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Regional Cooperation Council

**Western Balkan Network tackling undeclared work**

**COVID-19 AND UNDECLARED WORK:  
IMPACTS, CHALLENGES AND  
POLICY RESPONSES**

**Sarajevo, July 2020**

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## Executive Summary

### COVID-19s impact on undeclared work in the Western Balkans

- It is not only declared enterprises and workers that ceased or severely reduced their operations during the confinement period and are witnessing commercial difficulties as economies gradually re-open. So did undeclared enterprises and workers, who are a relatively large proportion of all enterprises and workers in the Western Balkans, witness severe reductions in their revenues and are doubtless suffering similar difficulties at present.
- Many of these undeclared workers and enterprises have been also unable to fully access the short-term financial support provided by governments to businesses and workers during the crisis period.
- However, this varies according to the different types of enterprise and worker in the undeclared economy. There is a need to distinguish between **registered enterprises** that declare only a portion of their work and revenue to the state authorities, who will have received some support, and **unregistered enterprises** who have not. There is also a need to differentiate three types of undeclared worker, namely those in **unregistered employment**, who have been largely excluded from support, and those in **under-declared employment** and **bogus self-employment** who will have more often received at least some support.

### Impacts on enforcement authorities

- State authorities, including enforcement authorities, have also had to change their working practices. Measures have had to be taken to **protect enforcement authority staff**. This has involved risk assessment for firstly inspectors and staff and secondly, the conduct of physical inspections. A range of approaches have been used for protecting staff during workplace inspections including masks, gloves, visors, social distancing, time spent at the inspection and hygiene issues related to transport used.
- **New working methods** have included: changes in inspections; greater data mining and matching; home-based working; greater use of distance consultations; more virtual meetings, and the greater use of digital solutions and education and awareness raising..
- The pandemic has also resulted in greater coordination with specialist units/teams being formed to deal with COVID-19 issues and greater cooperation with both other government agencies and social partners to create a more joined-up approach.
- The main lessons learned from the pandemic crisis period are that in the future, there could be: (i) less dependence on physical workplace inspections and greater risk assessment of whether a physical inspection is required, or some other form of inspection can be conducted; (ii) continuing use in the future of the new hygiene standards implemented during the pandemic for inspectors and inspections; (iii) greater home-based working and use of virtual staff meetings, (iv) more emphasis on the use of data mining and matching to detect violations; (v) greater resource dedicated to digital solutions (e.g., use of social media and websites for information distribution and complaint reporting) and a consequent consideration of the new skills and competencies required by inspectorates and their staff, and (vi) greater use of joined-up action via task forces and cross-government coordination and cooperation on strategy, operations and data mining, sharing and analysis.

## Immediate challenges and responses

- It is potentially the case that there have been various illegitimate practices and abuses related to the short-term financial support rescue packages. This will need to be a new focus of work for enforcement authorities over the next year or so. The Western Balkan Network Tackling Undeclared Work, such as at Plenary sessions, could be a useful forum for enforcement authorities to share their experiences in this regard to facilitate mutual learning. Social partner intelligence on this matter could be also very useful. Mutual learning would be useful to: identify the most common types of illegitimate practice; share the types of data mining and matching used; the risk assessment methodologies employed; and range of sanction systems implemented.
- Various types of **regularisation scheme** to bring vulnerable undeclared workers into the declared economy, to stamp out unfair competition and protect workers, could be usefully evaluated.

## Future challenges and responses

There is a need to consider:

- The policy lessons from the crisis for **transforming undeclared work into declared work**. Are the same range of direct and indirect policy measures still relevant? Will the same emphasis continue to be given to workplace inspections in future operational plans? Have additional policy tools emerged that should be more prominent in the future? What are the policy lessons from the first peak for any subsequent repeat lockdowns?
- How can we **prevent declared work shifting into the undeclared economy**? Are the same policy measures used to transform undeclared work into declared work also appropriate for preventing declared work shifting into the undeclared economy? Or are additional policy tools or variants of existing policy tools required?
- Mutual learning between economies is required on **the impacts of the short-term financial support schemes** on preventing undeclared work in the aftermath, focusing upon:
  - the comparative effectiveness of different rescue packages in preventing a turn to the undeclared economy in the aftermath, and what aspects of the short-term financial support did so;
  - evaluating how the timing of the withdrawal of the short-term financial support impacted on the growth of the undeclared economy, and
  - evaluating how synchronising the timing between sectors recommencing trade and the demand of citizens and other businesses for their products and services, influenced the growth of the undeclared economy in the aftermath.

