

**A TOOLKIT:
DEVELOPING A HOLISTIC INTEGRATED
STRATEGIC APPROACH TOWARDS UNDECLARED
WORK**

Holistic
Approach



Employment & Social Affairs Platform 2 #ESAP2



Western Balkan Network tackling undeclared work

DEVELOPING A HOLISTIC INTEGRATED STRATEGIC APPROACH TOWARDS UNDECLARED WORK: A TOOLKIT

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Executive Summary

In many economies, a fragmented and uncoordinated approach exists across the multifarious government bodies responsible for tackling undeclared work and limited integration of social partners, as well as an incomplete range of policy measures used. The aim of this toolkit is to set out the steps required to develop a holistic integrated strategic approach towards undeclared work.

A holistic integrated strategic approach is:

where governments use a whole government approach to tackle undeclared work, by joining-up on the policy and enforcement level of both strategy and operations the fields of labour, tax and social security law, and involve and cooperate with social partners and other stakeholders. This approach involves using the full range of *direct* and *indirect* policy measures available to enhance the power of, and trust in, authorities respectively. The objective is to transform undeclared work into declared work in an effective manner.

Therefore, breaking this definition down into its component parts, there are three major components:

- The strategic objective of transforming undeclared work into declared work;
- Developing a whole government coordinated approach, and
- Implementing the full range of direct and indirect tools.

This toolkit addresses each component in turn.

Transforming undeclared work into declared work as a strategic objective

Until now, the strategic objective of authorities has usually been to eradicate undeclared work. This has resulted in inspectorates setting targets of how many inspections/audits they will conduct, what proportion of them should identify undeclared work, and what level of fines they should generate each year. When the strategic objective is to transform undeclared work into declared work, the targets become the number of businesses or jobs moved into the declared economy.

The report sets out good practice examples of how other enforcement authorities have shifted their strategic objective from reducing undeclared work to transforming undeclared work into declared work, along with the process for setting targets that are **Specific, Measurable, Achievable, Realistic and Time bound (SMART)**.

Developing a whole government coordinated approach

Developing a whole government coordinated approach is comprised of four sub-components:

- cross-government coordinated strategy;
- coordinating operations across government;
- cross-government coordination on data mining, matching and sharing, and
- improving the involvement of social partners.

Cross-government coordinated strategy

In many economies, different government departments are responsible for different aspects of undeclared work (e.g., tax authorities for tax compliance, labour inspectorates for labour law and social insurance bodies for social security compliance). Often these departments work in

“silos” with separate strategies and targets. The result is that there is a fragmented and uncoordinated strategic approach towards undeclared work across the multifarious government bodies responsible and no common and/or shared strategy, strategic objectives or targets. Hence, a more integrated strategic approach is required.

A way forward is to establish a body responsible for developing and coordinating strategy towards the undeclared economy and formulating a joined-up strategy. This body might also consider whether to establish some cross-cutting strategic objectives and common targets for all government agencies.

Coordinating operations across government

It is traditionally the case that different enforcement bodies conduct separate operations in an uncoordinated manner. A more business-friendly and effective approach is to coordinate operations, such as using joint and concerted inspections or coordinated education and awareness raising campaigns.

To facilitate this, each enforcement authority could set targets stating what share of all operations will be conducted in cooperation with other authorities (e.g., the share of all inspections which will be joint or concerted inspections).

Cross-government coordination on data mining, matching and sharing

Some economies are closer to a fully coordinated cross-government approach to data mining, sharing and analysis, with a central unit collating the various datasets and providing a common data analysis function to all relevant authorities. Other economies might have fully interoperable datasets and data sharing across enforcement authorities, whilst yet other economies might have lower levels of cooperation on data sharing and analysis. Some economies might have very limited datasets unable to detect potential risky businesses.

To improve cooperation on data mining, sharing and analysis to make the detection of undeclared work more effective, there are three broad steps:

- A first step and pre-requisite is for all enforcement authorities to have electronic databases (e.g., case management records, employment registers, business registers) that have real-time up-to-date data collected in a cost effective manner (e.g., making the employer responsible for updating registering/deregistering an employee prior to the first day of work/on the last day of work).
- The next step is to ensure that these databases are inter-operable with the databases of other enforcement authorities and Ministries so that data can be shared electronically, and to establish bilateral and multilateral agreements for the sharing of data. The design and the architecture of the information technology infrastructure will need to reflect the operational needs of the enforcement bodies and be easily accessible to those who need it.
- A final step is to consider whether there could be one central unit which holds the combined databases of all enforcement authorities and provides the data analysis function for all enforcement authorities and Ministries.

Improving the involvement of social partners

To improve social partner involvement, the first step required by any authority is:

- to identify the social partners (e.g., trade unions, employer federations);
- to identify for each stakeholder their role and relevance for the various services of the enforcement authority (e.g., referrals, exchange of information, detection, prevention, joint inspections), and

- the level (economy, regional, local) at which each of these relationships is sought.

Having identified the relevant social partners and their roles, the second step is to build these partnerships with the social partners. This requires:

- staff to be allocated with the objective of partnership building at the various levels of the enforcement authority;
- the specific activities and contributions expected from these employees who have the objective of partnership building to be specified; and
- the challenges to partnership building at various levels addressed and solutions sought.

The third step is to manage these partnerships by:

- involving them in all relevant phases of the strategic management and service provision process;
- developing transparent agreements with clearly defined responsibilities;
- systematically monitoring and evaluating the outcomes of the partnership arrangements, and
- sharing the monitoring/evaluation results with the partners.

Implementing the full range of direct and indirect tools

To transform undeclared work into declared work, on the one hand, there are direct tools that make the benefits of operating in the declared economy outweigh the costs of working in the undeclared economy. These include firstly, deterrence measures to increase the costs of undeclared work (“sticks”) and secondly, incentive measures to make operating declared more beneficial and easier (“carrots”). On the other hand, there are indirect tools. These shift away from using “sticks” and “carrots”, and instead recognise that employers, workers and citizens are also social actors who engage in undeclared work when there is a lack of vertical trust in government and a lack of horizontal trust in each other.

This report reviews the full range of policy measures that can be used, along with examples of good practice, in relation to:

- implementing more effective sanctions;
- improving the risk of detection;
- improving the ease and benefits of engaging in declared work;
- education and awareness raising, and
- modernising formal institutions.

The outcome is the provision of a toolkit that sets out the steps that can be taken by enforcement authorities, Ministries and government to make progress on each of the components that comprise a holistic integrated strategic approach towards undeclared work.

1. Introduction

The starting point of this toolkit is recognition that in many economies, a fragmented and uncoordinated approach too often exists across the multifarious government institutions responsible for transforming undeclared work into declared work and weak integration of social partners, as well as a limited range of policy measures used. The result is the lack of a holistic integrated strategic approach.

The holistic approach of the European Platform Tackling Undeclared Work provides useful inspiration for defining what is here meant by a “holistic integrated strategy” for transforming undeclared work into declared work.¹ A **holistic integrated strategic approach** is:

where governments use a whole government approach to tackle undeclared work, by joining-up on the policy and enforcement level of both strategy and operations the fields of labour, tax and social security law, and involve and cooperate with social partners and other stakeholders. This approach involves using the full range of *direct* and *indirect* policy measures available to enhance the power of, and trust in, authorities respectively.² The objective is to transform undeclared work into declared work in an effective manner.

This definition of an integrated strategic approach recognises that multifarious stakeholders are engaged in tackling undeclared work, and that effective cooperation and the operationalisation of the full range of policy measures are required. Therefore, breaking this definition down into its component parts, there are three major components:

- Adopting the strategic objective of transforming undeclared work into declared work.
- Developing a whole government coordinated approach, comprised of four sub-components:
 - Cross-government coordinated strategy;
 - Coordinating operations across government;
 - Cross-government coordination on data mining, matching and sharing, and
 - Improving the involvement of social partners.
- Implementing the full range of direct and indirect policy initiatives, namely:
 - Implementing more effective sanctions;
 - Improving the risk of detection;
 - Improving the ease and benefits of engaging in declared work;
 - Implementing education and awareness raising campaigns, and
 - Modernising enforcement authorities.

The aim of this toolkit is to set out the steps required to make progress towards a holistic integrated strategic approach towards undeclared work.³ To address the three components, the next section analyses the issues involved in adopting the strategic objective of transforming undeclared work into declared work. Developing a whole government coordinated approach is then examined. Section 3 addresses how economies can develop a cross-government coordinated strategy towards undeclared work, section 4 the coordinating of operations, section 5 cross-government cooperation on data mining, sharing and analysis and section 6 the greater involvement of social partners. Attention then turns towards the third and final component of adopting the full range of policy measures available to transform

¹ <https://ec.europa.eu/social/main.jsp?catId=1323&langId=en>

² Williams, C.C. (2016) *Developing a Holistic Approach for Tackling Undeclared Work: background paper*, European Commission, Brussels.

³ Future handbooks and reports of the Western Balkan Network Tackling undeclared work will analyse each and every one of these components in greater detail.

undeclared work into declared work. Section 7 sets out the full range of policy measures available, section 8 discusses implementing more effective sanctions, section 9 improving the risk of detection, section 10 improving the ease and benefits of engaging in declared work, section 11 implementing education and awareness raising campaigns, and section 12 modernising enforcement authorities.

2. Transforming Undeclared Work into Declared Work as a Strategic Objective

The holistic approach of the European Commission's European Platform Tackling Undeclared Work has the strategic objective of transforming undeclared work into declared work (European Commission, 2016; Williams, 2016). So too does ILO Recommendation No. 204 emphasise the transition to the formal economy (ILO, 2015). Indeed, the report of the ILO Global Commission on the Future of Work (2019: 24) states that the intention is "to facilitate the formalization of those in informal employment".

