



Regional Cooperation Council

Western Balkan Network tackling undeclared work

**PREVENTATIVE APPROACHES
TOWARDS UNDECLARED WORK:
A LEARNING RESOURCE**

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1. Introduction

On 17th November 2020, the Western Balkan Network tackling undeclared work held an online meeting to discuss preventative approaches towards undeclared work.

Across the world, there has been recognition that rather than simply eradicate undeclared work, the goal is to transform undeclared work into declared work. This is reflected in recommendation 204 of the ILO on the transition to formality (ILO, 2015) and article 1 of Decision (EU) 2016/3441 establishing the European Platform Tackling Undeclared Work, which states “‘tackling’, in relation to undeclared work, means preventing, deterring and combating undeclared work as well as promoting the declaration of undeclared work” (European Commission, 2016).

The outcome has been a shift towards firstly, “preventing” undeclared work rather than curing it after it has happened, and secondly, “promoting” declared work rather than detecting and punishing undeclared work. By relying primarily on penalising the non-compliant and improving the probability of their detection, economies simply deal with the effects. They do not tackle the causes of undeclared work, and neither do they facilitate the shift of work from the undeclared to the declared economy (Williams, 2018a,b, 2019a,b, 2020b).

Therefore, complementing deterrence measures with preventative measures is necessary if undeclared work is to be tackled. Until now, nevertheless, there has been a limited uptake of preventative measures across economies. Firstly, this is because the primary legal mandate, competence and responsibility of enforcement authorities has been to detect and punish non-compliance, rather than prevent non-compliance from happening (although this is starting to change, especially in tax administrations who are being given responsibility for preventative initiatives to make compliance easier and more beneficial). Secondly, and importantly, the limited uptake of preventative measures is because deterrence measures are perceived to be more effective at tackling undeclared work and preventative measures viewed as a long-term approach which does not provide the “quick wins” required, and this therefore constrains the resources devoted to them. And thirdly, there has been relatively little evaluation of preventative measures, which has hindered their adoption, and little information has been made available on what works and what does not.

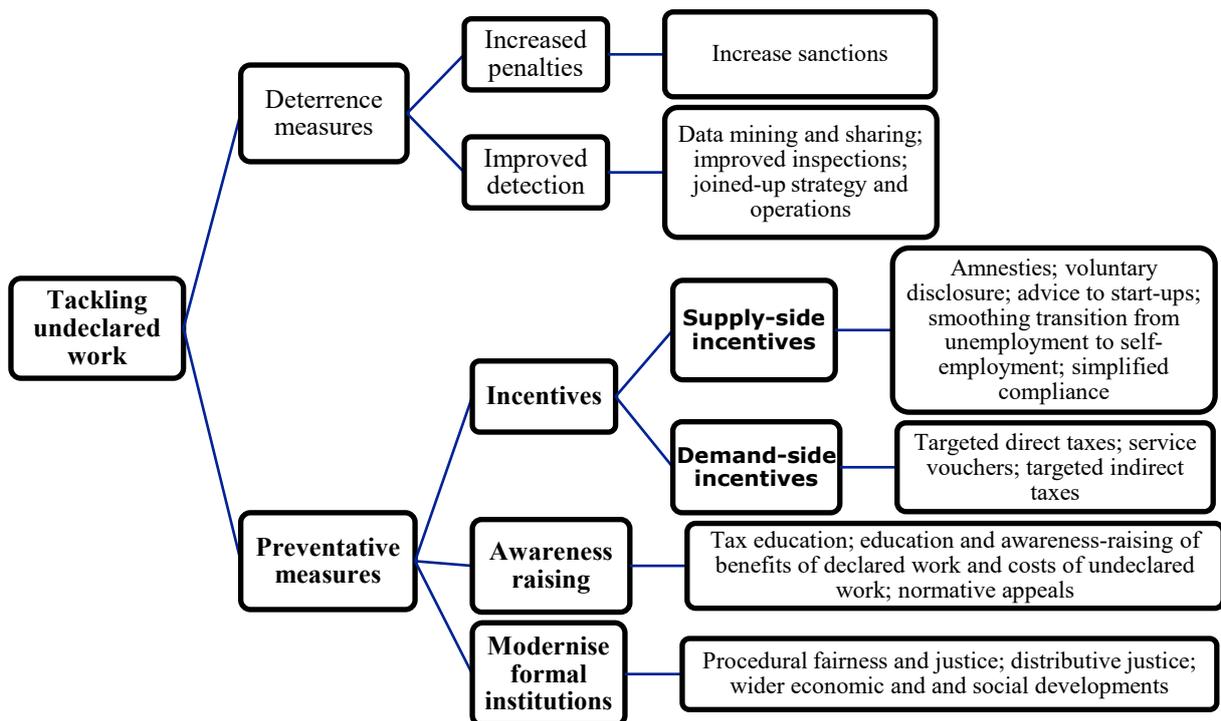
The aim of this learning resource is to document for each preventative approach: (i) the challenges experienced in introducing them; (ii) the ways forward, and (iii) examples of good practice potentially transferable to other economies both from the EU¹ and Western Balkans. To do so, section 2 introduces the four types of preventative policy measure, namely: supply-side incentives; demand-side incentives; education and awareness raising; and modernising formal institutions. Section 3 provides a review of the challenges and tips for introducing **supply-and demand-side incentives** that transform undeclared work into declared work by making the conduct of declared work beneficial and easier for employers and workers, and target purchasers of undeclared goods and services with rewards for using declared goods and services. Section 4 then evaluates the implementation of **education and awareness raising initiatives** which change citizens, workers and employers’ norms, values and beliefs regarding the acceptability of undeclared work. Section 5 reviews the fourth and final type of preventative measure focused upon the **modernisation of formal institutions**. Section 6 then discusses some **good practice examples from Western Balkan economies** and Section 7 draws conclusions and makes recommendations.

