



**Employment and Social Affairs Platform**

**RECOMMENDATIONS FOR TACKLING  
UNDECLARED WORK IN SERBIA**

**Draft**

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**2018**



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## Abbreviations

ILO	International Labour Organization
LI	Labour Inspectorate
MAP	Mutual Assistance Project
MPALSG	Ministry of Public Administration and Local-Self Governance
NALED	National Alliance for Local Economic Development
PPS	Public Policy Secretariat
RCC	Regional Cooperation Council
RoS	Republic of Serbia
SBRA	Serbian Business Registration Agency



## 1. Background Context

This report sets out comprehensive recommendations for tackling undeclared work in Serbia involving a policy mix based on both an incentive and inspection approach and complements an existing Action Plan for the implementation of the Strategy. 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 and proposed actions.

### 1.1. Extent and nature of the undeclared economy in Serbia

The undeclared economy in Serbia has been estimated using following direct and indirect methods. The MIMIC method has the broadest coverage, since it covers all institutional sectors and all forms of the undeclared economy. The most recent MIMIC method estimates the size of the undeclared economy in Serbia as approximately 27.9% during 2013, while according to the adjusted MIMIC size of undeclared economy in Serbia was 18.1% of GDP in 2013. According to the new survey method - the "undeclared economy index", which is based on data on undeclared employee salaries and undeclared corporate profits, the volume of 14.9% of GDP. However, this estimate represents the lower margin of the undeclared economy, since the survey covered only registered enterprises and entrepreneurs.

Recent empirical research shows that since 2012, the share of businesses engaged in the undeclared activities has significantly decreased from 28.4% in 2012 to 16.9% in 2017, and that there is approximately additional 17% of unregistered businesses. Thus almost 1/3 of businesses in Serbia are involved in the undeclared activities. There is a somewhat higher percentage of business entities that engage workers without contract - undeclared work, in relation to those who pay their employees a part of their earnings in cash – underdeclared work while in almost every other company that has informal employees both forms of undeclared economy activities are present. Newly established enterprises and entrepreneurs are slightly more involved in undeclared economy activities than the older ones, while the largest share of businesses engaged in the undeclared economy activities are in agricultural sector (20.8%) and catering (19.6%).

Since 2015 the official informal employment rate (including employed in agriculture) slightly increased from 19.5% in 2015 to 20.7% in 2017. In Serbia undeclared work typically takes the form of informal wage employment and informal self-employment. Recent studies show that more than a third of those in hidden employment in Serbia, do not possess labour contracts. Results also show that almost on third of all employees working in the hidden economy pay social and health security on the minimum wage and save on their actual salary difference.



Undeclared work is undertaken by all social groups and in almost all industries. However, they were the most prevalent in the construction, agriculture (seasonal jobs), catering, trade and craft sectors, as well as in textile and food processing industries. When it comes to different types of undeclared work inspections reveal that the most common recorded violations were employment of unskilled and semi-skilled workers that are above 40 years of age or that are receiving social assistance, without a contract - a necessity-driven 'lower tier'. This is followed by non-declaring to pension or health insurance authorities and hiring seasonal workers for seasonal jobs in agriculture on undeclared basis. Unregistered activities are also quite common in several professional groups in the voluntary-oriented 'upper tier'. It would thus be a mistake to adopt a laissez-faire approach towards the undeclared economy based on the belief that it is a survival strategy for populations excluded from the declared economy. What interventions are required, therefore, to tackle the undeclared economy?

In the past few years, significant advances have been made in understanding the determinants of undeclared work by a new institutional approach. To explain undeclared work, this asserts that every society possesses institutions which prescribe, monitor and enforce the 'rules of the game' regarding what is socially acceptable. In all societies, these institutions are of two types: formal institutions that prescribe 'state morality' about what is socially acceptable (i.e., laws and regulations), and informal institutions which prescribe 'citizen morality' (i.e., socially shared rules, usually unwritten). The social acceptability of engaging in undeclared work in Serbia, however, is not even across all population groups. In Serbia attitude towards undeclared economy represents a key determinant of both participation and a percentage of activity in undeclared economy. Business that justify undeclared work are 50% more likely to be involved in the undeclared economy.

Undeclared work, from the institutional perspective, is explained as arising when the failings of formal institutions lead to state morality being different to citizen morality. These formal institutional failings are of four types: (i) formal institutional voids, such as a weak welfare 'safety net' which forces citizens into undeclared work to survive; (ii) formal institutional inefficiencies, or resource misallocations by formal institutions; (iii) formal institutional uncertainty, and/or (iv) formal institutional weaknesses and instability. These failings result in citizens viewing as socially acceptable what is deemed illegal by the state. Undeclared work arises, therefore, due to the failings of formal institutions which leads citizen morality to not be aligned with state morality.

