

FEASIBILITY OF A EUROPEAN PLATFORM

ON UNDECLARED WORK

Discussion Paper

The aim of this project is to provide an overall assessment of the feasibility of establishing a European platform of labour inspectorates and/or other agencies to prevent and fight undeclared work.

At the final stage of this project, we are organising a workshop to discuss the best options and feasibility of such a platform. This discussion paper forms the basis for that and will present the dimensions of analysis, the problems and obstacles related with undeclared work (UDW) and the objectives of a possible platform (chapters 1-3).

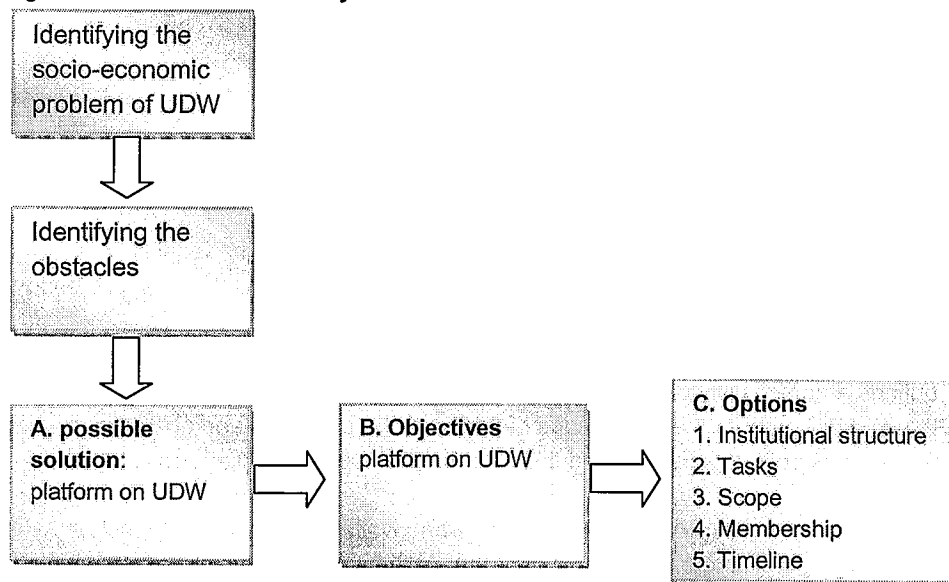
In chapter 4 we will present a range of different available options and possible variants, the 'building blocks', for a platform. At the workshop we will explore which options fit the objectives best and/or are preferred. This will lead to the creation of several possible alternatives for which the feasibility can be assessed (chapter 5).

1. The dimensions of analysis

Before assessing the feasibility of a European platform and the various possibilities, the following dimensions need to be reviewed:

- A. What is the problem?
- B. What should be the objectives of a platform to address these problems?
- C. Following this, we will present several possible options for a European platform across a range of issues, including:
 1. Institutional structure/setting (agency, commission office, expert group, other).
 2. The range of *tasks* of the European platform that have the potential to bring the greatest added value for the objective of enhancing the effectiveness of national enforcement bodies in tackling undeclared work, with minimal costs.
 3. Whether such a platform should aim at cooperating on *all aspects* which are of interest for preventing and combating undeclared work in all its forms, or *only cross-border* aspects of undeclared work; and if the latter is pursued, whether cooperation should focus, at least initially, on a few specified situations such as posting of workers.
 4. The extent to which, besides labour inspectorates, *other bodies* responsible for detecting and sanctioning undeclared work, such as social security inspectors and tax authorities, should be involved.
 5. Whether it is feasible to establish such a platform *progressively*, by starting with a certain *number of Member States* whose enforcement systems look similar, and enlarging it progressively.

Figure 1 Dimensions of analysis



2. Problems, obstacles and possible solution: Platform on UDW

Although it is difficult to get a clear picture on the size of the undeclared part of the economy, it is beyond doubt a factor of importance in Europe. Recently, countries in the Southern part of Europe in particular have strengthened their policy measures in order to increase tax income and close the tax gap. Tax evasion, partly through undeclared work, is seen as one of the major reasons for the economic problems that these countries are facing.

Undeclared work is not only perceived as a problem from a fiscal point of view. Social security regulations are breached, threatening the social security of individuals and undermining the system for the collective. Undeclared work is also often performed under conditions that are not safe or healthy and contravene national labour laws.

Altogether, from a fiscal, social security or labour law perspective, undeclared workers mean unfair competition for those declared workers and formal employers who do obey the rules. Table 1 shows some stakeholders and their interest in tackling UDW.

Table 1 Stakeholders and their interest in UDW

Stakeholder	Interest/risk
Revenue Authorities	Underpayment/avoidance of tax
Social Welfare	Underpayment of social insurance contributions
Labour Inspectorates	Undermine statutory minimum terms of pay and conditions
Trade Unions	Loss of members/undermine terms and conditions
Employers	Unfair Competition
Immigration authorities	Facilitate undocumented working

For these reasons, and doubtless many more, combating undeclared work is regarded as an important policy theme in many European countries. And indeed, in the majority of the European countries policy measures are pursued to tackle its existence.