¹ To outline the challenges, ways forward and EU examples of good practice, this report draws heavily upon the European Platform tackling undeclared work report *Holistic Approach to tackling undeclared work and developing national strategies* (Williams, 2020a).

2. Types of preventative measure

When tackling undeclared work, enforcement authorities have traditionally relied on “**deterrence**” **policy measures** that increase the costs of undeclared work by raising the penalties and risks of detection (“sticks”). These seek to cure the problem of undeclared work once it has occurred. However, in recent years, a more **preventative approach** has emerged seeking to prevent undeclared work from happening in the first place. Figure 1 outlines the preventative approaches that can be used alongside the conventional deterrence policy measures.

Figure 1: Policy approaches for tackling undeclared work



This reveals that preventative measures are of four broad types:

- **Supply-side incentives** that transform undeclared work into declared work by making the conduct of declared work more beneficial and easier for employers and workers.
- **Demand-side incentives** that target purchasers of undeclared goods and services with rewards for using declared goods and services.
- **Education and awareness raising** which change norms, values and beliefs regarding the acceptability of undeclared work.
- **Modernising formal institutions** which are the cause of norms, values and beliefs not aligning with the laws and regulations. These policy initiatives seek to not only modernise governance but also address the structural economic and social conditions associated with a higher prevalence of undeclared work.

This learning resource evaluates each preventative measure in turn.

3. Supply- and demand-side incentives

Incentive measures make it easier to undertake, and reward, participation in declared work. These include:

- **Supply-side incentives** transform undeclared work into declared work by making the conduct of declared work more beneficial and easier for employers and workers), or
- **Demand-side incentives** that target purchasers of undeclared goods and services with rewards for using declared goods and services.

Box 1 provides a summary of these supply- and demand-side policy measures.

<p>Box 1. Range of supply-and demand-side incentive policy measures for tackling undeclared work</p> <p><i>Supply-side incentives</i></p> <ul style="list-style-type: none"> • Simplify compliance (e.g., easier registration procedures; simplify forms; reduce duplication) • Notification letters • Advisory inspections • Compliance (“white”) lists • Society-wide amnesties • Voluntary disclosure/regularisation schemes • “Formalisation” advice to start-ups • “Formalisation” support services to existing businesses • Direct tax incentives (e.g. exemptions, deductions) • Targeted 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 • Access to free marketing <p><i>Demand-side incentives</i></p> <ul style="list-style-type: none"> • Service vouchers • Targeted direct tax incentives (e.g. income tax reduction/subsidy) • Targeted indirect taxes (e.g. VAT reductions) • Initiatives for customers to request receipts (e.g. lottery for receipts) • ‘Black box’ cash registers

In Table 2, the challenges are documented that can be experienced by enforcement authorities seeking to introduce supply- and demand-side incentive policy measures along with how they can be overcome and examples of good practice.

