



Fostering Employers' Compliance: Strategies to Tackle Undeclared Work

**Output paper from the
plenary thematic
discussion**

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European Platform
tackling undeclared work



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1.0 Executive summary

This output report presents the outcomes of discussions held during the thematic day of the sixteenth plenary meeting of the European Platform tackling undeclared work (henceforth “the Platform”) organised in Bratislava and online on 16-17 April 2024. Evidence from the literature review has been incorporated throughout the report to substantiate the discussed findings. The sessions engaged around 90 participants, including Platform members, observers, invited experts, and ELA representatives. The discussions focused on approaches to encourage and support compliance by employers, highlighting differences between large corporations and small to medium enterprises (SMEs). Special attention was devoted to identifying the root causes of engagement with undeclared work, whether intentional or unintentional, and to exploring measures to enhance compliance from the employers’ perspective. Special emphasis was placed on vertical and horizontal trust as two primary determinants of non-compliance.

Employers may engage in undeclared work in various ways. Some operate as unregistered entities, while others conduct business partially outside the formal system while selling legal goods and services. Even among registered employers, some may not fully report their financial activities, omitting certain transactions from official records, including employee declarations. This creates challenges for regulators in monitoring all activities. Additionally, some employers pay their employees “under the table” meaning they do not fully report wages, hiding labour-related payments from authorities. Furthermore, certain registered employers may classify their employees as self-employed rather than formal employees to evade legal responsibilities such as social security contributions. Numerous scholars have distinguished between employers who intentionally do not comply with tax, social security and/or labour laws for personal gain, and employers who unintentionally fail to comply with state regulations. While intentional non-compliance involves deliberate underreporting and misclassification, unintentional non-compliance often results from complexities in tax codes, administrative procedures, and an inadequate understanding of regulations.

The latest estimates reveal that in 2019, about 11.1 % of the total labour input in the private sector across the EU went undeclared¹. Undeclared work also accounted for an average of 14.8% of the Gross Value Added (GVA) in the EU. In terms of competition, recent surveys conducted by the World Bank show that approximately one-third of firms in the EU perceive that they are up against unregistered or informal competitors.² The intensity of informal competition varies, from a maximum of 52.4 % of formal businesses in Bulgaria stating they face such competition, to a minimum of 13.7 % in Hungary. On average, around 15% of EU firms view competition from the informal sector as a significant obstacle, especially prominent among small and medium enterprises and within the service sector.

Understanding the factors driving both unintentional and intentional non-compliance is essential for promoting employer compliance and tackling undeclared work. Thematic day discussions and research have identified several determinants, as follows.

Intentional non-compliance

- **First**, the causes of intentional non-compliance related to undeclared work are connected to **positive and negative incentives**. Intentional non-compliance arises when the perceived benefits of undeclared work

¹ Extent of undeclared work in the European Union, February 2023, <https://www.ela.europa.eu/sites/default/files/2023-03/Study-on-the-extent-of-undeclared-work-in-the-EU.pdf>

² World Bank Enterprise Survey, data freely available: <https://www.enterprisesurveys.org/en/data/exploretopics/informality> (computations done by the authors to reflect EU averages).



outweigh the costs. Factors such as the perceived risk of detection during audits and the severity of fines influence this perception and, thus the associated behaviour.

- ▶ **A second** category of determinants points to the role of **information**. Intentional non-compliance can result from active information avoidance, namely not searching for information that would potentially bind one (legally or morally) to a follow-up in terms of implementing compliance actions. This is especially common in situations when acquiring information is costly (thus when financial barriers can be invoked) or when individuals prefer not to uncover unethical behaviour (thus when suspicions about a non-compliant situation are not properly clarified).
- ▶ **Thirdly**, another cause of intentional non-compliance can be traced to the novel **structure and characteristics of the business models in the platform economy**. The structure of business models in the platform economy can facilitate intentional non-compliance. The platform economy may attract individuals inclined towards intentional non-compliance, as they provide opportunities to find markets for their services more easily.
- ▶ **Fourth**, the subsequent model of social actors further hints at two other causes of undeclared work, namely those related to **attitudes and beliefs**, respectively **social norms**. **Vertical trust (trust in government and the rule of law) and horizontal trust (beliefs about the prevalence of undeclared work among peers)**, play a significant role, where negative attitudes and lack of trust can amplify intentional non-compliance.

Unintentional non-compliance

- ▶ **First, complexities in tax, social security, labour codes, and administrative procedures can contribute to confusion and errors in compliance**³. Businesses across the EU, **especially SMEs**, face significant challenges in this respect. A 2021 survey estimated that EU-27 companies spend about EUR 204 billion annually on tax compliance, with SMEs bearing a disproportionate burden.
- ▶ **Second, businesses may face limited resources**. Limited resources pose a significant challenge for SMEs, often diverting attention away from compliance priorities. Survival concerns and competing demands can unintentionally result in non-compliance. This resource scarcity may prevent businesses from investing in the necessary knowledge and expertise to comprehend legislation related to undeclared work, thereby contributing to unintentional non-compliance⁴. This is more prevalent in smaller businesses.
- ▶ **Third, frequent and rapid changes in tax, social security and labour legislation or regulatory frameworks**. This challenge is exacerbated by limited access to professional advice or support services, especially for small businesses or entrepreneurs operating on a constrained budget.⁵ As a result, unintentional non-compliance may occur.

Drawing from the causes of non-compliance identified during discussions and supported by empirical and conceptual evidence on tackling undeclared work, a range of measures are proposed below. These measures leverage best practices from across the European Union and beyond, aiming to address the root causes of undeclared work and promote employers' compliance.

For those employers who intentionally are not complying with the state regulations in terms of undeclared work, the following measures are proposed.

³ Williams and Horodnic, 2020; Franić, Horodnic, and Williams, 2023; ILO, 2019.

⁴ OECD, 2004;4 EC, 2007;4 Kamleitner et al., 2012;4 Williams and Horodnic, 2020;4 ILO, 20214.

⁵ EU/OECD, 2004

Direct Measures

- ▶ Employers often lack precise information about inspection probabilities and penalty rates. “Deterrence nudges”⁶ have proven effective in various experiments, particularly among larger employers, and in practical interventions (e.g. Greece, Sweden).
- ▶ Tailored compound interventions (TCI)⁷ have been effective in changing non-compliant behaviours. For instance, a TCI intervention in the Estonian construction sector improved tax declarations significantly.

Indirect Measures

- ▶ Effective changes in formal and informal institutions are usually difficult to achieve on short and medium-term horizons. In most cases, measures addressing such changes can shape positive intentions for compliance, but they need a consistent follow-up to translate intentions into new routines and behaviours.
- ▶ Awareness initiatives, due diligence principles, involvement of social partners and increased dialogue among stakeholders aim to foster trust and compliance, with positive results observed in the long run.
- ▶ Sector-specific dimensions of undeclared work, in agriculture, construction, or transport, require tailored approaches.

For employers who unintentionally operate within the undeclared economy, the following measures could be pursued.

▶ **Making it easier for employers to operate in the declared economy**

- ▷ Simplifying the registration process for businesses, particularly micro-businesses, and startups, by reducing paperwork, procedures, and associated costs.
- ▷ Streamlining the process for employers to register employees electronically, ensuring coverage of all employment types, including temporary and digital labour platform workers.
- ▷ Initiatives aimed at simplifying tax and social contribution payments for businesses through streamlined regulations tailored to specific business types.

▶ **Support and advice on formalisation**

- ▷ Providing tailored assistance and support to businesses aiming to formalise specific aspects of their operations, addressing the unique needs of businesses in this process.
- ▷ Implementing due diligence measures within supply chains to uphold labour law standards and human rights, with examples such as IKEA’s approach to ensuring compliance across its global supply network.

▶ **Education and awareness raising to promote voluntary compliance**

⁶ Deterrence nudges are choice architecture tools aimed at steering decisions and behaviors by leveraging principles of behavioral economics and social psychology. The “deterrence” attribute implies the intention to prevent or discourage certain behaviors (e.g. non-compliance), while the “nudges” are those gentle prompts or interventions that guide individuals in this direction (e.g. in this case by timely reminding them of the sanctions associated to non-compliance, but also of the existence and functionality of potential digital systems for automatic reporting, respectively of the potential exchange and cross-referencing of data to detect fraud and abuse).

⁷ TCIs are defined as strategies or programs designed to address complex issues by considering the multifaceted nature of those issues (e.g., multiple causes, like the rational and social actor theories for non-compliance), and by further proposing a combination of multiple solutions (e.g., education, incentives, community outreach, policy changes, etc.), integrated into a comprehensive approach. The tailored dimension refers to taking into account demographics, cultural background, personal values and preferences, and other potentially relevant characteristics.



- ▷ Conducting awareness-raising campaigns to educate entrepreneurs about the risks and costs of undeclared work, to inform potential customers, highlight the benefits of formalisation, and emphasise the advantages of formality (for both entrepreneurs and customers).

Overall, a holistic approach involving a combination of direct and indirect measures is necessary to effectively tackle undeclared work among employers in the EU. By addressing both intentional and unintentional non-compliance, policymakers and stakeholders can promote fair competition, enhance tax revenues, and uphold labour standards across EU.



2.0 Introduction

Undeclared work remains a persistent challenge in European Union economies. Fostering employers' compliance is a highly significant endeavour from multiple viewpoints.

Firstly, employers' non-compliance generates strong negative effects for the state, in the form of lower revenues to be allocated for public goods and services⁸, an increased strain on social welfare programs⁹, and heightened regulatory costs incurred by the public authorities to address non-compliance through enforcement actions and legal proceedings¹⁰.

Secondly, employers' non-compliance affects the business environment and thus the performance of compliant businesses by creating conditions of unfair competition¹¹.

Thirdly, non-compliant employers themselves are exposed to a wide range of risks bound to legal repercussions, financial penalties, and reputational damages¹².

Finally, there is the non-negligible negative impact of employers' non-compliance on workers' rights, with a variety of potential violations (e.g. restricting the right to strike, discrimination, no minimum wage, risks associated with occupational health and worker safety).¹³

This paper offers an overview of undeclared work among employers in the European Union (EU), focusing on the underlying causes of both unintentional and intentional non-compliance. Chapters 3 and 4 elaborate on factors driving non-compliance, including issues of trust in state authorities (vertical trust) and among peers (horizontal trust). Following this analysis, chapter 5 outlines various measures and policy strategies designed to promote and facilitate employer compliance. Finally, chapter 6 concludes by integrating valuable insights from workshops participants, both in terms of detailing perceptions and relevance of measures, seen from a practitioner's perspective. Through these discussions, the report seeks to highlight the most effective approaches employed by authorities to enhance compliance efforts.

⁸ Williams, 2017; Levaggi, 2007

⁹ Bergolo and Cruces, 2014; Nielsen and Smyth, 2008

¹⁰ Williams and Horodnic, 2007; Hunter and Nelson, 1995

¹¹ Williams and Bezeredi, 2018; Kosta and Williams, 2020; Aguzzi et al., 2024

¹² Gallemore et al., 2014

¹³ Koliev et al., 2021



3.0 Undeclared work among employers

Following a broad consensus found in scholarly works, undeclared work refers to monetary transactions that are intentionally and un-intentionally omitted from state declaration for taxation, social security, and/or labour law purposes, despite being legally acceptable in all other aspects (OECD, 2002¹⁴; Williams, 2004¹⁵, 2006¹⁶). Particularly within the EU, undeclared work is defined as “any paid activities that are lawful as regards their nature, but not declared to public authorities, taking into account differences in the regulatory systems of the Member States”.¹⁷ EU member states have embraced a range of definitions, with a primary focus on non-compliance with labour, tax, and/or social security legislation or regulation.¹⁸

What types of undeclared work, therefore, are commonly encountered within employers’ daily activities?