In most countries, this takes the form of deterrence measures which are seen as most effective. Nevertheless, many policy professionals in the European countries would rather see more emphasis on enabling measures or policies that foster commitment to existing tax, social security and labour rules. It is of great importance in their eyes that cultures of tolerance of undeclared work are transcended and greater commitment emerges to compliance with existing rules and regulations.

Obstacles

Efforts to create and implement effective policy measures seem to be confronted by several obstacles.

On the national level the barriers are:

- Lack of resources and knowledge to tackle types of undeclared work: what instruments can be used to detect undeclared work?
- Fragmentation in the struggle against undeclared work. Organizations, such as labour inspectorates or tax authorities are confronted with the boundaries of their competence and responsibility (jurisdiction). Tax authorities are hardly interested in infringements on labour law regulations, labour inspectorates have no say in fighting tax evasion.
- Lack of context sensitivity: Little attention is paid to the overall factors that often lead to the growth of undeclared work through a complex mix of circumstances (unemployment, high tax rates, low trust in government). A complex set of causes is too often confronted with a single policy on an uncoordinated basis.

On a cross border level:

- A high level of variation exists in national regulatory systems in the realms of undeclared work, be it on labour regulations, tax systems or social security regulations. Therefore, efforts to enforce measures against cross border undeclared work are hindered by operational shortcomings in information exchange (different systems, language, rules, definitions, knowledge), privacy issues and matters of national sovereignty.
- European regulation and legislation, intended to facilitate coordination between these systems on a European level (directives on social security, posting of workers or free movement of services), seem to create new possibilities for non-regular forms of labour.
- Efforts to enforce measures against undeclared work on an international level are also hampered by differences in the sense of urgency across countries. A high priority of combating a certain type of undeclared work in one country can easily be frustrated by the lack of priority in another country that needs to cooperate in these initiatives.

Possible solution: Platform

The necessary efforts to step up international cooperation between individual countries have occurred on a piecemeal basis. Moreover, the coordination of multi-national cooperation is confined to single policy pillars, like tax, social security or labour law (IATA, Administrative commission/Tress, SLIC, Cibeles, expert committee on Posted Work). Initiatives aimed at an integral approach of undeclared work are scarce and created as rather modest, temporary projects, like ENUW.

The outcome is that one way forward might be to develop a European platform of labour inspectorates and/or other agencies to prevent and fight undeclared work.

3. Objectives

The objectives of a platform are closely related to its mandate. The mandate of a platform UDW would be clearly to tackle the problems and obstacles identified in the previous section.

To tackle these problems, the aims and objectives of a European platform might be

- to develop (operational) cooperation between Member States, where nations work together on common projects with shared common targets.

Stakeholders that are addressed by this objective are targeted institutions and executive bodies in Member States.

- to develop a specific expertise or capacity

Stakeholders that are addressed by this objective are executive bodies in Member States and in the European Union.

- to raise awareness/provide information on UDW

Stakeholders that are addressed by this objective are policy makers, executive bodies and the public at a European level.

Now we have identified the objectives of a platform, the next step is to consider which characteristics a possible platform should have to meet these objectives.

4. Assessing options for a European platform

In this section we will assess the options on the following issues for a European platform:

1. Institutional structure
2. Tasks
3. Aspects
4. Membership
5. Timeline

We start with describing the options and then we can consider their fit with the specific objectives of a platform.

4.1 Options: institutional structure

The following options concern the possible institutional structures for a European platform. The terminology can be unclear and the labels of certain institutional structures might be interchangeable. They are listed below (according to our definition) in relation to their scope, institutionalisation, permanency, scope of tasks and formality.

1. Agency

One option is to install an Agency on Undeclared Work. An agency is not an institution of the European Union, but a body that under EU law is established for specific tasks. The word "agency" is not the official name of all EU agencies. They are also named, for example, centre, foundation, institution or office. Agencies handle technical issues related to EU legislation and policy, thus allowing the European Commission to focus on its core functions. At present, there are over 20 such Agencies.

An Agency is created by a Regulation. Its work would be overseen by a Management or Executive Board. Each Member State (or EFTA or candidate country) would nominate at least one representative and the Commission would be represented by several board members. Following the structure used in existing agencies, technical committees would oversee activities for specific areas of work. The Agency would be led by an Executive Director and have a permanent staff, together with its own offices.

The agency system

There is no single legal framework governing the establishment and closure of European decentralised agencies. European agencies have been created on a case by case basis through various mixes of political interests.

The addressees of agencies' activities range from policy-makers and public managers at EU and Member State levels to a targeted public on the EU market, most often enterprises. There is a broad consensus among these stakeholders that the needs which the agencies were set up to address were pertinent at the time. This opinion is particularly emphasised in the case of "internal market agencies" and agencies addressing problems that transcend national borders.