Table 1. Improving the ease and benefits of engaging in declared work

Challenges	Ways forward
<ul style="list-style-type: none"> • Lack of legal mandate and/or competency in inspectorates to pursue many of the incentive measures that make it easier and more beneficial to 	<ul style="list-style-type: none"> • Conduct pilot studies in specific sectors or localities to evaluate the effectiveness of such initiatives to show their ability to transform undeclared work into declared work.

<p>engage in declared work.</p> <ul style="list-style-type: none"> • Lack of political will to pursue these measures. • Lack of understanding of the benefits of pursuing such measures. • Lack of availability of evaluations of the effectiveness of these measures in other economies to provide evidence for their implementation in one's own economy. • Lack of financial resources to develop such initiatives. 	<ul style="list-style-type: none"> • Use the results of the pilot studies to seek greater resources for the wider implementation of these preventative measures. • Undertake staff exchanges to learn from other economies about the effectiveness of such initiatives. • Use “hot topics” to promote the development of these preventative measures. • Seek out information on available European funding that might provide resources to implement preventative initiatives to tackle undeclared work.
<p>Good practice examples</p> <ul style="list-style-type: none"> • Supply-side incentives <ul style="list-style-type: none"> ○ 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 • Demand-side incentives <ul style="list-style-type: none"> ○ 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 	

4. Education and awareness raising

Indirect approaches recognise that citizens and businesses are not just rational economic actors (purely calculating the costs and benefits). They are also social actors who engage in undeclared work when formal institutional failings lead them to adopt norms and beliefs regarding participation in undeclared work that do not align with the laws and regulations, for example due to a lack of trust in the state and what it is seeking to achieve.

From this perspective, therefore, all societies have institutions which prescribe, monitor and enforce ‘rules of the game’ regarding what is socially acceptable. On the one hand, there are formal institutions (i.e. the laws and regulations) that prescribe ‘state morality’ about what is socially acceptable, and on the other hand, informal institutions (i.e. the socially shared rules, usually unwritten) which describe ‘citizen morality’.

To align them, the most common approach is to **change the norms, values and beliefs** regarding the acceptability of participating in undeclared work, so that these are in symmetry with the laws and regulations (e.g. using awareness raising campaigns and educational initiatives). Box 2 provides a summary of education and awareness raising initiatives.

Box 2. Education and awareness raising campaigns
<ul style="list-style-type: none"> • Information and advice units (e.g., advice “call centres” within enforcement authorities) • Campaigns to inform suppliers of undeclared work of the risks and costs of working undeclared • Campaigns to inform suppliers of undeclared work of the benefits of formalising their work (e.g. informing them where their taxes are spent) • Campaigns to inform users of undeclared work of the problems of purchasing goods and services from the undeclared economy • Campaigns to inform users of undeclared work of the benefits of declared work (e.g. informing citizens of the public goods and services they receive with the taxes collected) • Campaigns to improve horizontal trust in others (e.g., competing firms, other citizens) • Campaigns to improve vertical trust in government

What are the major challenges in implementing education and awareness raising campaigns? What tips and examples of good practice can those who have been more successful offer to others who have been less successful in doing so? Table 2 documents these challenges along with how they can be overcome and examples of good practice.

Table 2. Implementing education and awareness raising campaigns

Challenges	Ways forward
<ul style="list-style-type: none"> • Finding the resource to develop education and awareness raising campaigns. • Finding the staff with marketing and communications competencies. • Gaining consensus on the messages, target group, mediums/channels to be used. • Lack of political willingness to support educational and awareness raising campaigns. 	<ul style="list-style-type: none"> • Appoint staff with skills and competencies in marketing and communications. • If resources are lacking to appoint such staff, seek out from existing staff those who have a desire and some competence in the use of social media for marketing and communications purposes. • Seek out information on available funding sources that might provide financial support of preventative initiatives to tackle

Challenges	Ways forward
<ul style="list-style-type: none"> • Lack of understanding of how the effectiveness of such campaigns can be measured beyond the number of likes, impressions, etc. • Lack of resources to conduct ex-ante and ex-post evaluations of attitudes of the target group so that an evaluation of the impacts of the campaign can be measured. • Lack of resource to continue campaigns to maintain a change in attitudes. • Lack of understanding of whether a change in attitude is permanent or whether it needs continuous reinforcement to be maintained. 	<p>undeclared work.</p> <ul style="list-style-type: none"> • Conduct ex-ant and ex-post evaluations of the attitudes of the target group to evaluate the changes in attitude. Identify a control group against which the changes over time can be assessed in order to evaluate the impacts of the campaign relative to other changes over time. • Take “baby steps” in developing campaign materials, starting with small initiatives (e.g., individual messages/posts on social media) and build up to larger coordinated strategic campaigns.
<p>Good practice examples</p> <ul style="list-style-type: none"> • ‘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! (#Atkrapiēs!), 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 	

