

DIAGNOSTIC REPORT ON UNDECLARED WORK IN SERBIA

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2018

Extent and nature of the undeclared economy in Serbia

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

MIMIC Method

Table 1 Size of undeclared economy in Serbia, % of official GDP MIMC Method

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Average |
|---|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-------------|---------|
| Hassan and Schneider (2016) | | | | | | | | | | | | | | | | |
| MIMIC estimate* | 34.3 | 33.0 | 35.6 | 39.2 | 41.5 | 39.1 | 36.5 | 32.2 | 28.5 | 29.4 | 31.6 | 37.4 | 34.7 | 32.4 | 27.9 | 34.2 |
| MIMIC estimate with self-employment* | 34.3 | 33.9 | 37.1 | 41.5 | 44.3 | 41.7 | 38.4 | 33.4 | 30.6 | 31.7 | 34.6 | 39.5 | 37.2 | 34.3 | 29.8 | 36.2 |
| Adjusted MIMIC estimate* | | | | | | | | | | | | | | | | 22.3 |
| Adjusted MIMIC estimate with self-employment* | | | | | | | | | | | | | | | | 23.5 |
| Schneider et al. (2014) | | | | | | | | | | | | | | | | |
| MIMIC estimate | | 33.2 | 32.7 | 32.1 | 32.0 | 31.6 | 31.2 | 30.7 | 30.1 | 30.6 | 30.1 | | | | | 31.4 |

Source: Hassan and Schneider (2016) and Schneider et al. (2014)

Survey Methods

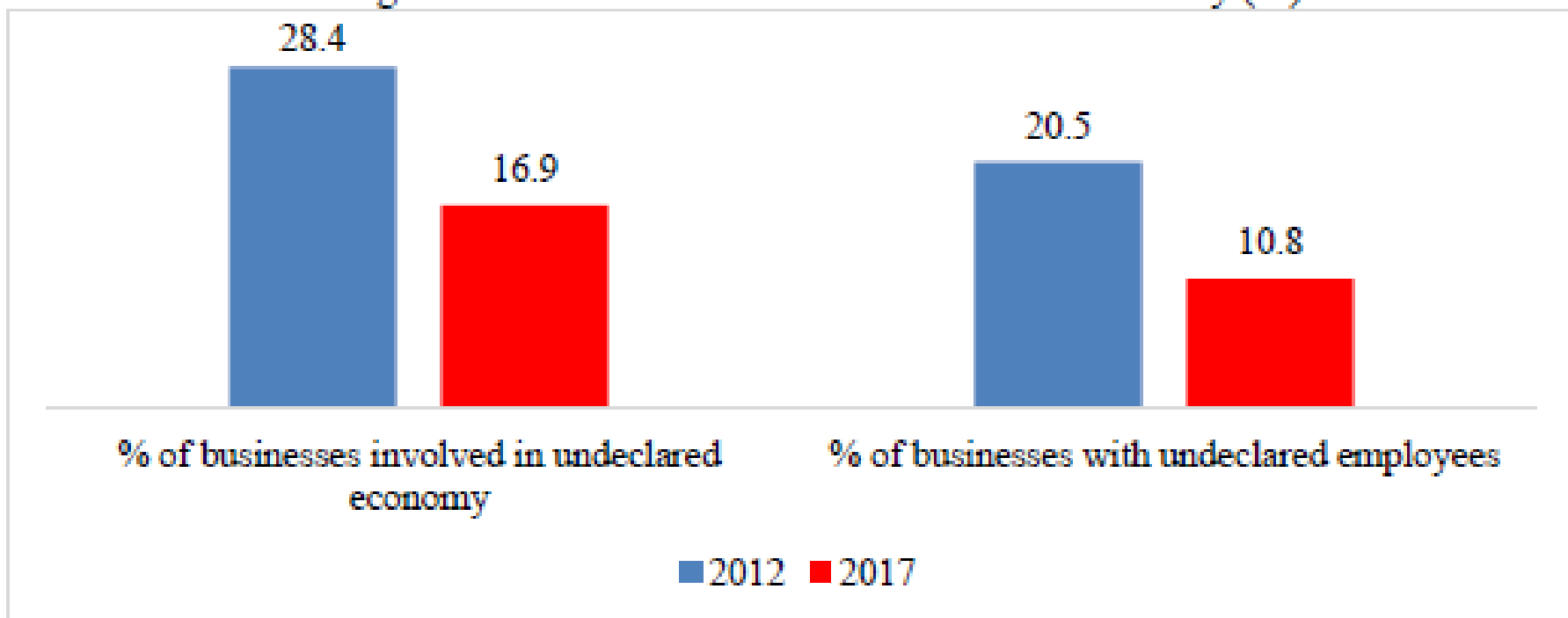
Table 2 Survey Methods Size of undeclared economy in Serbia, % of official GDP

| Method | Year | Estimate |
|-----------------------------|------|----------|
| Schneider et al. (2014) | | |
| Survey Method | 2012 | 21.2 |
| Krstić and Radulović (2018) | | |
| Survey Method | 2017 | 15.4 |
| Shadow Economy Index | 2017 | 14.9 |

Source: Schneider et al. (2014), Krstić and Radulović (2018) Anketa o uslovima poslovanja privrednih subjekata (preduzeća i preduzetnika) u Srbiji 2017. Ipsos i NALED.

- **Since 2012, the share of businesses engaged in the undeclared activities has significantly decreased from 28.4% in 2012 to 16.9% in 2017.**

Figure 3 Businesses involved in undeclared economy (%)



Source: Business Environment Survey 2017, Ipsos/ NALED.

Labour Inspectorate Data

Table 4 Labour Inspectorate Oversight - Surveillance Activities and Results

| Year | Total number of surveillances | Scope of the oversight (number of workers) | Number of undeclared employees | Number of newly registered employees (after surveillance) |
|-------|-------------------------------|--|--------------------------------|---|
| 2015. | 61.776 | 696.822 | 16.408 | 12.250 |
| 2016. | 53.069 | 533.119 | 19.472 | 17.589 |
| 2017. | 53.424 | 510.725 | 22.411 | 21.171 |

Source: Labour Inspectorate Annual Reports (2015-2017)

Labour Inspectorate Data

- According to the Labour Inspectorate (2018), although **violations in employment relations were present in almost all industries, they were the most prevalent in the construction, agriculture (seasonal jobs), catering, trade and craft sectors, as well as in textile and food processing industries.**
- **Unregistered activities are also quite common in several professions.**
- **the most common recorded violations were employment of unskilled and semi-skilled workers that are above 40 years of age or that are receiving social assistance, without a contract.**

- **In Serbia undeclared work typically takes the form of informal wage employment and informal self-employment. Unpaid (contributing) family workers are quite widespread in agricultural households.**