Analysing the evidence on which formal institutional failings are significantly associated with the growth of undeclared work, the last few years have seen multiple studies which reveal that undeclared work is more extensive in those nations 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 Serbia, therefore, there will be a need to address the following formal institutional failings:



- Increase in the quality of public governance and public goods and further reducing public sector corruption would significantly encourage;
- Pursuing more efficient expenditure on labour market interventions to help the most vulnerable groups, which has witnessed reductions in recent years;
- Reducing distortions introduced by taxes and tax compliance costs;
- Encourage taxpayers to regard evasion as immoral;
- Developing more effective and targeted social transfer systems that reduce the widening levels of income inequality.

Unless these failings of formal institutions are addressed, then the asymmetry between state and civic morality will persist, and consequently so too will the prevalence of undeclared work. How, therefore, can these failings and imperfections in formal institutions that lead to an extensive undeclared economy be addressed?

## 1.2. Current organization of the fight against undeclared work

**Serbia adopted cross-departmental cooperation and has a rather cohesive and coordinated institutional infrastructure for tackling the undeclared economy.** Coordination of undeclared work was first initiated in 2014. In 2015 the Government adopted a strategic framework for reducing the shadow economy in the Republic of Serbia – National Program for Countering the Shadow Economy.<sup>1</sup>

**Central Coordination Body for Directing Activities for Reducing the Shadow Economy** is responsible for ensuring coordinated action by the multifarious public administration bodies involved in tackling undeclared economy. This central body is responsible for developing the integrated holistic strategy towards the undeclared economy. The Overall Objective of the National Program for Countering the Shadow Economy is to reduce the shadow economy share in the GDP of the Republic of Serbia. Besides, there are four specific objectives – 1) improved monitoring of shadow economy flows; 2) improved functioning of the fiscal system; 3) reduction of administrative and parafiscal burdens on businesses and citizens; and

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<sup>1</sup> Since the unified policy of reducing the shadow economy contains elements of horizontal policy, certain areas of this program are already covered to a lesser or greater extent by other strategic documents. The program is a complement to previously adopted documents including the Republic of Serbia Public Administration Reform Strategy ('Official Gazette RS', No 9/14 and 42/14 - correction), Action Plan for Implementing the Republic of Serbia Public Administration Reform Strategy for the 2015-2017 period ('Official Gazette RS', No 31/15), Republic of Serbia National Anticorruption Strategy for 2013-2018 ('Official Gazette RS', No 57/13), Action Plan for Implementing Republic of Serbia National Anticorruption Strategy for 2013-2018 ('Official Gazette RS', No 79/13), National Judicial Reform Strategy for 2013-2018 ('Official Gazette RS', No 57/13), Strategy for Supporting Small to Medium Sized Enterprises, Entrepreneurship and Competitiveness for the 2015-2020 period and Action Plan for Implementing the Strategy for Supporting Small to Medium Sized Enterprises, Entrepreneurship and Competitiveness for 2015 with Projections for 2016 ('Official Gazette RS', No 35/15) and Strategy for Investigating Financial Crimes for 2015-2016 ('Official Gazette RS', No 43/15).



4) raising awareness among citizens and businesses on the significance of reducing the shadow economy and motivation for compliance with regulations. The involvement of social partners in relation to tackling undeclared economy is improving, with increasing involvement in decision making process.

### 1.3. Current policy approach and measures: an evaluation

Serbia uses a broad range of measures to tackle the undeclared economy. An Action Plan has been developed by the Expert Group of the Central body and is currently being implemented. The Expert Group is coordinated by NALED in cooperation with the Public Policy Secretariat (PPS). The Expert Group suggest priorities to the Coordination Body.<sup>2</sup> A comprehensive approach - 18 measures and 107 activities are proposed to tackle the informal economy.

<b>Goal 1</b>	<b>Improved Monitoring of Shadow Economy Flows/Improved Inspection Oversight</b>	<b>2017</b>
<b>Sub goal 1.1.</b>	<b>Improving the Inspection Oversight System</b>	
Measure 1.1	Improving the Capacity of Inspection for Planning, Enforcing and Reporting in Inspection Oversight	
Measure 1.2	Establishing mechanisms for securing the transparency of inspection oversight and interaction with businesses and citizens	
Measure 1.3	Improvement of the System for Prosecution of Offences and Violations Against Business Entities	
Measure 1.4	Improvement of activity coordination between customs, inspections and the police	
Measure 1.5	Creation of Uniform Sanction Policies for the Shadow Economy	
Measure 1.6	Enhancement of the Database System for Salaries and Employee Contributions	
Measure 1.7	Improved Oversight of Activities that Require a Permit	
<b>Sub goal 1.2</b>	<b>Enhancing capacities of Tax administration aimed to curb shadow economy</b>	<b>New</b>
Measure 1.8	Improving Tax Administration Oversight	New
<b>Goal 2</b>	<b>Improved Functioning of the Fiscal System</b>	

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<sup>2</sup> For 2018 priorities are mainly concentrated on the improvement of supervision and coordination of inspections. Priorities include implementation of the e-Inspector (IT platform), improved coordination of various inspections and public prosecutors, education of inspectors, risk assessment, etc.