1. Unregistered employers, economic entities that operate entirely outside the system and fail to comply with state authorities. Often, these entities necessitate minimal initial capital and may operate on a familial or kinship basis.¹⁹
2. Registered employers who (i) fail to declare all their transactions, such as omitting certain economic activities or transactions from records; or (ii) engage in unregistered or under-declared employment, commonly known as ‘envelope wage’ payments to their workers. Additionally, these businesses may resort to (iii) bogus self-employment arrangements to conduct work. In the category of registered employers, scholarly literature suggests avoiding a binary distinction between declared and undeclared employers and to consider instead the degree of declared or undeclared work present in their operations.²⁰

Numerous scholars have distinguished between employers who **intentionally** do not comply with tax, social security, and labour laws for personal gain, and a significant portion of employers **who un-intentionally** fail to comply with state regulations.²¹ However, existing research on undeclared work does not provide an explicit definition of intentional and unintentional non-compliance for the supply side²² (alternatively, the situation is similar for the demand side, with few studies investigating this dichotomy as knowing and unknowing consumer purchases of undeclared goods and services).

Derived from tax research, one can postulate that **intentional non-compliance** includes various forms of “wilful misrepresentation”²³ during various stages or processes related to declaring taxes or work. **As a sub-typology of intentional non-compliance related to undeclared work among employers, we can consider all forms of deliberate practices of underreporting and misclassification.** Some of them illustrate more clearly the

¹⁴ OECD (2002). Measuring the non-observed Economy. Organisation for Economic Co-Operation and Development. Available at: <https://www.oecd.org/std/na/1963116.pdf>

¹⁵ Williams, C.C. (2004) Cash-in-Hand Work: the underground sector and the hidden economy of favours. Palgrave Macmillan, Basingstoke.

¹⁶ Williams, C.C. (2006) The Hidden Enterprise Culture: entrepreneurship in the underground economy. Cheltenham: Edward Elgar.

¹⁷ The definition can be found here:

<https://ec.europa.eu/social/main.jsp?catId=1298&langId=en#:~:text=At%20EU%20level%2C%20undeclared%20work,system%20of%20the%20Member%20States%22.>

¹⁸ 18 For the definitions used in Member States, see <http://ec.europa.eu/social/main.jsp?catId=1322&langId=en>.

¹⁹ Williams, C. (2023). Types of work in the informal economy. A Modern Guide to the Informal Economy, 96-127.

²⁰ Williams, C. (2023). Types of work in the informal economy. A Modern Guide to the Informal Economy, 96-127.

²¹ OECD. (2015). Policy Brief on Informal Entrepreneurship Entrepreneurial Activities in Europe. <https://ec.europa.eu/social/BlobServlet?docId=13791&langId=en>.

²² According to Horodnic et al. (2022) we consider that the supply side of the informal economy predominantly revolves around 3 primary manifestations: (i) unregistered employment, (ii) under-registered employment, and (iii) bogus self-employment. Within these categories we can find both employers and employees. Analogously, the demand side of the informal economy is often illustrated by the consumers who make purchases from the informal economy.

²³ Carley et al., 2010



presence of intention (e.g. unregistered firms or the absence of formal employment contracts, thus unregistered employment), while others need a more in-depth evaluation to decide about the intentional or unintentional underlying mechanism.

Subsequently, **unintentional non-compliance refers to “mistakes, math errors, forgetting, and unintentional misinterpretation or misunderstanding”**²⁴. Behavioral science investigates such errors and mistakes, emphasizing that they are not mere exceptions but are actually the outcome of various biases and heuristics that people use when making decisions. More specifically, individuals operate within the framework of bounded rationality²⁵. This means they have limited access to both external and internal information, and they also exhibit imperfect self-control. Bounded rationality suggests that individuals are only partially rational due to cognitive limitations and the constraints of the environment in which they make decisions. Consequently, people often rely on mental shortcuts and simplified *strategies*, known as heuristics, which can lead to systematic errors and biases in judgment and behavior. This body of evidence highlights the prevalence of unintentional non-compliance, indicating that many decisions are not the product of deliberate, rational choice but rather the result of these cognitive limitations. For instance, individuals may unintentionally fail to follow guidelines or regulations due to misunderstandings, lack of attention, or the overwhelming complexity of the information presented to them²⁶. Therefore, recognising the role of bounded rationality and heuristics is crucial in understanding and addressing these common decision-making errors.

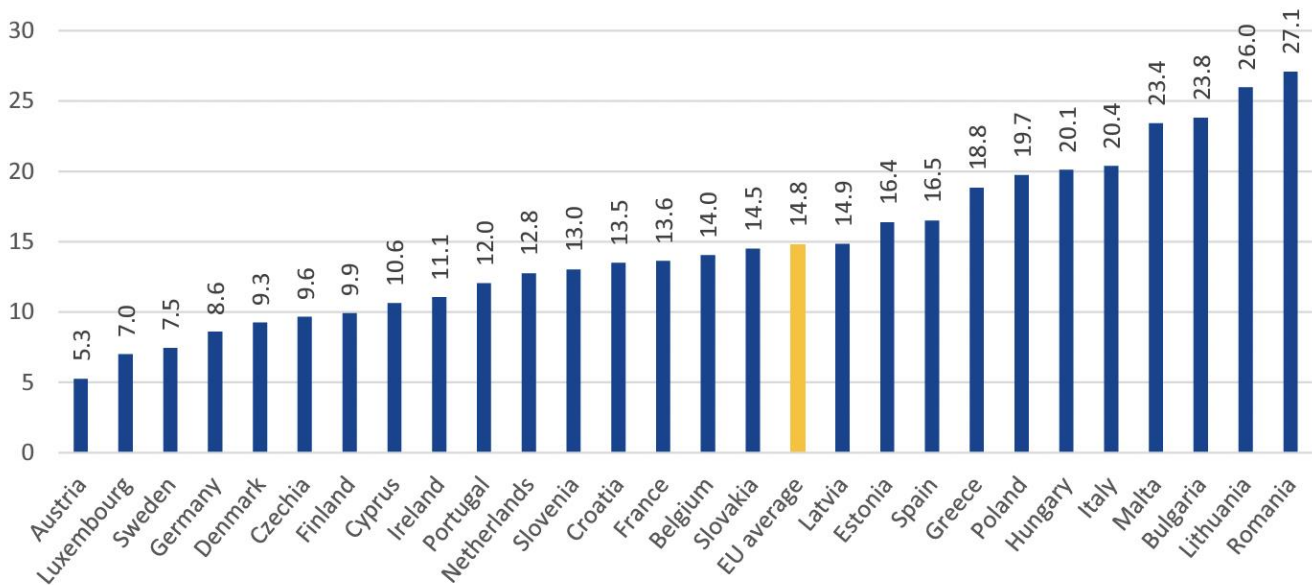
In a similar vein to the lack of conceptual clarity, the measurement of undeclared work among employers in the EU is not an explicit one (as in distinguished per category from the entire population of taxpayers). The 2019 estimation shows that 11.1 % of total labour input in the private sector in the EU is undeclared and undeclared work is on average 14.8% of the GVA, as illustrated in figure 1.

²⁴ Carley et al., 2010

²⁵ Ritsatos, 2014

²⁶ In behavioural sciences, misunderstandings occur when individuals misinterpret or fail to comprehend the information or instructions presented to them. This can result from ambiguous communication (when instructions or information are not clear and straightforward, individuals might interpret them incorrectly), complex language (use of technical or specialized language), cultural differences (cultural backgrounds can influence how information is perceived and interpreted), or cognitive load (when individuals are presented with too much information at once, they may struggle to process it correctly, leading to misunderstandings). Similarly, lack of attention refers to the inability to focus on relevant information due to distractions, cognitive overload, or other interfering factors (e.g. fatigue, multitasking). Not last, the overwhelming complexity of information occurs when the information presented is too detailed, extensive, or complicated for individuals to understand and process effectively. This can lead to confusion and errors in decision-making.

Figure 1. Undeclared work in the private sector (as percentage of total GVA)



Note: Figure for EU represents an unweighted average

Source: ELA (2023), Extent of undeclared work in the European Union (<https://www.ela.europa.eu/sites/default/files/2023-03/Study-on-the-extent-of-undeclared-work-in-the-EU.pdf>)

With a more direct link to employers, the most recent World Bank Enterprise surveys (last waves from 2019, 2020, and 2021) show that approximately one-third²⁷ of the EU firms perceive that they compete against unregistered or informal firms (with a maximum in Bulgaria – 52.4%, and a minimum of 13.7% in Hungary), and, on average, around 15% of them identify practices of competitors in the informal sector as a major constraint for their operations. Patterns for intense informal competition can be traced to small and medium enterprises, respectively to the service sector.

Other national studies, also based on survey approaches, further suggest that undeclared work practices are still salient among employers. For instance, the work of Putniņš and Sauka (2015) directly addresses owners and directors of firms, and it asks, among others, estimations about the extent of underreporting on multiple levels: under-reporting wages, under-reporting business income (net profits), and under-reporting employee numbers.²⁸ Their findings provide some country hierarchies, for the Baltics, on what constitutes the highest shares of undeclared activities: (i) first place is occupied by the use of envelope wages, with 52.2% in Estonia, 39.3% in Latvia and 42.9% in Lithuania; (ii) second place is gained by underreporting company's income, with 28.5% in Estonia, 42.7% in Latvia and 39.5% in Lithuania; (iii) lastly, third place is devoted to unregistered employees with 19.2% in Estonia, 18% in Latvia and 17.6% in Lithuania. Analogously, a partial proxy for employers' non-compliance, also comes from the informal entrepreneurship sector, with the phenomena still being highly prevalent around the world (Global Entrepreneurship Monitor 2023-2024) but also in the EU.²⁹

²⁷ World Enterprise Survey, own calculation.

²⁸ Prior research suggests that the responses of company owners/managers, even when provided indirectly, tend to mirror the perspectives of the individual respondent or the company they represent (Sauka, 2008).

²⁹ The OECD background paper provides a comprehensive overview of the participation in informal sector entrepreneurship in the 27 member states of the European Union (EU-27), based on the 2007 Eurobarometer survey no. 284. The data points to around 4% of the participants "engaging in entrepreneurial endeavour in the informal sector over the last 12 months, spending 73 hours on average in such work and earning an average €11.05/hour, producing a mean annual income from informal entrepreneurship of €806. Nearly three-quarters (73%) of this informal self-employment is conducted for closer social relations (e.g., kin, neighbours, friends, acquaintances and colleagues). Just over one-quarter (27%) is conducted for previously unknown other private persons and households".



4.0 Causes of employers' engagement in undeclared work

Numerous factors contribute to the persistence of undeclared work among employers (e.g., economic factors, financial incentives or disincentives, lack of enforcement, cultural and social norms, lack of awareness, and competitive pressures). Investigating them through the lens of intentionality offers new perspectives about the underlying mechanisms of non-compliance (e.g., as a rational or rather boundedly rational³⁰ decision). Based on this preliminary analysis, one can further identify valuable insights on how to better evaluate the non-compliance phenomenon, allowing more reflection and avoiding the pitfalls of one-size mitigation strategies.

4.1 Intentional non-compliance

The perception that errors are made intentionally in non-compliance cases dominated the literature for a couple of decades, being reflected by the extensive use of rational choice models as theoretical frameworks and the prevalence of deterrence measures as government interventions³¹. Scholars argue that **the decision to engage in undeclared work is considered a result of a cost-benefit analysis** which implies that employers proceed in this direction when the benefits of undeclared practices are perceived as being higher than the costs of being detected and punished³².

One of the most recent frameworks used to understand wage non-compliance³³ among employers suggests that employers have a lot of control even though the market and rules can be unpredictable (and thus, create uncertainty). Namely, employers have strategies and resources that allow them to manage this uncertainty better than individual employees (including through indirect influence regarding wages and working conditions). This leads to potentially significant power imbalances³⁴ between employers and employees, respectively this power allows employers to make decisions that can benefit them, sometimes at the expense of fair wages for employees. To really estimate how much employers are in charge, it is important to look at how people or groups in a workplace interact and relate to each other. For instance, if there is a strong hierarchy, decisions might come from the top with little input from lower-level employees. Analogously more transparent and accountable workplaces might have less wage non-compliance because power is more evenly distributed and decisions are more scrutinised. The presence of trade unions can be an important moderator factor in this power dynamic, namely together with social dialogue and collective bargaining it can mitigate and even prevent undeclared work.