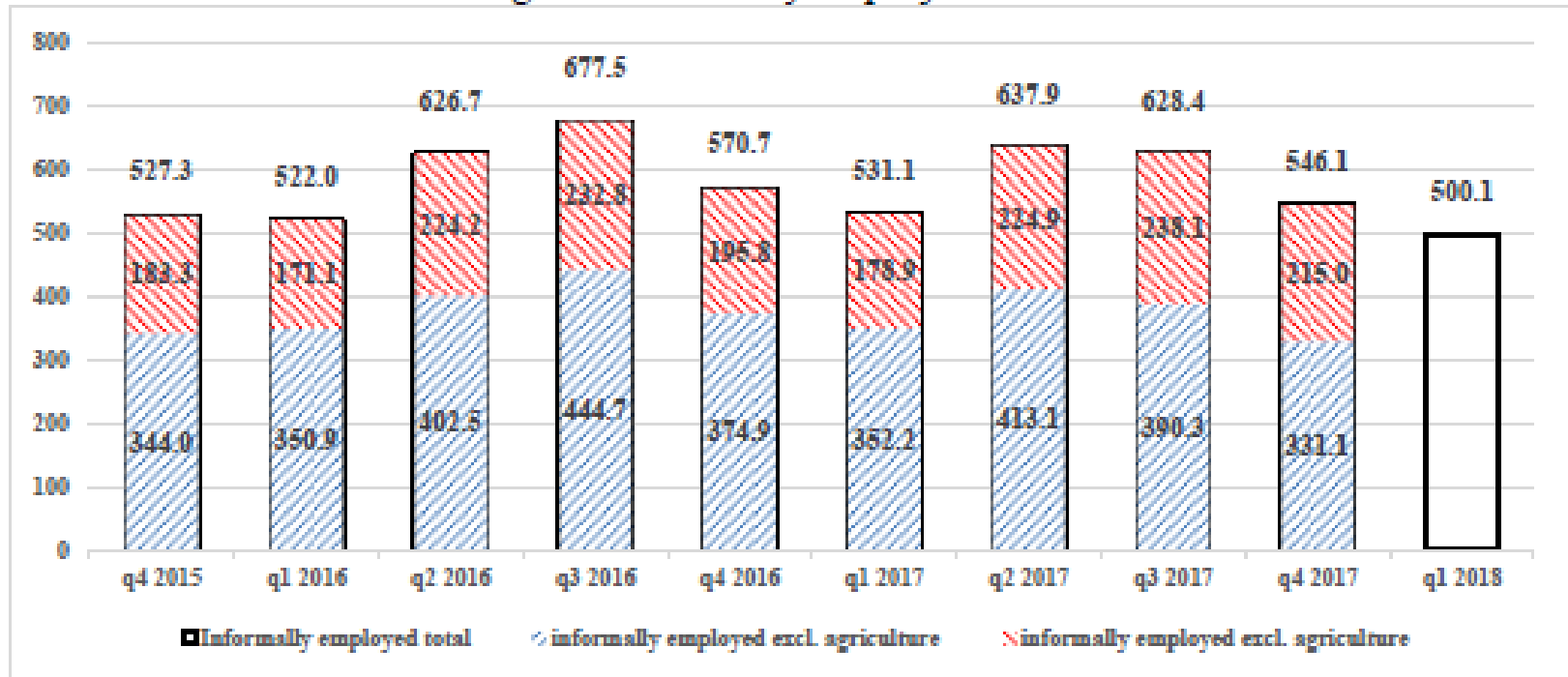
Table 6 Main Labour Indicators

| | 2015 | 2016 | 2017 |
|--|--------|--------|--------|
| Rate of Activity aged 15 and over | 51.6% | 53.3% | 54% |
| Employment rate | 42.5% | 45.2% | 46.7% |
| Unemployment rate | 17.7% | 15.3% | 13.5% |
| Employed - aged 15 and over (in thous.) | 2558.4 | 2719.4 | 2794.7 |
| Formally employed (in thous.) | 2060.5 | 2120.2 | 2215.4 |
| Informally employed (in thous.) | 497.9 | 599.2 | 579.2 |
| Informally employed without agriculture (in thous.) | | 312.2 | 347.6 |
| Informally employed by status (in thous.) | | | |
| Self- employed with employees | 2.7 | 2.5 | 1.6 |
| Self- employed w/o employees | 162.5 | 245.9 | 279.4 |
| Employees | 125.3 | 132.9 | 136.5 |
| Contributing family workers | 207.4 | 217.9 | 161.6 |
| Informally employed by age (in thous.) | | | |
| 15-24 | 48.4 | 55.3 | 46.3 |
| 25-54 | 286.9 | 333 | 219.7 |
| 55-64 | 105.8 | 128.7 | 126 |
| 65 and over | 56.7 | 82.1 | 87.3 |
| Informally employed by sex (in thous.) | | | |
| Male | | 321.1 | 306.6 |
| Female | | 278.1 | 272.6 |
| Informal employment rate Male | | 21.00% | 19.60% |
| Informal employment rate Female | | 23.40% | 22.20% |
| Informally employed by region | | | |
| Belgrade | | 74.7 | 80.9 |
| Vojvodina | | 133.7 | 132.2 |
| Šumadija and Western Serbia | | 234 | 219.3 |
| Eastern and Southern Serbia | | 156.8 | 146.8 |
| Informally employed by sector (in thous.) | | | |
| Agriculture | | 287 | 231.6 |
| Industry | | 34.6 | 31.8 |
| Construction | | 43.8 | 42.2 |
| Services | | 233.9 | 273.7 |
| Informal employment rate excluding employed in agriculture | | 11.48% | 12.43% |
| Informal employment rate including employed in agriculture | 19.46% | 22.03% | 20.72% |

Source: SORS, Labour Force Surveys (2015-2017)