Source: 'Evaluation of the EU-decentralised agencies in 2009', part 2, p.25

At one end of the spectrum, an agency could be an EU single compliance unit responsible for ensuring that EC legislation, directives, decisions and regulations on undeclared work are implemented by Member States and that nations both comply and adopt best practice through an ongoing review of their practices. Given that there is currently no common definition of undeclared work, that legislation on this issue is national, that there are no common or minimum standards for inspectorates (although the ILO is currently addressing this for labour inspectorates) and that this might perhaps contravene the subsidiarity and proportionality principles, this policy option is not further considered at this moment in time. It should not, however be ruled out for the future if a body of EU-wide legislation, directives, regulations and decisions emerges in the field of undeclared work.

At the other end of the spectrum, there could be smaller agencies not so much mandated by the Commission, but rather by a DG. They could be referred to as executive agencies, executing the policy of a DG, instead of that of their own.

2. European network

Another possibility would be to organise and manage the activities through a European network for cooperation among Member States. In contrast to an agency, the connection to the Commission in a European network could be less formal. It can have a voluntary membership, like IMPEL, in which every Member State can participate or not, and participation in individual projects can also vary.

Clusters could be formed, comprising a wide range of social partners and partners from the field of tax, labour law and social security. These clusters could take forward the technical discussions on specific issues (e.g., common measurement methods; best practice dissemination; operational collaboration). It could also be charged with considering the feasibility of putting into operation various options, and in addition, several conferences could be held and experiments pursued to explore the feasibility of cross-border cooperation in this realm.

This network would be supported by a Secretariat which assists with administrative tasks and with implementing the programme of work. Following the lessons learned in previous cross-border co-operations, the staff of the Secretariat would be subject to the Staff Regulations of Officials of the European Communities and the conditions of employment of other servants of the European Communities.

3. Expert Group

The preparation and implementation of EU policies by the Commission rely increasingly on expert advice. An expert group can be defined as a consultative entity comprising national and/or private-sector experts set up by the Commission to provide it with expert advice. Their main task is to advise the Commission and its services in the preparation of legislative proposals and policy initiatives (Commission's right of initiative) as well as in its tasks of monitoring and coordination or cooperation with the Member States. These groups can be either permanent or temporary. Participating experts are unpaid but their expenses are reimbursed by the Commission.

Expert groups take no political decisions. Their role is to provide expert advice to the Commission who then has the political and legal authority to propose legislation or to exercise coordination/monitoring tasks.

A Commission expert group is of two varieties:

- Formal groups set up by a creating act (i.e., a Commission decision or other legal act).
 - Informal groups set up by Commission departments, with no creating act.
- The majority of existing expert groups are created using this second method. Groups can be permanent groups, formally established by a creating act, which exist for more than five years. Or they can be temporary groups, established for a specific task for less than five years.

A group's composition varies depending on the type and scope of expertise sought. It may consist of national experts, but also experts or stakeholders from business, NGOs, trade unions, academia, etc. The meetings are chaired by the Commission or the group elects a chairman among its members.

4. Alternative Option: join an existing organisation

Another alternative is for a European platform to become part of an existing group or organisation, whether this be an existing expert groups, or by extending the mandate of some other existing European platform instead of creating a new one. Possibilities in this regard are:

A sub-group might be created in the expert group on Administrative cooperation in the field of direct taxation (E01711), whose objective is to facilitate the exchange of information, experience and good practices in the area of mutual assistance for direct taxation, or the Expert Group on Anti-tax fraud strategy (E01963) whose role is to engage in assistance and cooperation with the commission in the preparation of an anti-tax fraud strategy on an EU level. Other possibilities are to join the Administrative Commission for the Coordination of Social Security Systems, Cibeles or SLIC.

The problem with establishing a sub-group on tackling undeclared work with an existing platform however, is that not declaring the income for direct tax purposes is

only one of the facets of undeclared work. There is also undeclared work that is not declared for social security and labour law purposes, which would not come within the objectives of this alternative option.

A platform should therefore be best established within an existing organisation that could include all three 'pillars' (tax, social security and labour law).




One of the options is Eurofound, the European Foundation for the Improvement of Living and Working Conditions. Eurofound is a European Union body and was set up in 1975 to contribute to the planning and establishment of better living and working conditions. It carries out its role in partnership with governments, employers, trade unions and the European Union institutions

Eurofound's core business is both research and communicating the results of that research. It carries out research and development projects, to provide data and analysis for informing and supporting the formulation of EU policy on working and living conditions. Eurofound has a network of experts throughout Europe who conduct research on its behalf including assessing the current national situations, the preparation of case studies and national reports and the conducting of surveys. This organisation could be used, therefore, if the mandate of the platform was to encourage information exchange, capacity building and/or sharing and exchanging knowledge and experience.

Table 2 will show the fit of the options to the objectives.

Table 2 Fit of options 'institutional structures' with objectives

	Objectives		
	cooperation	expertise	information
1. Agency			
2. European network			
3. Expert group			
4. Joining an existing organisation			
5. Other option.....			