What are the reasons for adopting this strategic objective of transforming undeclared work into declared work (or in other words, formalising the informal economy)? One key reason is that two-thirds of all businesses globally start-up or operate partially or fully in the undeclared economy (Autio and Fu, 2015) and at least half of all enterprises globally operate unregistered (Acs *et al.*, 2013). To pursue the objective of eradicating these entrepreneurial ventures would result in governments eradicating precisely the entrepreneurship and enterprise culture that they wish to foster to facilitate economic development and growth (see Williams, 2017). Another key reason is that the objective of most economies is to increase the employment participation rate. Transforming undeclared work into declared work is a means of achieving this.

Until now, however, the strategic objective of enforcement authorities has been often to eradicate undeclared work. This has resulted in inspectorates setting targets of how many inspections/audits they will conduct, what proportion of all inspections/audits should identify undeclared work, and what level of fines they should generate each year.

If the aim is to transform undeclared work into declared work, targets need to reflect this. For example, the strategic objective of labour inspectorates should be to transform undeclared work into declared work and a Key Performance Indicator (KPI) should be the number of labour relations that are formalised each year, rather than the number of cases of undeclared work detected and punished. Indeed, if enforcement authorities are successful at transforming undeclared work into declared work, then a zero identification of undeclared work during inspections and audits will be the measure of success, not a high level of detections.

Box 1 details how the State Labour Inspectorate in Latvia shifted its strategic objective away from detecting and punishing participation in undeclared work and towards transforming undeclared work into declared work.

Box 1: Modernising the strategic objectives of a labour inspectorate: the case of Latvia

Following a Mutual Assistance Project (MAP) visit by four experts from the European Platform Tackling Undeclared Work, the Latvian State Labour Inspectorate recognised that they needed to change their strategic objective of detecting and punishing undeclared work and to adopt the objective of transforming undeclared work into declared work. A new strategy for 2018-2019 therefore adopted this strategic objective.

The labour inspectorate recognised that their traditional KPIs of the number of inspections undertaken and the proportion identifying cases of undeclared work would be no longer

relevant if their objective is to transform undeclared work into declared work. A high number of detected cases in inspections is more a measure of the failure of the labour inspectorate to transform undeclared work into declared work.

Previously, their Key Performance Indicators (KPIs) were:

- the number of inspections conducted, and
- the effectiveness indicator of the number of instances of undeclared labour identified (set at 25% of inspections).

In the new strategy, the labour inspectorate has adopted new pilot KPIs. These include:

- the number of legitimised labour relations (using 2018 as a base and then seeking a 10% increase in 2019), and
- the number of advice/support consultations provided (with enterprises selected in two sectors where the undeclared economy is prevalent for piloting).

The finding after the pilot phase was that in 76% of cases where undeclared work was encountered during inspections, the persons received a declared labour agreement or had been registered with the State Revenue Service.

Further information: <https://ec.europa.eu/social/BlobServlet?docId=21461&langId=en>

The precise strategic objectives and targets adopted by enforcement authorities need to be tailored to reflect the context of their economy. However, there are some common processes that can be followed by all enforcement authorities. When setting targets for tackling undeclared work, it is important that all enforcement authorities use a process for setting targets that is:

- (i) not too complicated and time consuming;
- (ii) informed by a systematic analysis of undeclared work, and
- (iii) involves regional/local units in a way that allows them to mutually agree the extent to which they can contribute to achieving the targets, given local circumstances.

Additional targets can be also developed at local level to address local issues, although mechanisms will be required to avoid setting too many additional targets at the local level that can lead to confusion and a lack of focus.

Enforcement authorities can then translate these targets into key performance indicators (KPIs). These KPIs should be **Specific, Measurable** in a generally accepted manner, **Achievable, Realistic** and **Time bound** (SMART). For example, a SMART KPI might be “to increase the number of formalised labour relations resulting from inspections by 5% per annum”.

These KPIs need to be communicated to all relevant levels of the organisation (regional/local offices, teams/employees). The KPIs can be measured at all relevant levels of the organisation and systematically compared with the predefined targets. In doing so, KPIs can be adjusted for regional and/or local external factors. Responsibilities for all these targets and activities will be again clearly defined to ensure accountability.

For transparency purposes, it is also important for an enforcement authority to share information on the results of whether it achieves its KPIs (i.e., its performance) in an easily understood format and at agreed time intervals. This can use different channels to communicate the results of its performance on achieving its KPIs depending on the audience involved. For enforcement authority staff, face-to-face information can be given at an individual or team level on a regular basis (e.g., monthly). Meanwhile, for external

stakeholders (e.g., businesses, workers, citizens, trade unions, employer federations), a short annual report could be used or an infographic on the Ministry website.

Furthermore, this reporting of achievement can be followed up by a cascaded system of top-down and bottom-up dialogues throughout the enforcement authority about the performance indicators. In doing so, all relevant members of staff can be involved, and the main characteristics of these performance dialogues could be: respect and fairness; open dialogue; empowerment; reward, and recognition. Decisions taken arising from this dialogue are directly and fully implemented, monitored, assessed and (if necessary) revised. Responsibilities for all these activities are again clearly defined to ensure accountability.

3. Developing Joined-up Integrated Strategy

In many economies, different government departments are responsible for different aspects of undeclared work (e.g., tax authorities for tax compliance, labour inspectorates for labour law and social insurance bodies for social security compliance). Often these departments work in “silos” with separate strategies and targets. The result is that there is a fragmented and uncoordinated strategic approach towards undeclared work across the multifarious government bodies responsible and no common and/or shared strategy, strategic objectives or targets. Hence, a more integrated strategic approach is required.

One way of developing a more joined-up integrated strategy is to establish a body responsible for coordinating strategy towards the undeclared economy. Once established and the overall strategy is formulated, then it might also be considered whether this body establishes cross-cutting strategic objectives and common targets for all government agencies, or whether each government department has separate strategic objectives and targets, but coordinated by this body and reflecting the overall strategy.

Different economies are at various stages in developing joined-up integrated strategy. At one end of the spectrum, there are economies with a high-level coordinating body that is responsible for developing an overall strategy towards undeclared work. This high-level government body has the competence to address the full range of initiatives needed to transform undeclared work into declared work and will involve high-level social partners and other stakeholders. In other economies, there will be no coordinating body and no overall strategy. Instead, Ministries and enforcement authorities will have their own individual strategies and will operate autonomously in “silos”.

It is similarly the case with targets. At the top of the spectrum are fully joined-up forms of governance with one central body and one common set of targets across the whole of government. Moving down the spectrum, there is cross-government cooperation with a shared strategy and some common targets. Following this, there is then cross-government cooperation where the departments have separate strategies but share some common targets. Finally, and at the bottom of the spectrum, are completely fragmented forms of government where departments operate in “silos” and have separate strategies and no shared targets (see Table 1).⁴

⁴ This table only considers joined-up government, not joined-up “governance”, which includes tripartite social dialogue.

Table 1. A hierarchy of joined-up strategy

Approach	Strategy	Targets
Single body	Common	Common
Cross-Departmental Cooperation	Shared	Some common
	Separate	Some common
Departmental “silos”	Separate	Separate

An example of an economy where there is one agency and a common strategy is Serbia (see Box 2).

Box 2: Coordinating strategy through a single body, Serbia

In Serbia, a single body is responsible for the overall strategy towards undeclared work, namely the **Central Coordination Body for Directing Activities for Reducing the Shadow Economy (Coordination Body)**. This was established in 2015,⁵ with the objective of coordinating the activities of public administration bodies and preparing and implementing the National Program for Countering the Shadow Economy. The Coordination Body has sessions several times a year and annually sets priorities/targets. The Coordination Body comprises representatives from all relevant institutions and organisations in Serbia, including labour, tax, social security, policy and financial crime investigation.

Simultaneously, **the Expert Group of the Coordination Body (Expert Group)** was established to prepare and submit the Draft National Program along with the Draft Action Plan for Countering the Shadow Economy to the Coordination Body. Participants in the Expert Group are: the Cabinet of the Prime Minister of Serbia, Ministry of Public Administration and Local Self-Government, Ministry of Trade, Tourism and Telecommunications, Ministry of Finance, Ministry of Economy, Ministry of Labour, Employment, Veteran and Social Issues, Ministry of Justice, Ministry of Internal Affairs, Tax Administration, Customs Administration, Republican Secretariat for Public Policies, National Alliance for Local Economic Development, Fair Competition Alliance and Chamber of Commerce and Industry of Serbia. In 2015, a 2015-2020 National Program for Countering the Shadow Economy was established.

Similar central coordinating bodies who formulate the overall strategy towards undeclared work have been established in other economies. In **Azerbaijan**, there is the Commission on the Regulation and Coordination of Labour Relations, chaired by the Deputy Prime Minister, and whose Secretariat is based in the Ministry of Labour and Social Protection of the Population of the Republic of Azerbaijan. This was established to coordinate strategy and in 2017, a coordinated cross-government Action Plan for the prevention of undeclared work in the Republic of Azerbaijan was produced, approved by Order nr.3287, dated 9 October 2017, issued by the President of the Republic of Azerbaijan, covering 36 policy areas. Nevertheless, the Ministries involved in transforming undeclared work into declared work largely work separately, with each responsible for their own segment of the undeclared economy, namely: the Ministry of Labour and Social Protection of Population for labour law violations and social insurance evasion; and the Ministry of Taxes for tax non-compliance.