5. Modernising formal institutions

Another way of aligning civic attitudes with the laws and regulations is to **change the formal institutional imperfections** that lead to a lack of alignment between the norms, values and beliefs of the population, and the laws and regulations. This can involve either:

- *Changing the internal processes of formal institutions to improve the perception amongst citizens and businesses that there is procedural and distributive fairness and justice, to improve trust in government.* Procedural fairness refers to whether citizens and businesses receive what they perceive as procedurally fair treatment. Distributive justice refers to whether citizens and businesses receive the goods and services they believe that they justly deserve given the taxes that they pay. Procedural justice refers to whether citizens and businesses believe that the authorities treat them in a respectful, impartial and responsible manner. Being treated politely, with dignity and respect, being given a say, and having genuine respect shown for one’s rights and social status, all enhance compliant behaviour.
- *Changing the products of formal institutions.* Reviewing studies that evaluate the relationship between cross-economy variations in economic and social conditions, and cross-economy variations in the size of the undeclared economy, the same findings consistently emerge. The finding is that reducing the prevalence of undeclared work is significantly associated with: increasing GDP per capita; improving the quality of governance and reducing corruption; increasing expenditure on labour market interventions to help the most vulnerable groups; increasing social expenditure, and developing more effective social transfer systems so as to reduce the level of inequality and severe material deprivation.

Box 3 provides a summary of the full range of direct and indirect policy tools available to governments and enforcement authorities.

<p>Box 3. Initiatives to modernise formal institutions</p> <ul style="list-style-type: none"> • Improving the degree to which customers of enforcement agencies believe they have been treated in a respectful, impartial and responsible manner (e.g. some more customer-friendly initiative) • Information on the work and achievements of the enforcement authority • Information to taxpayers on how their taxes are spent • Actions to tackle wider structural economic and social determinants of undeclared work
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What are the major challenges in modernising enforcement authorities? What tips can those who have been more successful offer to others who have been less successful in doing so? Table 6 documents these challenges along with how they can be overcome and examples of good practice.

Table 3. Modernising formal institutions

Challenges	Ways forward
<ul style="list-style-type: none"> • Many of the changes required are beyond the current competence of enforcement authorities. • The fact that these changes are beyond the competence 	<ul style="list-style-type: none"> • It is useful to adopt the “rule of thumb” view (voiced in presentations by the head of the ILO Decent Work Technical Support Team for Central and Eastern Europe) that two-thirds of the prevalence of undeclared work can be tackled through macro-level changes and one-third by the actions of the enforcement authorities. This measure, even if

<p>of enforcement authorities reveals how undeclared work cannot be fully tackled unless a holistic approach is adopted coordinated by a high-level strategic body at the heart of government.</p> <ul style="list-style-type: none"> • Changing the working practices of enforcement authorities is often difficult because the standards and processes by which public servants behave are often government-wide rather than specific to an enforcement authority. • There is little recognition that the major determinants of undeclared work are structural economic and social conditions. • Changes in macro-level policies are seldom evaluated prior to implementation in terms of their impacts on the undeclared economy. • There is a widespread perception that enforcement authorities are responsible for tackling the undeclared economy when often they only have limited competencies and cannot deal with the macro-level causes of the undeclared economy. • Changing the wider macro-level conditions requires political support and is therefore more difficult to implement. 	<p>very tentative, highlights the importance of wider structural change.</p> <ul style="list-style-type: none"> • It is necessary to build political support for the structural reform(s) needed at the economy level by providing the evidence or guidance how to measure the impact of undeclared work and disseminate findings among policy makers and other state authorities to create momentum for the change. • The structural and organisational changes are difficult to introduce without this political backing. Therefore, the Network's and enforcement authorities focus should perhaps remain on practical approaches that are easier to incorporate by enforcement authorities • Much more research is required to show the impacts of improving the customer-friendliness of enforcement authorities on the prevalence of undeclared work. Until now, there is little research available to show the effectiveness of making enforcement authorities more "customer friendly". • Providing more information about available funds to support initiatives to tackle the macro-level determinants of undeclared work and the organisation reforms required to transform undeclared work into declared work would be a useful initiative • Training events to understand how procedural fairness can be introduced into enforcement authorities would be useful, namely whether citizens and businesses receive what they perceive as procedurally fair treatment. • Training events to understand how distributive justice can be introduced into enforcement authorities would be useful, namely whether citizens and businesses receive the goods and services they believe that they justly deserve given the taxes that they pay. • Training events to understand how procedural justice can be introduced into enforcement authorities would be useful, namely whether citizens and businesses believe that the authorities treat them in a respectful, impartial and responsible manner. Being treated politely, with dignity and respect, being given a say, and having genuine respect shown for one's rights and social status, all enhance compliant behaviour. Mutual learning on how enforcement authorities can help bolster this would be useful.
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6. Good practice examples in Western Balkan economies