	Good fit with objectives		Fit with objectives		No fit with objectives
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4.2 Options: tasks

Given the three main objectives, optional activities for a European platform might be to take responsibility for:

1. promoting and developing *cooperation* at the Community level in the field of undeclared work by either:
 - Developing common principles and standards such as in the area of definitions, approaches to tackling undeclared work, inspection services, qualifications, minimum standards for inspection, sanctions;
 - Facilitating development of regional and EU-wide strategies on undeclared work;
 - Ensuring that current and future EC legislation, directives, decisions and regulations on undeclared work are implemented by Member States and that nations comply through an ongoing review and inspection of their practices; and/or
 - Carrying out joint enforcement projects and facilitating joint operations (a support centre for operations in the field of undeclared work.)
2. providing a framework for mutual learning and *capacity-building* in order to improve the efficiency and effectiveness with which UDW can be tackled by either:
 - Data sharing facility (non-personal data);
 - Data-holding facility (non-personal data);
 - Training and educational facility;
 - Research facility conducting evaluations of policy measures and their transferability;
 - Data-holding facility of personal data; and/or
 - Exchange of best practices on all issues.
3. Sharing and exchanging *knowledge and experience* either by:
 - Engaging in strategic data sharing by creating a multilingual online information system ('knowledge bank') of good and, whenever possible, best practices that evaluates policy measures and their transferability across nations and sectors, in order to share knowledge and experience gained, as well as to accumulate and evaluate information on tackling undeclared work;
 - Producing guides to good practice on tackling undeclared work in specific areas (e.g., construction sector; preventative measures; curative measures) that identify innovative solutions which have proved effective elsewhere and evaluate their transferability cross-nationally;
 - Developing a voluntary scheme for offering advice to tax, social security and/or labour inspectorates and best practice training on cross-border forms of undeclared work;and/or
 - Moving towards developing compulsory and harmonised programmes, reflecting best practice, by those national authorities responsible for tackling undeclared work, monitored through an inspection review system.

Table 3 will show the fit of the options to the objectives.

Table 3 Fit of options 'tasks' with objectives

	Objectives		
	cooperation	expertise	information
1. Improve Cooperation			
2. Develop Capacity building			
3. Promote Sharing of knowledge			
4. Other option.....			

3	Good fit with objectives	2	Fit with objectives	1	No fit with objectives
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4.3 Options: scope of undeclared work covered by a European platform

It should be decided whether a platform should aim at cooperating on *all aspects* which are of interest for preventing and combating undeclared work in all its forms, or *only cross-border* aspects of undeclared work.

Firstly, the focus of a European platform might be solely upon cross-border forms of undeclared work or secondly, might also include initiatives to enhance the effectiveness of Member States at tackling undeclared work that occurs intra-nationally.

The options could be:

1. include specific national issues (e.g. develop database on 'best practice');
2. Include one cross-border issue (e.g. information exchange, migration);
3. Include all cross-border issues; or
4. Include cross-border and national issues.

Some issues dealing with undeclared work are very much connected with national policy, regulation and legislation. This touches on the issue of the sovereignty of the Member States and therefore it might not easily be accepted by the Member States that a platform will be involved with this. From a practical point of view, it might also be very complex to incorporate national issues, as institutional systems and policies are so diverse, that it might not have any added value. Sharing information on good practices could be useful, but only if the information is transferable cross-nationally.

Dealing with cross-border aspects seems to be a more obvious choice, since it is on these issues that a large part of the legitimacy of the existence of a European platform lies. Cooperation should focus, at least initially, on a few specified situations such as posting of workers, comparable to how similar platforms started with one or two 'urgent' issues.

Table 4 will show the fit of the options to the objectives.

Table 4 Fit of option 'aspects' with objectives

	Objectives		
	cooperation	expertise	information
1. National issues			
2. One cross border issue			
3. All cross border issues			
4. Cross border and national			
5. Other option.....			

3	Good fit with objectives	2	Fit with objectives	1	No fit with objectives
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4.4 Options: membership/participants

Many of the existing European platforms in other sectors have a membership composed of representatives from Member States. A key issue that needs to be considered in the realm of undeclared work is that this might not be replicable. Not all Member States and EEA countries have one central agency responsible for tackling undeclared work. Instead, different agencies are responsible for different facets of the fight against this phenomenon. The result is that it might be very difficult for Member States to identify one or two representatives due to the plurality of agencies involved within some countries. In the first instance, therefore, it will be necessary for any European platform to recognise that the membership structure may involve a diverse array of representatives.

First and foremost it should be determined who are the key players, the stakeholders that deal with undeclared work in each country and on what level. Several options are therefore available in this regard:

- Representatives from only labour inspectorates. If the labour inspectorate is not involved in tackling undeclared work in a certain country (as it is in most countries), it will be excluded from the platform;
- Representatives from labour inspectorates and other bodies like tax administrations and social security administrations, if relevant;
- Representatives from government bodies (Ministries), executive bodies and employers, unions, experts/academics, NGO's (when relevant)

To bring together other interested parties, such as employers' organisations, trade unions and experts, a series of project teams/clusters could be established to deal with specific issues so as to engage the full range of social partners. These could be either limited-life 'task and finish' groups and/or longer-life clusters.

Alternatively, one might simply have two representatives from each Member State on the membership of the European Platform, who would be chosen by the country to best reflect the lead agencies involved in the fight against undeclared work in their nation. There would then be a variety of advisory committees/clusters/working

groups that bring together interested parties on specific issues.