⁵ See Government’s Decision on Establishing the Coordination Body for Directing Activities for Reducing the Shadow Economy (“Official Gazette RS”, No 140/14 and 24/15).

In **Latvia**, a high-level [Shadow Economy Combating Board](#) has been established which oversees the development of a coordinated and integrated strategic approach. This consists of the Prime Minister, the Minister of Economics, the Minister of Finance, the Minister of Internal Affairs, the Minister of Welfare, the Minister of Transport, the Minister of Justice, the Minister of Health, the Minister of Agriculture, the Solicitor General, the Head of the Corruption Prevention and Combating Bureau, the Head of the State Labour Inspectorate, the Head of the State Revenue Service, the Head of the State Police Department, and the Head of the State Health Inspectorate. It also includes social partners, namely, the President the Employer's Federation of Latvia, the Chairman of the Municipality Association of Latvia, the Chairman of the Free Unions of Latvia, and the President of the Trade and Industry Chamber of Latvia. It has produced an Action Plan for 2016-2020, coordinating some 30 different institutions it lists as being involved in tackling undeclared work.

In **Finland**, in June 2020, the government adopted a [Strategy and Action Plan for tackling the Grey Economy and Economic Crime for 2020–2023](#). The steering group on combating the grey economy, led by Minister of Employment, is responsible for implementing and updating the strategy and monitoring the implementation of the action plan. The executive group on combating the grey economy and economic crime, formed by the relevant ministries and authorities, will report on the progress made with implementing the action plan to the steering group and, if necessary, propose changes to the strategy or action plan. The focus of the strategy is upon prevention, more effective access to information and cooperation between authorities. The objectives of the strategy are to: promote healthy competition between companies and a fair labour market; prevent the grey economy and economic crime; ensure the ability of authorities to combat the grey economy and economic crime, and develop measures to combat the grey economy and economic crime and improve cooperation between authorities. To implement the strategy, the action includes more than 20 projects and 50 policy measures. These projects and measures will be carried out in cooperation between different ministries, agencies and stakeholders. Indeed, Finland is experimenting with using cross-cutting shared strategic objectives and key performance indicators (KPIs) across institutions, to establish and facilitate a more integrated strategic approach. Their usage could be experimented with in economies who in future establish such whole government coordinating bodies.

Box 3: Good practice examples of cross-government joined-up strategy

- [Shadow Economy Combatting Board, Latvia](#)
- [The Central Coordination Group \(CCG\), Lithuania](#)
- [National Strategy for Tackling the Grey Economy and Economic Crime for 2016-20, Finland](#)
- [Government Resolution on a Strategy and Action Plan for tackling the Grey Economy and Economic Crime for 2020 – 2023, Finland](#)
- [IPA 2012 Twinning Project: Strengthening Policy and Capacities to Reduce Undeclared Work \(CRO MOONLIGHTING\), Croatia](#)
- [Road map for fighting undeclared work, Greece](#)

4. Coordinating Operations

It is traditionally the case that different enforcement bodies conduct separate operations in an uncoordinated manner. A more business-friendly and effective approach would be to engage in greater coordination, such as joint and concerted inspections:

- **Concerted inspections** are inspections undertaken by two or more competent authorities simultaneously and related to the same case, but perhaps in different locations.
- **Joint inspections** of a workplace are when an inspection is conducted concurrently by several enforcement authorities in the same workplace.

Rather than receive multiple visits from different arms of government (e.g., labour inspectors, health and safety inspectors, tax inspectors), a joined-up approach can be perceived as a business-friendly approach that reduces the perceived burden of government regulation.

The problem is that despite many economies pursuing joined-up operations bringing together various authorities, these joint operations remain a small minority of all inspections. To facilitate greater cooperation on operations, each enforcement authority could set a target of achieving a share of all its inspections as joint or concerted inspections. It could also be agreed how the successes of the joint inspections will be distributed (i.e., which enforcement authority claims the detections and fines), which has previously been a contentious issue in some economies.

Box 4 highlights an economy, namely Serbia, where a coordinating body has been established at government level to develop an action plan for coordinated inspections (see Box 5).

Box 4: Coordinated inspections in Serbia

In Serbia, within the Coordination Body which oversees strategy, there exists the **Working Committee for Suppression of Undeclared Work (WCSUW)**, established in November 2017. The members of WCSUW are mainly inspectorates and they focus upon the sectors where undeclared work is prevalent. The WCSUW adopts an annual action plan for coordinated inspections. This formation of a coordinating body for joint inspections is one way forward.

In a 2017 survey of government representatives of the European Platform Tackling Undeclared Work, 61% of economies had undertaken joint or concerted inspections. Of those that had, 64% state that this is an effective method of tackling undeclared work whilst the remaining 34% state that it is neither effective nor ineffective. None viewed it as ineffective. Box 5 provides an example of a coordinated inspections approach pursued in Italy.

Box 5: Coordinated inspections in agriculture and construction in southern Italy

Aim: To improve detection of undeclared work through joined-up inspections.

Description: In 2010, the Italian Ministry of Labour launched a special inspection plan to fight undeclared work in agriculture and construction in four southern Italian regions (Calabria, Campania, Puglia and Sicilia). This involved planned and coordinated inspections carried out jointly by teams of labour inspectors, inspectors from the social security agency (INPS), the workplace accident insurance agency (INAIL), and military personnel of the Carabinieri (the Italian military force responsible for public order). The plan identified seasonal agricultural activities as a specific target for joint inspections and listed the areas,

crops and the months in which the inspections should be concentrated. For both agriculture and construction, quantitative targets were identified. Overall, the plan provided that a total of 10,000 agriculture firms and 10,000 building sites were to be inspected in the four regions between March and December 2010. Some 550 inspectors were employed, including 50 from other regions. The budget was €1.9 million to cover the expenses of the personnel coming from other regions.

Evaluation: The outcome was the identification of more than 20,300 irregular workers, of which around 9,150 were unregistered workers. Some 44% of the inspected agriculture firms and 60% of the construction sector firms showed some form of irregularity.

In the UK, following a review which identified the lack of joined-up operations across central government departments (Grabiner, 2000), teams were established to join-up operations, including Joint Shadow Economy Teams (JoSETS), Joint Fashion Industry teams (JoFITs) and what eventually became the Gangmasters and Labour Abuse Authority (GLLA). Some 257 staff worked in JoSETs, of which 200 were from the tax authority (HMRC). Given that HMRC employed 91,365 staff at the time, just 0.2% of HMRC staff were in these joined-up cross-departmental teams. Reviewing the evidence on their effectiveness, the National Audit Office (2003: 4) concludes that:

“For the Revenue, the initial results of this joint working are promising, indicating a potentially better average return on jointly worked cases, compared with the equivalent enquiry work”.

A problem in terms of the operation of JoSETs however, was that although there was a single management, the individual public officials employed in each team had separate performance targets. Social security officers were measured by the number of false benefit claims detected but HMRC officers by the amount of additional direct and indirect tax secured. Therefore, the objectives remained essentially separate for each department involved in these joint operations. This was similarly the case with the Joint Fashion Industry Teams (JoFITs). To resolve this, it is useful for joint teams to have common shared targets (Williams, 2014).

Joining-up operations, nevertheless, does not only relate to inspections and neither does it have to be confined solely to collaboration between government departments. Joining-up operations can include preventative activities such as joint education and awareness raising campaigns and joining-up operations can also involve working with social partners.

For example, in Estonia since 2005, there has been a social partner cooperation agreement (*Sotsiaalpartnerite koostööleping*) to engage in joint activities aimed at tackling undeclared work, which has been signed by 10 organizations including the main trade union which represents 19 trade union organizations and the main employer organization which represents 23 sector-based employer organizations. The joint activities have been mainly concerned with increasing public awareness of the negative consequences of envelope wages (Pau, 2005a,b; Vare 2006).

Of course, joining-up operations is only relevant in economies in which several departments are responsible for different aspects of tackling undeclared work. In economies with only one body responsible for tackling the undeclared economy (e.g., Germany), joining-up operations between different government departments is not relevant. Instead, the focus in Germany is upon joining-up operations with social partners, which they pursue on a sectoral level through sectoral action alliances.

Box 6 highlights some examples of good practice in joining-up operations.

Box 6: Good practice examples of joining-up operations

- [Joint operation group between public agencies, Norway.](#)
- [Action Alliances against undeclared work and illegal employment between the Federal Ministry of Finance and the social partners, Germany](#)
- [Specialised team of labour inspectors to combat undeclared work in the media sector in Portugal](#)
- [Multiagency initiative on tackling social dumping – the role of letterbox companies, Denmark](#)
- [Inter-agency inspections to tackle undeclared work, Czechia](#)
- [Joint control actions between the Ministry of Labour and the Ministry of Transport in the transport sector, France](#)

5. Cross-Government Cooperation on Data Mining, Sharing and Analysis

Besides joining-up strategy and operations at a cross-government level, it is also becoming increasingly important to cooperate on data mining, sharing and analysis. These terms can be defined as follows:

- **Data mining:** a set of automated techniques used to extract buried or previously unknown pieces of information from large databases (De Wispelaere and Pacolet, 2017). Through data mining, correlations or patterns among dozens of fields in large relational databases can be identified. This process allows potentially fraudulent claims and payments to be better identified.
- **Data sharing:** the process of making data available to other users (De Wispelaere and Pacolet, 2017). Sharing of data both between enforcement authorities is important for tackling undeclared work. Legislative and technical constraints often prevent data sharing (Williams and Puts, 2018).
- **Data analysis:** the large-scale analysis of records or files collected or held for different purposes, with a view to identifying matters of interest (De Wispelaere and Pacolet, 2017). This process allows potentially fraudulent claims and payments to be better identified.

