

National Workshop “Tackling Informal Employment in Serbia: Current Situation and the Way Forward”

21 March 2019, Belgrade

Report

On March 21, 2019 the *Employment and Social Affairs Platform, Regional Cooperation Council* organised a national workshop on informal employment in Serbia, which brought together 23 officials from the Ministry of Labour, Labour Inspectorate, Ministry of Economy, National Employment Service, Public Policy Secretariat, Statistics Office, employers and employees’ organisation, economic experts, researchers, international organisations, etc. The purpose of this workshop was to present the findings of the diagnostic report on informal employment and to share and discuss recommendations for effectively tackling informal employment from a holistic perspective.

Introductory remarks

Ms. Vanja Ivošević, RCC Senior Expert on Skills and Mobility, informed participants about RCC, the ESAP Project and its activities on informal employment. Tackling informality is an important national priority in each Western Balkan economy, is often referred to in the national economic reform programmes and is recognized as a top priority by the EC for the region. The first step under ESAP has been to develop the comprehensive reports for each WB6 economy on the current state of affairs on informal employment and provide policy recommendations based on the holistic approach towards formalization, used by EU member states through the EU platform on undeclared work. Informal employment will be a priority topic of the second phase of ESAP Project through the establishment of a similar platform and closer linkages with the work of the EU. Similar workshops have been planned in each of WB6 economies, followed by a regional event to discuss the operationalisation of WB6 platform on informal employment, the priorities identified by respective institutions on national level and how RCC together with ILO can assist them in the concrete implementation of recommendations. Ms. Ivošević pointed out that RCC also works on Roma integration and that Roma and other vulnerable groups are heavily affected by informality. Therefore, the platform will also promote the social inclusion of vulnerable groups in relation to undeclared work.

Mr. Stevan Đurović, Head of Labour Inspectorate, recognized the value of this workshop in tackling the grey economy and informal employment. He also emphasized the importance of coordination among all relevant professional institutions which are dealing with this issue in accordance with the existing legislation. The Ministry of Labour and the Labour Inspectorate are making important efforts to improve the situation and indicators point out that the situation in Serbia has improved compared to 2017.

Mr. Dimitrije Stanković from the EU delegation to Serbia said that there is great interest in the topic of informality by the government and various national and international institutions in Serbia. He referred to the EU platform for tackling undeclared work and its work which allows different actors, including social partners and enforcement authorities such as labour inspection, tax and social security authorities to exchange information and good practices, to learn from each other, to develop knowledge and evidence, to engage in closer cross-border cooperation and joint activities. The establishment of a similar WB6 network for tackling undeclared work would be a welcome step. The Commission's last annual report from April 2018, stated that the share of undeclared work in Serbia went down. However, the development of a comprehensive approach is required in order to achieve a significant reduction, including the strengthening of the labour inspectorate's capacity. The new Serbian Economic Reform Programme 2019-2021 contains one reform measure related to this area. It is entitled "Improvement of the Effectiveness of Inspection's Oversight" and it should contribute to addressing more systematically the issue of informal employment. Obviously there is a consensus on both sides, the EU and Serbia that despite the progress in Serbia in this area in the last years, there is still more to be done.

Key presentations and discussion points

Prof. Colin Williams, RCC ESAP expert, started his presentation with the general definition of undeclared work in the EU, which is work not declared to the public authorities for tax evasion, social security evasion, or labour law violation purposes.

He dwelled on the EU platform tackling undeclared work, which serves to exchange information and good practices, learn from each other and together, develop knowledge and evidence, engage in closer cross-border cooperation and joint activities. The legislation was passed in 2016, according to which the platform adopted a holistic approach, i.e. joining-up all enforcement agencies on the level of both strategy and operations in the policy fields of labour, tax and social security law, and involving social partners. It uses the full range of direct and indirect policy measures available to enhance the power of, and trust in, authorities respectively. Direct measures are based on the premise that people engage in undeclared work only if the costs of doing so exceed the benefits. Therefore, they focus on deterring engagement in undeclared work by increasing the penalties and risks of detection and implementing stimulative measures for purchasers and suppliers of undeclared work to formalize. Indirect measures relate to action that try to reform both formal and informal institutions in order to align norms, values & beliefs of citizens with the rules and norms of formal institutions.

EU countries still use more heavily measures related to detecting and punishing of non-compliance. Improving the benefits of declared work in order to transform informal to formal work is used in some countries, while the Nordic countries use more frequently various campaigns to change their formal institutions and the perceptions of citizens. Overall, the best approach is to apply a full range of direct control (e.g., workplace inspections) to enhance the power of authorities and at the same time the indirect measures (e.g., awareness raising) to enhance trust in authorities.