However, examining employers' compliance behaviours and decision-making through this perspective also acknowledges that **certain non-compliance instances may not be intentional or conscious**. Employers are influenced by a variety of institutional factors, encompassing laws, state enforcement, and societal norms, within the context of product, financial, and labour markets, as well as the business structures and networks in which they operate. This approach also considers individual agency, facilitating the exploration of interests and power dynamics among actors within the firm and between the business and various external entities.

³⁰ The concept of bounded rationality, introduced by Herbert Simon, suggests that individuals do not always make optimally rational choices but instead they rely on simplified strategies. Thus, a bounded rational decision refers to the cognitive process of making choices within the constraints of limited information, cognitive abilities, and time (and further influenced by heuristics and biases). Considering these constraints, such decisions may not always align with perfect rationality or mathematical optimisation (this being the dominant model that most people use as a reference point in their assessments/evaluations).

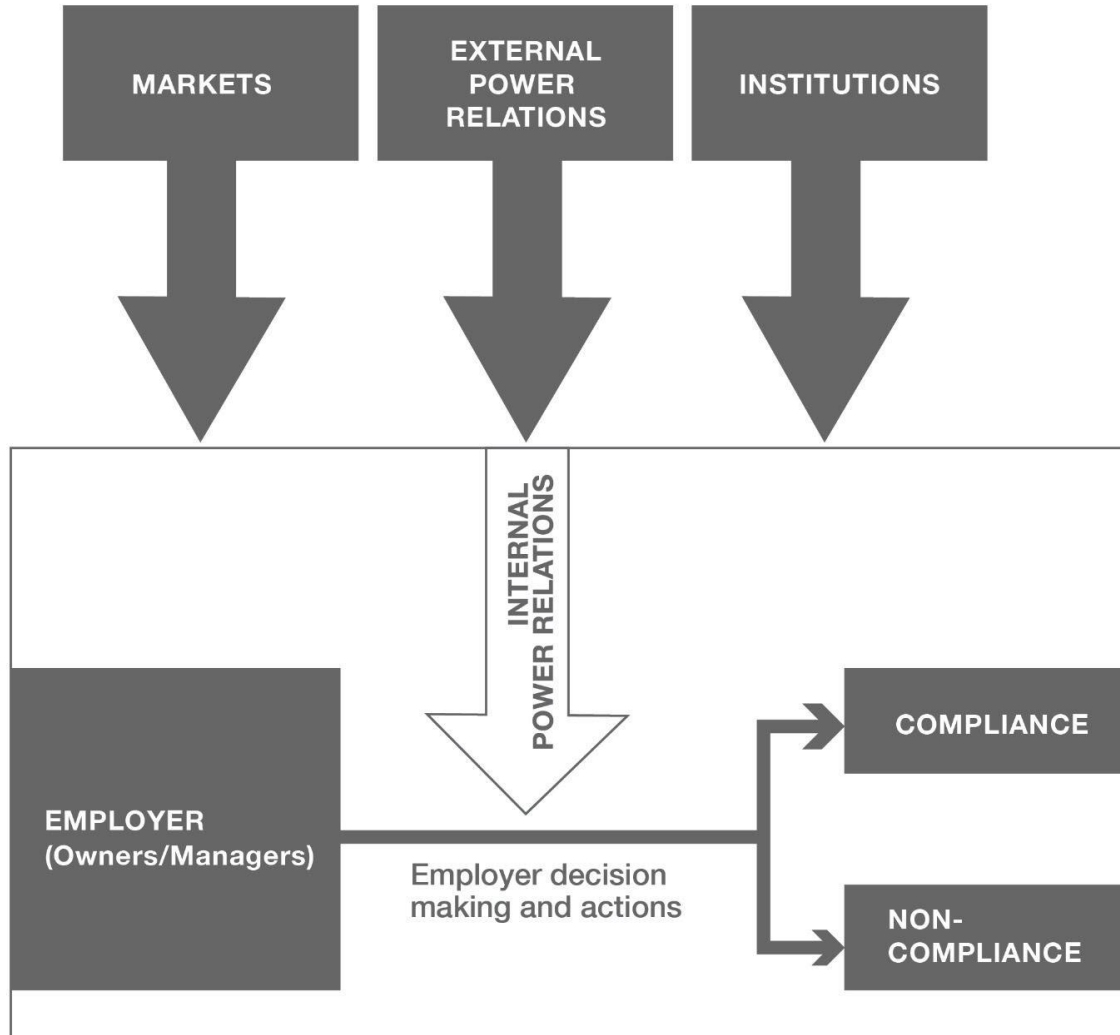
³¹ Weaver, 2014

³² Allingham and Sandmo, 1972

³³ Clibborn and Hanna-Osborne, 2023

³⁴ Clibborn, 2012; Edwards et al., 2007

Figure 2. The employer perspective on wage law non-compliance: State of the field and a framework for new understanding



Source: Clibborn, S. and Hanna-Osborne, S., 2023. The employer perspective on wage law non-compliance: State of the field and a framework for new understanding. *Industrial Relations: A Journal of Economy and Society*, 62(4), pp.411-438.

Theoretical insights, empirical evidence, and participants' discussions converge towards a few categories of factors contributing to undeclared work, as elaborated below.

First, intentional non-compliance with undeclared work often happens because of the mix of **positive and negative incentives** in the economy. When these incentives, along with the rules and enforcement, are not balanced to make the costs higher than the benefits, people tend to engage in undeclared work. Additionally, the more people see a gap between the costs and benefits, the more common and justified non-compliance becomes, both for those doing it and in the public's opinion. In simpler terms, when people think the benefits of engaging with undeclared work are greater than the risks and costs, they are more likely to do it. This perception is influenced

by how often audits and inspections happen (which shows the risk of getting caught) and how severe the fines are (which shows the level of punishment³⁵).

A **second** set of factors highlights the significance of **information** in determining undeclared work. In such instances, intentionality may be discerned particularly in cases of active information avoidance. This tendency often arises when obtaining information carries a significant cost, such as specialised expertise required for classifying workers in unique scenarios or emerging forms of work, such as those within digital platforms and the broader sharing economy framework. Individuals may consciously choose not to delve deeper into these matters to sidestep the potential revelation of unethical behaviour—a concept termed “bounded ethicality”³⁶. Consequently, intentional non-compliance by employers can be associated with a strategic decision to remain uninformed, while the non-intentional aspect may also involve information avoidance through alternative mechanisms like inattention or forgetfulness. The workshop participants acknowledged that while such practices are realistic to assume, the realities of audits and the constraints of the law leave little room for nuances: if the information is publicly available, then no excuses are accepted.

Thirdly, intentional non-compliance can also stem from the **distinctive structure and attributes of business models within the platform economy**. A recent study examining the association between undeclared work and the platform economy underscores that “collaborative platforms seem to facilitate opportunities for legitimately self-employed individuals who would intentionally engage in non-compliance to access markets for their services”³⁷. Consequently, operating within such platforms amplifies the potential financial gains, thereby linking their selection to intentional non-compliance. Practical occurrences of non-compliance within the platform economy were indirectly mentioned by the participants, mostly in relation to the legislative unclarity common around this situation.

Fourth the subsequent model of social actor suggests two additional categories of factors contributing to undeclared work, namely those related to **attitudes and beliefs**, respectively **social norms**, detailed in the following subsection.

4.1.1 Vertical trust as a key determinant of intentional non-compliance

Among the attitudes and beliefs category relevant to undeclared work, vertical trust plays a central role. Vertical trust is defined as employers’ trust in government and the rule of law. It is often measured through tax morale as the intrinsic motivation to pay taxes (often simplified by saying that paying taxes is an obligation by default). Namely, evidence shows that employers engage in intentional non-compliance when there is a lack of vertical trust, indicating that their norms, values, and beliefs are not congruent with the applicable laws and regulations. The discussions during the workshops often revolved around the idea that when employers perceive that tax revenues are utilised effectively for the business environment and that the tax administration operates with openness and transparency, they are more likely to have trust in their government and exhibit compliant behaviour.

Vertical trust illustrates an individual inclination and **horizontal trust is a social orientation**, thus they are not fully objective variables. **When individual awareness about such attitudes and norms increases on the negative spectrum (e.g. lack of trust), both dimensions of trust can act as amplifiers for intentional non-compliance.** As a development, there is more recent emphasis on the role of horizontal trust considering the interplay between descriptive norms (e.g. how are other employers behaving in terms of declaring work) and injunctive norms (e.g. what is the right thing to do)³⁸. Within this category, there is more work on measuring descriptive norms (e.g. the spread of undeclared practices among competitors) with very few surveys addressing the underlying beliefs of how one should behave to be successful on the market, especially with increasing

³⁵ Grabiner, 2000; Richardson & Sawyer, 2001

³⁶ Golman et al., 2017

³⁷ Williams et al., 2020, p.5

³⁸ Cialdini, 2003



pressures from the undeclared economy (e.g. contagion effects are most likely to happen for the fear of losing a competitive position).

4.1.2 Horizontal trust as a key determinant of intentional non-compliance

A similar tendency is observed when examining social norms and the concept of **horizontal trust**. Horizontal trust reflects peer effects, and it is defined as employers' beliefs about the spread of undeclared work among other employers, along with personally knowing other employers engaging in undeclared work. Namely, **when employers observe that a significant majority of their competitors are not complying with the formal regulations, the contention is that they also opt not to adhere to them**. This unfair competition from undeclared peers was an important point on the participants' agenda, with insights related to the formal and informal opportunities that employers have when it comes to discussing relevant practices for their businesses, similar to the information available in public tax disclosure systems (e.g. Norway, with evidence that "public disclosure of tax information increases tax compliance of those with significant latitude for tax evasion, in particular self-employed people")³⁹.

4.2 Unintentional non-compliance

During workshop discussions, it was acknowledged by participants that **micro, small, and often medium-sized enterprises face the greatest challenges in maintaining regulatory and administrative compliance**, leading to unintentional non-compliance. On the other hand, when assessing all companies that do not comply with the rules, larger companies show a higher share of voluntary non-compliance compared to SMEs. This tendency primarily stems from the fact that big corporations possess the financial and human resources necessary to strategise potential actions and can also afford legal counsel to protect themselves in case of non-compliance allegations brought forward by the state. This assertion is confirmed even by empirical findings across the European Union. The discussions paid special attention to SMEs, recognising them as the backbone of Europe's economy, accounting for 99% of all businesses in the EU. In 2023, SMEs are estimated to account for 99.8% of all enterprises in the non-financial business sector, employing approximately 88.7 million people, which represents around two-thirds of the total employment in the EU-27 non-financial business sector.⁴⁰ Literature review and all discussions developed during workshops pointed out a list of reasons listed as below that make mostly SMEs unintentionally non-compliant.

First, complexity of legislation. Both discussions during the workshops and literature affirm that **complexities within tax, social security, and labour codes, alongside administrative procedures, can cause confusion and errors**, leading to unintentional non-compliance (Williams and Horodnic, 2020;⁴¹ Franić, Horodnic and Williams, 2023;⁴² ILO, 2019).⁴³ In a 2021 survey primarily targeting SMEs across the EU-27 (including the UK), findings indicated that businesses collectively allocate approximately EUR 204 billion annually toward fulfilling tax obligations. On average, enterprises dedicate around 1.9% of their turnover each year to meet tax compliance requirements. Moreover, the survey underscores that among these obligations, data collection stands out as the

³⁹ Reck et al., 2022

⁴⁰ European Commission. (2024). Annual report on European SMEs 2023/2024. https://single-market-economy.ec.europa.eu/document/download/2bef0eda-2f75-497d-982e-c0d1cea57c0e_en?filename=Annual%20Report%20on%20European%20SMEs%202024.pdf.

⁴¹ Williams, C., & Horodnic, I. A. (2020). Horizon scanning: early warning signals of future trends in undeclared work. *European Platform Tackling Undeclared Work, Brussels, June*.