Table 5 will show the fit of the options to the objectives.

Table5 Fit of option 'membership' with objectives

	Objectives		
	cooperation	expertise	information
1. Only labour inspectorates			
2. Country selects most relevant representatives			
3. All executive bodies + government, social partners			
4. Other option.....			

3	Good fit with objectives	2	Fit with objectives	1	No fit with objectives
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4.5 Options: timeline

Learning from the other cross-border forms of cooperation, the overarching lesson in terms of organisational structure is that many European platforms commence as small informal networks or expert groups and then become more formal bodies, with more members and take on greater responsibilities and activities over time as confidence, consensus and understanding grows about the role that such cross-border platforms might play.

There seem to be three options:

- Representatives from a small group of Member States and EEA will join with preferably on one specific subject, or
- Representatives from a small group of Member States and EEA will start with the pioneering work preferably on one specific subject, with the intention to grow in size and number of subjects to consider, or
- All Member States and EEA are invited to be involved from the beginning, giving the members the opportunity to take on multiple issues surrounding undeclared work

Table 6 will show the fit of the options to the objectives.

Table 6 Fit of option 'timeline' to objectives

	Objectives		
	cooperation	expertise	information
1. Small group			
2. Small group with the intention to grow			
3. All MS from start			
4. Other option.....			

3	Good fit with objectives	2	Fit with objectives	1	No fit with objectives
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5. Description of alternatives

With the objectives and options described, we can now consider several alternatives and assess their feasibility.

For this, we will use a table as presented below.

The alternatives will be introduced by a brief summary. For each alternative the fit with the objectives and desirability (stakeholders view) will also be summarised. The feasibility will, at this stage, be qualitatively assessed by the financial/administrative cost, difficulty of implementation and legal aspects/difficulties. Each criterion will also be ranked, considering the positive (+) and negative (-) aspects.

Alternative 1. 'Title'

Short summary:

Option 1 'title'		
	Rating*	Rationale for rating
Fit with objectives		
Feasibility		
- Financial/administrative costs**		
- Implementation		
- Legal aspects		
Stakeholders' view		

* Ratings can range from ++ to --

** The rating of financial costs with a '+' means the cost will be low.

PROGRAMME FINAL WORKSHOP AMSTERDAM

9th of July 2010

Programme

9:30-10:15	Welcome and introduction <ul style="list-style-type: none">• goal• who is who• programme
10:15-10:45	Introduction subject: UDW as a study object
10:45-11:00	Introduction workshop
11:00-11:15	Coffee break
11:15-12:15	Workshop part I: assessing different options leading to a favourite design
12:15-13:15	Lunch
13:15-14:00	Workshop part I: presentations different designs
14:00-14:15	Short break
14:15-15:00	Workshop part II: Assessing feasibility of three designs
15:00-15:45	Workshop part II: Discussion feasibility of the three designs
15:45-16:00	Conclusions and AOB
16:00	Optional gathering for drinks and snacks

After the workshop, you can ask at the reception desk for a taxi to Central Station. From there you can take a train to Schiphol airport which takes approximately 15 minutes. An average of 8 trains an hour run from Amsterdam Central Station to Schiphol.

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Introduction to the workshop

Part I

July 9 2010, Amsterdam

Dimensions of analysis

A. Identifying the socio-economic problem of UDW



Identifying the obstacles



A possible solution:
platform on UDW



B. Objectives

1. Develop cooperation
2. Develop expertise and capacity
3. Raise awareness/provide information




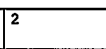

C. Options

1. Institutional structure
2. Tasks
3. Scope
4. Membership
5. Timeline

Fit options with objectives

Table 1 Fit of options 'institutional structures' with objectives




	Objectives		
	cooperation	expertise	information
1. Agency			
2. European network			
3. Expert group			
4. Joining an existing organisation			
5. Other option.....			

	Good fit with objectives	2		Fit with objectives		No fit with objectives
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Scoring

Table 1 Fit of options 'institutional structures' with objectives

	Objectives			Score	Rank
	cooperation	expertise	information		
1. Agency	2	2	2	8	1
2. European network	2	2	1	5	
3. Expert group	2	1	3	6	3
4. Joining an existing organisation	2	2	3	7	2
5. Other option.....					

	Good fit with objectives	2		Fit with objectives		No fit with objectives
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Favourite design



Favourite design of a European Platform on undeclared work

	Option
1. Institutional structure	
2. Tasks	
3. Scope	
4. Membership	
5. Timeline	
Advantages	
Possible problems/obstacles	


REGIOPLAN
WETENSCHAPELIJKE

Towards a European Platform on UDW

*Amsterdam Final Workshop
July 9th 2010*

Felix Meritis



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WETENSCHAPELIJKE

DE WAARHEID
VOEDSAGELAD VOOR NEDERLAND



2

Regioplan and partners


REGIOPLAN
WETENSCHAPELIJKE

Regioplan Policy Research Ltd
 Elske Oranje
 Helga Dekker
 Piet Renooy

Colin Williams, University of Sheffield
 Charles Woolfson, Linköping
 Ruslan Stefanov, Centre for Study of the Democracy, Sofia
 Roeland Hartman, Holland Law, Amsterdam/Utrecht