At the webinar of the Western Balkan Network tackling undeclared work on preventative approaches towards undeclared work, five presentations were made. These provide examples of good practice in these Western Balkan economies and highlight their progress towards the adoption of preventative approaches.

6.1 Albania: progress of the Labour Inspectorate in preventing undeclared work

Mr. Arben Seferaj, General Director of the State Labour and Social Services Inspectorate of Albania (SLSSI), discussed measures to prevent undeclared work in the SLSSI. It was highlighted that inspections are conducted in order to minimise undeclared work and to transform undeclared work into declared work through:

- Inspection planning based on a risk assessment methodology with the aim to reduce undeclared work;
- Harmonisation of the types of control, depending on the situation to be improved, and
- Transparency of the analytical and statistical data of the inspection on a continuous periodic basis.

Mr. Seferaj emphasized the importance of addressing the concrete problems and issues at both the policy-making level and law enforcement level. Good planning provides concrete results in improving the undeclared labour market. Currently, SLSSI carries out planned inspections based on the “risk of informality”. This means that the inspections are carried out in business entities that have had problems with informality in the past, business entities that have not been inspected in the past, business entities with certain type of activity such as trade, services, etc. There are also seasonal inspections such as for certain activities that are specific to the summer or winter season. Moreover, there are the geographical areas which due to their specificity require operations. Mr. Seferaj presented the “penalty matrix” platform which is used and currently serves only the Labour Inspectorate. The platform analyses the data and their non-alignment with the legislation.

There are also a whole variety of preventative policy measures being used to tackle undeclared work. Currently, in addition to consultations within the planning and network e-inspections system, due to the situation, inspections with other control institutions have been intensified on measures to prevent the spread of COVID-19. This displays the shift towards not only coordinated joint operations as a result of the pandemic but also towards the provision of advisory and support services. So far, they have advised 17,000 business entities, exceeding the 5,000 annual inspections SLSSI can perform.

SLSSI is in addition continuously conducting awareness raising campaigns. These include the campaign conducted in the construction sector during 2018, one conducted during the 2019 tourist season, as well as the campaign related to the COVID-19 pandemic this year. The latter campaign is in cooperation with the ILO on the topic “Safe return to work during the COVID-19 pandemic”. SLSSI also organises round tables with representatives of employers and employees, and other stakeholders, to provide education, advice and support.

Mr. Seferaj also mentioned the information transparency through:

- Information and publications on the official website of the SII <http://inspektoriatipunes.gov.al>
- Access enabled only to employers in the Platform “Penalty Matrix”.

Mr. Seferaj emphasized that inter-institutional cooperation has significantly improved both at central and regional level. In relation to that, SLSSI carries out joint inspections with the State

Police, Tax Administration, Prosecutor's Office, etc. They also have a periodic exchange of data on business entities. Furthermore, they are addressing and exchanging information on a case-by-case basis on specific issues based on problems or evidence encountered by certain business entities that require coordination of work or delegation due to competence. SLSSI aims to improve the indicators that identify elements of undeclared work in the "Penalty Matrix" Platform, and the access to information of this platform by other institutional actors.

Mr. Seferaj concluded by stating that by increasing the quality of their information, they increase the effectiveness of their ability to prevent undeclared work.