# 1 Introduction

In early January 2020, a new strain of coronavirus (SARS-CoV-2) producing a respiratory disease (COVID-19) began spreading across the globe. On the 30<sup>th</sup> January 2020, the World Health Organisation declared a global health emergency and on 11<sup>th</sup> March a pandemic was confirmed. The impact on businesses and workers, as well as economies, has been profound. By April 2020, the closure of businesses to restrict movement and the spread of the virus had affected 81% of the global workforce (ILO, 2020a). This led to the cessation of not only declared work but also undeclared work. The result is that governments have had to take quick action to protect workers, support jobs and income, and stimulate the economy and employment, including social protection for those affected, support for employment retention, and financial and tax relief for the affected enterprises (ILO, 2020b). This has resulted in an unprecedented level of short-term financial support being provided to the enterprises and workers affected, including in Western Balkan economies (IMF, 2020).

The aim of this study is to evaluate the impacts of the coronavirus pandemic on undeclared work in the Western Balkans and the emergent challenges for state authorities, and policy responses, in the immediate and longer-term in relation to tackling undeclared work.

To achieve this, section 2 briefly evaluates COVID-19s impact on undeclared work in the Western Balkans. This examines its impacts on different types of undeclared enterprise and worker and the size and characteristics of those affected in the six Western Balkan economies using data from the Employment and Social Affairs Platform (ESAP1) economy reports on undeclared work and the 2020 Balkan Barometer. Section 3 then outlines the challenges state authorities in the Western Balkans and beyond witnessed in adapting to confinement in terms of on the one hand, providing protection for staff and on the other hand, their adoption of new working methods and practices. To do this, information provided at the 1<sup>st</sup> Plenary meeting of the Western Balkan Network Tackling Undeclared Work as well as from other European enforcement authorities is used. Section 4 turns to two important immediate challenges facing Western Balkan economies. On the one hand, there is the potential abuse of the short-term financial support schemes in Western Balkan economies, especially in relation to undeclared work, and on the other hand, the issue of protecting vulnerable workers in the undeclared economy left without revenue during the confinement period and possible policy responses that have and could be adopted. Section 5 then turns to three future challenges in the recovery period. The first issue is whether the conventional policy approaches and measures for transforming undeclared work into declared work will continue to remain valid. The second issue is whether the same or different policies will be required for preventing declared work shifting into the undeclared economy and the third and finally, there is the future challenge regarding the withdrawal of the short-term financial support packages and its implications for the growth of undeclared work. The sixth and final section then draws conclusions and makes recommendations.

Undeclared work here refers to paid activities that are lawful as regards their nature but not declared to public authorities (European Commission, 2007: 2). It is not declared in order to evade taxes, social security contributions and labour law. If the paid activity is non-compliant in additional ways (e.g., the goods and services are illegal), it is not undeclared work but part of the criminal economy (see Djordjević and Dobovšek, 2020), and therefore the shadow economy (which includes the undeclared economy and criminal economy).

## 2 COVID-19'S Impact on Undeclared Work in the Western Balkans

Participation in both declared work and undeclared work was severely curtailed during the confinement period. The focus of this section, therefore, is on firstly, evaluating the impacts

of the confinement period on the different types of enterprise and worker in the undeclared economy and secondly, evaluating the magnitude and characteristics of those affected in the six Western Balkan economies using data largely from the Employment and Social Affairs Platform (ESAP1) economy reports on undeclared work and the 2020 Balkan Barometer.

## 2.1 Impacts of confinement on types of undeclared enterprise and worker

It was not only declared enterprises and workers that ceased or severely reduced their operations during the confinement period. So did undeclared enterprises and workers witness severe reductions in their revenue. The difference is that undeclared workers and enterprises were largely unable to access in full or in part the short-term financial support provided by governments to businesses and workers (see section 4.1 for a detailed analysis of this short-term financial support in the six Western Balkan economies). However, the access to this short-term financial support varies according to the different types of enterprise and worker in the undeclared economy.

Two types of business operate in the undeclared economy. Firstly, there are **unregistered enterprises** that are not registered with the relevant state authorities and operate on a wholly undeclared basis. These are largely sole traders who operate as self-employed and micro-enterprises (Williams, 2017). For example, in the tourism sector, where undeclared work is prevalent and the confinement period has had severe impacts, unregistered enterprises can include unlicensed tour guides, private accommodation providers in tourist resorts, street entertainers, beach sellers, street hawkers, meal providers on online platforms, and “pop up” shops. During the confinement period, these unregistered enterprises have been largely without any revenue and wholly excluded from the short-term financial support made available to registered enterprises.

Secondly, there are **registered businesses** that declare only a portion of their work and revenue to the state authorities. During the confinement period and depending on the short-term financial support offered to businesses in different economies, these have been able to access support only to offset the shortfalls in their declared turnover/profits and for their declared employees. They have been unable to access support to offset the reductions in undeclared turnover/profits and/or for their undeclared employees.