Box 7 outlines some key questions that can be used by enforcement authorities to assess their progress on moving towards a cross-government coordinated approach on data mining, sharing and analysis.

Box 7: Key questions on data mining, sharing and analysis

- Does your enforcement authority have databases available to detect potential instances of undeclared work?
- Are these databases solely case management records from inspections/audits, or do you have other databases (e.g., employment registers, business registers)?
- Is the data available to all relevant levels in your organisation, including inspectors?
- Is there real-time/up-to-date data? Is the data updated in a cost-effective manner (e.g., the employer is responsible for updating the employment register when they register or deregister an employee)?

- How are databases used in your enforcement authority?
 - To keep a record of inspections (and their outcomes)?
 - To identify targets for inspections?
 - To identify targets for notification letters?
 - To identify targets for education and awareness raising campaigns?
- Do you have access to data from other government departments? Do you have bilateral or multilateral agreements for sharing data? Do you have access to all the data you need to identify undeclared work?
- If you have access, is this in electronic form? If yes, are their databases inter-operable with your databases?

A first objective of all enforcement authorities, if they are to be effective, is to ensure that they have access to data on businesses and employment records to enable risky businesses to be identified. This identification of risky businesses is not only for the purpose of selecting workplace inspections but also for preventative actions such as selecting businesses and workers to whom notification letters and educational and awareness raising materials can be sent. This requires:

- (i) the existence of databases (e.g., employment registers) that can be mined for the purpose of identifying potential instances of undeclared work and
- (ii) the development of a data mining IT system that collects and stores comprehensive and high-quality up-to-date individual-level data about customers. The data needs to be made available to all relevant levels of the organisation, including inspectors.

The next step is to ensure that it has inter-operability with the databases of other enforcement authorities and Ministries so that data can be easily shared electronically. This requires a cross-government information technology infrastructure that actively supports the implementation of standardised processes. The design and the architecture of the information technology infrastructure will need to reflect the operational needs of the enforcement bodies and be capable of being updated without prohibitively high effort and cost. This can be achieved, for example, by making it mandatory for employers to register and de-register electronically their employees by their first day of starting work and the end of their last day of employment. Responsibilities for all these activities can be clearly defined to ensure accountability.

The third step relates to data analysis. Some economies are closer to a fully coordinated cross-government approach to data sharing and analysis, with a central unit collating the various datasets and providing a common data analysis function to all relevant authorities. Other economies might have fully interoperable datasets and data sharing across enforcement authorities, whilst yet other economies might have lower levels of cooperation on data sharing and analysis. Some economies might have very limited datasets not capable of detecting instances of undeclared work.

Box 8 provides an example from Finland of how the traditional problems with sharing data have been overcome by creating one central unit that provides a data mining and analysis service for all government ministries involved in tackling the informal economy.

Box 8: Grey Economy Information Unit (GEIU), Finland

Aim: To join up the previously fragmented function of data mining and analysis.

Description: The Grey Economy Information Unit (GEIU) was established in 2011. It

produces and shares information on undeclared work. Through its Compliance Report Service, it provides a single point of access for permitted public authorities to gain information on organisations and individuals within organisations suspected of engaging in undeclared work. The GEIU is responsible for gathering and disseminating information on the grey economy (i.e. producing general reports as well as compliance reports on organisations and individuals within organisations at the request of other public authorities). The authorities permitted to request compliance investigations are defined in the enacting legislation, as are the purposes for which a compliance report can be prepared. A compliance investigation can also be based on a general phenomenon report.

The service is fully automated with a full web interface which means, for the most part, that compliance reports are produced automatically and delivered to the information system of the requesting authority. The GEIU does not charge for the preparation of compliance reports. It is also entitled to obtain, free of charge, the information it needs to prepare the reports. The GEIU also operates a public website on the Grey Economy and Economic Crime for public agencies, companies and individuals providing an overall picture, and topical information on the phenomena of the shadow economy. There are 24 employees.

Evaluation: The GEIU's Compliance Report Service has produced a large amount of compliance reports (2 million since it was established in 2011). From receipt of a request for a compliance report, it takes the GEIU about one day to complete.

Currently there are 21 authorities with permission to request compliance reports from the GEIU. The fully automated online web interface which allows compliance reports to be delivered automatically to the requesting authority helps improve efficiency, giving those authorities more time to tackle the grey economy.

The public website content is produced in collaboration with 21 authorities and ministries involved in the project and is published in three languages including Finnish, English and Swedish. This provides statistical information on the impacts of action taken against the shadow economy and economic crime, as well as providing companies and citizens with information on how to act or protect themselves against such harm.

Source: <https://ec.europa.eu/social/BlobServlet?docId=18511&langId=en>

Box 9 provides hyperlinks of good practices on cross-government cooperation on data mining, sharing and analysis.

Box 9: Good practices on cross-government cooperation on data mining, sharing and analysis

- [Grey Economy Information Unit \(GEIU\), Finland](#)
- [National Anti-Fraud Office, Spain](#)
- [Estonian Register of Employment, Estonia](#)
- [REVISAL digital register of employees, Romania](#)
- [The Incomes Register, Finland](#)
- [MiningWatch: using data analytics for targeted inspections of social security fraud, Belgium](#)
- [Intelligence and analysis methods, Norway](#)

6. Improving Social Partner Involvement

Any government and its enforcement authorities need to build partnerships with social partners, defined as representatives of management and labour (employers' organisations and trade unions). This can be a clearly defined strategic objective of enforcement authorities with targets set regarding involvement and even outcomes.

To improve social partner involvement, the first step required by any enforcement authority is:

- (i) to identify the social partners (e.g., trade unions, employer federations);
- (ii) to identify for each stakeholder their role and relevance for the various services of the enforcement authority (e.g., referrals, exchange of information, detection, prevention, joint inspections), and
- (iii) the level (economy, regional, local) at which each of these relationships is sought.

Box 10 provides a practical guide to how an enforcement authority can do this not only in relation to social partners but also other government authorities.

Box 10: A practical guide to help enforcement authorities identify and structure the partnerships required to facilitate the transition to formality

When pursuing a more joined-up strategy to transform undeclared work into declared work, the first step required by any institution involved is to identify its relevant stakeholders in this regard (e.g., other Ministries, trade unions, employer federations) and to then structure/classify them into functional groups. For each relevant stakeholder (other government departments, trade unions, employer federations, agencies from other economies, etc.), the type or the nature of the relationship can be defined, the relationship with the stakeholder on different levels (economy, regional, local) can be considered, and their relevance for the various services of the institution (given its objectives and targets in relation to transforming undeclared work into declared work) at these levels can be assessed.

Key questions to ask to identify and structure the partnerships required:

1. Which stakeholders are important for your organisation?
2. Are some stakeholders more relevant than others?
3. How are they identified?
4. Do you categorise your stakeholders into different functional groups? If so, how?
5. Are different stakeholders relevant to different functions and specific levels within the organisation? If so, which ones to which aspects and which levels? (e.g., can you list various "bilateral and multilateral agreements" that currently exist and are required, including their focus and at what level?)
6. What should be the outputs of these partnerships (e.g., referrals, exchange of information, detection, prevention, joint inspections)?

Answering these questions will enable an institution involved in tackling undeclared work to identify and structure the partnerships required with other institutions.

Having identified the relevant social partners and their roles, the second step is to build these partnerships with the social partners. This requires:

- (i) staff to be allocated with the objective of partnership building at the various levels of the enforcement authority;

- (ii) the specific activities and contributions expected from these employees who have the objective of partnership building to be specified; and
- (iii) the challenges to partnership building at various levels addressed and solutions sought.

Box 11 provides a practical guide to how government institutions (and social partners) can engage in partnership building.

Box 11: Partnership building

Any government body or social partner involved in transforming undeclared work into declared work needs to build partnerships with relevant stakeholders (e.g., Ministries, social partners such as employer federations and employee representative organisations, sectoral partners; agencies from other economies). This can be a clearly defined objective of the organisation and carried out at all levels of the organisation with the aim of setting up partnership programmes and actions that ensure innovative collaborative policy implementation. In doing so, it is recognised that a prerequisite for partnerships is mutual willingness for co-operation.

Key questions to ask when building partnerships:

1. For whom is partnership building an objective and at what level of the organisation?
2. What kind of specific activities and contributions are expected from employees who have the objective of building partnerships?
3. What is done within the organisation to foster a climate of external partnership building, both at an economy and international level?
4. Are there shared targets and Key Performance Indicators (KPIs) with your partners (or are their targets and KPIs separate and different to your own)? If so, what are the commonalities?
5. What challenges are witnessed with partnership building at various levels and on different initiatives (e.g., conflicting targets; disagreements over who claims successes from joint operations)? How can these be overcome?

The third step is to manage these partnerships by:

- (i) involving them in all relevant phases of the strategic management and service provision process;
- (ii) developing transparent agreements with clearly defined responsibilities;
- (iii) systematically monitoring and evaluating the outcomes of the partnership arrangements, and
- (iv) sharing the monitoring/evaluation results with the partners.

Box 12 provides a practical guide to the management of partnerships.

Box 12: Management of partnerships

Key questions to ask when managing partnerships:

1. How are partners involved in different phases of the strategic management and service provision process?
2. Do you have transparent partnership agreements with clearly defined responsibilities?

3. Are they systematically monitored and if so, how?
4. Are the implementation and the results of the partnerships evaluated? If so, what evidence is there of the outcomes of such partnership arrangements?
5. Does your organisation share the monitoring/evaluation results with the partners (e.g., other Ministries)?