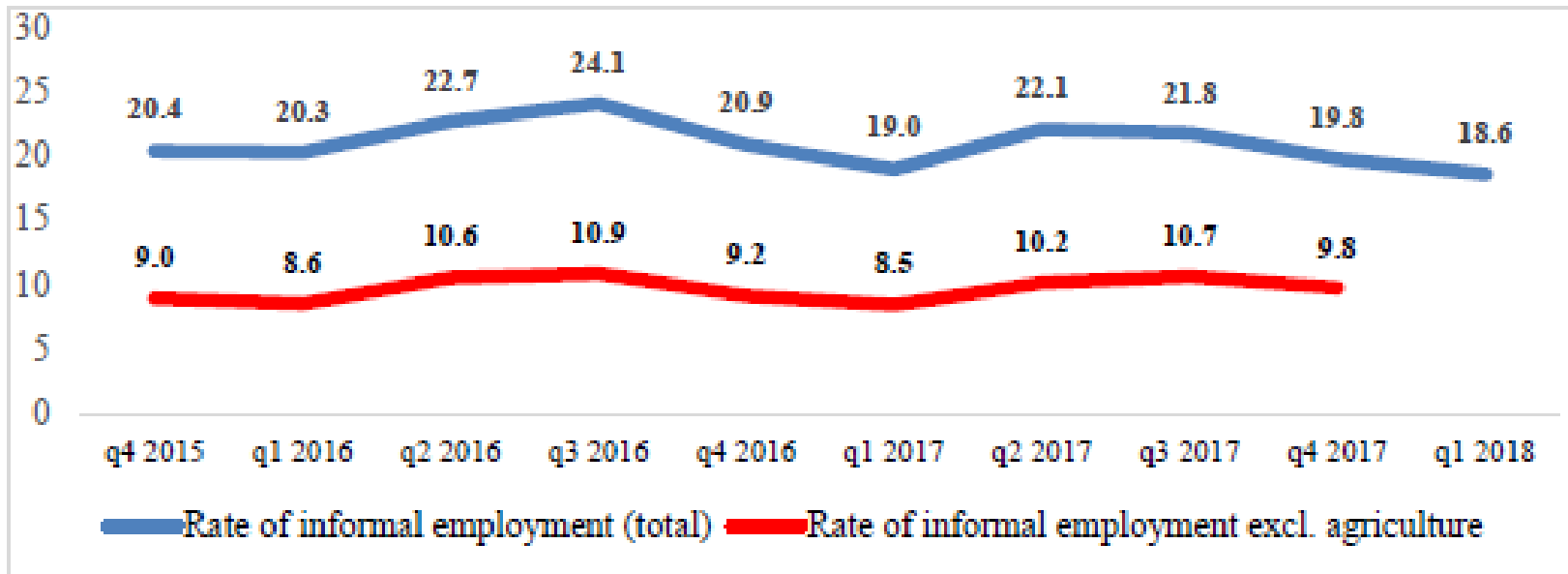
LFS Data

Figure 4 Informally employed 2015-2018



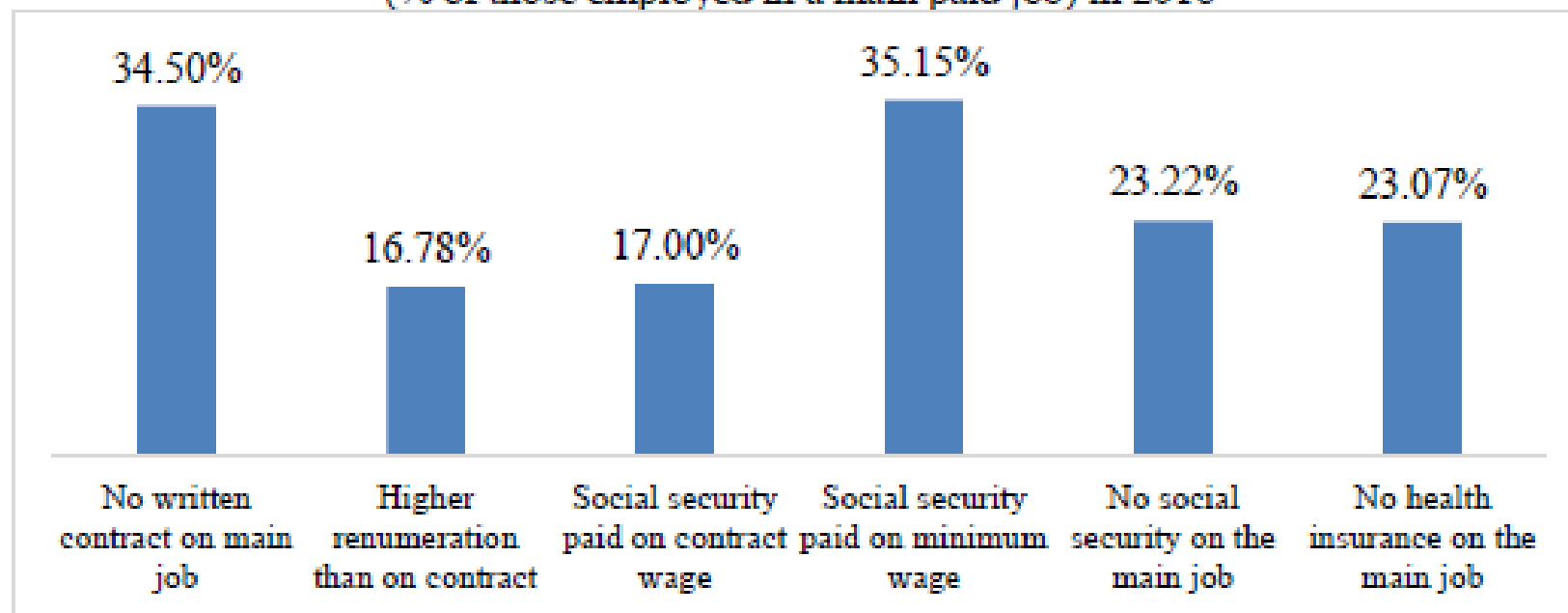
Source: SORS Labour Force Surveys

LFS Data



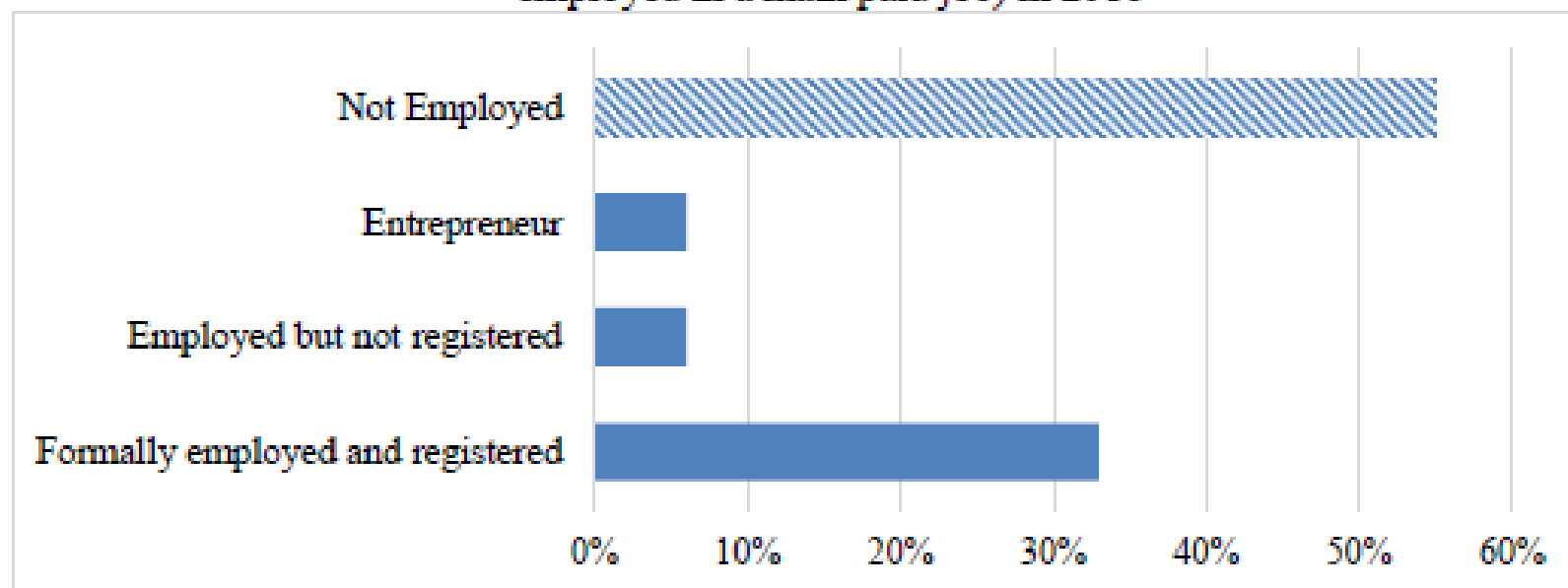
Source: SORS Labour Force Surveys

Figure 6 Serbia - Prevalence of different types of hidden employment
(% of those employed in a main paid job) in 2016



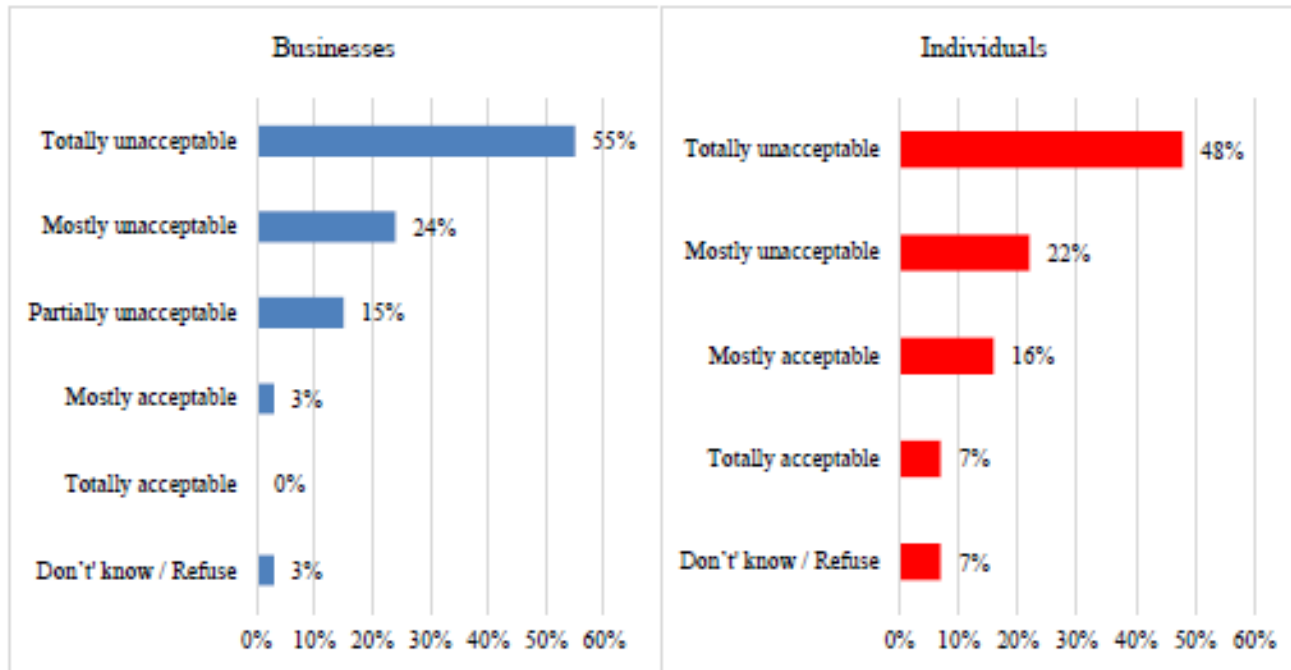
Source: SELDI Hidden Economy Survey (2016).

Figure 7 Serbia - Prevalence of different types of hidden employment (% of those employed in a main paid job) in 2016



Source NALED Survey of Citizens (2017)

Social Acceptability of undeclared work



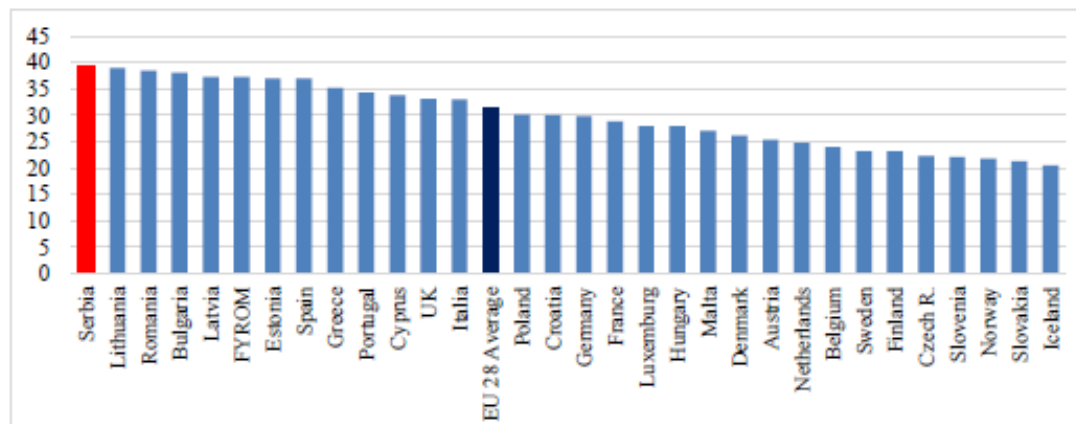
Source: NALED Business Survey 2017 and NALED Citizens Survey 2017

- **attitude is a key determinant of both participation and a percentage of activity in the undeclared economy.**

Labour Market Interventions and Social Protection

Inequality

- **Krstić (2016) shows that income inequality, measured by the Gini coefficient, has significantly increased in Serbia over the period of economic crisis, reaching 38.7 in 2013**



Source: Arandarenko et al. (2017). Note: Gini coefficient for equivalent disposable income. Source: SILC 2015, Eurostat. For Macedonia Gini coefficient is for year 2014

Organisation of the Fight Against Undeclared Work: Institutional Framework

Table 8 A hierarchy of joined-up government

| Approach | Scope | Targets | Level |
|--------------------------------|--------------------------|----------|---|
| Single compliance unit | Whole undeclared economy | Common | Strategy, operations and data matching |
| | Segment | Common | Strategy, operations &/or data matching |
| Cross-Departmental Cooperation | Whole/segment | Shared | Strategy |
| | Whole/segment | Shared | Operations |
| | Whole/segment | Shared | Data matching & sharing |
| | Whole/segment | Separate | Strategy |
| | Whole/segment | Separate | Operations |
| | Whole/segment | Separate | Data matching & sharing |
| | Segments | Separate | Strategy |
| Departmental 'silos' | | | Operations |
| | | | Data matching |

Source: derived from Dekker et al (2010)

Organisation of the Fight Against Undeclared Work: Institutional Framework

- The first Action Plan for Implementing the National Program for 2016 with projections for 2017
 - **update - Action plan for 2017 and 2018**
 - new plan
- **Central Coordination Body for Directing Activities for Reducing the Shadow Economy (Coordination Body)** was established in 2015
 - **the Expert Group of the Coordination Body**
 - The Expert Group is coordinated by NALED in cooperation with the Public Policy Secretariat.
- **Working Committee for Suppression of the Undeclared Work** was formed in November 2017.