6.2 Bosnia and Herzegovina: activities of the Tax Administration of Federation of BiH in preventing undeclared work

Ms. Lejla Mujčić, from the Tax Administration of Federation of BiH provided a presentation on the activities of the Tax Administration of the Federation of BiH in tackling undeclared work. The main objectives of the Tax Administration of Federation of BiH are:

- financial discipline
- fiscal discipline
- preventive and educational action, with the ultimate goal that taxpayers themselves report and pay taxes

The key problems that burden Tax Administration-taxpayer relations are the:

- unfavourable "business environment";
- frequent changes of the law;
- vague laws;
- non-compliance with the law, and
- lack of problem-solving mechanism - preventive action

Article 64 of the Law on Tax Administration of FBiH defines that the inspection is an "examination and determination of the exact tax liability of the taxpayer by inspectors and other employees of the Tax Administration authorized to perform inspections in accordance with the law". The competence and goal of Tax Administration of FBiH cannot be defined by a simple and straightforward description of "examining and determining the exact tax liability" because there are numerous activities and regulations whose implementation has an impact on financial and fiscal discipline.

Control of business legality, which does not aim to determine the exact tax liability, but to establish financial and fiscal discipline, creates preconditions for **preventive and educational activities** that indirectly result in achieving the primary goal of Tax Administration of FBiH, namely determining the correct tax liability.

After the selection of the taxpayer that is the subject to control, an Inspection Order is created, signed by the head of the Cantonal Tax Administration. After that, the type of control is determined and it can be either: total, partial, informative, or reassessment. The undeclared work is most often controlled through partial inspections.

The selection of taxpayers that are subject to control is made based on:

- Internal data sources:
 - TAF ADRIS application
 - NPIS; A unique system
 - ISPF
 - Information and Investigation Department

- External data sources:
 - application forms
 - petitions
 - information
 - prosecutors' order
 - FIA, SIPA, courts, etc.
 - A protocol was signed for all cantonal ministries of internal affairs on mutual cooperation.

The Tax Administration of the Federation of BiH invites the citizens to report to the Tax Administration any non-compliance with tax laws, employment of unregistered workers, non-issuance of fiscal invoices and other corrupt practices. At full discretion, the complaints can be submitted to a toll-free telephone number or an email address.

If the inspection procedure reveals that the taxpayer is operating illegally, this will be the basis for the temporary suspension of the taxpayer's business activities by sealing their business premises. Illegal business includes:

- Doing business without a license
- Non-registration of employees
- Doing business with goods whose origin is unknown
- Non-recording of turnover in accordance with tax laws
- Preventing authorised employees to carry out inspections or other legally prescribed actions in accordance with the law

Partial or so-called rapid controls are inspections that usually last one day, but depending on each individual case, they can last longer. In the process of partial controls, four segments are most often controlled, but not only those four segments, as follows:

- Approval of the competent authority
- Control of registered workers
- Control of application and payment of contributions.

If the inspectors in the inspection procedure determine that the taxpayer has committed a misdemeanour, a misdemeanour order is issued. The inspectors of the FBiH Tax Administration will take into account in the next period whether the taxpayer has previously committed misdemeanours on the same basis, and if it is determined that these are repeated misdemeanours, then a request for misdemeanour proceedings will be submitted to the competent court, where a measure of suspension of business for a certain period of time shall be requested.

The Tax Authority of FBiH continuously invites the taxpayers through the media to fulfil their legal duties. The basic and primary goal is not to punish, seal and close facilities, nor will it be in the future. The goal of the management is for every taxpayer to fulfil his/her obligations, to report and pay them voluntarily, to report every employee. Therefore, voluntary compliance is the goal.

The Tax Administration wants to be a partner to taxpayers and build transparent relationships based on applicable laws and thank all taxpayers who duly fulfil their tax obligations. Partial inspections which serve to identify undeclared workers are very often announced. But it also happens that inspections are not announced. After each inspection, a report on the activities undertaken is submitted.

Examining the outcomes of these procedures of the Tax Authority of FBiH, by 31 October, 26,541 inspections had been conducted and it was determined that there were 7,923 unregistered workers, 2,773 legal entities operated without approval, 2,042 legal entities did

not have a fiscal device installed, and 4,819 facilities were sealed due to these irregularities. Misdemeanour orders or sanctions were issued totally an amount of BAM 35,150,000.