When considering the activities social partners might undertake to tackle undeclared work, the following tools and measures have been used in other economies:

- Raising awareness and changing behaviours through campaigns, awards, dedicated websites, etc at sectoral and company level;
- Referring cases of undeclared work to enforcement and judicial authorities;
- Negotiating collective agreements which contain instruments to tackle undeclared work, including in supply or subcontracting chains;
- Supporting workers by protecting them when in undeclared work situations, and aiding transition into a declared work situation;
- Supporting employers by protecting them from unfair undeclared or unregistered competitors;
- Raising awareness of situations of undeclared work and making calls for action;
- Cooperating across borders in the fight against undeclared work;
- Performing research to identify the key reasons, manifestations, specifics and impact of undeclared work;
- Providing policy and legal advice on procedural and legal changes needed;
- Providing policy advice on where enforcement authorities should focus their efforts (e.g., the sectors, occupations, types of undeclared work);
- Taking part in consultations and working groups;
- Providing technical support to enforcement authorities in developing information tools, data mining and risk assessment, building websites and social media platforms;
- Establishing relevant contacts through their networks of members;
- Serving as access points to corporate databases, and
- Conducting workplace inspections (e.g., checking ID cards).

Examples of these initiatives can be found in Box 13.

Box 13: Good practice examples of social partner involvement

- [Action Alliances against undeclared work and illegal employment between the Federal Ministry of Finance and the social partners, Germany](#)
- [Social Partners and their key role in tackling undeclared work: 12 success stories](#)
- [Joint targeted inspections by the Greek Labour Inspectorate \(SEPE\) and the Athens Labour Union Organisation \(EKA\), Greece](#)

7. Policy Approaches and Measures

To transform undeclared work into declared work, on the one hand, there are direct tools that seek to make the benefits of operating in the declared economy outweigh the costs of working in the undeclared economy. These include firstly, deterrence measures to increase the costs of

non-compliance (“sticks”) and secondly, incentive measures to make operating declared more beneficial and easier (“carrots”). On the other hand, there are indirect tools. These shift away from using “sticks” and “carrots”, and instead recognise that employers, workers and citizens are also social actors who engage in undeclared work when there is a lack of vertical trust in government and a lack of horizontal trust in each other.

Direct controls, therefore, seek to reduce the costs and increase the benefits of informality (OECD, 2008). Viewing the non-compliant as rational economic actors who engage in undeclared work when the pay-off is greater than the expected cost of detection and punishment, the objective is to change the cost/benefit ratio facing those participating or considering participation in the undeclared economy (e.g., Allingham and Sandmo, 1972; Hasseldine and Li, 1999; Richardson and Sawyer, 2001). This can be achieved in two ways:

- *Deterrence measures* detect and punish undeclared work. This is achieved by firstly, raising the perceived or actual likelihood of detection and/or secondly, increasing the penalties and sanctions for those caught. This approach thus seeks behaviour change by using “sticks” to punish non-compliant behaviour.
- *Incentive measures* seek to make it easier to undertake, and reward, compliant behaviour. To achieve this, one can use either:
 - Supply-side incentives to make it easier and/or more beneficial for businesses and workers to operate in the declared economy, and/or
 - Demand-side incentives targeting their customers with rewards for using declared goods and services.

The problem with using direct tools is that those operating in the undeclared economy are not always rational economic actors purely calculating the costs and benefits. They can be also social actors who engage in the undeclared economy because there is lack of vertical trust (in government) and horizontal trust (in each other).

Indirect controls, therefore, seek to improve both vertical trust by dealing with the formal institutional failings that lead to a breakdown of the social contract between the state (Alm et al., 1995; Kirchler, 2007; Torgler, 2003, 2007, 2011; Wenzel, 2002). To do so, one can either:

- *Change the informal institutions* - 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 can use awareness raising campaigns and educational initiatives about the costs of undeclared work and the benefits of declared work.
- *Change the formal institutions* – this is particularly important in societies in which there is a lack of trust in government, such as due to public sector corruption or in societies where citizens do not believe that they receive back from government what they expect. 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).

Figure 1 summarises the full range of direct and indirect tools available for transforming undeclared work into declared work.

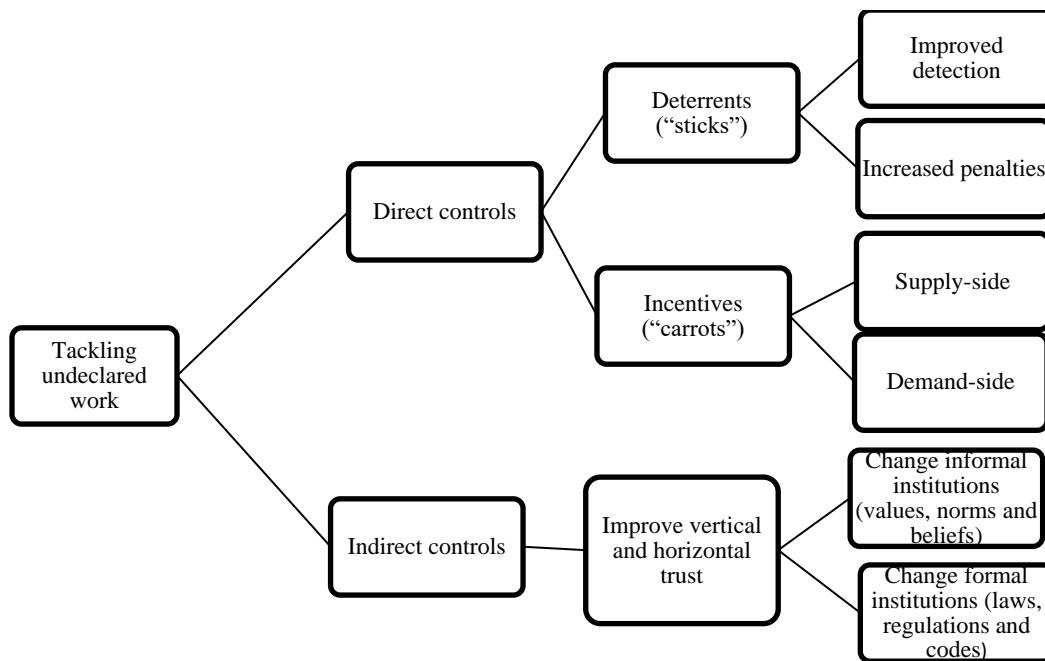


Figure 1. Policy measures for transforming undeclared work into declared work

To transform undeclared work into declared work, it is not an either/or choice between using either direct or indirect policy measures. Direct and indirect policy measures are not mutually exclusive. Both can be used. For example, governments may target key economy-level macro-economic and social conditions that have a direct influence on the prevalence of undeclared work, change the organisational culture of government departments, such as tax offices and labour inspectorates, towards a more customer-oriented approach, and introduce public awareness raising campaigns on the benefits of declared work, whilst simplifying regulatory compliance for business start-ups and introducing incentives for employers, workers and customers to operate in the declared economy (e.g. amnesties, tax deductions). For those failing to comply, sanctions along with improvements in the ability to detect those operating in the undeclared economy may be also used.

The debate, therefore, is not whether to use one set of tools. Instead, the key issue is which policy measures in each approach are most effective in what context, and what is the most effective way of combining and sequencing them to transform undeclared work into declared work. Two alternative approaches exist for **combining these direct and indirect tools**:

- *Responsive regulation* - this envisages a regulatory pyramid, sequenced from the least intrusive indirect controls at the bottom and used first, to the most intrusive direct controls at the top. The idea is that an authority does not need in most cases to pursue the coercion option at the top of the pyramid to win compliance. Instead, it can start with the indirect tools at the bottom of the pyramid and if these fail to elicit behaviour change with some groups, then the level of intrusiveness escalates up the pyramid until it reaches the intervention that elicits the desired response (Braithwaite, 2002, 2009). The outcome is that policy measures are temporally sequenced. In the first instance, indirect controls are used to facilitate voluntary compliance, followed by persuasion using incentives and only then punitive measures for those still failing to comply (Braithwaite, 2009; Job et al., 2007). The Australian government for example has adopted this “responsive regulation” approach, as has the UK’s Her Majesty’s Revenue and Customs authority.

- *Full toolbox operationalisation model* - this argues that citizens abide by the law either because they fear detection and fines due to the power of authorities (**enforced compliance**) or because they feel a commitment to be honest because they have trust in the authorities (**voluntary cooperation**). When there is effective enforced compliance as well as high voluntary cooperation (i.e., both power and trust), the undeclared economy is small. When there is ineffective enforced compliance and little voluntary cooperation, the undeclared economy is more extensive (Alm and Torgler, 2011; Alm et al., 2012; Kastlunger et al., 2013; Khurana and Diwan, 2014; Kirchler et al., 2008; Kogler et al., 2015; Muehlbacher et al., 2011a, b; Prinz et al., 2013; Williams, 2014; Williams and Bezeredi, 2018a,b, 2019; Williams and Kayaoglu, 2020; Williams and Yalaman, 2020).

The emergent evidence-base is that the concurrent use of voluntary and enforced compliance is the most effective approach (e.g., Horodnic and Williams, 2020; Kogler *et al.*, 2013, 2015; Williams, 2019a,b, 2020a,b,c; Williams and Horodnic, 2017a,b). This recognition that both effective enforced compliance as well as high voluntary compliance are essential for tackling the undeclared economy is the approach adopted by the European Platform Tackling Undeclared Work (Williams, 2016).

What policy measures can therefore be used to transform undeclared work into declared work?