Measure 2.1	Stimulation of Regulation Compliance and Creation of Incentives for Transferring Shadow Economy Operations to Legal Flows	
Measure 2.2	Improvement of Fairness in Fiscal Policies	
Measure 2.3	Improvement of the Fiscalization System	
<b>Goal 3</b>	<b>Reduction of Administrative Burdens on Businesses and Citizens</b>	
Measure 3.1	Establishment of Public Registry of Parafiscal Charges	
Measure 3.2	Establishment of Unified Legal Framework for Regulation of Fees for Use of Public Goods	
Measure 3.3	Establishment of Public Registry of Procedures/Formalities That Businesses and Citizens	
<b>Goal 4</b>	<b>Raising Awareness of Citizens and Businesses on the Significance of Countering the Shadow Economy and Motivation for Compliance with Regulations</b>	
Measure 4.1	Raising Awareness of the Shape and Appearance of the Shadow Economy Through Informative, Educational Campaigns	
Measure 4.2	Organization of Lottery	
Measure 4.3	Activities of Tax Administration with the aim to increase Tax Morality (Culture)	New

An enforced compliance approach, rather than a voluntary cooperation approach, is still more dominant, and the policy measures mainly focus upon deterring engagement in undeclared work by increasing the penalties and risks of detection. However, some of these policies may lead no to transformation of informal to formal economy, but to eradication of informal economy. Eradication of undeclared economy is also perhaps not desirable. If the eradication of the shadow economy is pursued, then not only may it prove to be a rather costly option for governments to completely eradicate such endeavour, but in doing so, governments will – as mentioned above – destroy precisely the entrepreneurial endeavour they are seeking to nurture and develop.



#### Box 1 Action Plan - Priorities for 2018

The Body has suggested following priority activities within the specific measures for the upcoming period.

- 1.2.5 Implementation of a single information system e-inspector
- 1.4.3 Establishing better coordination of the work of the inspections and prosecutors' offices in the suppression of criminal offenses in the field of the grey economy
- 3.1.2 Decrease in the number of parafiscal charges
- 1.2.7 Conducting professional training of inspectors in the field of inspection supervision in relation to sectoral regulations
- 1.2.9 Improve coordination of inspectors in accordance with their needs
- 1.4.7 Establishing coordination of the inspections and other state bodies in charge of initiating misdemeanour procedures in the field of grey economy with misdemeanour courts
- 1.2.4 Standardization of the risk assessment process in the planning and implementation of the inspection in accordance with the guidelines
- 1.2.6 Conducting professional training of inspectors for the use of IT systems and in the field of planning of inspection supervision
- 1.6.1. Analysis of penal measures conducted in sectoral regulations and sentences
- 1.1.6 Amendments to the Law on Inspection Supervision and Completion of harmonization of special laws with the Law on Inspection Supervision
- 1.2.10 Provision of necessary equipment for inspections
- 1.4.2 Equalization of the practice of prosecutor's offices in dealing with criminal offenses with elements of the undeclared economy
- 1.5.2 Improving the coordination of the work of the Customs Administration and inspection bodies through data exchange and harmonization of procedures for monitoring the grey economy flows
- 1.9.10 Improved oversight of persons performing unregistered activity

## 2. Policy Recommendations

### 2.1. 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 Serbia, several policy measures can be pursued to do so. One area where improvements can be made is on the proportionality of fines.

Recommendation 1	<b>Widening the spread of fines and equalizing fines in the relevant laws to ensure same treatment of cases of similar seriousness</b>
Goal	To allow appropriate treatment of cases of different seriousness
Implementation	<ul style="list-style-type: none"> <li>to widen the spread of fines giving enforcement bodies a broader width of penalties</li> </ul>
Responsible Institutions	Ministry of Public Administration and Local-Self Governance Ministry of Justice
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. One possibility is to amend the Law on the Central Register of Temporary Restrictions of Rights of Entities Registered with the Serbian Business Registers Agency to allow registration of employers fined for undeclared work. The aim is to improve transparency of doing business in Serbia and increase security of business transactions among all market players.