⁴² Franić, J., Horodnic, I. A., & Williams, C. C. (2023). Extent of undeclared work in the European Union.

⁴³ ILO. (2019). Extending social security to workers in the informal economy Lessons from international experience. <https://www.social-protection.org/gimi/Media.action?id=16990>.



most deterring challenge.⁴⁴ SMEs bear a disproportionately higher burden of tax compliance compared to large-scale enterprises. The research indicates that variations in national tax systems, tax administrations, and wider public administration across countries play a significant role in shaping the compliance burden.⁴⁵ Similar findings have been documented in other studies, providing additional evidence to support this conclusion (Williams and Horodnic, 2015;⁴⁶ Achim et al., 2023⁴⁷). A recent study conducted across six EU Member States (Germany, Austria, Italy, Denmark, Romania, and Greece) identified regulatory burden as one of the primary contributors to non-compliance, particularly concerning undeclared work.⁴⁸ Another piece of empirical evidence from the EU underscores the prevalence of unintentional non-compliance among genuine self-employed individuals engaged in the platform economy. Findings from the 2018 Flash Eurobarometer 467 survey reveal common challenges encountered by service providers in the EU's platform economy including unclear guidelines for legal service provision (reported by 22% of providers), complex tax payment systems (19%), perceived difficulty in legally providing services (13%), and uncertainty about employment status (9%).⁴⁹

Second, limited resources. During workshops, participants agreed that limited resources pose a significant challenge for SMEs, often diverting attention away from compliance priorities. **Survival concerns and competing demands can inadvertently result in non-compliance.** As confirmed from the literature, this resource scarcity may prevent businesses from investing in the necessary knowledge and expertise to comprehend legislation related to undeclared work, thereby contributing to unintentional non-compliance (OECD, 2004;⁵⁰ EC, 2007;⁵¹ Kamleitner et al., 2012;⁵² Williams and Horodnic, 2020;⁵³ ILO, 2021⁵⁴). This is more prevalent in smaller businesses. This is empirically confirmed in the context of the EU countries. For example, Battaglini et al. (2020) found that the increasing complexity of tax codes in advanced countries has led to the emergence of a market for tax advisors, where tax accountants may facilitate tax evasion by offering tailored counselling to taxpayers.⁵⁵

Third, frequent and rapid changes in tax, social security and labour legislation or regulatory frameworks. During the workshops, participants agreed that the instability of legislation could encourage companies to unintentionally not comply with state regulations. This challenge is exacerbated by limited access to professional advice or support services, especially for small businesses or entrepreneurs operating on a constrained budget.⁵⁶ As a result, unintentional non-compliance may occur.

⁴⁴ Di Legge, A., Ceccanti, D., Hortal Foronda, F., Németh, M., Csonka, M. . (2022). Tax compliance costs for SMEs: An update and a complement Final Report. <https://taxation-customs.ec.europa.eu/system/files/2022-12/221208%20DG%20GROW%20report%20-%202022%20Tax%20Compliance%20Costs%20SMEs.pdf>.

⁴⁵ Ibid.

⁴⁶ Williams, C. C., & Horodnic, I. A. (2015). Tackling the informal economy in Southeast Europe: an institutional approach. *Southeast European and Black Sea Studies*, 15(4), 519-539.

⁴⁷ Achim, M. V., Văidean, V. L., Borlea, S. N., & Florescu, D. R. (2023). Identifying Determinants of Informal Entrepreneurship Using Bibliometric and Cross-Country Analysis: Evidence from the European Union Countries; In *Economic and Financial Crime, Sustainability and Good Governance* (pp. 75-105). Cham: Springer International Publishing.

⁴⁸ Schneider, F., & Asllani, A. (2022). Taxation of the Informal Economy in the EU. *European Parliament, Subcommittee on tax matters (FISC)*. [https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU\(2022\)734007_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf).

⁴⁹ Flash Eurobarometer 467: The use of the collaborative economy, https://data.europa.eu/data/datasets/s2184_467_eng?locale=en.

⁵⁰ OECD, E. (2004, September). Compliance risk management: Managing and improving tax compliance. In *Forum on Tax Administration, Centre for Tax Policy and Administration*. <https://www.oecd.org/tax/administration/33818656.pdf>.

⁵¹ EUROPEIA, C. (2007). Simplified Tax Compliance Procedures for SMES. *Report from the Working Group*. Bruxelles. <https://ec.europa.eu/docsroom/documents/11376/attachments/1/translations/en/renditions/native>.

⁵² Kamleitner, B., Korunka, C., & Kirchlner, E. (2012). Tax compliance of small business owners: A review. *International Journal of Entrepreneurial Behavior & Research*, 18(3), 330-351.

⁵³ Williams, C., & Horodnic, I. A. (2020). Horizon scanning: early warning signals of future trends in undeclared work. *European Platform Tackling Undeclared Work, Brussels, June*.

⁵⁴ ILO. (2021). Extending social security to workers in the informal economy Lessons from international experience. <https://www.social-protection.org/gimi/Media.action?id=16990>.

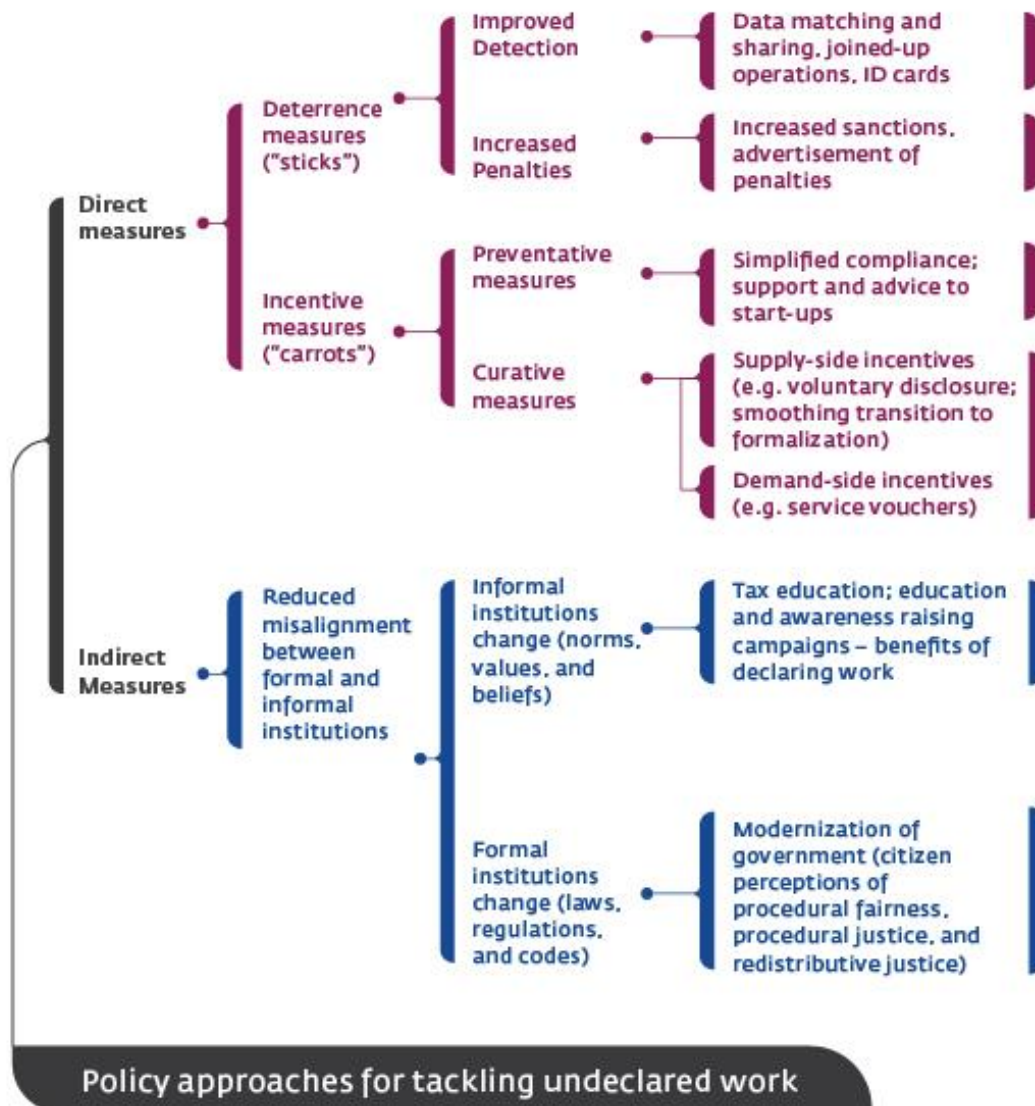
⁵⁵ Battaglini, M., Guiso, L., Lacava, C., & Patachini, E. (2020). Tax professionals and tax evasion. *NBER Working Paper No. 25745*.

⁵⁶ OECD. (2015). *Policy Brief on Informal Entrepreneurship Entrepreneurial Activities in Europe*. <https://ec.europa.eu/social/BlobServlet?docId=13791&langId=en>.

5.0 Measures and Actions to Encourage and Support Compliance – inspiring practices

While employers' non-compliance is not fully addressed in a differentiated manner in theory, the measures and actions associated with its mitigation still follow the direct and indirect measures referential framework, as illustrated in figure 2.

Figure 2. Policy approaches for tackling undeclared work



Source: Williams, C.C. (2017). Developing a holistic approach for tackling undeclared work: a learning resource. European Platform tackling undeclared work, available here: https://www.ela.europa.eu/sites/default/files/2021-09/Learning%20Resource%20from%20Holistic%20Seminar_0.pdf.



5.1 Measures to increase the compliance of those who intentionally do not comply

Intentional non-compliance is currently addressed through various combinations of measures focused on deterrence and measures focused on reducing the misalignment between formal and informal institutions⁵⁷. These measures should ideally follow preventive, curative, and/or commitment purposes⁵⁸.

5.1.1 Direct measures

There is evidence that employers may **lack exact information about the objective inspection probability they face or the specific penalty rates**. To address this information gap, a significant category of “**deterrence nudges**”⁵⁹ has been proven effective in various field experiments.

Table 1. Deterrence nudges

Deterrence nudges	Findings	Country of the field experiment and academic reference
“Did you know that if you do not pay the CVP [CVP stands for the public space conservation tax in Argentina] on time for a debt of AR\$ 1000 [Argentine Peso] you will have to disburse AR\$ 268 in arrears at the end of the year and that municipality can take administrative and legal actions?”	Compliance improved by almost 5 percentage points (by comparison to the control group).	Argentina, Castro and Scartascini (2015)
“It is important to inform you that failure to pay your tax debts is considered a voluntary action and not an involuntary error, which constitutes a violation of the taxpayer’s duties, as established in articles 253 and 254 of the Tax Code. In addition to being subject to the pecuniary penalty, according to the new Law 155-17 against Money Laundering and Terrorism Financing, failure to pay taxes can be penalised with a prison sentence”	Only this deterrence message increased the average debt paid (by comparison to messages centred on presenting the opportunity of tax amnesty, respectively messages focused on enhancing tax morale)	Dominican Republic Gil et al. (2023)

Source: Own compilation based on the academic literature.

It is important to highlight that where comparisons are possible firms respond more strongly to the treatments than individuals⁶⁰ and larger taxpayers, based on the number of employees, respond more strongly than smaller ones. This echoes the workshops participants’ views on the significant differences encountered between the compliance behaviour of SMEs and that of bigger companies.

⁵⁷ Williams & Renooy, 2009

⁵⁸ Horodnic & Williams, 2019

⁵⁹ The meta-analysis conducted by Antinyan, A., & Asatryan, Z. (2019). Nudging for tax compliance: A meta-analysis. *ZEW-Centre for European Economic Research Discussion Paper*, (19-055), shows that “deterrence nudges, which inform taxpayers about enforcement parameters, increase compliance the most, amounting to an additional 3.2 percentage points increase on top of reminders”.