8. Improving Sanctions

Many economies focus upon increasing the costs of participation in undeclared work. The first way in which this can be achieved is by improving the perceived and/or actual sanctions imposed on those caught. This can involve:

- Using penalties and fines to deter participation in undeclared work;
- Using penalties to transform undeclared work into declared work;
- Applying penalties to citizens or businesses who buy goods and services from the undeclared economy;
- Using non-compliance lists;
- Excluding businesses that have been sanctioned from bidding for public procurement contracts, and
- Using “naming and shaming” lists.

Most economies use penalty measures that deter participation in undeclared work. However, penalty measures can be designed that help transform undeclared work into declared work. To show this, Box 14 reports how Greece has designed a penalty system that facilitates the transformation of undeclared work into declared work.

Box 14: Designing penalty systems to transform undeclared work into declared work, Greece

To transform undeclared work into declared work, Greece has redesigned its penalty system. The fine for employers is set at 10,500 euros for each undeclared employee. However, the employer can hire within 10 days the undeclared employee as a registered declared employee to decrease the fine by the following amounts:

- 7,000 euros if they hire the employee for 3 months;
- 5,000 euros if they hire the employee for 6 months, and
- 3,000 euros if they hire the employee for 12 months.

Outcomes

In 2017, before the new sanctions system, only 32% of detected undeclared workers were subsequently hired on a declared basis by the employer. Two-thirds of these were hired on a part-time basis and only one-third full-time.

For the period August 2018 - February 2019, since the new sanctions system has been introduced, 45% of detected undeclared employees have been hired by the employer, all of them on a full-time basis. Of those hired formally:

- 91% have been hired for 12 months;
- 3% for 6 months, and
- 6% for 3 months.

The innovative aspect of this penalty system, therefore, is that it is designed to encourage the transformation of undeclared work into declared work, rather than simply to punish employers using undeclared work.

Source: <https://ec.europa.eu/social/BlobServlet?docId=22206&langId=en>

Few economies have so far applied penalties to citizens or businesses who buy goods and services from the undeclared economy. This is perhaps because it is assumed that it is difficult for a customer to know if the goods and services are being sold on an undeclared basis. However, there are cases where the customer is the instigator of undeclared transactions, such as when they ask, “how much for cash?”. There are also cases when it is sometimes obvious when a transaction is undeclared, such as when a supplier asks, “with or without a receipt?”. Whether and in what circumstances customers might be sanctioned is therefore perhaps worthy of at least some consideration.

Using non-compliance lists is also another means of sanctioning those who supply undeclared work, and these may or not be made public. Those on “non-compliance” lists can be further sanctioned by excluding them from bidding for public procurement contracts.

Finally, “naming and shaming” lists can be used. Shaming can be of two types: shaming that stigmatizes the offender and excludes them, or shaming followed by forgiveness and reintegration. Coricelli et al. (2014) show that when an offender is shamed but no attempt is made at reintegrating them, their non-compliance increases, whilst it decreases if they are reintegrated. Until now however, the former has been used, such as when “blacklists” are used, but without re-integration measures.

Overall, however, most studies find that there is not a significant correlation between increasing the level of penalties and the likelihood of participation in undeclared work (see Horodnic and Williams, 2020). This is because increasing penalties can break the social contract between citizens and the authorities, resulting in greater non-compliance (Murphy and Harris, 2007). However, this depends on the motivational postures of people. Selfish subjects react to higher penalties by reducing their undeclared work but fair-minded subjects act in the opposite manner, increasing their non-compliance. This explains the lack of overall effectiveness of using penalties. Therefore, penalties should be used only as a last resort and it should be explicitly stated that they are targeted at the minority who are non-compliant rather than used as a threat towards all the population (see Williams, 2014).

9. Improving the Risks of Detection

Besides using penalties, another way of increasing the costs of undeclared work is to increase the perceived and/or actual likelihood of detection. This can involve:

- Improving the effectiveness of workplace inspections;
- Joint inspections with other inspectorates;
- Announced inspections;
- Cross-border inspections;
- Registration of workers prior to first day at work;
- Data matching and sharing to improve the effectiveness of detection of risky businesses;
- Use data mining to determine risky businesses for inspection;
- Coordination of data mining and sharing across government departments;
- Use of compliant reporting tools (e.g. telephone hotlines);
- Certification of business, certifying payments of social contributions and taxes;
- Notification letters;
- Mandatory Identity Card (ID) in the workplace, and
- Supply chain responsibility.

Box 15 provides a list of good practices across the EU for improving the risk of detection.

Box 15. Good practice examples for improving the risk of detection:

- [Estonian Register of Employment](#)
- [REVISAL digital register of employees, Romania](#)
- [The Incomes Register, Finland](#)
- [Grey Economy Information Unit \(GEIU\), Finland](#)
- [Operational Departmental Committees against Fraud \(CODAF\), France](#)
- [National Anti-Fraud Office, Spain](#)
- [Declaration of Works and Checkin@Work: monitoring the chain of sub\(contractors\) in the construction industry to prevent undeclared work, Belgium](#)
- [MiningWatch: using data analytics for targeted inspections of social security fraud, Belgium](#)
- [Intelligence and analysis methods, Norway](#)
- [Joint and several liability in sub-contracting chains, Belgium](#)
- [Regulating subcontracting in the construction sector, Spain](#)
- [Monitoring contractor liability in the road transport sector, Finland](#)
- [Risk Analysis Tool of the Greek Labour Inspectorate](#)
- [Risk analysis to detect letterbox companies involved in tax debt schemes, Latvia](#)
- [The Road Traffic Control Information System – Assisting the detection of undeclared work, Greece](#)
- [Valtti- ID card Service, Finland](#)
- [Inspections of private households as places of employment: Ireland](#)

10. Improving the Ease and Benefits of Operating Declared

In recent years, it has been recognised that besides increasing the actual and/or perceived costs of operating in the undeclared economy, governments can also increase the benefits of operating in the declared economy, to reduce the net benefits for businesses of engaging in the undeclared economy. Indeed, given that the objective is to transform undeclared work into declared work, policy measures need to not only “push” work out of the undeclared economy (using “sticks”) but also “pull” work into the declared economy by making it easy and beneficial (using “carrots”).

This can involve **supply-side measures** to stimulate suppliers of undeclared work to operate in the declared economy, including:

- Simplifying procedures for complying to existing regulations (e.g., easier registration procedures; simplify forms; reduce duplication);
- Society-wide amnesties;
- Individual-level amnesties for voluntarily disclosing informal economic activity;
- “Formalisation” advice to start-ups;
- “Formalisation” support services to existing businesses;
- Targeted Value-Added-Tax (VAT) reductions;
- Provide free record-keeping software to businesses;
- Provide fact sheets on record-keeping requirements;
- Provide free advice/training on record-keeping;
- Gradual formalisation schemes;
- Initiatives to ease transition from unemployment into self-employment;
- Initiatives to ease transition from employment into self-employment, and
- Access to free marketing.

Box 16 provides hyperlinks to a range of good practice supply-side initiatives that make it easier or beneficial to engage in declared work.

Box 16. Good practice examples of improving the ease and benefits of engaging in undeclared work: supply-side incentives

- [Mini-jobs, Germany](#)
- [Employment Contract for Short-term Seasonal Agricultural Work in Bulgaria](#)
- [Simplified employment act, Hungary](#)
- [“Warned to Choose” notification letters initiative, Lithuania](#)
- [Cherry letters, Lithuania](#)
- [Notification Letters to companies, Spain](#)
- [Certified Cash Registers initiative, Slovenia](#)
- [Quality seal in the light transportation sector, Austria](#)
- [Quality Agricultural Work Network, Italy](#)
- [Tax Percentage Calculator & Gross Income Calculator \(Veroprocenttilaskuri & Bruttopalkkalaskuri\), Finland](#)
- [Online Self-Inspection Tools for Employers and Employees, the Netherlands](#)
- [Employee sharing /joint employment in agriculture, Finland](#)

It can also involve using **demand-side measures** to encourage purchasers to buy goods and services from the declared economy. These include:

- Service vouchers;
- Targeted direct tax incentives (e.g., income tax reduction/subsidy);
- Targeted indirect taxes (e.g., VAT reductions), and
- Initiatives for customers to request receipts (e.g., lottery for receipts);

Box 17 provides hyperlinks to a range of good practice supply-side initiatives that make it easier or beneficial to engage in declared work.

Box 17. Good practice examples of improving the ease and benefits of engaging in undeclared work: demand-side incentives

- [Receipts Lottery, Romania](#)
- [Household Service Vouchers \(Dienstleistungsscheck\), Austria](#)
- [Service vouchers in Belgium \(Titres services\)](#)
- [Universal Service Employment Voucher \(Chèque emploi service universel - CESU\), France](#)
- [Enterprise vouchers in seasonal agriculture \(Vrijednosni kuponi za sezonski rad u poljoprivredi\), Croatia](#)
- [Boligjob Plan: using tax-rebates to promote the declaration of work, Denmark](#)
- [Tax relief for domestic service work \(ROT and RUT\), Sweden](#)

Across all economies, however, when decisions are being taken on policy initiatives, there is a need for evidence-based evaluation to assess their effectiveness at transforming undeclared work into declared work. To do this, enforcement authorities should conduct wherever feasible both ex-ante and ex-post evaluation of policy initiatives (see Box 18).