3

Goal of the study
<p><i>Assessing the feasibility of a European Platform on UDW</i></p> <p>Need for cooperation between labour inspectorates other relevant monitoring and enforcement bodies in order to prevent and fight undeclared work</p> <p>EC, DG EMPL</p>

Goal of the study 2
<p><i>Research goals</i></p> <p><i>Assessing main characteristics existing institutional frameworks</i> <i>Assessing main characteristics existing inspection systems</i> <i>Assessing main characteristics existing cross-border cooperations</i> <i>Describing structure UDW</i> <i>Problems and difficulties enforcement bodies encounter</i></p> <p><i>Assessing feasibility European Platform</i></p>

Methods
<p><i>Main methods</i></p> <p>Deskresearch Interviews on national situation and other cross border organisations Web Survey on structure and policies</p> <p><u>Workshops</u> Amsterdam west Sofia (2) south and central Vilnius north and baltic</p>

Sofia 1



7

Sofia 2



8

Vilnius



9

Amsterdam



The Final Workshop



- Results: country profiles
Cross border cooperation
Problems and obstacles encountered
- Discuss different aspects of a possible platform
- Assessing the feasibility of platform designs
- Active!

The Final Workshop 2




- Program:
 1. Colin Williams: undeclared work
 2. Helga Dekker: introducing the workshop
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Technical Information

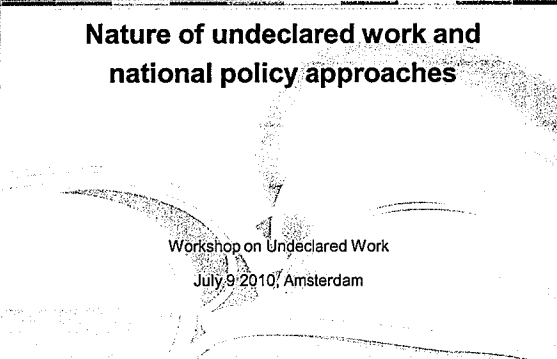


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Nature of undeclared work and national policy approaches

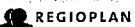


Workshop on Undeclared Work
July 9 2010, Amsterdam



Outline

- Definition of undeclared work
- Measurement
- Nature of undeclared work
- Tackling undeclared work
 - Potential national policy approaches
 - Existing national policy approaches
- Are current approaches the most appropriate and effective?



Definition of undeclared work

- Any paid activities that are lawful as regards their nature but not declared to the public authorities, taking into account the differences in the regulatory system of Member States (European Commission, 2007: 2)

Measurement



- How big is the undeclared economy?
- Nobody knows
- Estimates range from 2% - 38%
 - Indirect versus direct methods
 - 2007 Eurobarometer wave 67.3 survey
 - Validity: 88% of interviews reported fair or very good cooperation. 2% reported cooperation as bad.

Nature of Undeclared Work



- Conventional view: low-paid undeclared waged employment conducted under exploitative working conditions by marginalised groups out of economic necessity as a last resort
- Begun to unravel diversity of undeclared work:
 - Waged employment vs. self-employment
 - Diverse forms of undeclared waged employment
 - Envelope wages
 - Diverse forms of undeclared self-employment
 - Hidden enterprise culture
 - One-to-one paid favours

Configuration of undeclared work



Type	% of all undeclared work
Undeclared waged employment	20
Self-employment for family, friends, neighbours & acquaintances	55
Self-employment for other private persons or households	20
Other/don't know/refusal	5

Spatial variations in the nature of undeclared work



- UDW has different meanings in different places.
- Waged employment: greater proportion is waged work in southern Europe and East-Central Europe
- Higher proportion in Continental Europe & Nordic nations is self-employment
- More likely to be for kin, friends and neighbours in Nordic & Continental countries
- Envelope wages: heavily concentrated in East-Central Europe

Participation rates in undeclared and under-declared work in EU: % participating in last 12 months



	Any undeclared or under-declared work	Solely undeclared work	Solely under-declared work	Both undeclared and under-declared work	No undeclared or under-declared work
All	9	4	4	1	91
East-Central Europe	18	4	11	3	82
Nordic	12	10	1	1	88
Continental/West	5	3	1	1	95
Southern	8	2	5	1	92

Distribution of envelope wages across EU regions: by type



Country	% of all waged employees surveyed	% of all receiving envelope wages	% of all receiving envelope wages for:		
			Regular work	Overtime/extra work	Both regular & overtime work
Continental Europe	36	14	8	27	6
East-Central Europe	36	68	84	43	81
Southern Europe	16	12	7	16	11
Nordic countries	12	6	1	14	2
All EU-27	100	100	100	100	100

Source: Eurobarometer survey, 2007

Prevalence and types of envelope wages: by EU geographical region					
REGIOPLAN					
Country	% who receive envelope wages	Envelope wages paid as remuneration for:			
		Regular work	Overtime /extra work	Both regular & overtime work	Refusal + don't know
Continental Europe	2	18	65	14	3
East-Central Europe	11	39	21	37	3
Southern Europe	4	18	43	26	13
Nordic countries	3	7	70	9	14
All EU, weighted average	5	29	27	36	8

Motives of suppliers & purchasers	
REGIOPLAN	
<ul style="list-style-type: none"> Is undeclared work conducted out of economic necessity as a last resort when no other options are open? This rationale is higher in southern Europe and East-Central Europe (31% of undeclared workers in Romania, 30% in Poland, 27% in Italy). 	