6.3 Bosnia and Herzegovina: activities of the Tax Administration of Republic of Srpska to prevent employers' laying-off workers during the COVID-19 pandemic

Ms. Svjetlana Dragojević, Senior Associate for Registration and Reporting, Tax Administration of the Republic of Srpska, reported on the work of RS Tax Administration to prevent employers laying off workers during the COVID-19 pandemic. The work plan of the Tax Administration for the next year is being prepared. Throughout the year, the Tax Administration performs inspections of taxpayers in terms of undeclared work, undeclared employees, both during regular and special inspections. This year, there were a couple of strike inspections where only the registration of workers was controlled. One such inspection was in September, where 56 inspections were carried out and where inspectors found 15 undeclared workers.

The goal of the tax administration is not only repressive measures. The law passed last year left room for inspectors and taxpayers to correct irregularities within a certain period. During these inspections in September mentioned above, for example, a certain period was left for employers to register workers, which they did in 10 cases. Since 01.01.2010, the Tax Administration keeps records on the registration of workers (i.e., the payment of health and pension insurance) and the Tax Administration monitors whether these employers deregistered those workers immediately after the end of the control or whether they remained registered. In all cases, the workers are still registered. From time to time, inspections are repeated with the same taxpayers. During this period, more was done to ensure that workers did not lose their jobs than the control of undeclared work. One of the provisions was to mitigate the economic consequences of the COVID-19 pandemic, where the government decided to finance pension and health insurance, even to pay salaries to entrepreneurs whose registered activity is their main activity and only occupation was paying salaries. All these payments were made by the tax administration. Due to the measures taken, there is no drastic reduction in employment of declared workers during the pandemic period. Regarding undeclared work in this period, the Tax Administration worked on improving the integrated information system and a big step forward was made. The Tax Administration has completed a programme that has enabled the electronic submission of all tax returns. The goal is to make it even easier for taxpayers to fulfil their obligations. In practice, this means that taxpayers file tax returns from their workplaces or from home. This saves their time and costs and reduces queues at the tax office.

The Tax Administration of the Republika Srpska has a department for services and information to taxpayers that provides assistance in the application of tax regulations by phone, call center, e-mail, and social media networks. The website of the tax administration is updated daily, where the answers to the most frequently asked questions (FAQs) of taxpayers are published, brochures of the tax administration are published, in which are deadlines and the ways of filing tax returns are published. Taxpayers are also often informed through the public media. A couple of videos have been posted where it is shown where the money goes if someone pays taxes, what it is set aside for. That money goes for the hospitals, ambulances, to allow free medical treatment or treatment with certain co-payments. They have also made brochures available for primary and secondary schools. Although this did not happen in the current year due to the pandemic. The Tax Administration also has a risk department that compares certain parameters and analyses the risks in order to make the inspections as efficient as possible.

This department has been working with the Swedish Tax Administration for a couple of years to improve its work. The improvements can be seen in the sense that there are more and more cost-effective inspections, namely inspections where irregularities have been noticed in compliance with the tax laws themselves (i.e., reporting and paying taxes, as well as undeclared work). A wide range of preventative measures are therefore currently used and are continuously being enhanced in order to improve the transformation of undeclared work into declared work.

6.4 Montenegro: activities of the tax administration of Montenegro

Ms. Nevenka Pejović, Tax Inspector of the Tax Administration of Montenegro, showed how through their daily activities, the Tax Administration of Montenegro works on the suppression of undeclared work with the aim of raising the level of tax discipline to the highest possible level. The plan for compliance with tax regulations recognises the risk for tax discipline, non-declaring of employees to the tax authority and thus non-payment of taxes and contributions on personal income of employees. Through complete and especially through partial inspections, the control of registered workers with employers and taxpayers, who are the subject to inspection, is performed.

Emphasis is placed on the type of inspection during the summer tourist season, with taxpayers who hire a large number of people, both residents and non-residents. There are many seasonal workers during the tourist season. There are a lot of people engaged in construction and the trade sector. They encounter two types of undeclared activity, full or partial undeclared employment. The full undeclared employment refers to persons who, when performing certain activities, either independently or with employers, are not registered at all. The partial undeclared employment is when the registration is made with the tax authority, however, the calculation of taxes and contributions is on a minimum basis, while the rest is given as an undeclared cash payment (i.e., envelope wages). Under-declared employment in the form of envelope wages is difficult to detect. Nothing can be done without cooperation of the employees, without their confirmation that they receive an undeclared cash payment. They report less and less for fear of losing their jobs.