Box 18. Ex-ante and ex-post evaluation of policy initiatives

An enforcement authority can conduct a transparent and comprehensible ex-ante evaluation of specific policy initiatives undertaken. A standardised format (e.g. SWOT-analysis, counterfactual analysis) can be used which combines the results of ex-post evaluations (e.g. for comparable services) with rigorous theoretical reasoning on the likely effects of the specific design. High-quality ex-post evaluations take account of the integration of the service/policy initiative into the organisational practice (e.g. by defining responsibilities, communicating the goals of specific initiatives/services, providing guidelines/handbooks, defining performance indicators etc.) and the practical provision of the services/policy initiatives. Thus, high-quality ex-post evaluations comprise an appropriate combination of implementation and impact analyses. Usually, implementation and impact analyses are combined in a way that allows the identification of differences in causal impacts conditional on differences of specific implementation “types”.

Furthermore, enforcement authorities can adopt the good practice of using pilot studies when introducing and evaluating the feasibility of new policy initiatives (see Box 19).

Box 19. Pilot studies

An enforcement authority can conduct pilot projects in cases where ex-ante evaluations do not provide evidence on positive results of a specific service/policy initiative. Pilot projects are used in a limited number of offices or with a limited number of customers (e.g., sectors) to gain experience/insights on the effects of such services/policy initiatives while minimising possible negative side effects. The effects of such pilot projects are evaluated rigorously using the above-mentioned combination of implementation and impact analyses. Furthermore, it is taken into account that results from pilot projects can suffer from (positive as well as negative) biases and that the extrapolation of the results from pilot projects to the organisation as a whole has to be done very carefully.

Adopting pilot studies facilitates the use of a “**test, learn and adapt**” evidence-based approach by enforcement authorities. Take, for example, a pilot project on the use of notification letters sent to businesses advising them to put their affairs in order. Following a first round of notification letters to test various formats (e.g. hard and soft letters, and following-up with inspections, emails and letters), the results can be analysed and lessons learned. The second round of such notification letters can then use what has been found to work in the previous round and experiment with small variants to further improve their effectiveness. For example, if hard notification letters sent by email accompanied with the announcement of an inspection are found to be effective, then the second round can experiment for instance with comparing stating and not stating a date for the inspection. Using this “test, learn and adapt” approach, a more effective use of notification letters can emerge.

11. Education and Awareness Raising Campaigns

There has been recognition that undeclared work is not always a purely rational economic decision. Non-compliance often results from a lack trust in the state and/or a lack of understanding of the benefits of compliance (see Williams, 2017) and a lack of horizontal trust in others. Education and awareness raising campaigns can therefore play a key role in promoting the transformation of undeclared into declared work.

The use of **education and awareness raising** about the benefits of declared work (and costs of undeclared work) has become increasingly popular among enforcement authorities (see Williams, 2018). Box 20 provides useful advice on how to do so from EU-OSHA when conducting campaigns in the field of safety and health at work, but which are easily applied to marketing campaigns on the benefits of declared work.

Box 20. Planning an awareness raising campaign: a step-by-step guide

1. **Deciding objectives.** Before you develop the specific message of your campaign, and the necessary supporting arguments, you need to have a clear goal in mind. [Read more](#)
2. **Choosing a title.** To have a chance at making an impact on the people you want to reach, your title should be as short and simple as possible and relevant to your target audience. [Read more](#)
3. **Selecting the audience.** Knowing your target audience and age range will determine your campaign and the tools needed. [Read more](#)
4. **Timing.** Timing is a key factor in any campaign, both in terms of when to launch the campaign and the campaign duration. [Read more](#)
5. **Geographic area.** Choose which sectors, population groups, occupations or geographic

area will be included. [Read more](#)

6. **Message.** Think carefully about the main campaign message and what you are trying to communicate through your campaign. [Read more](#)
7. **Branding your campaign.** A catchy slogan, a striking logo and campaign branding can be used to grab your audience's attention. [Read more](#)
8. **Reaching your audiences.** Most campaigns involve several media, from press releases and magazine articles to posters and direct mail shots. [Read more](#)
9. **Define** your expected results. Communication is most effective when it is related to something practical and tangible.

Source: <http://toolkit.osha.europa.eu/how-to-run-a-campaign/plan-your-campaign/>

Box 21, meanwhile, provides a summary of good practices when designing awareness raising campaigns.

Box 21. Key features of good practice in designing awareness raising campaigns

- **Begin with the end in mind**
 - Set clear goals on what you want to achieve
 - What do you want people to understand or do as a result of the campaign?
- **Plan**
 - Have a clear strategy
 - With SMART objectives to measure success
 - Get key stakeholders on board
 - Take a holistic approach, combining and sequencing the campaign with other policy measures
 - Agree timing, budgets, roles, etc.
- **Select and understand your audience(s)**
 - Demographics, age, gender
 - Population, employers, employees, migrant workers
 - Geographic area, sectors
- **Collaboration works**
 - From a single lead to 80 partners
 - Wide range of stakeholders can be valuable multipliers
 - Think who is best to deliver the message?
- **Grab attention with key message**
 - Clear/simple
 - Focus on positive messages
 - Creative – personal stories work
 - Have a call to action
 - Multilingual
- **Branding your campaign**
 - Grab your audience's attention
 - Use a logo, memorable branding
- **Reaching your audience**
 - Use few core channels which are audience-appropriate
 - Regular flow of activities, create highlights

- On-going evaluation to keep on track
- Sustainability
 - Quick wins or longer term behavioural change?
 - Take a wider perspective e.g. with training for inspectors
 - Continuous reinforcing of messages key
 - Funding an issue so one-off campaigns a feature
- Indicators of effectiveness**
- Outputs - indicators measuring actions and tactics:
 - Meetings, events, participants, people trained
 - Publications, news articles, number ads
 - Social media statistics, views, shares, likes
 - Number of complaints from employees rise
 - Inspections, fines, voluntary regularisations
 - Funds recovered
 - Awards
- Outcomes – final results of the campaign:
 - Improved unacceptability of undeclared work among target group, which is a proxy for changes in behaviour
 - Improved understanding of benefits of declared work
- How to measure?
 - Surveys and independent evaluations
 - Existing employer surveys could be used with additional questions

Box 22 provides access to good practices EU education and awareness raising campaigns targeted at tackling undeclared work. These include information services (e.g., in Ireland’s Workplace Relations Commission) to provide advice to businesses and workers, as well as targeted marketing campaigns.

Box 22. Good practice examples of education and awareness raising initiatives

- [“Infoline” – operated by the Information and Customer Services Unit \(ICS\) at the Workplace Relations Commission \(WRC\), Ireland](#)
- [Awareness campaign about bogus self-employment, Ireland](#)
- [Assistance on the Spot – providing support to companies to avoid violations of labour legislation with respect to bogus self-employment, Czechia](#)
- [National Contactcentre of the Federal Labour Inspection of the Belgian Federal Public Service Employment, Labour and Social Dialogue, Belgium](#)
- [“UDW – It’s bad for you, harmful for all” campaign, Portugal](#)
- [Student@work Campaign, Belgium](#)
- [National Awareness Raising Campaign: Grey Economy-Black Future \(Harmaa talous - musta tulevaisuus -viestintäkampanja\), Finland](#)
- [National Awareness Campaign “Stop undeclared work – Stop Moonlighting” \(Kampanja Stop radu na crno – stop neprijavljenom radu\), Croatia](#)
- [“I spit on it” awareness raising campaign \(Man uzspļaut\), Latvia](#)

- [#Fraudoff! \(#Atkrapies!\), Latvia](#)
- [Information campaign to raise awareness of labour law among workers and employers, Hungary](#)
- [Consultation with the State Labour Inspectorate via Facebook Messenger, Lithuania](#)
- [“Chain Approach” – raising awareness in the cleaning sector, Netherlands](#)
- [National Awareness Raising Campaign – Before you undertake work, Poland](#)
- [Awareness raising campaign on undeclared and unhealthy work, Sweden](#)
- [Virtual Reality Films, Sweden](#)

Attention is also drawn to the current EU-wide **#EU4FairWork** which can be accessed via this hashtag on Twitter, LinkedIn and Facebook.

An alternative smaller campaign launched by Masters-level Marketing students in Romania is **#Students4FairWork**, again on Twitter, LinkedIn and Facebook. Both campaigns provide many examples of the type of messaging that can be used in such campaigns, and many examples of messages that are transferable to the Western Balkan economies.

12. Modernising Formal Institutions

Education and awareness raising campaigns that seek to change attitudes towards undeclared work might not change these attitudes unless there is a change in the formal institutions. Where there is a lack of trust in government or a lack of belief by citizens, workers and businesses in the formal institutions, it is arguable that attitudes will not change. Therefore, to better align civic morality (about the acceptability of undeclared work) with the laws and regulations, it is not just attitudes of citizens, workers and employers that needs to change. The formal institutions themselves might need to change so that there is greater trust in them.

Here, therefore, firstly, the modernisation of enforcement authorities is reviewed and secondly, the structural macro-level conditions associated with higher levels of undeclared work.

Modernising enforcement authorities

To improve trust in government and therefore prevent participation in the undeclared economy, it is necessary to modernise enforcement authorities by making them more customer-friendly and approachable. Citizens, workers and employers often do not adhere to the formal rules, and there is thus a breakdown in the social contract between government and its citizens, due to a low level of trust in government. A modernisation of governance is one way forward. At least three institutional reforms can be pursued:

- **Procedural justice** can be improved, which here refers to the authorities treating citizens in a respectful, impartial and responsible manner and thus shifting away from a “cops and robbers” approach and towards a service-oriented approach;
- **Procedural fairness** can be enhanced, which refers to citizens believing that they pay their fair share compared with others; and
- **Redistributive justice** can be improved, which relates to whether citizens believe that they receive the goods and services they deserve given the taxes they pay.