Recommendation 2	<b>Incorporate registration of employers fined for undeclared work into BRA Registration</b>
Goal	To allow the labour inspectorate, state bodies, employees, and companies to check whether an employer was penalised for undeclared work



Implementation	<ul style="list-style-type: none"> <li>• To create a public register and to develop criteria for listing offenders</li> <li>• To list offenders for a certain period of time</li> <li>• To consider other implications resulting from listing on the register</li> </ul>
Responsible Institutions	Business Registration Agency (SBRA) 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.

Another method to improve the effectiveness of inspections is to use notification letters so as to encourage voluntary compliance (without the need for a workplace inspection, or that they may be audited in future after submitting their tax return). While at present, neither labour nor tax inspectorates use such an approach, they both expressed interest to apply this a potentially cost-effective way in which to achieve greater self-compliance. These may also contain normative information on why it is important to be compliant and not to use undeclared work.

Recommendation 3	<b>Normative notification letters (using data mining)</b>
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	Coordination Body Labour Inspectorate and Tax Administration
Outcomes	<ul style="list-style-type: none"> <li>• Businesses paying ‘envelope wages’ will be encouraged to put their affairs in order in a cost-effective manner.</li> <li>• Widens tax base</li> </ul>
Indicators of achievement	<ul style="list-style-type: none"> <li>• Proportion of businesses contacted that improved their compliance and reported increased wage levels.</li> </ul>



Public procurement 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 4	<b>Introduce supply chain responsibility in public procurement contracts</b>
Goal	To improve the perceived and actual risk of detection of businesses engaged in undeclared work
Implementation	<ul style="list-style-type: none"> <li>• Introduce into public procurement 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.</li> </ul>
Responsible Institutions	Coordination Body Directorate for Public Procurement
Outcomes	<ul style="list-style-type: none"> <li>• 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</li> <li>• Reduces opportunities for undeclared work.</li> <li>• Shifts detection of undeclared work beyond solely a state responsibility by involving private businesses in the active detection of undeclared work.</li> </ul>
Indicators of achievement	<ul style="list-style-type: none"> <li>• Pilot study introduces this clause into public procurement contracts and inspections are used to reveal if it is effective in preventing undeclared work in the supply chain.</li> </ul>

## 2.2. Incentives to formalize: supply-side policy 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.

Recommendation 5	<b>Improved screening of companies that compete for public procurement contracts /‘White list’ of legitimate employers (not ‘black list’) for public procurement contracts</b>
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’ by the Labour Inspectorate. This certification could be kept simple and refer to the absence of wage, tax and social insurance arrears, and sanctions imposed in recent years.
Responsible Institutions	Labour Inspectorate
Outcomes	<ul style="list-style-type: none"> <li>• Provides an incentive and positive benefit of being compliant by rewarding those who are compliant with access to public contracts.</li> </ul>
Indicators of achievement	<ul style="list-style-type: none"> <li>• Reduction in number of businesses excluded from receiving a ‘clearance certificate’</li> </ul>

### 2.3. Incentives to formalize: demand-side policy 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

Recommendation 6	<b>Decrease incentives to use cash and increase incentives to use electronic payments to reduce undeclared work</b>
Goal	Incentivise consumers to purchase declared goods and services
Implementation	<ul style="list-style-type: none"> <li>• To discourage the use of cash and incentivise an increase in electronic payments, so as to reduce the opportunities for undeclared work, Serbia should: (1) amend the <b>Law of performing of payments by legal entities, entrepreneurs and natural persons</b> who are not engaged in a business activity (Official Gazette of the RoS, No. 68/2015 introducing a ceiling for cash transactions for natural persons or introducing such ceiling in selected sectors, (2) consider discouraging easy access to cash, (3) make point-of-sale (POS) terminals available across all sectors, including the</li> </ul>



	<p>mandatory acceptance of digital payments, with a subsidy for the installation of POS terminals in enterprises with an annual turnover of less than €100,000 operating in sectors with intermediate or high risk of undeclared transactions, (4) provide incentives for using cards at the point-of-sale. This might involve:</p> <ul style="list-style-type: none"> <li>• A discount 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</li> <li>• A refund of % discount for suppliers taking electronic payments through POS terminals for the purchase of goods and services.</li> </ul>
Responsible Institutions	<p>Ministry of Finance, Ministry of Trade Financial institutions Other government departments Social partners</p>
Outcomes	<ul style="list-style-type: none"> <li>• Tax revenues could increase with the growth of the use of payment cards. 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.</li> </ul>
Indicators of achievement	<ul style="list-style-type: none"> <li>• Decreased use of cash and increased use of electronic payments.</li> </ul>

Service voucher schemes have various advantages, both for domestic workers and for their employers. First, the domestic workers have access to social security benefits (pensions, health insurance, accident cover etc.). Second, these schemes are easy to join and use, both for the worker and for the employer. Third, administrative formalities are simplified for the employer. Fourth, the worker is guaranteed at least the legal minimum wage, and is certain of being properly formal, as the risk of administrative errors due to the inexperience of an individual private employer is eliminated. Furthermore, the schemes enable mainly low-qualified people to find formal employment but could be focused on other group of employees e.g. young people.