Mr. Branko Radulović, RCC ESAP Expert, presented the findings of the diagnostic report on undeclared work in Serbia. The undeclared economy in Serbia has been estimated

using direct and indirect methods (estimated at 27.9% using MIMIC method in 2013, 14.9 using the "shadow economy index", and 15.4% using a survey of the business sector).

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. People enter the undeclared economy because of the basic survival reasons and not because of the social benefits. When it comes to the social acceptability of undeclared work, the attitude is a key determinant of both participation and a percentage of activity in the undeclared economy.

The first Action Plan for Implementing the National Program tackling Undeclared Work was prepared in 2016, and updated on an annual basis. A Central Coordination Body for Directing Activities for Reducing the Shadow Economy (Coordination Body) was established in 2015. There are also an expert group of the Coordination Body, managed by NALED and the Public Policy Secretariat and a Working Committee for Suppression of Undeclared Work, formed in November 2017.

Key measures of the Action Plan include:

- A reform of the tax penalty system in Serbia, introduced in 2014;
- In November 2016, the Serbian Parliament adopted amendments to the Criminal Code stipulating changes to criminal offence of tax avoidance;
- Tax Administration has introduced an ambitious Transformation Program (2015-2020) aimed to create a modern administration utilizing e-based business processes, delivering taxpayer services and modern compliance risk management. In 2018, harsher penalties for specific tax offences were introduced;
- Establishment of a Central Register of Temporary Restrictions of Rights of Entities in 2016;
- Targeting of inspections has improved, however there are no consultative visits to help businesses to move from undeclared into declared economy.

Mr. Stevan Đurović, the Head of Labour Inspectorate, informed participants about the organisation, duties and tasks of the Inspectorate. In 2018, the Inspectorate increased its activities compared to the previous year by 31% and as a result has detected 22% more unregistered legal entities. The Inspectorate is implementing both preventive and repressive measures. In 2018, out of the detected 17026 undeclared workers, around 14000 got a permanent job. Most of undeclared workers are working in the construction industry. One of the serious problems is the number of deaths at work. During last year, there were 53 deaths at work, out of which 17 were undeclared workers. The results of a national project "Say no to undeclared work" were also presented and included the provision of the Inspectorate with laptops, establishment of an info telephone line through which people can anonymously report the cases of undeclared work and awareness raising workshops.

Ms. Ljiljana Pavlović, from the Employers' Union, expressed the union's great interest to cooperate more closely with the Ministry of Labour and Labour Inspectorate. Referring to the issue of penalties, she proposed a more rigorous penalty policy, because for formal companies

the amount of the penalty is determined in accordance with the law, while for informal companies the penalty is much lower, which results in unfair competition. The penalties can be high, but the policy of shutting down companies should not be applied because this leads to job losses. A survey conducted by the Employers' Union with more than 5,000 companies and entrepreneurs recommended building partnerships among the representatives of employers, trade unions and the government on the development and implementation of the legislative framework for the reduction of the informal economy. Also, employers insist on simplifying procedures, more efficient inspections, and fighting corruption.

In the final part of the workshop **Mr. Radulović** presented the main recommendations of the report:

Policy measures to prevent the undeclared work:

- Widen the scope of fines and equalising fines in the relevant laws to ensure same treatment of cases of similar seriousness
- Incorporate registration of employers fined for undeclared work into Business Registration Agency
- Normative notification letters (using data mining)
- Introduce a supply chain responsibility in the public procurement contracts

Incentives to formalise supply-side policy measures:

- Improve screening of companies that compete for public procurement contracts/"White list" of legitimate employers (not "black list") for public procurement contracts

Incentives to formalise demand-side policy measures

- Decrease the incentives to use cash and increase the incentives to use electronic payments to reduce the undeclared work
- Use the service vouchers in households and personal services

Changing citizens' values, norms and beliefs

- Educate citizens about the tax system and tax morality
- Educate children and university students of the benefits of declared work

Reform of formal institutions

- Advanced training of labour inspectors
- Modernisation of management processes in bodies responsible for tackling the undeclared work

Improving the involvement of social partners

- Introduce the employer-led voluntary supply chain responsibility initiative
- Provision of one-to-one formalisation advice and support
- Awareness raising campaign among the business community of the benefit of declared work

Ms. Aleksandra Bojadjieva, Policy Expert. Roma Integration 2020 Project, shared with participants the Roma perspective. The issue of informal employment is very significant to Roma population, as a study, financed by the European Commission, showed that in Serbia 70% of Roma are active in informal employment. They are active in the collection of secondary raw materials, seasonal agricultural work, as sellers at open markets and women as cleaners in households. A specific program should be developed to take into account the specific characteristics of this population to see which of the recommendations made can be applied and what further would be needed to formalise their work. One of the recommendations would be a gradual transition from informal to formal work simultaneously with gradual reduction of social welfare. The recommendation is that the Action Plan and any policy for the formalisation of informal work take into account these specific characteristics and concrete measures be dedicated to Roma and some groups that are in a more unfavourable position than others.