In general, partial controls are performed, where the subjects of inspection are, in addition to the registration of workers, the recording of turnover, market payments, general registration, etc. Due to the pandemic in 2020, a very small number of partial inspections were carried out. In the previous year, during the summer tourist season, 4,528 inspections were carried out. During the inspections, it was checked whether all workers were registered. Tax returns can be made electronically.

It is difficult to detect persons who are self-employed in service activities such as hairdressers, masseurs, beauticians and traders and who carry out these activities in private estates because inspectors do not have the right to control private estates. The tax administration cannot sanction them. This creates unfair competition. If the business facility is registered and regular, the tax administration can close the business facility for up to 90 days. One of the reasons why they resort to undeclared transactions are the large levies. Taxes are 9% and contributions are around 32%, so over 40% goes to the calculation basis. Levies should be reduced in order to reduce undeclared work. The government's campaign contributed to combating undeclared work through the "Be Responsible" portal, which encouraged citizens to report employers engaging in undeclared work.

6.5 North Macedonia: activities of the Labour Inspectorate in preventing undeclared work during the pandemic

Ms. Jovana Trancevska, Labour Inspectorate of North Macedonia, spoke about the approach the inspectorate uses during the pandemic, how they are doing the inspections and how they are trying to retain as many jobs as possible. At the beginning of the pandemic, North Macedonia passed a number of measures in order to protect the economy and to retain jobs. The overall objective is to retain as many jobs as possible and to reduce the number of layoffs to the minimum. The main role of the Labour Inspectorate was to check the implementation of these measures by legal entities. They were also trying to detect the unlawful layoffs. These activities will continue in the future. They will try to intensify and increase the number of inspections and to deploy all available resources of the public sector in order to ensure the compliance of legal entities and to make sure that workers' rights are respected. In all their activities they are guided by these measures and by the newly adopted legislation in order to not only protect the rights of workers but also of the employers.

This period was quite intensive for the labour inspectors. They have operated in the circumstances of the pandemic which brought major shifts in labour market supply and demand. Given that the companies faced the pandemic, that a lot of young persons are unemployed and also that young persons who migrated returned home during the pandemic, there was an increase in labour market supply that did not match demand. The objective was to increase the awareness of both workers and employers about the transition from undeclared into declared work. Beside the campaign there are brochures and leaflets with information for workers and employers about their rights but also their obligations. The benefits of declared work were highlighted.

The effect of the work of Labour Inspection shall be tested in the coming period. The inspection will intensify its work in the specific sectors including agriculture and construction. They are working with the relevant institutions on preventing undeclared work. Also they are working to establish better and more intensified mutual cooperation amongst the relevant institutions in order to educate and raise awareness so as to reduce undeclared work. They are also trying to work with relevant institutions to exchange information and data more easily. North Macedonia is more focused on prevention than on sanctions. Employers and employees are largely law-abiding.

The approach used by the Labour Inspection is first to advise and then if the breach is repeated several times, they resort to the sanctions available. They want all of their inspectors to have a unified approach. As regards human resources, they need a risk assessment analysis of reports and data base for undeclared work disaggregated by sector so they can see which legal entities have more undeclared workers detected and in which sectors, so they can then focus their inspections on specific legal entities. They need to coordinate their work with the Tax Administration.

7. Conclusions and Recommendations

The current focus of authorities in many economies remains on “deterring” undeclared work using measures that improve the probability of detection and the penalties imposed on those caught. However, this only deals with undeclared work once it has occurred. It is also important to prevent undeclared work from occurring in the first place. The aim of this learning resource has been to review firstly, the challenges facing authorities that seek to adopt a more preventative approach, secondly, to highlight some tips and ways forward for overcoming these challenges and third and finally, to draw attention to examples of good practice in both the European Union and Western Balkans.

This has revealed that although state authorities seeking to make the transition to a more preventative approach are faced with significant challenges, these are not insurmountable and various tips for overcoming them have been provided in this learning resource. So too have a plethora of good practice preventative policy measures been included. It is recommended that if there is interest in implementing any of these, then they should be first implemented as pilot initiatives in a sector or geographical area wherever feasible, to evaluate their effectiveness. After a pilot (e.g., in a locality or sector), the results can be analysed, and lessons learned. The follow-up full-scale initiative can then be adapted if necessary, using what has been learned in the pilot, to make the wider initiative even more effective.

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