Recommendation 7	Use service vouchers in household and personal services
Goal	Incentivise consumers to purchase declared goods and services
Implementation	<ul style="list-style-type: none"> <li>• A pilot study of service vouchers in a particular sector (e.g., household cleaning, catering) or for specific group of employees (young people) and in a specific locality should be conducted, and evaluated in terms of its impacts on informal and formal work</li> </ul>
Responsible Institutions	<p>Ministry of Labour Other government departments Social partners</p>
Outcomes	<ul style="list-style-type: none"> <li>• Tax revenues could increase with the growth of the use of payment cards. Subsequently, as the electronic payment targets are met, and</li> </ul>



		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	of	<ul style="list-style-type: none"> <li>• Survey of pilot study to evaluate whether purchasers would have used undeclared work previously to get the work done</li> </ul>

## 2.4. 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 8	<b>Educating citizens about the tax system and tax morality</b>	
Goal	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work	
Implementation	<ul style="list-style-type: none"> <li>• Send an annual letter to all tax payers which sets out what portion of their taxes is spent on which public goods and services.</li> <li>• 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.</li> </ul>	
Responsible Institutions	Coordinating body Other government departments Social partners	
Outcomes	<ul style="list-style-type: none"> <li>• Improved citizens understanding about the relationship between paying taxes and the public goods and services received.</li> </ul>	
Indicators of achievement	of	<ul style="list-style-type: none"> <li>• Resultant reduction in undeclared work</li> <li>• Greater awareness that taxes pay for public goods and services.</li> </ul>



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

Recommendation 9	<b>Educate schoolchildren and university students of the benefits of declared work</b>
Goal	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work
Implementation	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Introduce a national Undeclared Work-week, addressing school children and explaining the benefits of compliance and the costs of being non-compliant.</li> <li>• 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.</li> </ul>
Responsible Institutions	Ministry of Education in close cooperation with the Ministry of Labour and other line-ministries (Ministry of Finance/Tax Administration/Customs; Ministry of Economy, Entrepreneurship and Crafts, etc.) Universities
Outcomes	<ul style="list-style-type: none"> <li>• Improved understanding of children and students about the benefits of paying taxes and social insurance and working declared.</li> <li>• Resultant peer pressure on parents from children will reduce undeclared work.</li> </ul>
Indicators of achievement	<ul style="list-style-type: none"> <li>• Greater awareness of benefits of declared work and costs of undeclared work among younger people</li> </ul>

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. 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.

## 2.5. 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).

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 10	<b>Advanced training of labour inspectors</b>
Goal	Produce more effective trained labour inspectors
Rationale	<ul style="list-style-type: none"> <li>• There is currently limited official training of labour inspectors on tackling undeclared work.</li> <li>• The LI should make use of the ILO toolkit for the training of labour inspectors in tackling undeclared work.</li> </ul>
Responsible Institutions	Labour Inspectorate ILO
Outcomes	<ul style="list-style-type: none"> <li>• Improved efficiency and effectiveness of inspectors in tackling the undeclared economy.</li> <li>• Capacity-building of the inspectorate.</li> <li>• Facilitates organisational culture change towards a more customer-friendly approach.</li> <li>• Monitor via annual staff satisfaction survey</li> </ul>
Indicators of achievement	<ul style="list-style-type: none"> <li>• Improvements in productivity of staff in achieving KPIs</li> </ul>

Recommendation 11	<b>Modernisation of management processes in bodies responsible for tackling undeclared work</b>
Goal	To improve the internal process of the formal institutions involved

	in the fight against undeclared work
Rationale	<ul style="list-style-type: none"> <li>The LI should request its Minister after the current organisational restructuring to write formally to the European Commission Secretariat of the European Platform Tackling Undeclared Work requesting a Mutual Assistance Project in Q3/4 2019. This will entail a three-day visit from Platform experts from other Member States 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.</li> </ul>
Responsible Institutions	LI European Platform Tackling Undeclared Work
Outcomes	<ul style="list-style-type: none"> <li>Improvement in the management and effectiveness of the LI</li> </ul>
Indicators of achievement	<ul style="list-style-type: none"> <li>Mutual Assistance Project (MAP) visit by the European Platform Tackling Undeclared Work and a set of recommendations for improving performance enablers.</li> </ul>