Table 9 Action plan for 2017 and 2018

| | | |
|----------------------|--|--------------|
| Goal 1 | Improved Monitoring of Shadow Economy Flows/Improved Inspection Oversight | 2017 |
| Sub goal 1.1. | Improving the Inspection Oversight System | |
| Measure 1.1 | Improving the Capacity of Inspection for Planning, Enforcing and Reporting in Inspection Oversight | |
| Measure 1.2 | Establishing mechanisms for securing the transparency of inspection oversight and interaction with businesses and citizens | |
| Measure 1.3 | Improvement of the System for Prosecution of Offences and Violations Against Business Entities | |
| Measure 1.4 | Improvement of activity coordination between customs, inspections and the police | |
| Measure 1.5 | Creation of Uniform Sanction Policies for the Shadow Economy | |
| Measure 1.6 | Enhancement of the Database System for Salaries and Employee Contributions | |
| Measure 1.7 | Improved Oversight of Activities that Require a Permit | |
| Sub goal 1.2 | Enhancing capacities of Tax administration aimed to curb shadow economy | Added |
| Measure 1.8 | Improving Tax Administration Oversight | Added |
| Goal 2 | Improved Functioning of the Fiscal System | |
| Measure 2.1 | Stimulation of Regulation Compliance and Creation of Incentives for Transferring Shadow Economy Operations to Legal Flows | |
| Measure 2.2 | Improvement of Fairness in Fiscal Policies | |
| Measure 2.3 | Improvement of the Fiscalization System | |
| Goal 3 | Reduction of Administrative Burdens on Businesses and Citizens | |
| Measure 3.1 | Establishment of Public Registry of Parafiscal Charges | |
| Measure 3.2 | Establishment of Unified Legal Framework for Regulation of Fees for Use of Public Goods | |
| Measure 3.3 | Establishment of Public Registry of Procedures/Formalities That Businesses and Citizens | |

Action plan

- Action plans are updated every year with the participation of relevant stakeholders and individual targets.
- The introduction of holistic integrated strategic approach for tackling undeclared work in Serbia has achieved significant results.
- Action plans set strategic objectives for the various Ministries and agencies involved in the fight against undeclared work.
- Key performance indicators (KPIs) follow so-called SMART (Specific, Measurable, Achievable, Relevant & Time-bound) approach and tackling undeclared work can be measured.

Labour Inspectorate

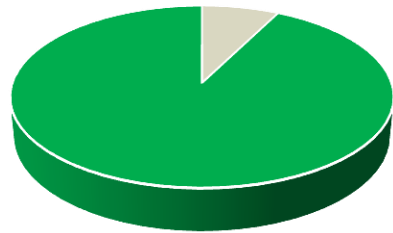
Table 10 Labour Inspectorate Employees

| Labour Inspectorate | 2015 | 2016 | 2017 |
|---------------------|------|------|------|
| Employees Total | 264 | 262 | 263 |
| Inspectors | 242 | 240 | 247 |

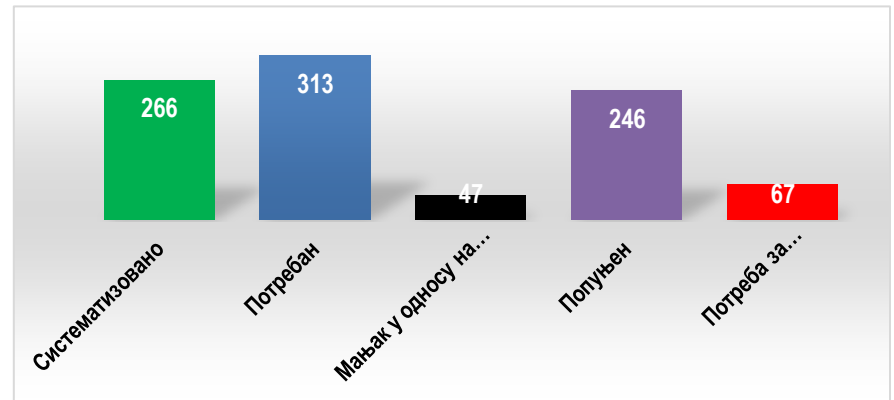
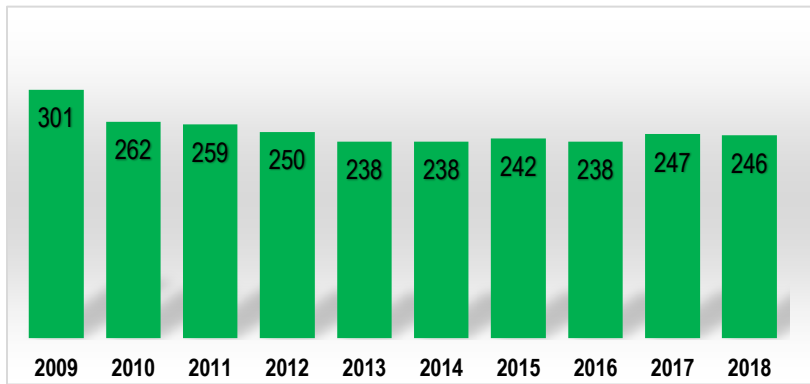
Source: Labour Inspectorate

- The ILO (2006) recommends that advanced countries have at least one labour inspector per 10,000 employed persons while transition countries have one inspector per 20,000 employed persons.
- If we use average registered employment in 2017, we obtain **8,500 employees per inspector which means that at least with respect to human resources there is a sufficient number of labour inspectors.**
- However, using LFS data on employment the ratio is 10,500 which is again close to the international standard.

Labour Inspectorate



92.48%



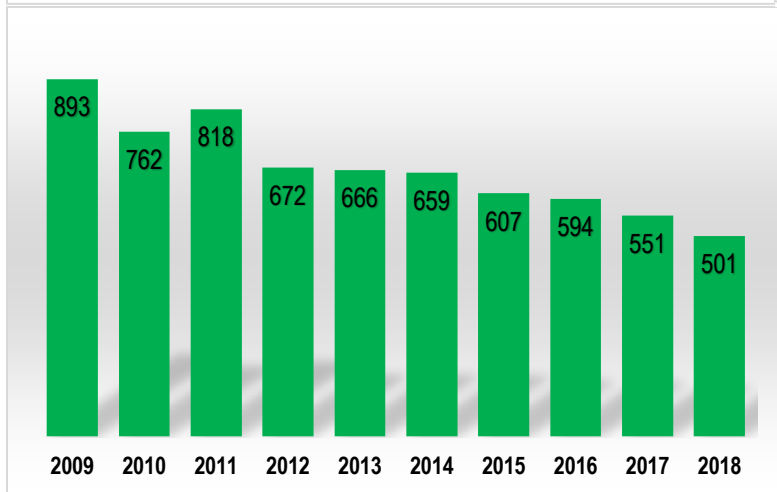
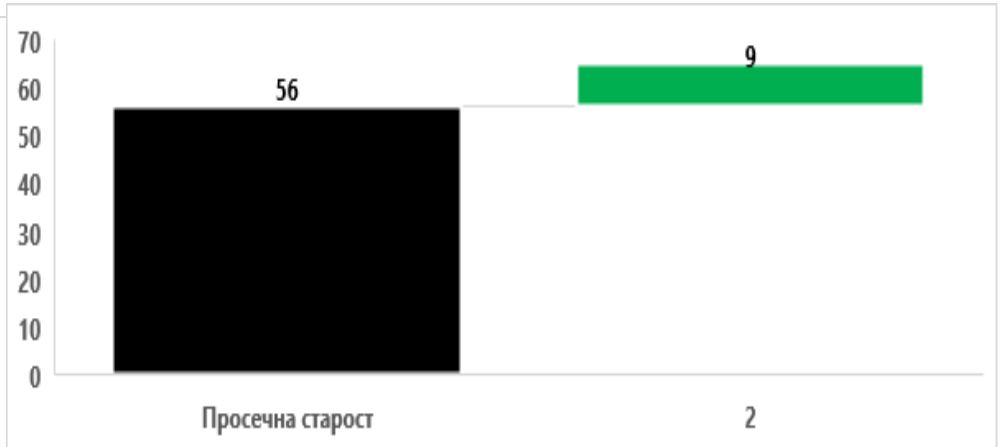
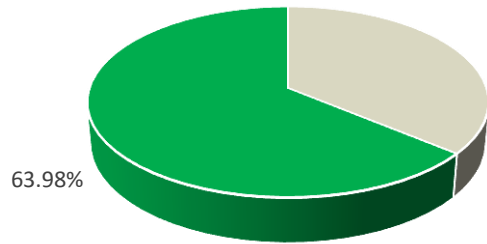
Tax Inspectorate

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Tax Payers | 527 344 | 583 437 | 413 716 | 416 929 | 424 652 | 428 806 | 430 872 | 476 571 | 452 778 | 490 243 | 522 107 |
| Inspectors | 906 | 893 | 762 | 818 | 672 | 666 | 659 | 607 | 594 | 551 | 501 |
| Tax Payers per inspector | 582 | 653 | 543 | 510 | 632 | 644 | 654 | 785 | 762 | 890 | 1 042 |

Serbia has the smallest number of tax officers per capita of all the countries in the region,

Tax Administration has introduced an ambitious Transformation Program (2015-2020) aimed to create a modern TA utilizing e-based business processes, delivering taxpayer services and modern compliance risk management

Tax Inspectorate



Current Policy Approach and Measures: An Evaluation

- *Direct Control*
 - *Deterrence*
 - *Penalties*
 - *Measures to improve detection*
 - *Enabling Compliance*
 - *Preventative measures*
 - *Curative measures*
 - *Stimulating purchaser*
 - *Stimulating suppliers*
- *Indirect Control*
 - *Change values, norms and beliefs*
 - *Reform Formal institutions*

