers to use declared goods and services	A pilot study should be undertaken in a particular region for a limited range of activities, to be evaluated after 24 months	Ministry of Finance Tax Administration	• Offers an incentive to citizens to employ declared workers and raises awareness of the negative effects of employing undeclared workers. • It has a two-fold benefit in increasing income possibilities	Survey of pilot study to evaluate whether purchasers would have used undeclared work previously to get the work done	Q3 2019 (24 months for pilot study & evaluative)

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
they employ (i) domestic workers, and (ii) registered building contractors or registered tradespeople who provide house repair and renovation services.				for registered builders and trades persons and it raises the quality of housing repair and maintenance.		
14. Service Vouchers for households	To encourage individuals/households to purchase services on a declared rather than undeclared basis.	Provision of service vouchers, a means of payment, subsidised by government, to be used by private users/households to pay an employee for conducting tasks for cleaning, repair, baby sitting. Pilot initiatives should be used in particular localities, or for specific tasks/sectors where undeclared work is prevalent,	Ministry of Finance Tax Administration	• Offers an incentive to citizens to employ declared workers • Incentivises working in declared sector as it allows them to gain access to pension benefits, sickness benefits, maternity leave and health benefits	• Number of households purchasing services such as cleaning, baby sitting, etc. The extent to which the service voucher scheme reduces undeclared	Q3 2019 (ongoing)

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
		and ex-ante and ex-post evaluations should be conducted.		(when starts being introduced in Kosovo*).	work/transforms undeclared work into declared work. Number of active and employed persons increases (particularly among women)	
CHANGING CITIZENS VALUES, NORMS AND BELIEFS						
15. Launch of a Public Awareness Campaign on the a) Benefits of Declared Work b) Costs and risks related to	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work	• Target younger people who are more likely to view undeclared work as socially acceptable, as well as perhaps professional groups such as doctors, lawyers and accountants. The media used and messages need to be tailored to these selected groups. • MLSW/LI website use - landing page as part of ministry´s website • Materials uploaded to the MLSW/LI website • Materials uploaded to the	Ministry of Labour and Social Welfare, Labour Inspectorate, other line-ministries (Ministry of Finance/Tax Administration/Customs; Ministry of Innovation and Entrepreneurship, etc.). Selected journalists dealing with social matters with focus on	• Reducing the tolerance of undeclared work will result in lower levels of undeclared work. • The percentage of citizens engaged in undeclared work will fall. • There will be an increase in the number of reports to of non-compliance to inspectorates.	• Decrease in number of reports of non-compliance to inspectorates • Reduction in tolerance of undeclared work • Decrease in undeclared work	Q1 2019 (at least two times a year)

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
undeclared work		Social media (FB, YouTube, etc.) • Ensure full awareness about the MLSW/LI competencies vis-a-vis detection of undeclared work and related consequences on individuals	social fairness	• It will widen the tax base • More transparency		
16. 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	• Send an annual letter to all tax payers which sets out what portion of their taxes is spent on which public goods and services. • Introduce signs such as 'your taxes are paying for this' on public construction projects (e.g., new roads), on ambulances, in doctor's waiting rooms, in hospitals and schools. This conveys a clear message to the public that their taxes are being used to pay for these public goods and services.	Ministry of Labour and Social Welfare, Ministry of Finance/Tax Administration/Customs; Ministry of Innovation and Entrepreneurship; Ministry of Trade and Industry in close cooperation with Trade Unions and business chambers and associations	Improved citizens understanding about the relationship between paying taxes and the public goods and services received.	• Resultant reduction in undeclared work • Greater awareness that taxes pay for public goods and services.	Q3 2019 (ongoing)
17. Educate schoolchildren and	Change values, norms and beliefs regarding the	• Introduce in the civic education curriculum lessons on why people pay tax, the benefits of social insurance and declared work, and the costs of	Ministry of Education, Science and Technology, Municipalities, in close cooperation	• Improved understanding of children and students about the benefits of paying	Greater awareness of benefits of declared work and costs of undeclared work among	Q2 2019 (at least once a

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
university students of the benefits of declared work	benefits of declared work and costs of undeclared work	undeclared work. • Introduce a national Undeclared Work-week, addressing school children and explaining the benefits of compliance and the costs of being non-compliant. • Involve sportspeople, singers or actors in order to have 'celebrity endorsement' for a large social media campaign addressed to young people on the benefits of declared work.	with Labour and Social Welfare, Ministry of Finance/Tax Administration/Customs; Ministry of Innovation and Entrepreneurship; Ministry of Trade and Industry in close cooperation with Trade Unions and business chambers and associations.	taxes and social insurance, and working declared. • Resultant peer pressure on parents from children will reduce undeclared work.	younger people	year)
18. National competition on why pay your taxes/why work declared	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work	• Use a celebrity role model (for example from sports) to make a social media video on 'why pay your taxes' or 'why reject envelope wages' or 'why work declared' so as to use appropriate role models for the target group for celebrity endorsement. • This video will be used to launch a competition for people to make their own video on the subject of 'why pay	Ministry of Labour and Social Welfare, Ministry of Finance/Tax Administration/Customs; Ministry of Innovation and Entrepreneurship; Ministry of Trade and Industry in close cooperation with Trade Unions and business	• Encourages self-reflection by a wide segment of the target population (e.g., young people) to consider the advantages of paying taxes and disadvantages of failing to do so. • Rather than preach messages, it encourages self-	Reduced tolerance of participation in undeclared work by the target group.	Q3 2018