Improving procedural justice

Procedural justice refers to whether citizens view the government as dealing with them in a respectful, impartial and responsible manner (Murphy, 2005). If citizens view government institutions as treating them in a poor manner, the evidence is that they are more likely to engage in non-compliant behaviour (Murphy *et al.*, 2009). Leventhal (1980) thus proposed the following six rules for how governments should interact with citizens to improve the perceived level of procedural justice:

- **The consistency rule** - procedures should be consistently applied across all people and over time; nobody should be more favoured, or disadvantaged compared with others;
- **Bias suppression rule** - egoistic intentions and prejudice on the part of the decision-makers must be avoided;
- **Accuracy rule** - all relevant sources of information should be exhausted, in order that decisions are based on well-founded evidence and information;
- **Correctability rule** - the possibility that decisions made can be adjusted or revised in the light of evidence;
- **Representativeness rule** - the interests and opinions of all stakeholders and individuals involved should be considered; and
- **Ethicality rule** - procedures should be in accord with the prevailing moral and ethical values.

Others additionally consider the importance of interpersonal interactions. Compliance rates are significantly higher when people are treated politely, with respect and dignity, are given a say, and have genuine respect shown for their rights and social status (Gangl *et al.*, 2013).

However, if they believe they are being treated unfairly or unreasonably, such as by inspectors showing disrespect for them, or they believe that taxes are collected and being used to support the interests of powerful private interests who have captured the state, this results in a lack of trust and lower compliance rates (Murphy, 2008). There is thus a need for enforcement authorities to treat citizens, workers and employers with respect and dignity. The overarching goal is to improve the trust and confidence of citizens, workers and employers in public administrations.

Improving procedural fairness

Procedural fairness refers to whether citizens feel that they are being treated in a fair manner relative to others and that they pay their fair share compared with others. Those who perceive that they receive procedurally fair treatment are more likely to trust the authorities and to adhere to the formal rules (Murphy, 2005). The fairness of the tax system is one of the most important determinants of whether they do so (Molero and Pujol, 2012).

Conversely, if they perceive that they are not receiving fair treatment, non-compliance increases (Bird *et al.*, 2006). As Molero and Pujol (2012) find, where there is grievance either in absolute terms (e.g., they feel taxes are too high or public money wasted) or grievances in relative terms (e.g., there is a lack of horizontal trust and a belief that others are cheating), non-compliance is the outcome. Indeed, they justify their non-compliance using their perceptions of the activities of others. If undeclared work is viewed as widespread, this justifies their non-compliant behaviour. This has important implications. **If governments publicise that undeclared work is prevalent, they create the conditions for widespread**

grievance and even wider participation in undeclared work by those who might not otherwise have done so.

Improving redistributive justice

Redistributive justice refers to whether the population believe they receive the goods and services deserved given the taxes that they pay (Richardson and Sawyer, 2001). Taxes are the price the population pays for the public goods and services that government provide. The question is whether the price corresponds to the perceived value of these goods and services (i.e., whether it is “just”). The less the tax system is seen as just, the more likely they will be to operate undeclared and to break the social contract with the state. To improve compliance therefore, the compliance system must be just. **Governments thus need to educate the population about where their taxes are spent and why social security and labour laws prevail.** When they do not know, or do not fully understand what public goods and services are provided with their taxes, compliance is lower. In recent years therefore, many governments have begun to pursue education and awareness raising initiatives, such as sending letters to taxpayers on how their taxes are spent.

Structural transformation: institution-building

In institutional theory (Baumol and Blinder, 2008; Denzau and North, 1994; North, 1990), institutions are defined as the rules of the game that prescribe what is socially acceptable and govern behaviour. In all societies, two types of institution exist: formal institutions (i.e., laws and regulations) that set out the legal rules of the game and prescribe “state morale”, and informal institutions, which are the unwritten socially shared rules about what is acceptable so far as citizens, workers and entrepreneurs are concerned, and prescribe “civic morale” (Denzau and North, 1994; Helmke and Levitsky, 2004).

From this institutionalist perspective, declared work adheres to the formal institutional prescriptions set out in the laws and regulations. Undeclared work, in contrast, occurs outside of formal institutional prescriptions but adheres to the norms, values and beliefs of informal institutions (Godfrey, 2011; Kistruck *et al.*, 2015; Siqueira *et al.*, 2016; Webb *et al.*, 2009; Welter *et al.*, 2015; Williams and Gurtoo, 2017; Williams, 2017), while criminal activity takes place outside both the formal institutional prescriptions as well as the socially shared rules of what is acceptable.

In recent years, this institutional approach has made major advances in explaining the prevalence of the undeclared economy. The undeclared economy has been shown to be more prevalent when the failings of formal institutions lead to the formal “rules of the game” (state morale) differing to what citizens view as socially acceptable (civic morale) (Dau and Cuervo-Cazurra, 2014; Godfrey, 2015; Webb *et al.*, 2009; Williams and Shahid, 2016; Williams *et al.*, 2017). The greater is this non-alignment of state morale and civic morale in an economy, the greater is the prevalence of the undeclared economy (see Williams, 2017). As Williams (2017) outlines, these formal institutional failings are of four types:

- (i) **formal institutional inefficiencies, or resource misallocations by formal institutions** - these result from either the lack of modernisation of government organisations (i.e., the lack of procedural and distributive justice and fairness) and/or due to formal institutions acting in a corrupt manner to protect or maximise economic rents for elites, or when state capture occurs by such elites, resulting in the majority not receiving a fair share in return for their contributions, or suffering from overly burdensome taxes, registration and licensing regulations and costs;
- (ii) **formal institutional voids and weaknesses** – which institutional voids and weaknesses lead to undeclared work and which do not has been subject to much

discussion. The majority view undeclared work to result from exclusion from the formal sector because of too little state intervention, but others view participants in undeclared work as voluntarily deciding to exit the declared economy because of too much state interference;

- (iii) **formal institutional powerlessness** - expressed in not only a lack of capacity to enforce policies (Webb *et al.*, 2009) but also in terms of a lack of ability to incentivise adherence to the formal rules. From this perspective, power means the ability to get somebody else to do something that they were not before going to do, in the way in which you want them to do it. Formal institutions lack power because they are unable to encourage businesses, workers and citizens to adhere to the formal rules (i.e., the laws and regulations) using either enforced compliance (i.e., “sticks” and “carrots”) or voluntary compliance, and/or
- (iv) **formal institutional instability and uncertainty** – due to for example continuous changes in the formal “rules of the game” (Levitsky and Murillo, 2009; Williams and Shahid, 2016) about what is acceptable, which leads to rejection of the continuously changing formal rules of the game by the population in favour of their own more stable unwritten socially shared rules.

The finding of a multitude of studies (e.g., Horodnic and Williams, 2020; Lapeyre and Williams, 2020; Williams, 2017, 2019) is that undeclared work is more prevalent when there are:

- Greater formal institutional resource misallocations and inefficiencies manifested in:
 - A lack of modernisation of government (measured by the reliability of police services and the efficiency of government spending)
 - Greater levels of corruption (indicated by multiple indicators of both perceived and actual levels of corruption)
- Greater formal institutional voids and weakness manifested in:
 - Lower levels of development (measured using GDP per capita, the Human Development Index and Social Progress Index);
 - Burdensome regulations;
 - Lower (not higher) tax rates;
 - Lower government expenditure and lower expenditure on social contributions;
 - Higher levels of poverty
- Greater formal institutional powerlessness manifested in:
 - Lower levels of perceived rule of law, government effectiveness, regulatory quality and public trust in politicians; and
- Greater formal institutional instability and uncertainty manifested in:
 - low transparency of government policymaking.

These results therefore support the view that wider structural transformation is required to address the level of undeclared work.

To transform undeclared work into declared work, economies therefore need to:

- Reduce formal institutional resource misallocations and inefficiencies by:
 - Modernising government such as improving the reliability of services and the efficiency of government spending;
 - Reducing corruption;
- Tackle formal institutional voids and weakness by:
 - Increasing GDP per capita;
 - Improving the dimensions of human development, including a long and healthy life, being knowledgeable and have a decent standard of living;

- Improving the dimensions of social progress, including basic human needs, rights and education;
- Rising (not lowering) tax rates;
- Increasing government expenditure and especially expenditure on social contributions, and
- Reducing the depth and incidence of poverty.
- Reduce formal institutional powerlessness by:
 - Improving the perceived rule of law, government effectiveness, regulatory quality and public trust in politicians; and
- Reduce formal institutional instability and uncertainty by:
 - Improving the transparency of government policymaking.

Obviously, many of these structural transformations are well beyond the scope of enforcement authorities.

It is precisely for this reason that a whole government approach is required in which a high-level coordinating body takes responsibility for the overall strategy for tackling undeclared work. It is only a high-level coordinating body at the top of government, and including all social partners, that can take many of the decisions necessary to tackle these structural conditions that determine the prevalence of the undeclared economy.

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List of Abbreviations

EU – European Union

GLAA – Gangmasters and Labour Abuse Authority

GEIU – Grey Economy Information Unit (GEIU)

GDP – Gross Domestic Product

HMRC – Her Majesty’s Revenue and Customs

ID – Identity Card

ILO – International Labour Organisation

JoFITs – Joint Fashion Industry Teams

JoSETs – Joint Shadow Economy Teams

KPIs – Key Performance Indicators

MAP – Mutual Assistance Project (MAP)

OECD – Organisation for Economic Cooperation and Development

SMART – Specific, Measurable, Achievable, Realistic and Time bound

VAT – Value-Added Tax

WCSUW – Working Committee for Suppression of Undeclared Work