DIRECT CONTROLS**Deterrence**

| | |
|---|-----|
| <i>Penalties:</i> | Yes |
| Administrative sanctions for purchasers/companies | Yes |
| Administrative sanctions for suppliers/employees | No |
| Penal sanctions for purchasers/companies | Yes |
| Penal sanctions for suppliers/employees | No |
| <i>Measures to improve detection:</i> | Yes |
| Data matching and sharing | Yes |
| Workplace inspections | Yes |
| Registration of workers prior to starting work or on first day of work | Yes |
| Coordinating strategy across government | Yes |
| Certification of business, certifying payments of social contribution and taxes | No |
| Use of peer-to-peer surveillance (e.g. telephone hotlines) | Yes |
| Coordination of operations across government | Yes |
| Coordination of data sharing across government | Yes |
| Mandatory ID in the workplace | Yes |

Enabling compliance:

| | |
|---|------|
| <i>Preventative measures:</i> | Yes |
| Reduce regulations | Yes |
| Simplify compliance procedures | Yes |
| Technological innovations (e.g. certified cash registers) | Yes |
| New categories of work (e.g., for small or mini-jobs) | Yes |
| Direct tax incentives (e.g., exemptions, deductions) | Yes |
| Social security incentives | Yes |
| Ease transition from unemployment into self-employment | Yes |
| Ease transition from employment into self-employment | No |
| Changing minimum wage upwards | Yes |
| Changing minimum wage downwards | No |
| Training & support to business start-ups | Yes |
| Micro-finance to business start-ups | Yes |
| Advice on how to formalise | Yes |
| Connecting pension schemes to formal labour | Yes |
| Introducing supply chain responsibility | No |
| Restricting free movement of (foreign) workers | Yes* |
| <i>Curative measures:</i> | Yes |

Stimulate purchasers to buy declared:

| | |
|--------------------------------|-----|
| Service vouchers | No |
| Targeted direct tax incentives | Yes |
| Targeted indirect taxes | No |

Stimulate suppliers to formalise:

| | |
|---|-----|
| Society-wide amnesties | Yes |
| Individual-level amnesties for voluntary disclosure | Yes |
| Formalisation advice to business | Yes |
| Formalisation support services to businesses | Yes |
| Targeted VAT reductions | No |
| Free record-keeping software to businesses | No |
| Fact sheets on record-keeping | No |

Direct Controls

| INDIRECT CONTROLS: | |
|---|-----|
| Change values, norms & beliefs | |
| Campaigns to inform undeclared workers of risks and costs of working undeclared | Yes |
| Campaigns to inform undeclared workers of benefits of formalising their work | Yes |
| Campaigns to inform users of undeclared work of the risks and costs | Yes |
| Campaigns to inform users of undeclared work of the benefits of declared work | Yes |
| Use of normative appeals to people to declare their activities | Yes |
| Measures to improve tax/social security/labour law knowledge | Yes |
| Campaigns to encourage a culture of commitment to declaration | Yes |
| Reform formal institutions | |
| Measures to change perceived fairness of the system | No |
| Measures to improve procedural justice of the system (i.e., degree to which people believe government has treated them in a respectful, impartial and responsible manner) | No |
| Adoption of commitment rather than compliance approach (e.g., 'responsive regulation') | Yes |

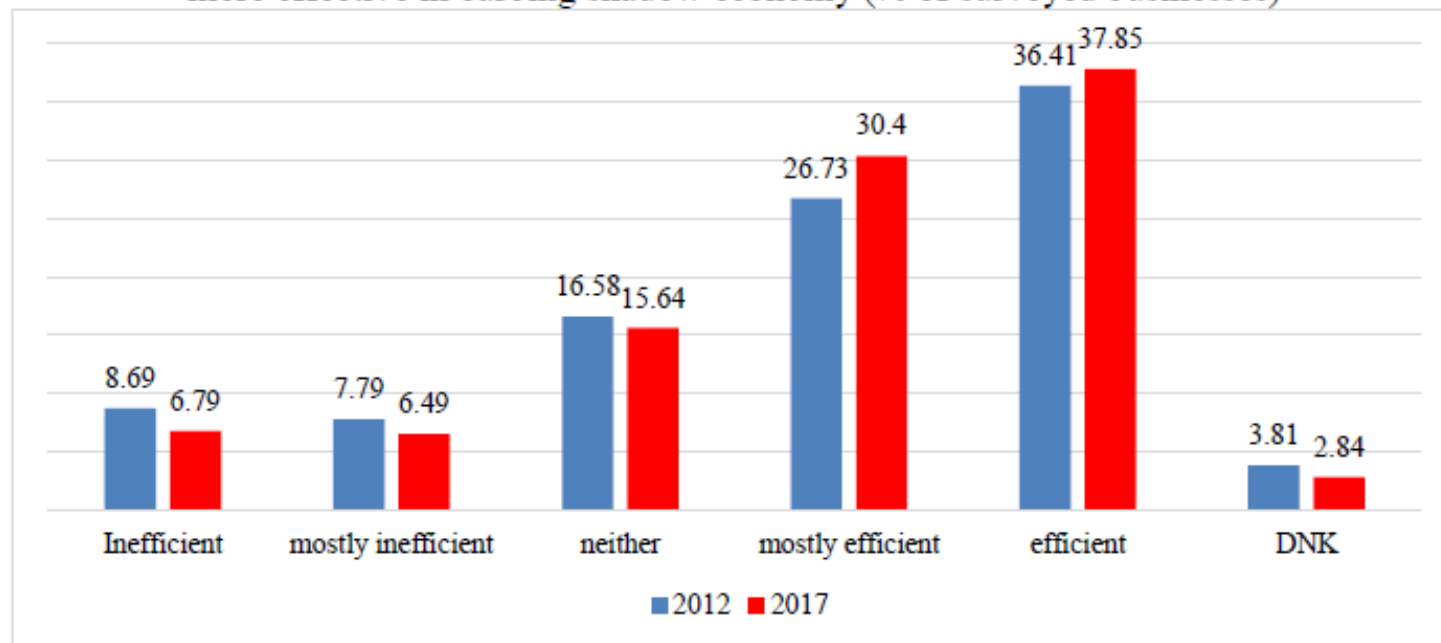
Direct controls - deterrence

- **A reform of the tax penalty system in Serbia was introduced in 2014.**
- **In November 2016, the Serbian Parliament adopted amendments to the Criminal Code stipulating changes to criminal offence of tax avoidance**
- **New amendments to the LTPTA were adopted in April 2018 introducing even harsher penalties for specific tax offences**
- **Larger shadow economy and tax evasion in Serbia, when compared to other countries, are not caused by low statutory penalty rates.**

Direct controls - deterrence

- **the actual penalties and sanctions for informal employment have seen steady increases during last several years**
- **it seems that labour inspectors are more proactive in bringing and arguing cases in misdemeanour court**
- **both businesses and regulators believe that penalties should be harsher or at least at the same level**

Figure 21 Efficiency of harsher penalties – Do you believe that harsher penalties would be more effective in curbing shadow economy (% of surveyed businesses)



Source: Business Environment Survey 2017, Ipsos/NALED.

- This view is similar to the one in other European countries where 50 per cent of stakeholders interviewed in 2010 view this measure as effective and 45 per cent as a neutral and only 5 per cent as ineffective (Dekker et al., 2010).
- **Further altering the sanctions and penalties should not be the focus of attention of a national action plan for supporting the formalisation of the informal economy.**

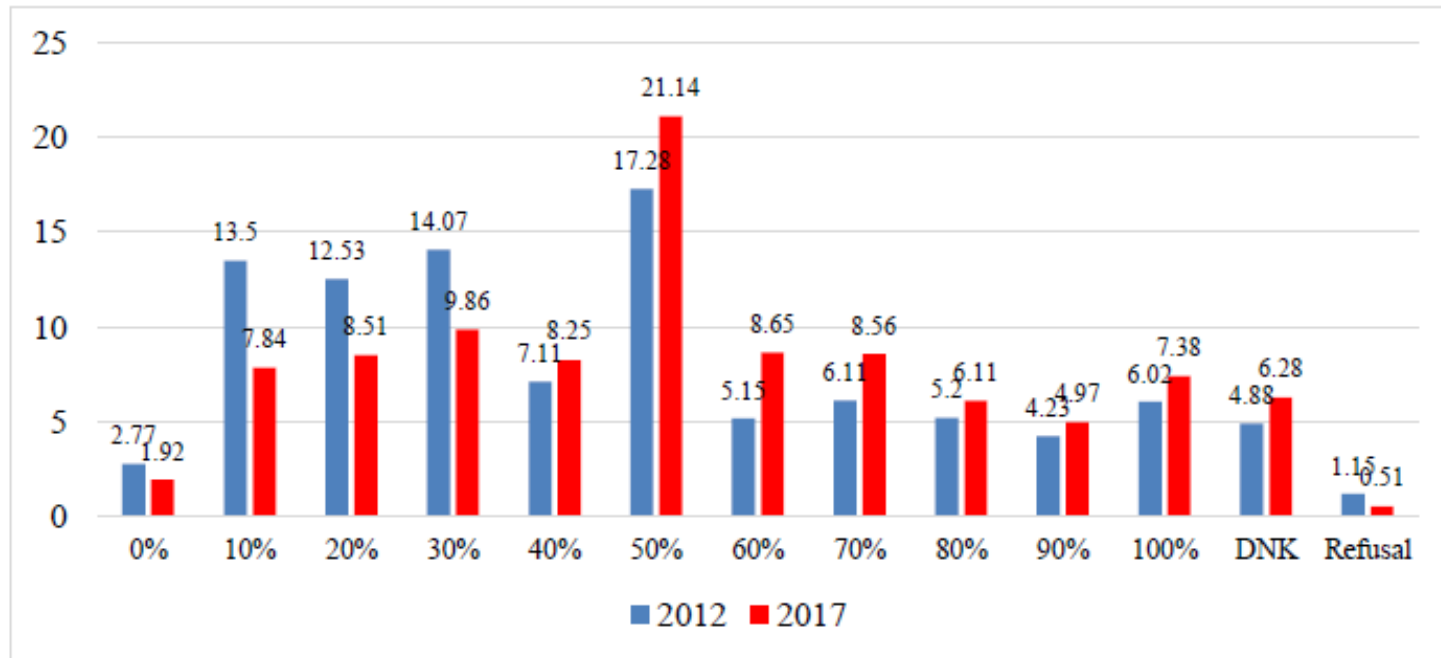
Deterrence Measures

- **Serbia established Central Register of Temporary Restrictions of Rights of Entities in 2016.**

Detection Measures

Perceived Risk of Detection

This project is funded by the EU



Source: Business Environment Survey 2017, Ipsos/NALED.