⁶⁰ Gil et al., 2023



In line with this stream of literature, Box 1 describes a campaign in Greece that tested the impact of such deterrence nudges.

Box 1. Use of Risk Analysis Tools and Nudge Letters to tackle Undeclared / Underdeclared Work

The campaign was implemented by the Hellenic Labour Inspectorate (January-June 2019) by mixing objective data (e.g. through risk assessments) and behavioural insights (e.g. using deterrence nudges). Specifically aimed at employers, the campaign tackled two business sectors: food service activities and other provisions of services (e.g. hair salons, beauty centres, and well-being activities). The risk rules applied as a first selection filter were also employed to compute a risk score:

- ▶ Rule 1: If the company makes numerous hiring and firing declarations in ERGANI (the Greek database that collects information about employment flows), in a predefined timeframe (exceeds a specific percentage)
- ▶ Rule 2: If fines in relation to undeclared work, working hours, and owing employees' salary have been imposed to the company in the last 2 years
- ▶ Rule 3: If the company employs more than 20% of employees with part time job of less than 20 hours per week
- ▶ Rule 4: If the company has changed more than 20% of the contracts of its employees, converting them from full time to part time, within a pre-defined timeframe (six months)
- ▶ Rule 5: If the company makes frequent changes to the working hours of employees (exceeds a specific percentage)

Following this assessment, four type of behavioural treatments were implemented:

- ▶ Fierce nudge letter
- ▶ Gentle nudge letter
- ▶ Information Letter for an upcoming – announced inspection (Announced Inspection Letter)
- ▶ Conduction of onsite inspection, without prior employers' notice (Unannounced Inspection)

In terms of findings, strong language, reminders related to monitoring, warnings on the consequences of making false declarations, and evading responsibilities, were the elements of strong nudge letters that have proven more effective than the gentle ones. Nonetheless, the complexity of monitoring the intervention and the needed resources were mentioned as substantial challenges.

Source: <https://www.hli.gov.gr/en/campaigns/action-plan-of-the-labour-inspectorate-sepe/>.

Echoing the campaign in Greece, participants also brought up findings popularised from a similar but very recent experiment conducted in Sweden (2023), with letters drafted according to the value of the tax debt. Four types of letters were used:

- ▶ Letter 1 serves as the pure nudge letter, devoid of both normative and informational content.
- ▶ The social norm intervention adopts the descriptive 'minority norm,' which emerged as the most impactful nudge in the Randomised Controlled Trial (RCT) conducted in the UK (by the Behavioural Insight Unit team, Hallsworth et al., 2017), as reflected in Letters 2 and 4.
- ▶ Given that certain taxpayers might not grasp the full ramifications of having their debt transferred to the EA, these implications were simplified and outlined in the information treatment, presented in Letters 3 and 4.



To serve for potential replication and extensions, the exact message of the letters is presented below:

Letter 1	“Here is a reminder that you have to pay your tax debts. On the next page, you find information so that you can easily make your tax payment”.
Letter 2	“More than nine out of ten people pay their taxes on time. You belong to the minority who have not paid us yet, which is why you here get a reminder and information so that you can easily make your tax payment”.
Letter 3	<p>“Here is a reminder that you have to pay your tax debts. On the next page, you find information so that you can easily make your tax payment. Pay on time to avoid your tax debt being transferred to the EA.</p> <p>If the debt is transferred to them, you have to pay SEK 600 in addition to your taxes due. You also risk getting a payment default. Such a default remains in the registers of credit bureaus for 3 years and can make it difficult for you to, for instance, borrow money or rent an apartment.</p>
Letter 4	<p>“More than nine out of ten people pay their taxes on time. You belong to the minority who have not paid us yet, which is why you here get a reminder and information so that you can easily make your tax payment. Pay on time to ensure that your tax debt is not transferred to the EA.</p> <p>If the debt is transferred to them, you have to pay SEK 600 in addition to your taxes due. You also risk getting a payment default. Such a default remains in the registers of credit bureaus for 3 years and can make it difficult for you to, for instance, borrow money or rent an apartment.”</p>

Source: Andersson, H., Engström, P., Nordblom, K., & Wanander, S. (2023). Nudges and threats: soft versus hard incentives for tax compliance. *Economic Policy*, eiad017.

There is often the case that non-compliance cases require tailored compound interventions (e.g. integration of various strategies – deterrence, information, norms – that can realistically change non-compliant behaviours)⁶¹. While the term is complex, participants acknowledged this very practical need to approach certain situations with a mix of tools and not with a unique perspective.

One such example is the case of employer’s compliance with payroll taxes in the Estonian construction sector where a TCI intervention improved tax declarations by 5.1-6.1% (compared to not sending an e-mail).

Box 2. Tailored communication for improving employer’s compliance with payroll taxes in the Estonian construction sector

The intervention included employers in the construction industry according to the Estonian Classification of Economic Activities’ code. Further criteria were used:

- ▶ employers who, in the period of October 2017 to March 2018, had declared payments to their employees that were lower than 70% of the average in the construction industry over the same time period (based on this criterion a risk factor for tax evasion was computed).
- ▶ employers who, at the time of calculating the 70% cut-off, were audited by the Estonian Tax and Customs Boars, were excluded.

⁶¹ Vainre et al., 2020



The e-mail intervention was developed in line with strong theoretical arguments, as detailed below.

E-mail text	Primary intervention target
<p>Dear, [Full Name]! Our aim is to assure that you and other entrepreneurs in the Estonian construction sector could compete on a fair market. That is why we will now be paying more attention to undeclared payroll taxes.</p>	<p>Weaken adversarial construal of tax authority</p>
<p>We are deploying new initiatives to combat payroll tax evasion. In addition, from 10th of July we will start thoroughly auditing a random selection of companies</p>	<p>Strengthen perceived risk</p>
<p>The audits will concern entrepreneurs whose employees earn less than 70% of the industry average. Our selection may include [recipients company name]. In that case we will analyse your tax data and together with you, we will figure out whether all this year’s wages have been declared and payroll taxes paid.</p>	<p>Strengthen perceived risk</p>
<p>Implicit outcomes: If not, then we will discuss together with you whether these problems are temporary or more permanent and how can we help you so that in the future, [company name]’s pays all tax due. Explicit outcomes: If not, then you have to: (1) pay any tax unpaid; (2) pay interest on any tax unpaid; (3) pay a fine for keeping tax you owe to yourself; (4) take into account that you may have restrictions to participate in state commissioned projects.</p>	<p>Strengthen perceived risk</p>
<p>We are glad to see that evasion of payroll taxes has become steadily rarer in Estonia over the recent year – 92% of all workers in Estonia earn wages for which payroll taxes have been paid in full.</p>	<p>Weaken descriptive norm</p>
<p>Every year, Estonia loses out on 100 million euros in unpaid payroll taxes. This is the equivalent of the annual budgets of ambulance and fire services combined.</p>	<p>Strengthen collaborative construal of tax authority</p>
<p>We kindly ask that you review [company name] upcoming payroll declarations to be sure that taxes are paid in full from June onwards.</p>	<p>Given that the e-mails were sent on 29th May, the July 10th date implied that improving behaviour in the next monthly declaration might lessen the risk of auditing and punishment.</p>
<p>By doing this, you contribute to fair competition as well as maintaining crucial public services in Estonia. We thank you if you have paid your payroll taxes in full. Tax and Customs Board</p>	<p>Strengthen collaborative construal of tax authority</p>



Source: Vainre, M., Aaben, L., Paulus, A., Koppel, H., Tammsaar, H., Telve, K., Koppel, K., Beilmann, K. and Uusberg, A., 2020. Nudging towards tax compliance: A fieldwork-informed randomised controlled trial. *Journal of Behavioral Public Administration*, 3(1).

5.1.2 Indirect measures

On the indirect measures side, changes in formal and informal institutions linked with effective changes in intentional behaviours appear to be more difficult to implement.

Awareness and educational initiatives

An increase in concrete applications of the due diligence principle also belongs to the soft measures implemented to decrease intentional non-compliance. The informed examples provided during the workshops by peers working on this topic, like the Slovak Compliance Circle were received warmly, with good feedback for the practice of screening business partners.

Box 3. Slovak Compliance Circle (SCC): activities and best practices

The mission of SCC is to promote a transparent and ethical business environment in Slovakia, including advocacy for compliance in both public and private sectors. To help achieve this, they conduct a variety of activities:

- ▶ Workshops for compliance professionals to share best practices.
- ▶ Slovak Compliance Days featuring presentations and discussions on compliance topics.
- ▶ Press releases to raise awareness and initiate public discussions on compliance.
- ▶ Collaboration with universities through presentations and programs for students.
- ▶ Surveys conducted with partners to gather insights on relevant topics.
- ▶ Continuous monitoring of compliance events and trends.
- ▶ Informal gatherings for compliance professionals to network and exchange ideas.

Their projects addressing illegal work and employment are especially notable.

- ▶ Illegal work is defined as work without proper employment agreements or permits, including undeclared work.
- ▶ Consequences include fines, registration with the National Labour Inspectorate, additional payments, loss of state subsidies, and business operation restrictions.
- ▶ Liable parties include entrepreneurs, recipients of work, and intermediaries.
- ▶ Precautions involve proper contract conclusions, timely employee registration, ensuring permits for foreign workers, and thorough vetting of suppliers.

Source: SCC presentation during the event

The same appears in terms of increasing dialogue and exchanges of information between stakeholders, hopefully leading to trust as a conducive mechanism for compliance. Formal initiatives were appreciated by the participants, as it was the case of the Charter between social inspection services and employers' organisations, created in



Belgium by the Federal Government⁶². By signing this Charter in early 2018, the parties outlined the key principles of good conduct for social inspections that they agreed to follow. Employers' organisations emphasised that the roles of inspectors in prevention and providing information are just as important as their roles in enforcing control and sanctions. Thus, the Charter stands as a preventative measure designed to improve cooperation between employers' associations and inspection bodies, especially in addressing undeclared work. It has been practically implemented through training sessions that foster better mutual understanding between the parties. The signatory parties have committed to the fact that employers and inspectors will show mutual respect and professionalism towards each other and customers, respectively that inspectors will ensure the continuity of production. Employers' organisations will inform their members about their duties and the relevant legislation. Employers and the self-employed agree to cooperate and act constructively during inspections. In addition to their inspection role, social inspection services will provide support and guidance to employers, allowing them time to follow up and provide information post-inspection. Employers may be granted additional time to comply with the legislation. Social inspection services will work towards ensuring a unified and harmonised application of the law. The practical implementation of the Charter has been monitored through a perception study conducted as part of a partnership between inspection services and academic institutions. This approach aims to enhance voluntary compliance from employers and avoid costly legal proceedings for both sides.

Modernisation of government

The modernisation of government, as an indirect strategy to combat undeclared work by reforming formal institutions such as enforcement authorities, encompasses a variety of initiatives aimed at altering citizens' perceptions of being treated with respect, impartiality, and accountability. This includes efforts to enhance their perceptions of procedural fairness, procedural justice, and redistributive justice. It is recognised that such efforts are indeed both hard to operationalise and then to measure in order to illustrate their potential impact⁶³. Nonetheless, workshop participants agreed that the next crucial step is to break this down into practical actions that can be implemented within a coordinated framework. An evidence-based approach, as presented by the Netherlands Labour Authority was positively appreciated.

Box 4. Netherlands Labour Authority (NLA): Intervention toolbox and self-inspection tools

The approach of NLA is risk-based, meaning that it is selective in both supervision and interventions deployed.

- ▶ The intervention toolbox is an explicit guide to help with the process, based on the following stages:
- ▶ Select: choosing the problem/risk based on various other analytical tools – risk explorer, chain analysis, single risk matrix, multiple risk matrix.
- ▶ Understand: examine motivations, barriers and facilitators of the involved behaviours – barrier model, drivers' diagram, intervention compass, chain analysis, network analysis, target group distributor.
- ▶ Tackle: deciding on the mix of interventions to be implemented based on best practices and the intervention guide.
- ▶ Effect research: measuring the impact of the intervention, based on scientific methods and carried out by the research department.