## 2.6. 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 12	<b>Introduce employer-led voluntary supply chain responsibility initiative</b>
Goal	Greater involvement of social partners in the fight against undeclared work
Implementation	<ul style="list-style-type: none"> <li>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.</li> <li>This might be conducted as a pilot initiative by 10-15 larger employers under the auspices of their Corporate Social Responsibility (CSR) strategy.</li> </ul>
Responsible	Chamber of Commerce



Institutions	NALED
Outcomes	<ul style="list-style-type: none"> <li>• Increases detection of undeclared work by involving social partners in its detection.</li> <li>• Reduces opportunities for undeclared work.</li> <li>• Provides a clear ‘demonstration effect’ to smaller firms that larger employers take compliance seriously and that they need to similarly do so.</li> <li>• Shifts detection of undeclared work beyond solely a state responsibility by involving private businesses in the active detection of undeclared work.</li> </ul>
Indicators of achievement	<ul style="list-style-type: none"> <li>• Successful implementation among a selection of larger employers in Serbia</li> </ul>

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 13	<b>Provision of one-to-one formalisation advice and support</b>
Goal	Greater involvement of social partners in the fight against undeclared work
Implementation	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Technical assistance could be sought to secure EU funds for this awareness raising initiative.</li> </ul>
Responsible Institutions	National Employment Service Development Agency of Serbia
Outcomes	<ul style="list-style-type: none"> <li>• Enables business start-ups to do so legitimately.</li> <li>• Enables business operating on a partially undeclared basis to receive advice on how they can put their affairs in order.</li> </ul>
Indicators of achievement	<ul style="list-style-type: none"> <li>• Successful implementation of mentoring system for younger nascent entrepreneurs</li> </ul>

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.

Recommendation 14	<b>Awareness raising campaign among business community of the benefits of declared work</b>
Goal	Greater involvement of social partners in the fight against undeclared work



Implementation	<ul style="list-style-type: none"> <li>• Roadshow via regional branches of Serbian Chamber of Commerce/LI</li> <li>• Ensure establishment of strong network for cooperation, exchange of information, full awareness about the /LI competencies vis-a-vis detection of undeclared work</li> </ul>
Responsible Institutions	Chamber of Commerce LI
Outcomes	<ul style="list-style-type: none"> <li>• Reducing the tolerance of undeclared work will result in lower levels of undeclared work.</li> <li>• The percentage engaged in undeclared work will fall.</li> <li>• There will be an increase in the number of reports to inspectorates.</li> <li>• It will widen the tax base</li> <li>• Increase in transparency</li> </ul>
Indicators of achievement	<ul style="list-style-type: none"> <li>• Implementation of Roadshow via regional branches of Serbian Chamber of Commerce</li> <li>• Number of meetings held and number of participants attending</li> </ul>



## ANNEX

### Recommended Actions for Tackling Undeclared Work

Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
<b>POLICY MEASURES TO DETER UNDECLARED WORK</b>						
1. <b>Widening the spread of fines and equalizing fines in the relevant laws to ensure same treatment of cases of similar seriousness</b>	<ul style="list-style-type: none"> <li>To allow appropriate treatment of cases of different seriousness</li> </ul>	<ul style="list-style-type: none"> <li>to widen the spread of fines giving enforcement bodies a broader width of penalties <u>or</u></li> <li></li> </ul>	Coordination Body Ministry of Public Administration and Local-Self Governance Ministry of Justice	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Improved rate of proportionality</li> </ul>	Q2 2019
2. <b>Incorporate registration of employers fined for undeclared work into</b>	<ul style="list-style-type: none"> <li>To allow the labour inspectorate, state bodies, employees, and</li> </ul>	<ul style="list-style-type: none"> <li>To create a public register and to develop criteria for listing offenders</li> <li>To list offenders for a certain period of time</li> <li>To consider other implications resulting from listing on the register</li> </ul>	Business Registration Agency Labour Inspectorate	<ul style="list-style-type: none"> <li>Increases the deterring impact and gives persons, employees and companies the opportunity to decide whether they want to do business with persons or</li> </ul>	<ul style="list-style-type: none"> <li>Usage of register for due diligence purposes by public.</li> </ul>	Q4 2019