Findings

- **Based on these results It might be assumed, therefore, that in Serbia in last five years policy measures have been implemented that lead businesses to believe that the risk of detection is higher.**
- **Indeed, in last three years, the majority of measures in Serbia pursued to tackle undeclared work have been focused on improving the perceived and actual risk of detection.**

Labour Inspectorate

- In 2017, the labour inspectors detected a total of 22,411 undeclared workers during oversight of both registered and unregistered

Table 13 Labour Inspectorate - Total number of Inspections by type

| | 2015 | 2016 | 2017 |
|-----------------------------|-------|--------|--------|
| Total number of inspections | 61776 | 53,069 | 53,424 |
| Registered subjects | - | 52256 | 52,655 |
| Unregistered subjects | - | 813 | 759 |

Table 14 Labour Inspectorate – Scope of the oversight 2013-2017

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|---------|---------|---------|---------|---------|
| Total number of employees in subjects of oversight | 503,613 | 626,984 | 696,882 | 533,119 | 510,725 |
| Total number of employees in working place | - | - | 128,133 | - | 240,648 |
| Total number of undeclared employees | 5,744 | 5,831 | 16,408 | 19,472 | 22,411 |

Registration of workers prior to starting work

- **2017 changes and amendments to the Labour Law**
 - **The requirement for the employers to register all employees with the Central Registry of Social Security (“CRSS”) before the employee’s first day of employment.**

Coordination across government

- Some coordination activities already discussed
- The adoption of the Law on Inspection Oversight.
 - improved inspections' coordination and strengthened their preventive and advisory role, risk-based assessment and risk management.

Mandatory ID in the workplace

- Namely, pursuant to the provisions of Article 35 of the Labour Law it is stipulated that the employer is obliged to work contract or other contract in accordance with the Law or their copy, *“in the headquarters or other business premises of the employer or elsewhere, depending on where the employed or employed person is working”*. Similar requirements existed before, but provisions stipulating location of documentation were introduced only in 2014.

Use of peer-to-peer surveillance (e.g. telephone hotlines)

- **In March 2018, as part of the project “Say NO to undeclared employment”, carried out by the Ministry of Labour a free phone line for reporting illegal employment has been opened.**

Data matching and sharing and Coordination of data sharing across government

- **Serbia launched development of the e-Inspector, a unified information platform that will instead of having each inspection own information system create the one-comprehensive system for all inspections.**
 - **Piloting phase**
 - **allocation of responsibilities with respect to maintenance, general reporting, etc.**

Targeting of workplace inspections

- **Since the adoption of the Law on Inspection oversight, a new approach to inspection oversight is based on a planned risk assessment**
- **Better targeting lead to significant reduction of administrative burden.** According to the BEP survey management spends less time management in dealing with inspections (from 70 hours in 2011 to 20 hours in 2017).

Other incentives for compliance

- Consultative visits
- Notification letters to encourage voluntary compliance
- Supply chain responsibility

Direct Controls: supply-side incentives

- **Serbia has made much progress in closing the gap with best practices in business regulation.**
- **in 2014 and 2015, Serbia simplified its payroll and social security returns, and introduced e-filing for payroll taxes and social security contributions, VAT and corporate income tax.**
 - **This was significant improvement reducing the number of payments indicator from 67 in 2013 to 33 in 2015 and the time to comply from 279 hours to 226 hours over the same period.**

Reverse VAT charge mechanism

- **The reverse VAT charge mechanism in the construction industry is often used as an anti-evasion measure whereby the buyer, not seller, must file and pay the VAT**
- **The Law on Value Added Tax was amended in 2012 introducing the application of the reverse-charge mechanism into Serbian legislation in the construction industry**
 - **Acceptable solution for achieving the resistance of the VAT system in terms of tax evasion, however changes should be considered regarding the application of the said mechanism.**

New categories of declared work

- New categories of declared work could provide incentives to reveal
- Recent changes of the Labour law introduced some of new categories of declared work.
- Need to regulate leasing of employees

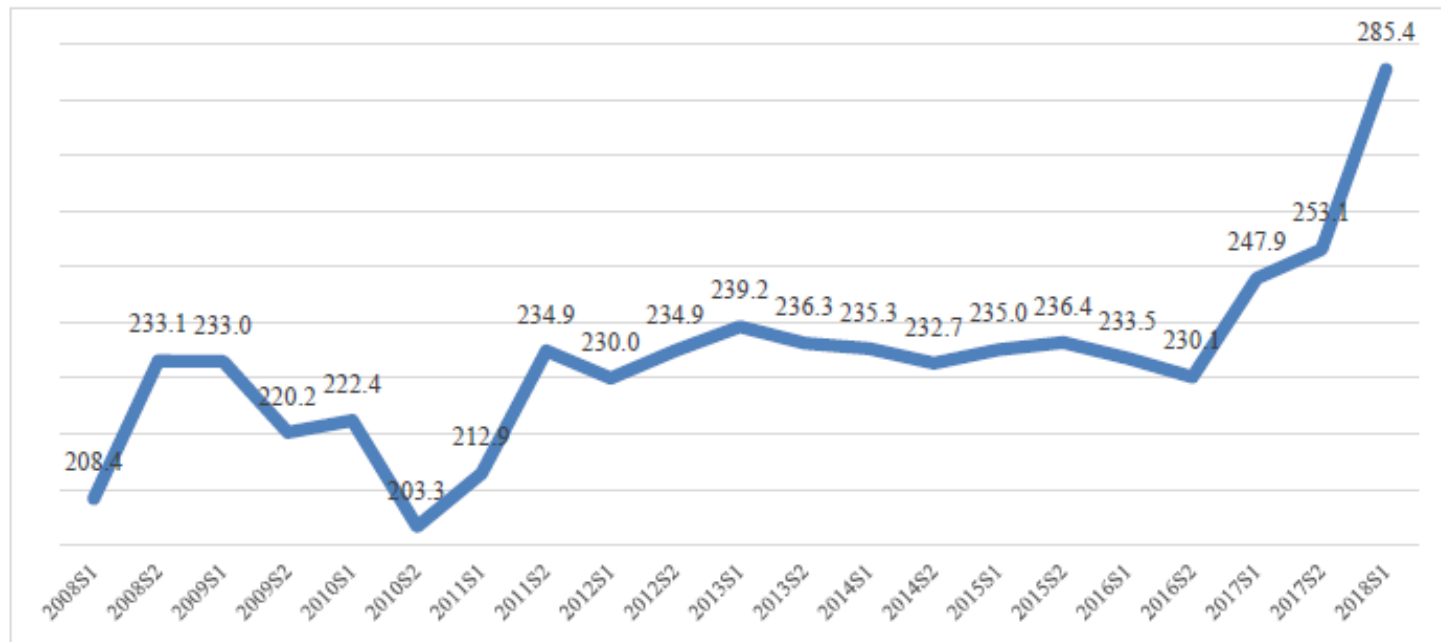
Social security and direct tax incentives

- In December 2017, the parliament adopted amendments to the Law on Personal Income.
- **tax relief for youth's employment when starting their own business through tax exemption**
- There are other potential incentive-based measures that may be applied in Serbia

Changing minimum wage

- **The amount of the minimum wage is one of the key parameters that define how many workers will be ‘squeezed out’ of the formal sector (Arsić, et al 2015).**

Minimum wage dynamics (2008 – 2018 measured at the beginning of the half-year) (EUR)



Source: Eurostat

Micro-finance to business start-ups

- **According to the recent EIB Report (EIB, 2016), the virtual absence of a microfinance sector has left the supply of microloans low, and as the few equity funds active in the country target either technology start-ups or larger consumer-oriented businesses, microenterprises and non-technology start-ups are essentially left without a source of funding.**
- **New Development Finance Strategy**

- **Over the last years MSMEs credit conditions have improved**
- Collateral was required from 41% of SMEs applying for bank financing in 2016, albeit a decline from 49% in 2015.

Society-wide amnesties

- tax amnesty as ‘a limited-time offer by the government to a specified group of taxpayers to pay a defined amount, in exchange for forgiveness of a tax liability (including interest and penalties) relating to a previous tax period(s), as well as freedom from legal prosecution’.
- **the evidence is that amnesties do not increase long-run revenues. Rather, amnesties decrease long-run revenue**

Individual-level amnesties for voluntary disclosure

- **Serbian tax legal framework allows taxpayers to come forward and correct a mistake, inaccurate or incomplete information or to disclose information they have not reported during previous dealings with the Tax Authorities without penalty or prosecution.**
 - Although not officially recognized as voluntary disclosure policies (VDP) by the Serbian authorities and legislation, article 182 of the Law on Tax Procedure and Tax Administration allows taxpayers under specific conditions to make disclosure of a mistake or other tax information which have not been reported to the Tax Authorities in prior periods but may affect the tax position of the taxpayer.