Purchasers' motives	
REGIOPLAN	
Lower price	66%
Faster service	21%
Better service	8%
Good/service hardly/not available on regular market	10%
To help someone who is in need of money	11%
Favour amongst friends, colleagues, acquaintances	14%
Refusal/other/don't know	11%

Geographies of purchasers' motives



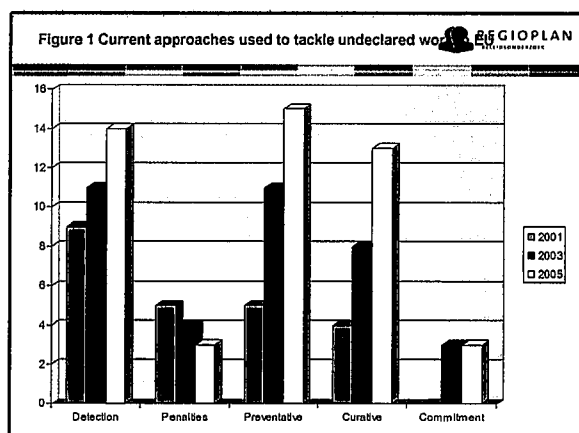
- Economic rationales more predominant in southern Europe and East-Central Europe
- Social rationales in Nordic and Continental Europe
- Availability, reliability & quality of formal sector provision in Estonia (75%), Romania (65%), Austria (63%), Ireland (58%) and Denmark (55%)

TACKLING UNDECLARED WORK



- Typology of potential national policy approaches
- Evaluate current national approaches

REGIOPLAN		
Approach	Method	Measures
Deterrence	Improve detection	Data matching and sharing Joining-up strategy Joining-up operations
	Increase penalties	Increase penalties for evasion
Enabling compliance	Preventative	Simplification of compliance Direct & indirect tax incentives Smooth transition to self-employment Introducing new categories of work Micro-enterprise development
	Curative/ Stimulating	Demand-side incentives - service vouchers; targeted direct taxes; targeted indirect taxes Supply-side incentives - society-wide amnesties; voluntary disclosure; business advisory services
	Fostering commitment	Education Peer-to-peer surveillance Tax fairness; Procedural justice; Redistributive justice



- REGIOPLAN
- EU shifting from deterrence alone and towards combining deterrence, preventative and curative measures since Employment Policy Guideline no. 9 in 2003.
 - What, however, has happened to policy approaches since 2005? The 2010 web survey provides us with some indications.

2010 Deterrence measures REGIOPLAN

	% nations
Penalties	
Use of administrative sanctions for purchasers/companies	87
Use of administrative sanctions for suppliers/employees	83
Use of penal sanctions for purchasers/companies	74
Use of penal sanctions for suppliers/employees	52
Measures to improve detection	
Data matching and sharing	83
Workplace inspections	100
Registration of workers prior to starting work or on first day of work	74
Coordinating strategy across government	57
Certification of business, certifying payments of social contribution and taxes	65
Use of peer-to-peer surveillance (e.g. telephone hotlines)	39
Coordination of operations across government	61
Coordination of data sharing across government	65

Preventative measures



	% nations
Reduce the regulations	48
Simplify procedures for complying to existing regulations	87
Technological innovations to prevent undeclared transactions	43
Introducing new categories of work	35
Use of direct tax incentives (61
Use of social security incentives	35
Initiatives to ease transition from unemployment into self-employment	65
Initiatives to ease transition from employment into self-employment	44
Changing minimum wage upwards	48
Changing minimum wage downwards	9
Training & support to business start-ups	61
Micro-finance to business start-ups	52
Connecting pension schemes to formal labour	61
Introducing supply chain responsibility	17

Curative measures



	% nations
Measures to encourage <i>purchasers</i> to buy formal goods and services:	
- service vouchers	26
- targeted direct tax incentives (e.g., income tax relief/reduction/subsidy schemes)	61
- targeted indirect taxes (e.g., VAT reductions)	17
Measures to stimulate <i>suppliers</i> to formalise:	
- society-wide amnesties	9
- individual-level amnesties for voluntarily disclosing undeclared activity	17
- 'formalisation' advice to business	30
- Targeted VAT reductions	17
- Provide free record-keeping software to businesses	13
- provide fact sheets on record-keeping requirements	22
- provide free advice/training on record-keeping	22
- Gradual formalisation schemes (e.g. wage alignments in Italy)	13

Commitment measures



	% nations
Campaigns to inform undeclared workers of risks of undeclared work	61
Campaigns to inform undeclared workers of benefits of declared work	57
Campaigns to inform users of undeclared work of risks and costs	61
Campaigns to inform users of undeclared work of benefits of declared work	52
Use of normative appeals to people to declare their activities	52
Measures to change perceived fairness of system	26
Measures to improve procedural justice	17
Measures to improve tax/social security/labour law knowledge	65
Adoption of commitment rather than compliance approach (i.e., 'responsive regulation')	30
Campaigns to encourage a culture of commitment to declaration	39

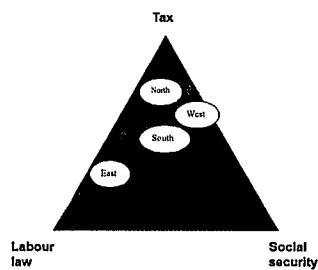
Policy measures



Ranked most effective?