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Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
<b>BRA Registration</b>	companies to check whether an employer was penalised for undeclared work			companies listed on the register.		
3. Normative notification letters (using data mining)	To improve the perceived and actual risk of detection of businesses engaged in under-declared employment	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.	Coordination Body 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.	Q1 2019 (3 months for pilot study & evaluation)
4. <b>Introduce supply chain responsibility in public</b>	Introduce into public procurement contracts awarded	<ul style="list-style-type: none"> <li>Introduce into public procurement contracts awarded a clause in the contract certifying that the winning firm undertakes not to engage any undeclared workers and</li> </ul>	Coordination Body Directorate for Public Procurement	<ul style="list-style-type: none"> <li>If main contractors are found by the state inspectorates to have engaged undeclared workers</li> </ul>	Pilot study introduces this clause into public works contracts and inspections are used to reveal if it is	Q4 2019 (6 months for pilot)



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Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
<b>procurement contracts</b>	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.	will put in place measures to ensure that any sub-contractors engaged will not employ undeclared workers.		<p>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).</p> <ul style="list-style-type: none"> <li>• Reduces opportunities for undeclared work.</li> <li>• Shifts detection of undeclared work beyond solely a state responsibility by involving private businesses in the active detection of undeclared work.</li> </ul>	effective in preventing undeclared work in the supply chain.	study and evaluation)
<b>INCENTIVES TO FORMALIZE: SUPPLY-SIDE POLICY MEASURES</b>						
5. <b>‘Improved screening of companies that compete for public procurement contracts /‘White list’ of legitimate</b>	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’ or will be targeted by the LI 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	MoL LI	Provides an incentive and positive benefit of being compliant by rewarding those who are compliant with access to public contracts.	% of Companies that are on the White List	Q4 2019 12 months for pilot study & evaluation)



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Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
<b>employers (not 'black list') for public procurement contracts</b>		sector where undeclared work is prevalent				
<b>INCENTIVES TO FORMALIZE: DEMAND-SIDE POLICY MEASURES</b>						
6. Decrease incentives to use cash and increase incentives to use electronic payments to reduce undeclared work	Incentivise consumers to purchase declared goods and services	<ul style="list-style-type: none"> <li>To discourage the use of cash and incentivise an increase in electronic payments, so as to reduce the opportunities for undeclared work, Serbia should: (1) amend <b>the Law of performing of payments by legal entities, entrepreneurs and natural persons</b> who are not engaged in a business activity (Official Gazette of the RoS, No. 68/2015 introducing a ceiling for cash transactions for natural persons or introducing such ceiling in selected sectors, (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 specific amount operating in sectors with intermediate or</li> </ul>	Ministry of Finance, Ministry of Trade Financial institutions Other government departments Social partners	<ul style="list-style-type: none"> <li>Tax revenues could increase with the growth of the use of payment cards. 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.</li> </ul>	Decreased use of cash and increased use of electronic payments.	Q3 2018



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Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
		<p>high risk of undeclared transactions, (4) provide incentives for using cards at the point-of-sale. This might involve:</p> <ul style="list-style-type: none"> <li>• A discount 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</li> <li>• A refund of % discount for suppliers taking electronic payments through POS terminals for the purchase of goods and services.</li> </ul>				
7. Use service vouchers in household and personal services	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	<p>Ministry of Labour Ministry of Finance Other government departments Social partners</p>	<ul style="list-style-type: none"> <li>• Tax revenues could increase with the growth of the use of payment cards. 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.</li> </ul>	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 & evaluation)
<b>CHANGING CITIZENS VALUES, NORMS AND BELIEFS</b>						
8. Educating citizens about	Change values, norms and beliefs	<ul style="list-style-type: none"> <li>• Send an annual letter to all tax payers which sets out what portion of their taxes</li> </ul>	<p>Coordinating body Other government</p>	Improved citizens understanding about the	<ul style="list-style-type: none"> <li>• Resultant reduction in undeclared work</li> </ul>	Q2 2019



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Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
the tax system and tax morality	regarding the benefits of declared work and costs of undeclared work	is spent on which public goods and services. <ul style="list-style-type: none"> <li>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.</li> </ul>	departments Social partners	relationship between paying taxes and the public goods and services received.	<ul style="list-style-type: none"> <li>Greater awareness that taxes pay for public goods and services.</li> </ul>	
9. Educate schoolchildren and university students of the benefits of declared work	Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work	<ul style="list-style-type: none"> <li>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.</li> <li>Introduce a national Undeclared Work-week, addressing school children and explaining the benefits of compliance and the costs of being non-compliant.</li> <li>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.</li> </ul>	Ministry of Education in close cooperation with the Ministry of Labour and other line-ministries (Ministry of Finance/Tax Administration/Customs; Ministry of Economy, etc.) Universities	<ul style="list-style-type: none"> <li>Improved understanding of children and students about the benefits of paying taxes and social insurance and working declared.</li> <li>Resultant peer pressure on parents from children will reduce undeclared work.</li> </ul>	Greater awareness of benefits of declared work and costs of undeclared work among younger people	Q4 2019
<b>REFORMING FORMAL INSTITUTIONS</b>						
10. Advanced training of labour	Produce more effective trained labour inspectors	<ul style="list-style-type: none"> <li>There is currently limited official training of labour inspectors on tackling undeclared work.</li> </ul>	Labour Inspectorate ILO	<ul style="list-style-type: none"> <li>Improved efficiency and effectiveness of inspectors in tackling the undeclared</li> </ul>	<ul style="list-style-type: none"> <li>Improvements in productivity of staff in achieving KPIs</li> </ul>	Q2 2019