Formalisation advice to businesses and formalisation support to businesses

- **In Serbia, several institutions provide formalisation advice and formalisation support. The National Employment Service provides informative and advisory services through their business centres network.**
 - In 2017, 18,296 persons used these services.

Direct Controls: demand-side incentives

- **Besides providing supply-side incentives to operate in the declared economy, recent years have witnessed the expansion of demand-side incentives to encourage the pu**
- **service voucher schemes allows a private user purchase of declared goods and services.**

Service voucher schemes

- SVS have various advantages, both for domestic workers and for their employers:
 - The domestic workers have access to social security benefits (pensions, health insurance, accident cover etc.);
 - These schemes are easy to join and use, both for the worker and for the employer;
 - Administrative formalities are simplified for the employer;
 - The worker is guaranteed at least the legal minimum wage;
 - The worker is certain of being properly formal, as the risk of administrative errors due to the inexperience of an individual private employer is eliminated;
 - In the case of a problem with the employment relationship or questions about the legislation, both the employee and the employer have somebody from whom they can seek advice; and
 - The schemes enable mainly low-qualified people to find formal employment.

Incentives for beginners in business

- In October the amendments to the Law on Income Tax and the Law on Contributions for Compulsory Social Insurance propose entrepreneurs to be exempted from the first two years of their establishment.
 - Start ups
 - Outcome?

Establishment of mechanism for more efficient registration of seasonal workers

- **In May 2018, the Parliament adopted the Law on simplified seasonal employment in agriculture**
- **To early to assess the Law**

Incentivise electronic payments

- in 2017 **83%** of the wage recipients in Serbia received their wages into their accounts at financial institutions

Figure 24 Wages Received into a financial institution account (% wage recipient, age 15+)



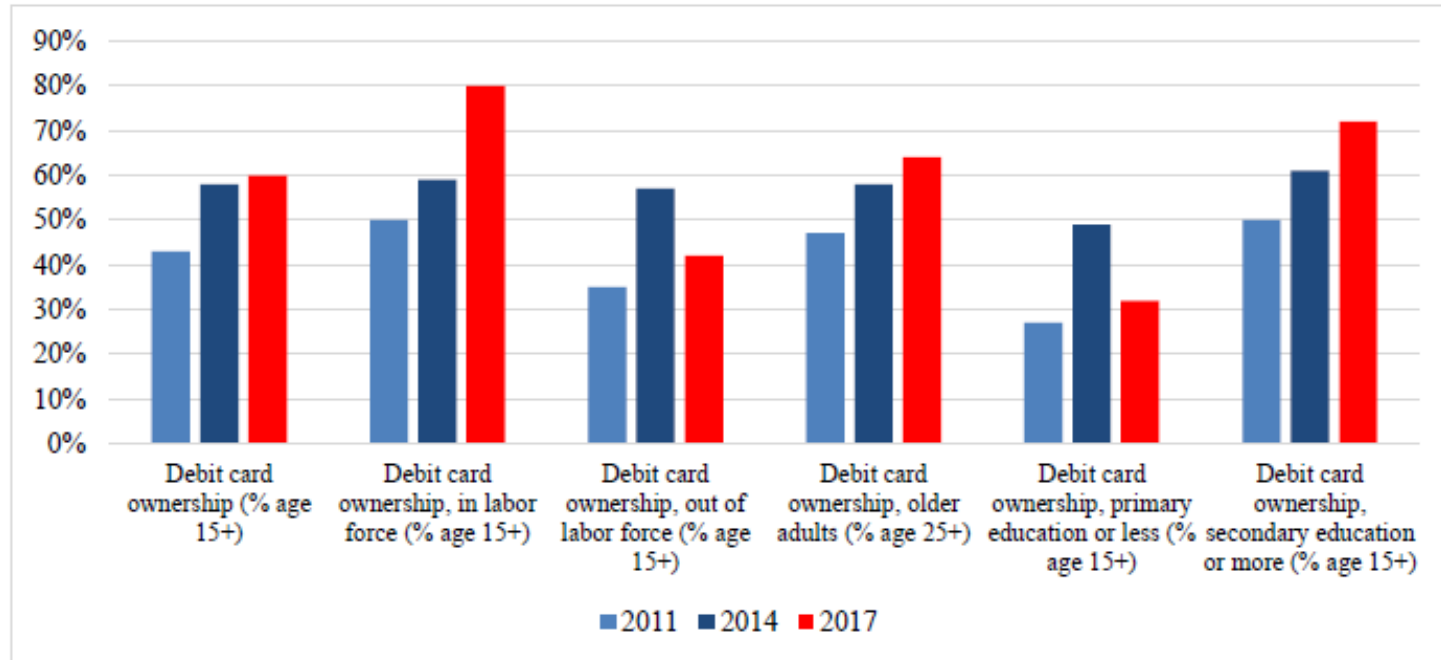
Source: World Bank Global Findex Database

Ceiling for cash transactions

- **Currently, Serbia does not have a ceiling for cash transactions for natural persons. A potential regulation introducing ceiling**
- **make electronic payment available across all sectors, especially those dominated by cash transactions such as bars and taxis.**
- **At the moment a number of professions are exempt from mandatory recording of turnover via fiscal cash register,**

- **A third option was recently introduced in Serbia. Namely, in May 2018 the Parliament has adopted the Law on Multilateral Interchange Fees and Special Operating Rules for Card-based Payment Transactions.**
- The aim of the Law was to reduce the costs of payment card acceptance and increase the number of points of sale where it's possible to pay for goods and services by a payment card.

Debit Card Ownership



Source: World Bank Global Findex Database

Indirect Controls

- **Serbia is paying an increasing attention to such indirect controls as a means of tackling the undeclared economy.**
- These measures are based on two sets of initiatives
 - **Altering informal institutions: awareness raising campaigns**
 - **lotteries and information campaign to get into the habit of asking for official receipts when shopping**

- **Next step in this direction in Serbia could be a campaign that would provide information to tax payers regarding where their taxes are being spent and how much they are contributing to which activities of government.**

Campaigns to inform undeclared workers

- **The campaign of the Ministry of Labour “Say No to Undeclared Work” emphasizes the adverse consequences of the undeclared work.**

Reforming formal institutions

- Procedural justice
- Distributive fairness
- Changing the products of formal institutions

- **Tackling the undeclared economy, therefore, is not solely about changing the penalties and risks of detection or providing incentives to work in the declared economy.**

Morality of informality

- **Tax morale in the Serbian business sector**
 - *negative evaluation of the tax authorities is associated to the lower tax morality.*
 - *Perceived tolerance*
 - *Loss makers*
 - *Belgrade*

RECOMMENDATIONS FOR TACKLING UNDECLARED WORK IN SERBIA

Report prepared by Branko Radulovic
with Colin C Williams

Policy measures to deter undeclared work

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| Recommendation 1 | Widening the spread of fines and equalizing fines in the relevant laws to ensure same treatment of cases of similar seriousness |
| Goal | To allow appropriate treatment of cases of different seriousness |
| Implementation | <ul style="list-style-type: none">to widen the spread of fines giving enforcement bodies a broader width of penalties |
| Responsible Institutions | Ministry of Public Administration and Local-Self Governance Ministry of Justice |
| Outcomes | Makes sanction system more proportionate; offences of the same seriousness are punished with the comparable sanctions; increases the predictability of the system thus having a better deterrent effect. |
| Indicators of achievement | Improved rate of proportionality of decisions by courts. |

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| Recommendation 2 | Incorporate registration of employers fined for undeclared work into BRA Registration |
| Goal | To allow the labour inspectorate, state bodies, employees, and companies to check whether an employer was penalised for undeclared work |
| Implementation | <ul style="list-style-type: none"> • To create a public register and to develop criteria for listing offenders • To list offenders for a certain period of time • To consider other implications resulting from listing on the register |
| Responsible Institutions | Business Registration Agency (SBRA) Labour Inspectorate |
| Outcomes | Increases the deterring impact and gives persons, employees and companies the opportunity to decide whether they want to do business with persons or companies listed on the register. |
| Indicators of achievement | Usage of register for due diligence purposes by public. |

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| Recommendation 3 | Normative notification letters (using data mining) |
| Goal | To improve the perceived and actual risk of detection of businesses engaged in under-declared employment |
| Implementation | Databases should be used to detect businesses perceived to be potentially engaging under-declared workers by identifying ‘outliers’ who have below average wage rates for their sector or size, or occupations employed. These ‘outliers’ should be sent friendly normative notification letters so as to ‘nudge’ them towards legitimacy. The selection of suitable cases should be done by executive personnel and be supported by selection guidelines. This should be initially implemented as a pilot study in a particular sector, industry or locality, and various kinds of notification letter should be used to evaluate which types work, and which do not. |
| Responsible Institutions | Coordination Body Labour Inspectorate and Tax Administration |
| Outcomes | <ul style="list-style-type: none"> • Businesses paying ‘envelope wages’ will be encouraged to put their affairs in order in a cost-effective manner. • Widens tax base |
| Indicators of achievement | <ul style="list-style-type: none"> • Proportion of businesses contacted that improved their compliance and reported increased wage levels. |