- 1st Deterrence
- 2nd Preventative measures
- 3rd Curative measures
- 4th Commitment measures
- Same across all European regions (except Nordic nations: Commitment measures ranked 1st)

Policy directions



Problems Undeclared work



Stakeholder	Interest/risk
Revenue Authorities	Underpayment/avoidance of tax
Social Welfare	Underpayment of social insurance contributions
Labour Inspectorates	Undermine statutory minimum terms of pay and conditions
Trade Unions	Loss of members/undermine terms and conditions
Employers	Unfair Competition
Immigration authorities	Facilitate undocumented working

Obstacles to effective policy



National level barriers:

- Lack of resources and knowledge
- Fragmentation on organisational level
- Lack of sensitivity to complex types of undeclared work

Cross border level:

- High level of variation in national regulatory systems.
- European regulation and legislation (directives on social security, posting of workers or free movement of services), create new possibilities for non-regular forms of labour.
- Differences in sense of urgency across countries.

Way forward



- What, therefore, might a European platform look like?

THE END

Towards a European Platform on UDW

Amsterdam Final Workshop
July 9th 2010

Felix Meritis

DE WAARHEID

VOLEGENDELIJN VOOR HEDERLAND



2

Regioplan and partners

Regioplan Policy Research Ltd

Elske Oranje

Helga Dekker

Piet Renooy

Colin Williams, University of Sheffield

Charles Woolfson, Linköping

Ruslan Stefanov, Centre for Study of the Democracy, Sofia

Roeland Hartman, Holland Law, Amsterdam/Utrecht

3

Goal of the study	REGIOPLAN EUROPEAN PLATFORM
<i>Assessing the feasibility of a European Platform on UDW</i>	
Need for cooperation between labour inspectorates other relevant monitoring and enforcement bodies in order to prevent and fight undeclared work	
EC, DG EMPL	

Goal of the study 2	REGIOPLAN EUROPEAN PLATFORM
<i>Research goals</i>	
<i>Assessing main characteristics existing institutional frameworks</i>	
<i>Assessing main characteristics existing inspection systems</i>	
<i>Assessing main characteristics existing cross-border cooperations</i>	
<i>Describing structure UDW</i>	
<i>Problems and difficulties enforcement bodies encounter</i>	
<i>Assessing feasibility European Platform</i>	

Methods	REGIOPLAN EUROPEAN PLATFORM
<i>Main methods</i>	
Deskresearch	
Interviews on national situation and other cross border organisations	
Web Survey on structure and policies	
<u>Workshops</u>	
Amsterdam	west
Sofia (2)	south and central
Vilnius	north and baltic

Sofia 1



7

Sofia 2



8

Vilnius



9

Amsterdam



The Final Workshop



- Results: country profiles
Cross border cooperation
Problems and obstacles encountered
- Discuss different aspects of a possible platform
- Assessing the feasibility of platform designs
- Active!

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Workshop part II

Assessing the feasibility of 3 designs

July 9 2010, Amsterdam

3 designs

	Design 1	Design 2	Design 3
Institutional structure			
Task			
Scope			
Membership			
Timeline			

Feasibility

Design 1. 'Title'

Short summary:

<i>Design 1 'title'</i>		
	Rating*	Rationale for rating
Fit with objectives		
Feasibility		
- Financial/ administrative costs**		
- Implementation		
- Legal aspects		
Stakeholders' view		

* Ratings can range from ++ to –

** The rating of financial costs with a '+' means the cost will be low.

Example Feasibility

Design 1. The broad platform

An agency in which activities are centred around cooperation, capacity building and information sharing. It will be involved in national as well as cross border issues, will accept all participants and all at once.

<i>Design 1 The broad platform</i>		
	Rating*	Motivation of rating
Fit with objectives	++	On all objectives the agency fits very well. As it will include a broad range of tasks, aspects and participants it will be a close fit to the objectives.
Feasibility		
- Financial/administrative costs**	--	Setting up an Agency of this magnitude will mean considerable costs at the start, but also in maintaining it.
- Implementation	--	Implementing and executing this broad platform will be difficult, because of the wide range in tasks and many participants, from the start.
- Legal aspects	+/-	There is no single framework governing the establishment of agencies. So it depends on the actual structure chosen, whether it will have many legal aspects to it.
Stakeholders' view	-	A broad platform is not mentioned as the best option by stakeholders. On the contrary, it seems that they prefer a smaller platform, that needs to prove it's 'value' first.

* Ratings can range from ++ to –

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