⁶²

https://csd.eu/fileadmin/user_upload/publications_library/files/2020_01/Undeclared/UDW_Platform_Social_Partners_Stories_Nov2019.pdf

⁶³ Bornman (2015) contends that survey assessments of trust in tax administrations often exhibit limited breadth, typically relying on a small number of questions and assessing only a fraction of the trust-related factors. Consequently, she advocates for an enhanced approach to trust measurement, suggesting that it should encompass not just one dimension—such as procedural fairness, legitimacy, identification, or norms—but ideally, all these aspects.



The self-inspection tools further consolidate the modern and responsible approach, conveying the following message: “Look at your own company through the eyes of an inspector”. To this end, 4 checklists for employers are provided online, on a dedicated website:

- ▶ Decent work
- ▶ Health & Safety at work
- ▶ Hazardous substances
- ▶ Psychosocial workload.

Studies conducted in 2013, 2017, and 2021 revealed that:

- ▶ 25% of small and medium-sized companies are aware of the tools.
- ▶ 50% of the companies that are aware of the tools actually use them.
- ▶ Most users act after using the tools.

Therefore, it is recommended to intensify the promotion of these tools in 2024.

Source: NLA presentation during the event.

Further, public display of such actions is equally important to reshape or strengthen social norms among employers. For instance, Hammar, Jagers & Nordblom (2009) demonstrate that the greater the trust a taxpayer expresses in their peers, the less inclined they are to suspect them of engaging in dishonest practices. The same could be tested on representative cross-sections of employers.

A couple of examples that follow up with the recognition of **trust as being conducive to fostering employers’ compliance** are presented in boxes 5 and 6.

Box 5. Swedish Tax Agency (STA): a human approach to taxpayers

Anders Stridh and Lennart Wittberg describe in detail the transformation process of the STA, from a feared tax collector to a popular service agency. It is noteworthy that beyond achieving popularity, the STA assumes a vision towards becoming an enabling agency, by emphasising value management and changing attitudes (following the digitalisation started in 1995, and e-services reform in 2001, changing attitudes in considered an ongoing process from 2003 onwards). STA is the most popular public authority in Sweden, and it claims a significant increase in trust and good behaviour perceptions among business payers of around 20% (between 2000 and 2017).

Their stated major shift was from supplying information and paying taxes in separate processes (forms and e-services) to supplying information and paying taxes seamlessly through integration with systems in taxpayers’ own environment: “We provide services and open data which makes it possible for other actors to integrate our services into their systems and platforms”.

(https://www.hhs.se/contentassets/485cd5d477c44560b591a854c43d9ada/katrin-westling-palm_swedish-tax-authority_work-in-the-future_sse81004.pdf)

Source:

<https://www.skatteverket.se/servicelankar/otherlanguages/inenglishengelska/moreonskatteverket/reports/fromfearedtaxcollecortopopularserviceagency.4.361dc8c15312eff6fd295d4.html>



The increased tendency to work under the premises of the platform economy imposes the need for action around the appropriate classification of workers (and in general to account for the higher prevalence of non-standard workers)⁶⁴. This requalification of the employment relationship into the correct contractual relationship is approached either through traditional deterrence measures (e.g. increasing penalties and/or the probability of detection) or through better incentives (e.g., a reframing tax and benefit systems to minimise the potential tendency of employers to hire workers as self-employed). Such an example of good practice is provided in Box 4, about the digital social security accounts for platform workers in Estonia.

Box 6 Digital social security accounts for platform workers in Estonia

Context: there is still a high novelty and heterogeneity of platform work, with various legal forms to account for it and a significant lack of data on platform workers. Some legislative changes concerning platform workers were introduced in Estonia in 2017 with the aim of creating a level playing field between the taxi industry and rideshare drivers, establishing a system of permissions and mandatory insurance⁶⁵.

The entrepreneur account, established in 2019 in Estonia, presents a fresh approach by consolidating business earnings from diverse origins into a private bank account. All received income is subject to an automated flat-rate tax of 20 percent, or 40 percent for those with higher incomes, encompassing both social security contributions and income tax. Eligibility for health insurance, maternity benefits, and pensions for entrepreneur account holders is contingent upon the tax amount they have fulfilled.

Characteristics: the entrepreneur account offers a hybrid solution that functions through cooperation between state registries and bank services.

The account is considered well suited to the needs of own-account workers and small-scale entrepreneurs who operate without substantial expenses, as expenses cannot be deducted (e.g. babysitters, builders, odd-job workers, handicraft workers and hairdressers etc). In contrast, the entrepreneur account is deemed less well suited for rideshare drivers, who must bear the important expenses of fuel and car rental.

The key characteristic of the entrepreneur account is that it creates portable social security that is not tied to an employment relationship, the holder of the entrepreneur account will receive access to health insurance when the business tax they pay – as the equivalent of the social tax – is equal to or greater than the minimum amount required within a standard employment contract.

Impact: A monthly growth of 7% in the number of entrepreneur account users, with 6,908 active accounts and 129,792 transactions (EUR 17,740,087) by February 2022

The monthly value of transactions has increased from an average of EUR 350,873 a month in 2020 to EUR 819,233 a month since the beginning of 2021.

Source: Vallistu, J., 2023. Digital social security accounts for platform workers: The case of Estonia's entrepreneur account. *International Social Security Review*, 76(3), pp.3-24.

⁶⁴ Milanez & Bratta, 2019

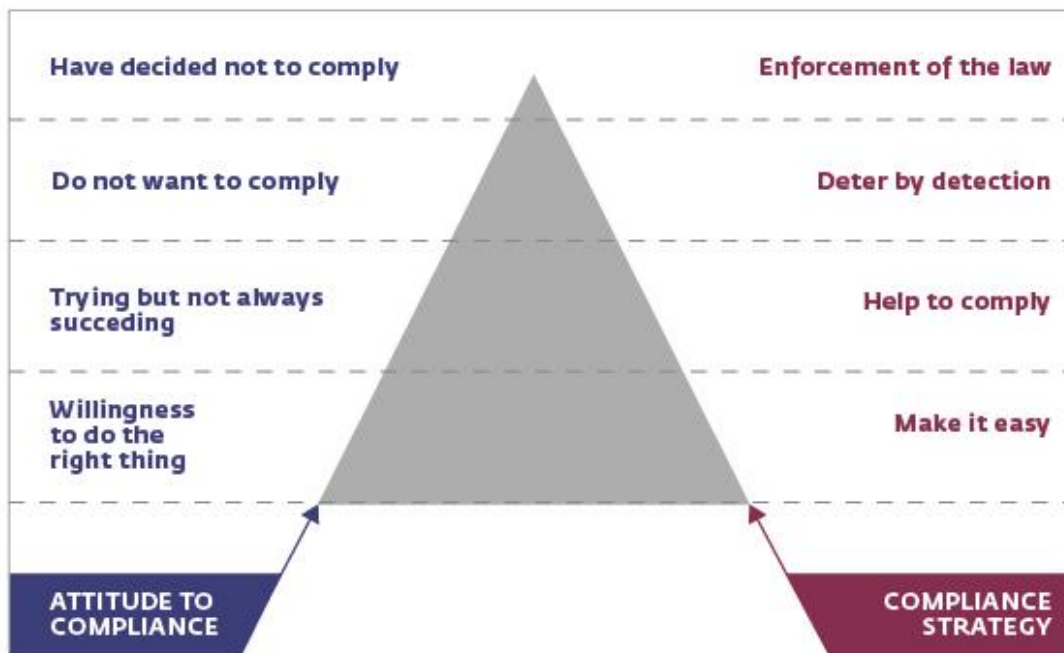
⁶⁵ Before this, the Estonian Tax and Customs Board had developed an information exchange platform enabling direct reporting of income data from ridesharing applications like Uber and Taxify (now Bolt). However, since reporting was voluntary, only 69 individuals declared their income in 2016, followed by 319 individuals in 2017.

5.2 Measures to increase the compliance of those who unintentionally do not comply

The effectiveness of proposed measures varies depending on whether employers intentionally or unintentionally do not comply, suggesting the need for tailored approaches to address each category. Thus, comprehending the determinants behind each behaviour is essential for devising appropriate measures. Developed from Braithwaite (2009),⁶⁶ the responsive regulation approach distinguishes between employers who strive to comply and are willing to operate fully within the law, but due to various determinants, unintentionally fall short of compliance.

As depicted in figure 3, the lower segment represents employers who strive to comply but fall short of full compliance. This indicates their willingness to adhere to state authorities. In such instances, state authorities should adopt a strategy focused on facilitating compliance by **(i) Making it easier for employers to operate in declared economy and (ii) Support and advice on formalisation**. To do that, the following measures are outlined as good practices that have proved effective in assisting and facilitating informal employers in their efforts to operate in the formal market.

Figure 3. The responsive regulation approach



Source: adapted from Braithwaite (2009)

ELA's "Progress of national authorities towards a holistic approach" report on the existing measures that state authorities have undertaken to implement the so-called responsive regulation approach⁶⁷. These measures are mostly for those employers who unintentionally stay undeclared. Table 2 indicates the prevalence of various

⁶⁶ Braithwaite V. (2009) *Defiance in Taxation and Governance: resisting and dismissing authority in a democracy*. Cheltenham: Edward Elgar.

⁶⁷ Williams, C., & Horodnic, I. A. (2022). Progress of national authorities towards a holistic approach: Study using a common assessment framework. *European Labour Authority*. https://www.ela.europa.eu/sites/default/files/2022-08/UDW_Study_report_on_progress%20towards%20%20holistic%20approach_2022-EN_1.pdf.



measures across different regions of Europe aimed at promoting formalisation and compliance among businesses, especially of those who unintentionally stay undeclared.

Simplifying procedures for complying with existing regulations thus making them more efficient, is highly common across all regions, with Northern Europe, Western Europe, and Southern Europe showing the highest adoption rates. Initiatives to ease the transition from unemployment into self-employment are also widely implemented, particularly in Northern and Western Europe. “Formalisation” support services to existing businesses are prevalent, especially in Northern and Western Europe. Providing “formalisation” advice to start-ups is relatively common, with higher adoption rates in Northern and Western Europe. Initiatives to ease the transition from employment to self-employment are less common across all regions, with higher rates observed in Northern and Western Europe. Providing free advice/training on record-keeping is moderately common, particularly in Western and Southern Europe. Offering free record-keeping software to businesses is the least common measure, with only Northern Europe showing a notable adoption rate. **These percentages underscore the need for state authorities to reconsider facilitating the formalisation process, particularly regarding SMEs.**

Table 2. Measures to support and facilitate the formalisation process.

Measure	All	Northern Europe	Western Europe	East-Central Europe	Southern Europe
Simplify procedures for complying to existing regulations (e.g., easier registration procedures; simplify forms; reduce duplication)	83%	100%	100%	56%	100%
Initiatives to ease transition from unemployment into self-employment	67%	83%	75%	56%	60%
“Formalisation” support services to existing businesses	63%	83%	75%	44%	60%
“Formalisation” advice to start-ups	50%	67%	75%	44%	20%
Initiatives to ease transition from employment into self-employment	42%	83%	75%	11%	20%
Provide free advice/training on record-keeping	38%	33%	50%	33%	40%
Provide free record-keeping software to businesses	8%	33%	0%	0%	0%

Source: Williams and Horodnic, 2022.



1.1.1 Making it easier to operate in the declared economy

A. Making business registration easier

As outlined earlier in the document, a significant portion of businesses operating entirely informally are actively seeking registration within the formal system. As discussed, and proposed during the event, one effective strategy to transition them from the informal to the formal market is to provide support and streamline the registration process. Best practices in this area emphasise the importance of simplifying the registration process in terms of technical requirements, timing, and associated costs.⁶⁸ Streamlining this process becomes particularly crucial when addressing micro-businesses and start-ups. As evidenced, simplifying the process by reducing unnecessary documents, procedures, and fees will significantly support start-ups in their formalisation transition.⁶⁹ However, during the discussions, participants emphasized that simplification should not result in the deregulation of existing standards. Similarly, it must not lead to adverse effects, such as making it more difficult to monitor, control, and enforce legislation due to simplified procedures.