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| Recommendation 4 | Introduce supply chain responsibility in public procurement contracts |
| Goal | To improve the perceived and actual risk of detection of businesses engaged in undeclared work |
| Implementation | <ul style="list-style-type: none"> • Introduce into public procurement contracts awarded a clause in the contract certifying that the winning firm undertakes not to engage any undeclared workers and will put in place measures to ensure that any sub-contractors engaged will not employ undeclared workers. |
| Responsible Institutions | <p>Coordination Body</p> <p>Directorate for Public Procurement</p> |
| Outcomes | <ul style="list-style-type: none"> • If main contractors are found by the state inspectorates to have engaged undeclared workers in their supply chain, then a ban on bidding for public works contracts could be imposed for a specified period • Reduces opportunities for undeclared work. • Shifts detection of undeclared work beyond solely a state responsibility by involving private businesses in the active detection of undeclared work. |
| Indicators of achievement | <ul style="list-style-type: none"> • Pilot study introduces this clause into public procurement contracts and inspections are used to reveal if it is effective in preventing undeclared work in the supply chain. |

Incentives to formalize: supply-side policy measures

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| Recommendation 5 | Improved screening of companies that compete for public procurement contracts /'White list' of legitimate employers (not 'black list') for public procurement contracts |
| Goal | To provide supply-side incentives to engage in undeclared work |
| Implementation | All firms who wish to tender for public contracts would have to obtain a 'Clearance Certificate' by the Labour Inspectorate. This certification could be kept simple and refer to the absence of wage, tax and social insurance arrears, and sanctions imposed in recent years. |
| Responsible Institutions | Labour Inspectorate |
| Outcomes | <ul style="list-style-type: none"> • Provides an incentive and positive benefit of being compliant by rewarding those who are compliant with access to public contracts. |
| Indicators of achievement | <ul style="list-style-type: none"> • Reduction in number of businesses excluded from receiving a 'clearance certificate' |

Incentives to formalize: demand-side policy measures

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| Recommendation 6 | Decrease incentives to use cash and increase incentives to use electronic payments to reduce undeclared work |
| Goal | Incentivise consumers to purchase declared goods and services |
| Implementation | <ul style="list-style-type: none"> To discourage the use of cash and incentivise an increase in electronic payments, so as to reduce the opportunities for undeclared work, Serbia should: (1) amend the Law of performing of payments by legal entities, entrepreneurs and natural persons who are not engaged in a business activity (Official Gazette of the RoS, No. 68/2015 introducing a ceiling for cash transactions for natural persons or introducing such ceiling in selected sectors, (2) consider discouraging easy access to cash, (3) make point-of-sale (POS) terminals available across all sectors, including the mandatory acceptance of digital payments, with a subsidy for the installation of POS terminals in enterprises with an annual turnover of less than €100,000 operating in sectors with intermediate or high risk of undeclared transactions, (4) provide incentives for using cards at the point-of-sale. This might involve: <ul style="list-style-type: none"> A discount for customers of the transaction value for digital payments through POS terminals (payment cards and e-money) for the purchase of goods and services, or A refund of % discount for suppliers taking electronic payments through POS terminals for the purchase of goods and services. |
| Responsible Institutions | <p>Ministry of Finance, Ministry of Trade</p> <p>Financial institutions</p> <p>Other government departments</p> <p>Social partners</p> |
| Outcomes | <ul style="list-style-type: none"> Tax revenues could increase with the growth of the use of payment cards. Subsequently, as the electronic payment targets are met, and the use of digital payments consolidates as part of the consumer habits, incentives can be gradually withdrawn, resulting in an increase in the fiscal benefit. |
| Indicators of | <ul style="list-style-type: none"> Decreased use of cash and increased use of electronic payments. |

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| Recommendation 7 | Use service vouchers in household and personal services |
| Goal | Incentivise consumers to purchase declared goods and services |
| Implementation | <ul style="list-style-type: none"> • A pilot study of service vouchers in a particular sector (e.g., household cleaning, catering) or for specific group of employees (young people) and in a specific locality should be conducted, and evaluated in terms of its impacts on informal and formal work |
| Responsible Institutions | Ministry of Labour Other government departments Social partners |
| Outcomes | <ul style="list-style-type: none"> • Tax revenues could increase with the growth of the use of payment cards. Subsequently, as the electronic payment targets are met, and |
| | the use of digital payments consolidates as part of the consumer habits, incentives can be gradually withdrawn, resulting in an increase in the fiscal benefit. |
| Indicators of achievement | <ul style="list-style-type: none"> • Survey of pilot study to evaluate whether purchasers would have used undeclared work previously to get the work done |

Changing citizens' values, norms and beliefs

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| Recommendation 8 | Educating citizens about the tax system and tax morality |
| Goal | Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work |
| Implementation | <ul style="list-style-type: none"> • Send an annual letter to all tax payers which sets out what portion of their taxes is spent on which public goods and services. • Introduce signs such as 'your taxes are paying for this' on public construction projects (e.g., new roads), on ambulances, in doctor's waiting rooms, in hospitals and schools. This conveys a clear message to the public that their taxes are being used to pay for these public goods and services. |
| Responsible Institutions | Coordinating body Other government departments Social partners |
| Outcomes | <ul style="list-style-type: none"> • Improved citizens understanding about the relationship between paying taxes and the public goods and services received. |
| Indicators of achievement | <ul style="list-style-type: none"> • Resultant reduction in undeclared work • Greater awareness that taxes pay for public goods and services. |

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| Recommendation 9 | Educate schoolchildren and university students of the benefits of declared work |
| Goal | Change values, norms and beliefs regarding the benefits of declared work and costs of undeclared work |
| Implementation | <ul style="list-style-type: none"> • Introduce in the civic education curriculum lessons on why people pay tax, the benefits of social insurance and declared work, and the costs of undeclared work. • Introduce a national Undeclared Work-week, addressing school children and explaining the benefits of compliance and the costs of being non-compliant. • Involve sportspeople, singers or actors in order to have 'celebrity endorsement' for a large social media campaign addressed to young people on the benefits of declared work. |
| Responsible Institutions | <p>Ministry of Education in close cooperation with the Ministry of Labour and other line-ministries (Ministry of Finance/Tax Administration/Customs; Ministry of Economy, Entrepreneurship and Crafts, etc.)</p> <p>Universities</p> |
| Outcomes | <ul style="list-style-type: none"> • Improved understanding of children and students about the benefits of paying taxes and social insurance and working declared. • Resultant peer pressure on parents from children will reduce undeclared work. |
| Indicators of achievement | <ul style="list-style-type: none"> • Greater awareness of benefits of declared work and costs of undeclared work among younger people |

Reforming formal institutions

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

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| Recommendation 11 | Modernisation of management processes in bodies responsible for tackling undeclared work |
| Goal | To improve the internal process of the formal institutions involved in the fight against undeclared work |
| Rationale | <ul style="list-style-type: none"> • The LI should request its Minister after the current organisational restructuring to write formally to the European Commission Secretariat of the European Platform Tackling Undeclared Work requesting a Mutual Assistance Project in Q3/4 2019. This will entail a three-day visit from Platform experts from other Member States to help the LI think through the establishment of modern management practices via the review of various performance enablers. The outcome will be a set of recommendations for improving these performance enablers. |
| Responsible Institutions | LI European Platform Tackling Undeclared Work |
| Outcomes | <ul style="list-style-type: none"> • Improvement in the management and effectiveness of the LI |
| Indicators of achievement | <ul style="list-style-type: none"> • Mutual Assistance Project (MAP) visit by the European Platform Tackling Undeclared Work and a set of recommendations for improving performance enablers. |

Improving the involvement of social partners

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| Recommendation 12 | Introduce employer-led voluntary supply chain responsibility initiative |
| Goal | Greater involvement of social partners in the fight against undeclared work |
| Implementation | <ul style="list-style-type: none"> • In this voluntary employer-led initiative, firms in the supply-chain could be requested to show those higher in the supply chain that they comply with tax and social security obligations through external auditors and/or refer to the absence of wage, tax and social insurance arrears, and sanctions imposed in recent years. • This might be conducted as a pilot initiative by 10-15 larger employers under the auspices of their Corporate Social Responsibility (CSR) strategy. |
| Responsible | Chamber of Commerce |

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

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| Recommendation 13 | Provision of one-to-one formalisation advice and support |
| Goal | Greater involvement of social partners in the fight against undeclared work |
| Implementation | <ul style="list-style-type: none"> • Use local role models/mentors by developing a ‘buddy system’ whereby legitimate entrepreneurs buddy with younger nascent entrepreneurs to help them legitimise and provide support and advice on legitimate business development. • Technical assistance could be sought to secure EU funds for this awareness raising initiative. |
| Responsible Institutions | National Employment Service Development Agency of Serbia |
| Outcomes | <ul style="list-style-type: none"> • Enables business start-ups to do so legitimately. • Enables business operating on a partially undeclared basis to receive advice on how they can put their affairs in order. |
| Indicators of achievement | <ul style="list-style-type: none"> • Successful implementation of mentoring system for younger nascent entrepreneurs |

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| Recommendation 14 | Awareness raising campaign among business community of the benefits of declared work |
| Goal | Greater involvement of social partners in the fight against undeclared work |
| Implementation | <ul style="list-style-type: none"> • Roadshow via regional branches of Serbian Chamber of Commerce/LI • Ensure establishment of strong network for cooperation, exchange of information, full awareness about the /LI competencies vis-a-vis detection of undeclared work |
| Responsible Institutions | Chamber of Commerce LI |
| Outcomes | <ul style="list-style-type: none"> • Reducing the tolerance of undeclared work will result in lower levels of undeclared work. • The percentage engaged in undeclared work will fall. • There will be an increase in the number of reports to inspectorates. • It will widen the tax base • Increase in transparency |
| Indicators of achievement | <ul style="list-style-type: none"> • Implementation of Roadshow via regional branches of Serbian Chamber of Commerce • Number of meetings held and number of participants attending |