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Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
inspectors		<ul style="list-style-type: none"> <li>The LI should make use of the ILO toolkit for the training of labour inspectors in tackling undeclared work.</li> </ul>		<p>economy.</p> <ul style="list-style-type: none"> <li>Capacity-building of the inspectorate.</li> <li>Facilitates organisational culture change towards a more customer-friendly approach.</li> <li>Monitor via annual staff satisfaction survey</li> </ul>		
11. Modernisation of management processes in bodies responsible for tackling undeclared work	To improve the internal process of the formal institutions involved in the fight against undeclared work	The LI should request its Minister after the current organisational restructuring to write formally to the European Commission Secretariat of the European Platform Tackling Undeclared Work requesting a Mutual Assistance Project in Q3/4 2019. This will entail a three-day visit from Platform experts from other Member States 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.	LI, European Platform on Tackling Undeclared Work	Improvement in the management and effectiveness of the LI	Mutual Assistance Project (MAP) visit by the European Platform Tackling Undeclared Work and a set of recommendations for improving performance enablers.	Q1 2019 (9 months duration including visit & follow-up visit)
<b>IMPROVING THE INVOLVEMENT OF SOCIAL PARTNERS</b>						
12. Introduce employer-led	Greater involvement of	<ul style="list-style-type: none"> <li>In this voluntary employer-led initiative, firms in the supply-chain could be</li> </ul>	Chamber of Commerce NALED	<ul style="list-style-type: none"> <li>Increases detection of undeclared work by</li> </ul>	Successful implementation among a	Q2 2019



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Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
voluntary supply chain responsibility initiative	social partners in the fight against undeclared work	<p>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.</p> <ul style="list-style-type: none"> <li>This might be conducted as a pilot initiative by 10-15 larger employers under the auspices of their Corporate Social Responsibility (CSR) strategy.</li> </ul>		<p>involving social partners in its detection.</p> <ul style="list-style-type: none"> <li>Reduces opportunities for undeclared work.</li> <li>Provides a clear 'demonstration effect' to smaller firms that larger employers take compliance seriously and that they need to similarly do so.</li> <li>Shifts detection of undeclared work beyond solely a state responsibility by involving private businesses in the active detection of undeclared work.</li> </ul>	selection of larger employers in Serbia	
13. Provision of one-to-one formalisation advice and support	Greater involvement of social partners in the fight against undeclared work	<ul style="list-style-type: none"> <li>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.</li> <li>Technical assistance could be sought to secure EU funds for this awareness raising initiative.</li> </ul>	National Employment Service Development Agency of Serbia	<ul style="list-style-type: none"> <li>Enables business start-ups to do so legitimately</li> <li>Enables business operating on a partially undeclared basis to receive advice on how they can put their affairs in order.</li> </ul>	Successful implementation of mentoring system for younger nascent entrepreneurs	Q3 2019
14. Awareness	Greater	<ul style="list-style-type: none"> <li>Roadshow via regional branches of</li> </ul>	Chamber of Commerce	<ul style="list-style-type: none"> <li>Reducing the tolerance of</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of</li> </ul>	Q4 2018



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Recommendation	Goal	Implementation	Responsible Institutions	Outcomes	Indicators of achievement	Start date & duration
raising campaign among business community of the benefits of declared work	involvement of social partners in the fight against undeclared work	Serbian Chamber of Commerce/LI <ul style="list-style-type: none"> <li>• Ensure establishment of strong network for cooperation, exchange of information, full awareness about the /LI competencies vis-a-vis detection of undeclared work.</li> </ul>	LI	undeclared work will result in lower levels of undeclared work. <ul style="list-style-type: none"> <li>• The percentage engaged in undeclared work will fall.</li> <li>• There will be an increase in the number of reports to inspectorates.</li> <li>• It will widen the tax base</li> <li>• Increase in transparency</li> </ul>	Roadshow via regional branches of Serbian Chamber of Commerce <ul style="list-style-type: none"> <li>• Number of meetings held and number of participants attending</li> </ul>	