B. Making registration of employment easier and simpler

An additional measure to promote formalisation is by simplifying the process for employers to register their employees electronically. This approach plays a vital role in adopting a data-driven strategy to integrate informal employment into the formal sector. However, a significant challenge in numerous countries is ensuring that electronic registers capture all types of employment relationships. Presently, certain forms of employment, including temporary and minor positions, as well as workers on digital labour platforms, are not adequately covered. During the event, an Italian approach to enhancing compliance and simplifying the formalization process for businesses and self-employed workers in the construction sector was presented. The key points are summarised below.

Box 7. The Points License System for Construction Sites, Italy

In Italy, a new regulatory framework known as the “Points License for Construction Sites” has been established under Article 29, paragraph 19 of the Law Decree No. 19/2024, to increase compliance and oversight in health and safety practices within the construction sector. This system, which will be effective starting October 1, 2024, aims to tackle undeclared work and enforce safety regulations more rigorously.

Under this framework, both companies and self-employed workers who wish to operate at temporary or mobile construction sites are required to obtain a Points License. This license is issued digitally by the territorial office of the Labour Office and comes with several prerequisites:

- ▶ **Registration:** Must be registered with the Chamber of Commerce for industry and handicrafts.
- ▶ **Training:** Employers, managers, supervisors, and workers must meet specific training obligations. Self-employed workers are also required to complete training as specified by the Decree.
- ▶ **Documentation:** Must possess the Single Document of Contribution Regularity, the Risk Assessment Document, and the Single Document of Fiscal Regularity.

The license is granted with an initial score of 30 points. To operate on construction sites, a minimum of 15 points is required. The license may be subject to deductions based on findings from inspections and enforcement

⁶⁸ Some examples can be found here <https://archive.doingbusiness.org/en/reforms/overview/topic/starting-a-business>.

⁶⁹ ILO. (2021). *Enterprise Formalization: Simplifying and facilitating business start-up and compliance*. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_767328.pdf.



actions for violations of the regulations. In the event of serious incidents, such as fatalities or permanent disabilities, the National Labour Office may suspend the license for up to 12 months as a precaution.

Points can be restored through additional training courses, with each course allowing for the recovery of 5 points. However, a maximum of 15 points can be regained. Operating on construction sites without a license or with a score below 15 points will result in an administrative fine ranging from EUR 6,000 to EUR 12,000 and a six-month ban from participating in public works as per Legislative Decree No. 36/2023.

Source: This example was shared during workshops from Italian Federation of Construction and Related Workers.

C. Making payment of tax and social contributions easier

Numerous initiatives strive to streamline the process for businesses to fulfil tax and social contribution obligations. Examples of simplified national regulations for specific business types aimed at facilitating tax and social contribution payments are outlined in Box 8.

Box 8. Tax Percentage Calculator & Gross Income Calculator (Veroprosenttilaskuri & Bruttopalkkalaskuri), Finland

The Finnish Tax Administration introduced two digital self-service online tools, the Tax Percentage Calculator and the Gross Income Calculator, to simplify tax-related calculations for both employers and employees. Before their introduction, manual calculations were cumbersome and prone to errors. The Tax Percentage Calculator, introduced in January 2003, and the Gross Income Calculator, introduced in June 2013. These tools aimed to decrease the administrative burden on the tax authority, reduce errors, and improve customer service by providing easy-to-use calculators.

Results:

The Tax Percentage Calculator and Gross Income Calculator have effectively met their goals by streamlining tax-related processes and enhancing the accuracy of information. They provide employers and employees with a user-friendly platform to verify tax percentages and calculate gross income, thereby reducing administrative complexities. Widely utilised by taxpayers, these calculators have notably lightened the workload for the Finnish Tax Administration while aiding taxpayers in estimating their tax liabilities accurately and submitting payments punctually. Feedback on their usage is gathered through email and telephone channels from both employers and employees, further contributing to their improvement and effectiveness.

Source: <https://ec.europa.eu/social/ajax/BlobServlet?docId=20219&langId=en>

5.2.1 Support and advice on formalisation

A. State authorities support and advice

Discussions during workshops admitted that authorities can facilitate the formalisation of employers' activities by providing assistance and support to businesses, with a particular focus on SMEs. While many countries offer general support and advice on business establishment and growth, there's often a lack of specialised guidance for businesses aiming to formalise specific aspects of their activities. Such businesses may require more customised assistance than those seeking general business development. Therefore, formalisation support services should be tailored to offer guidance tailored to the unique needs of businesses in this process. For instance, the following examples illustrate the importance of such efforts.



Box 9. “Information morning”, organised from the Labour Inspectorate, Estonia

The Labour Inspectorate in Estonia organises regular information events known as “Information Morning” to address various topics related to labour relations. These events cover a range of subjects, including entry into the workforce, necessary registrations, employer obligations, and worker rights and responsibilities. They aim to provide comprehensive guidance on the most common and challenging aspects of employment.

In preparation for targeted inspections, the Labour Inspectorate first announces the inspection context and areas of focus on its website. This proactive approach allows employers to review relevant aspects and make necessary adjustments before inspectors visit their premises. Additionally, the Labour Inspectorate offers free counselling services via phone and email. Responses to inquiries include references to the working life portal, where legislation is explained in simple terms with practical examples.

Furthermore, the Labour Inspectorate provides a working environment counselling service, enabling employers to invite counsellors to their workplaces. During these visits, counsellors assess the working environment and provide recommendations for improvements, offering practical solutions without issuing formal notices.

Through these initiatives, the Labour Inspectorate tries to promote compliance with labour legislation, foster a healthy working environment, and support employers and workers in addressing the complexities of labour relations effectively.

Source: Information shared during workshops from Labour Inspectorate of Estonia.

Box 10. ‘Infoline’ – operated by the Information and Customer Services Unit (ICS) at the Workplace Relations Commission (WRC), Ireland

The Workplace Relations Commission (WRC) aims to lead globally in providing a user-friendly, independent, and effective workplace relations service, emphasising timely redress and cost reduction for both employees and businesses. Among its services, the Information and Customer Services (ICS) Unit operates an Infoline to offer information on employment rights and entitlements. The WRC Infoline has been active since October 1, 2015, with the following objectives:

- ▶ Provide employers, employees, and the public with essential information to uphold high standards of compliance with employment rights and industrial relations laws.
- ▶ Offer individualised information on employment rights, industrial relations, and redress mechanisms.
- ▶ Deliver clear, accurate, and relevant information in a friendly and professional manner.
- ▶ Provide guidance on redress options for individuals facing discrimination by service providers.
- ▶ Offer assistance on employment permits and application procedures.

Results:

According to a 2017 user survey conducted by the WRC, including its call centre services, the Infoline has been rated highly successful. Among surveyed callers, 91% expressed overall satisfaction with the service.



Additionally, 92% indicated their likelihood of using the service again in the future, citing its usefulness and recommending it to others.

Source: <https://ec.europa.eu/social/BlobServlet?docId=20301&langId=en>

Box 11. Special prevention program “the first inspection”, Polish Labour Inspectorate

About the program

In Poland, the State Labor Inspectorate has introduced a special prevention program called the “First Inspection”, designed specifically for companies which have never been inspected yet, usually to some start-up companies and companies that are new to the market. This program aimed to guide these businesses through the process of regulatory compliance with a focus on support rather than punishment. In 2022, the “First Inspection” program focused on newly established micro-enterprises (with up to 19 employees) and small businesses (with 10-49 employees) that had been operational for no more than three years and had not yet undergone an inspection. During this year, inspectors conducted 1,753 of these initial inspections. The majority of these inspections were conducted in businesses categorised under trade and repair (33%), industrial processing (15%), and construction (14%) sectors. Micro-enterprises were the most common, comprising 77% of the inspected entities. In total, over 15,700 employees were working in the audited companies, with more than 9,700 (62%) employed under formal employment contracts.

How it works

Inspectors from the Labor Inspectorate schedule a comprehensive visit to the company’s premises. This initial inspection is thorough, covering every facet of the business, including labor laws, occupational health and safety, and other critical areas.

The essence of the “First Inspection” is to offer guidance rather than impose immediate penalties. Inspectors approach the inspection with a supportive mindset, aiming to educate the company about compliance requirements rather than merely identifying faults. They provide detailed advice and distribute helpful resources to assist the company in understanding and adhering to regulations. During this visit, if the inspectors discover significant violations, they issue warnings and sometimes fines. Inspectors also supply a checklist of necessary corrections along with a deadline for addressing these shortcomings. Additionally, the program includes an invitation to various training events organised by the Labor Inspectorate. These events are designed to further educate businesses on compliance and best practices.

After the initial inspection, companies are given time to make the required adjustments. The Labor Inspectorate schedules a follow-up visit to ensure that all identified issues have been addressed. This second visit is a chance to verify compliance and offer further support if needed.

By focusing on education and support, the “First Inspection” program builds a foundation of trust between businesses and regulatory authorities, fostering a positive environment for compliance from the very beginning.

Source: Information shared during workshops from Labour Inspectorate of Poland.

B. Employers support and advice along the supply chain

The concept of due diligence serves as a pivotal aspect of addressing undeclared work, particularly within supply chains, and is integral to upholding labour law standards and human rights. It encompasses how businesses identify, manage, and communicate risks, both internally generated and encountered through strategic and operational decisions. Recently, the European Commission introduced regulations mandating companies to



uphold human rights and environmental standards across global value chains. The proposed Directive on corporate sustainability due diligence seeks to promote sustainable and responsible corporate conduct throughout global value chains.⁷⁰ ELA has increasingly provided attention to this topic as a soft measure to tackle undeclared work.⁷¹

Voluntary due diligence initiatives already exist within companies, particularly in relation to their supply chains. Due diligence in supply chains also acts as a form of “private” control measure, where the contractor can enhance compliance throughout the supply chain by conducting regular monitoring and encouraging adherence to standards. One such example is the approach adopted by IKEA, which prioritises due diligence in ensuring compliance with labour standards and human rights across its global supply network.

Box 12. IWAY – the IKEA supplier code of conduct

The IWAY Supplier Code of Conduct, implemented by IKEA, serves as a comprehensive framework for responsibly sourcing products, services, and materials. It encompasses environmental, social, and working conditions, as well as animal welfare, and is mandatory for all suppliers and service providers collaborating with IKEA. The IWAY Standard, consisting of various sections tailored to specific supplier operations, ensures uniform sustainability practices across IKEA’s value chain.⁷²

Key components of the IWAY Standard include the General Section applicable to all business partners, along with specialised sections such as Accommodation, Animal Welfare, Digital Platform Work, Forest Materials, and Transport. These sections address employee rights and business practices throughout IKEA’s supply chain, including provisions for workers engaged in digital platform services.

The Digital Platform Work section emphasises decent and meaningful work for platform workers in IKEA’s value chain. It promotes dialogue on social and working conditions, children’s protection, worker freedom, association rights, recruitment practices, equality, working hours, wages, and competence development.

Suppliers engage in continuous improvement efforts under the IWAY implementation journey, aiming to enhance effectiveness and efficiency. They may progress to meet the requirements of IWAY Advanced or IWAY Excellent standards. **IKEA teams worldwide support suppliers by providing training, facilitating peer learning, and implementing capacity-building projects.**

Compliance verification is integral to ensuring adherence to IWAY standards. IKEA employs its teams of approved auditors, supplemented by independent third-party audits, to assess supplier compliance and drive continuous improvement efforts. Verification activities, including auditing, help evaluate the positive impacts achieved through IWAY implementation, reinforcing IKEA’s commitment to responsible sourcing practices.

Source: https://www.ikea.com/global/en/images/iway_standard_digital_platform_work_section_6_0_36e4dbc98b.pdf

Enhancing compliance requires a holistic approach with well-coordinated efforts from all stakeholders. International organisations, such as the International Organisation for Migration (IOM), play a crucial role in supporting labor mobility and protecting migrants’ rights. During workshops, an IOM representative shared programs designed to encourage and support employer compliance. Two of these programs are described in the following table.