Mr. Petar Pavlović from the Public Policy Secretariat said that a broad programme for simplifying administrative procedures is being prepared, which is an extensive and serious process that should have effects not only in terms of costs but also the ease of doing business activities.

Mr. Nand Shani, ESAP Team Leader encouraged participants to use the recommendations from the report in national actions, the implementation of which can also be supported through the ESAP Project technical assistance facility during the next phase of the project, which should start before the end of this year. The project will support the economies to develop and implement the holistic approach through the close coordination of stakeholders, improving knowledge and evidence on informality and building capacities of national institutions through mutual assistance programmes. It will support the improvement of data on informality, make sure that the labour force surveys are harmonised across the region and test interventions on what works in a particular economy to address the informality. All relevant institutions, such as Ministry of Labour, Ministry of Economy, Labour Inspectorate, Tax Authority etc. will be invited to start the mutual learning and sharing of best practices on how they tackle the informal employment. The long-term goal is to align the regional cooperation work of the future network in the Western Balkans to the EU Platform on Undeclared Work. Also, the platform could host an active regional network of experts on undeclared work.

Ms. Vanja Ivošević concluded that Serbia already has experiences that would be interesting to other economies in the region. For example, the Coordination Body which has been already established is actually the essence of the holistic approach. These kind of bodies do not exist in other economies in the region and don't meet on regular basis. The concrete support which can come through the ESAP Project can be on the implementation of some of the discussed recommendations which national stakeholders can prioritise (such as for example an analysis of the penalty system, preparation of normative letters, support to the employers to formalise work etc.). The upcoming regional meeting should be used to try to identify the concrete actions through which ESAP could assist as well as the concrete things which can be offered to other economies in the region, so the platform can have a concrete impact in the field.

N.B. This report also serves for the purpose of a duty trip report for Vanja Ivošević, Nand Shani and Sanda Topić.

Annex 1 –List of participants

No .	Full Name	Position	Institution
1.	Mr. Stevan Đurović	Head of Labour Inspectorate	Ministry of Labour, Employment, Veteran and Social Policy
2.	Ms. Maja Ilić	Head of Department for Analytical Affairs of Labour Inspectorate	Ministry of Labour, Employment, Veteran and Social Policy
3.	Ms. Danijela Stojanović	Independent Advisor, Active Employment Policy Division, Labour and Employment Sector	Ministry of Labour, Employment, Veteran and Social Policy
4.	Ms. Milana Sekulić	Advisor, Labour and Employment Sector	Ministry of Labour, Employment, Veteran and Social Policy
5.	Ms. Slavica Ninković	Manager of the Group for Improvement of Business Environment and Development of Cooperatives and Crafts, Sector for Development of Small and Medium Enterprises and Entrepreneurship	Ministry of Economy
6.	Ms. Jelena Popović	Head of Projects Planning and Implementation Department	National Employment Service
7.	Mr. Darko Marjanović	National Employment Programme Official	National Employment Service
8.	Mr. Petar Pavlović	Senior Advisor	Public Policy Secretariat
9.	Ms. Jelena Manojlović		Statistical Office
10.	Ms. Sanja Paunović	Department of Economic Affairs	Association of Independent Unions
11.	Ms. Ljiljana Pavlović	Head of Membership Sector	Association of Employers of Serbia
12.	Ms. Milica Đorđević	Director of Communications	Foreign Investors Council
13.	Mr. Sebastian Sosa	Resident Representative	International Monetary Fund
14.	Mr. Lazar Lunić	Associate for Regulatory Reform	National Alliance for Local Economic Development (NALED)
15.	Ms. Tatjana Volarev		National Alliance for Local Economic

			Development (NALED)
16.	Ms. Gorana Krstić	Expert	Faculty of Economics
17.	Mr. Dimitrije Stanković	Economic Officer	Delegation of the European Union to the Republic of Serbia
18.	Ms. Susanne Nielsen	Team Leader of Employment and Social Affairs Platform Project	International Labour Organisation
19.	Mr. Jovan Protić	National Coordinator for Serbia	International Labour Organisation
20.	Ms. Aleksandra Bojadijeva	Policy Expert, Roma Integration 2010 Project	Regional Cooperation Council
21.	Ms. Danilo Smolović	Policy Expert, Roma Integration 2010 Project	Regional Cooperation Council
22.	Ms. Vanja Ivošević	Senior Expert on Smart Growth	Regional Cooperation Council
23.	Mr. Nand Shani	Team Leader of Employment and Social Affairs Platform Project	Regional Cooperation Council
24.	Ms. Sanda Topić	Administrative Assistant, Employment and Social Affairs Platform Project	Regional Cooperation Council
25.	Mr. Colin Williams	Expert	RCC External Expert
26.	Mr. Branko Radulović	Expert	RCC External Expert