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		your taxes'. A prize fund of €20,000 (fro 1ˢᵗ, 2ⁿᵈ , 3ʳᵈ place etc) would be awarded for the best social media (e.g., youtube) video on this subject of 'why pay your taxes'/'why reject envelope wages'/'why work declared'. • An additional option is to integrate this competition with the above recommendation to introduce this issue in the civic education curriculum. If this is done, schoolchildren can produce such videos in their civic education classes. • The sequencing of such a competition with other policy measures below is important. It should be run following, rather than prior to, public institutional reforms to be effective.	chambers and associations.	reflection and self-education.		
		REFORMING FORMAL INSTITUTIONS				
19. Train ing of	Produce more	• There is currently limited official training of labour	Labour Inspectorate	• Improved efficiency and effectiveness of	• Improvements in productivity of	Q1 2019

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
inspectors	effective trained labour inspectors	inspectors on tackling undeclared work. • The LI should make use of the ILO toolkit for the training of labour inspectors in tackling undeclared work.	ILO trainers	inspectors in tackling the undeclared economy. • Capacity-building of the inspectorate. • Facilitates organisational culture change towards a more customer-friendly approach. • Monitor via annual staff satisfaction survey	staff in achieving KPIs	
20. 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 economies to help the LI think through the establishment of modern management practices via the review of various performance enablers. The outcome will be	LI, 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 2019 (9 months duration including visit & follow-up

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
		a set of recommendations for improving these performance enablers.				visit)
		IMPROVING THE INVOLVEMENT OF SOCIAL PARTNERS				
21. Introduce employer-led voluntary supply chain responsibility initiative	Greater involvement of social partners in the fight against undeclared work	• In this voluntary employer-led initiative, firms in the supply-chain could be requested to show those higher in the supply chain that they comply with tax and social security obligations through external auditors and/or refer to the absence of wage, tax and social insurance arrears, and sanctions imposed in recent years. • This might be conducted as a pilot initiative by 10-15 larger employers under the auspices of their Corporate Social Responsibility (CSR) strategy.	Kosovo* Chamber of Commerce Corporate Social Responsibility Network in Kosovo*	• Increases detection of undeclared work by involving social partners in its detection. • Reduces opportunities for undeclared work. • Provides a clear 'demonstration effect' to smaller firms that larger employers take compliance seriously and that they need to similarly do so. • Shifts detection of undeclared work beyond solely a state responsibility by involving private	Successful implementation among a selection of larger employers in Kosovo*	Q2 2019

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
				businesses in the active detection of undeclared work.		
22. Provision of one-to-one formalisation advice and support	Greater involvement of social partners in the fight against undeclared work	• Use local role models/mentors by developing a 'buddy system' whereby legitimate entrepreneurs buddy with younger nascent entrepreneurs to help them legitimise, and provide support and advice on legitimate business development. • Technical assistance could be sought to secure EU funds for this awareness raising initiative.	Kosovo* Chamber of Commerce	• Enables business start-ups to do so legitimately • Enables business operating on a partially undeclared basis to receive advice on how they can put their affairs in order.	Successful implementation of mentoring system for younger nascent entrepreneurs	Q3 2019 (ongoing)
23. Awareness raising campaign among business community of the benefits of declared work	Greater involvement of social partners in the fight against undeclared work	• Roadshow via regional branches of Kosovo* Chamber of Commerce • Ensure establishment of strong network for cooperation, exchange of information, full awareness about the MLSW/LI competencies vis-a-vis detection of undeclared work and necessity of increase of social fairness. Support material/presentations for these	Kosovo* Chamber of Commerce American Chamber of Commerce, Women for Women Association, Sectoral Associations in close cooperation with Ministry of Labour and Social	• Reducing the tolerance of undeclared work will result in lower levels of undeclared work. • The percentage engaged in undeclared work will fall. • There will be an increase in the	• Implementation of Roadshow via regional branches of Kosovo* chamber of Commerce • Number of meetings held and number of participants attending	Q4 2019

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Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
		road shows could be provided by the Tax Administration and/or Labour Inspectorate	Welfare, Labour Inspectorate, Employment Agency (EARK) other line-ministries (Ministry of Finance/Tax Administration/Customs; Ministry of Innovation and Entrepreneurship, Ministry of Trade and Industry, etc.)	number of reports to inspectorates. • It will widen the tax base • Increase in transparency		