Box 13. IOM’s IRIS and CREST Initiatives

⁷⁰ Retrieved from <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022PC0071>

⁷¹ ELA (2022). Tackling undeclared work in supply chains Learning Resource Paper Seminar - 20 September 2022. <https://www.ela.europa.eu/sites/default/files/2023-03/Tackling-undeclared-work-in-supply-chains.pdf>

⁷² <https://www.ikea.com/global/en/our-business/how-we-work/iway-our-supplier-code-of-conduct/>



The International Organisation for Migration (IOM) is actively promoting compliance among employers through two key approaches: providing information (counselling and advice) and enhancing capacity building and awareness. Two prominent IOM programs that aid employers and other stakeholders in achieving compliance are IRIS Ethical Recruitment and Corporate Responsibility in Eliminating Slavery and Trafficking (CREST).

IRIS Ethical Recruitment

IRIS is a global, multi-stakeholder initiative that brings together governments, civil society, the private sector, social partners and recruiters to establish ethical recruitment as a standard in cross-border labour migration. The primary objective of IRIS is to ensure that international recruitment practices are fair and equitable for all parties involved, including migrant workers, employers, recruiters, and countries of origin and destination.

CREST Initiative

CREST is a collaborative partnership that aims to harness the potential of businesses to uphold the human and labour rights of migrant workers within their operations and supply chains. By doing so, CREST seeks to eliminate slavery and trafficking in business practices.

Both IRIS and CREST provide companies with practical tools and methodologies to implement management systems that ensure adherence to international recruitment and labour standards. Through these initiatives, IOM offers various training and capacity-building options tailored for recruitment agencies, company teams, business associations, and suppliers. Each training program is adaptable to local needs and can be delivered in multiple languages across different regions, ensuring accessibility and relevance.

By engaging in these programs, employers can significantly improve their compliance with international labour standards, promote ethical recruitment practices, and enhance the overall well-being of migrant workers within their supply chains.

Source : Information shared during workshops from the IOM

5.2.2 Education and awareness raising to promote voluntary compliance and prevent unintentional non-compliance.

Another approach to change perspectives on undeclared work is through awareness-raising campaigns. These efforts aim to educate employers about the costs and risks of undeclared work, inform potential customers about associated risks and costs, emphasise the benefits of formalisation for employers, and highlight the advantages of formality for potential customers. Studies show that advertising campaigns are both effective and cost-efficient in achieving these goals.⁷³ Discussions during workshops underscored the importance of not solely relying on state authorities to conduct these campaigns. Instead, it was emphasised that a collaborative approach is essential, involving social partners such as employers' organisations and trade unions, customer organisations, and state authorities working together to design and implement effective awareness campaigns. Social partners should get involved not only in education and awareness campaigns but also in other aspects such as monitoring and controls, health and safety in the workplace, training. During the workshops, the Italian Federation of Construction and Related Workers (FILCA-CISL) emphasised the importance of sharing information with national inspectorate, industry, and social partners in order for authorities to properly plan inspections. For example, in Italy, the construction sector has implemented a digital protocol for information exchange among social partners and national inspectorate. Social partners provide the national inspectorate with digital data on declared contracts,

⁷³ Eurofound. (2009). Exploring forms of undeclared work: Some methodological and empirical notes. https://www.eurofound.europa.eu/sites/default/files/ef_files/pubdocs/2009/25/en/1/EF0925EN.pdf



while the inspectorate cross-checks this against new work declarations. This process allows the national inspectorate to plan and target inspections more effectively based on the matched information.

Box 14. “UDW – It’s bad for you, harmful for all”, National awareness-raising campaign, Portugal

This initiative was designed as an Action Plan/Program to enhance public awareness, specifically among workers and employers, regarding the dangers associated with undeclared work (UDW), aiming to foster social consciousness. It also sought to foster collaboration between public authorities and social partners to raise awareness about UDW risks and mitigate its prevalence. Launched in 2014/2015, the campaign continues to disseminate materials, which are accessible in electronic format on the Portuguese Authority for Working Conditions (ACT) website. The campaign aimed to convert numerous instances of UDW into formal employment through information dissemination and awareness-raising activities involving social and institutional partners, as well as through inspection efforts conducted by the labour inspectorate.

Results:

Between 2014 and 2015, these efforts led to the identification of approximately 9,000 individuals engaged in undeclared work, resulting in interventions to rectify their situations. Among these cases, 3,244 individuals were found to be entirely undeclared, 1,582 were classified as falsely self-employed, and 4,247 were impacted by underreported wages. As a result of these efforts, voluntary regularisations were achieved, with 40% of entirely undeclared cases and 35% of falsely self-employed cases being successfully addressed.

Source: <https://www.ela.europa.eu/sites/default/files/2021-09/GPF-PT-Tackle%20UDW%20National%20Campaign.pdf>



6.0. Conclusions and lessons learned

This section provides the main conclusions and lessons learned from the workshop discussions which were focused on three main topics: (i) Intentional non-compliance; (ii) Unintentional non-compliance; (iii) Horizontal trust and vertical trust.

6.1 Intentional non-compliance

Main causes:

- ▶ The workshops emphasised the existence of inadequate administrative and legislative frameworks which allow for ineffective application and enforcement, blurred, and fragmented responsibilities. Namely, various legal gaps, loopholes, artificial arrangements, lack of enforcement, and bureaucratic processes⁷⁴ contribute to intentional non-compliance.
- ▶ Cost reduction as a prevailing objective was another main cause for intentional non-compliance. Indeed, employers may engage in intentional non-compliance as a means to reduce costs, either constructively through efficiency or destructively in opportunistic approaches. Factors such as economic crises, inadequate implementation of tax reforms, and political actions impacting certain business sectors may exacerbate pressure to minimise expenses.
- ▶ Low risk of detection. The perceived risk of being caught or the negative consequences of non-compliance are not significant enough compared to the perceived benefits for employers. This discrepancy in risk and benefit encourages intentional non-compliance among businesses.

Lessons learned in tackling intentional non-compliance from the employers' perspective:

- ▶ Enhancing public procurement frameworks to ensure coherence (e.g. in terms of selection and award criteria to promote declared work) and efficiency (e.g. in terms of monitoring and enforcement of those criteria) can contribute to tackling undeclared work. By establishing clear standards and procedures, public procurement systems can deter non-compliant behaviour among employers bidding for contracts. This measure promotes transparent and sustainable use of public funds, fair competition and encourages compliance with labour and tax regulations. As a rather novel approach, such outcomes can be achieved through the implementation of sludge audits (where a sludge refers to any process or requirement that makes it harder for people to do something they might want or need to do): "institutions should undertake a periodic 'lookback' at existing burdens to see if the current 'stock' can be justified and to eliminate those that seem outmoded, pointless or too costly (...) institutions should choose the least burdensome method for achieving their goals (,,) institutions should ensure that the benefits of administrative burdens justify the costs." (Sunstein, 2022).
- ▶ Implementing rating systems to recognise and reward positive behaviours can incentivise compliance among employers. By defining clear standards of compliance and communicating their positive implications for stakeholders and the community, rating systems create transparency and accountability. Employers striving for higher ratings are motivated to adhere to legal requirements, leading to a transition from undeclared to declared economy.
- ▶ Prioritising preventative measures, such as implementing simple notification tools, can help identify and address potential instances of undeclared work proactively. By providing timely notifications and reminders to employers about their legal obligations, preventative approaches promote awareness and encourage voluntary

⁷⁴ When these inefficiencies in the systems are somewhat perceived as also being intentional, the current insights from behavioral public policy label these approaches as sludges – the opposite of nudges, namely techniques that discourage certain desirable behaviors (Sunstein, 2022).



compliance. This proactive stance helps mitigate the risk of non-compliance and fosters a culture of adherence to regulations within the business community.

- ▶ Considering, at the level of the central governments, tailored approaches for the cross-border dimension (e.g. foreign labour where there is a feeling that “nobody cares”, especially with people coming also from lower-wage countries, but the responsibility to declare those workers still reside with the employer, who capitalise on this undeclared work).

6.2 Unintentional non-compliance

Main causes:

- ▶ The workshops highlighted the challenge posed by frequent changes in legislation related to undeclared work. Participants noted that the dynamic nature of regulations can make it difficult for businesses, especially SMEs, to keep up with compliance requirements.
- ▶ The complexity of legislation was identified as another significant factor contributing to unintentional non-compliance. Participants emphasised that complicated legal frameworks could create confusion and barriers for businesses, particularly SMEs with limited resources.
- ▶ SMEs often face resource constraints, and compliance may not always be their top priority. Survival concerns and competing priorities can lead to unintentional non-compliance. Participants agreed that micro and small businesses bear a disproportionately high burden in this regard.

Lessons learned in tackling unintentional non-compliance from the employers’ perspective:

- ▶ Prioritising informative communication strategies is crucial for supporting compliance efforts. Providing employers with accessible information and assistance enhances their understanding of compliance requirements.
- ▶ Establishing partnerships between employers’ organisations, trade unions, and government authorities is essential for addressing unintentional non-compliance. Collaborative efforts streamline processes and offer comprehensive support to employers, fostering a culture of compliance at sectoral as well as workplace level.
- ▶ Simplifying the transition from undeclared to declared work is an effective measure to tackle non-compliance, particularly unintentional.
- ▶ Utilising technology, such as digitalisation, significantly improves the compliance process. Digital solutions streamline administrative tasks, enhance transparency, and facilitate compliance monitoring, ultimately promoting adherence to regulations and standards.

6.3 Horizontal trust and vertical trust

Lessons learned in fostering vertical trust:

- ▶ Understanding that trust between employers and state authorities is not binary. It exists on a continuum and is influenced by various factors, both vertical and horizontal. This nuanced understanding is essential for effective interventions (and for choosing subsequently appropriate measurement tools, complementing the standard public opinion surveys).



- ▶ Considering that inspections often address the effects of undeclared work rather than its root causes. To enhance vertical trust, authorities should adopt strategies that tackle underlying issues and promote compliance proactively.
- ▶ Improving communication with state authorities through transparent and explicit communication strategies is essential for fostering vertical trust. Clear and open communication channels help establish a positive relationship between employers and government agencies, facilitating better understanding and collaboration.
- ▶ Adopting good practices like checklists for self-assessment and feedback can promote compliance and continuous improvement. Checklists provide a structured approach for employers to evaluate their compliance status and identify areas for improvement, enhancing transparency and accountability in their operations.
- ▶ Maintaining consistency in policies, long-term action plans, targeted supervision of non-compliant companies, along with transparent communication are key measures for authorities to enhance vertical trust. Additionally, adopting a risk-based approach can effectively address offenders.
- ▶ Facilitating a continuous dialogue and building alliances with all stakeholders, including SMEs, are essential for improving vertical trust. A customer friendly approach particularly towards SMEs and the exchange of information among social actors can foster trust and cooperation.

Lessons learned in fostering horizontal trust:

- ▶ Promoting the expansion of social dialogue among authorities and social partners to encourage open communication, mutual understanding, and cooperation in tackling undeclared work. Improving the use of current networking platforms and creating clear, dedicated spaces for collaboration. This is intended to build trust among employers, helping them work together to address the issue of undeclared work. By fostering a collaborative environment and enhancing communication, employers can more effectively share best practices, develop collective strategies, and support each other in increasing compliance.
- ▶ Acknowledging the differences between big and SMEs and fostering empathy for the realities faced by businesses of various sizes in the context of undeclared work.
- ▶ Acknowledging explicitly why it is important to declare economic activity (e.g with clear examples beyond the normative “abiding by the law”: protection of workers, contributions to public funding, fair competition etc.), as foundation for trust building.
- ▶ Identifying sectors with higher possibilities of operating in the shadow economy, such as catering in tourism, allows for targeted interventions to promote compliance and enhance horizontal trust.
- ▶ Developing communication campaigns that inform businesses about potential inspections helps to create transparency and predictability. This proactive approach reduces uncertainty and fosters trust among employers.



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