There are three types of undeclared workers. Firstly, there are **unregistered employees**, where the employees do not have written contracts or terms of employment and their remuneration is most probably undeclared. During the confinement period, these workers were totally excluded from the current short-term financial support for employees. As the EU Agency for Fundamental Rights (2020) has recognised, during the lockdown period, these workers have been particularly at risk. Varying according to the social insurance system in each of the six Western Balkan economies (see section 4.1), they will perhaps have been also excluded from welfare benefits, although some Western Balkan governments have bolstered their welfare “safety net”, temporarily enhancing unemployment insurance benefits and relaxing the eligibility rules (IMF, 2020).

Secondly, there are **under-declared employees**. These employees have a declared job with a declared employer but receive two wages: an official declared wage (often paid at the minimum wage rate) and an additional undeclared “envelope wage”. These under-declared employees, depending on the social insurance system, received benefits under the government salary replacement schemes in some West Balkan economies but these might well be lower than if their full wage had been declared.

Thirdly, there are the **bogus self-employed**. These workers are registered as self-employed but operate under the same working conditions as direct employees and/or they depend on a

single employer for a large share or all their income (Williams and Lapeyre, 2017; Williams and Horodnic, 2019). These misclassified workers will have been excluded from the financial support for employees but will have been able to access any financial support provided for the self-employed.

## 2.2 Who has been affected?

To evaluate the number and characteristics of those affected by the lockdown in the six Western Balkan economies, a brief review is here provided. This largely draws upon data from the Employment and Social Affairs Platform (ESAP1) economy reports on undeclared work (Efendic and Williams, 2018; Gashi and Williams, 2018; Katnic and Williams, 2018; Kosta and Williams, 2018; Mojsoska Blazevski and Williams, 2018; Radulovic and Williams, 2018). It also draws upon the 2020 Balkan Barometer (i.e., the Regional Cooperation Council's annual public and business survey) comprising interviews with 6,000 citizens and 1,200 businesses.

### Albania

Although there are no direct estimates of the number of **unregistered enterprises** in Albania, the World Bank Enterprise Survey reveals that 44.7% of surveyed businesses in Albania in 2019 assert that they compete with unregistered or informal businesses, with manufacturing firms more likely to compete against unregistered or informal firms than service sector businesses (53% compared with 41.8%). Indeed, 37.2% of all firms view the practices of informal and unregistered competitors as a major constraint on their operations, but again 41.2% of manufacturing firms compared with 35.8% of service sector businesses. Indeed, there is strong evidence that informal sector competition has a negative impact on the performance of Albanian formal enterprises, and also that firms starting-up unregistered have an unfair competitive advantage in terms of future performance over firms starting-up registered due to them evading the costs associated with registration and legitimacy (Williams and Kosta, 2019, 2020a).

There are no direct estimates of the proportion of **registered businesses** that declare only a portion of their work and revenue to the state authorities. However, one proxy measure is to examine the size of the undeclared economy as a proportion of Gross Domestic Product (GDP). Medina and Schneider (2018) estimate the undeclared economy in Albania as equivalent to 32.7% of GDP. The 2020 Balkan Business Barometer, meanwhile, asks businesses what percentage of the actual wage bill a typical company in their area of business reports for tax purposes. In Albania, 0% of businesses assert that 0-25% of the actual wage bill is reported for tax purposes, 2% that it is 26-50%, 2% that it is 51-75%, 93% that it is 76-100%, with 2% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a). The 2020 Balkan Business Barometer also asks businesses what percentage of total annual sales a typical company in their area of business reports for tax purposes. In Albania, 1% of businesses assert that 0-25% of total annual sales is on average reported for tax purposes, 1% that it is 26-50%, 7% that it is 51-75%, 87% that it is 76-100%, with 4% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a).

Turning to the types of undeclared worker, the Southeast Europe Leadership for Development and Integrity (SELDI, 2016) conducted a survey in Albania with 1,050 households. A measure of **unregistered employment** is that 39.7% of employees reported that they have no written contract with their employer and 30.3% assert that they do not pay social and health security benefits. This high level of unregistered employment is reinforced by the Albanian State Labour Inspectorate (2017) who in 2017 inspected 7,958 enterprises and report that 1,575 employees had no written contract and 706 employees were not insured. The National



Business Forum in 2015 conducted a survey of 400 businesses in Albania and found that businesses do not report 29% of their labour force to the tax authorities (Kosta, 2016). Nevertheless, according to the Albanian Labour Force Survey, there is evidence of some reduction in such employment. In 2017, 30.3% of employment in the non- agricultural sector was unregistered, decreasing 1.6 percentage point compared with 2016 and by 3.8 percentage points compared with 2015 (see <http://www.instat.gov.al/al/publikime/librat/2018/tregu-i-pun%C3%ABs-2017/>). The 2020 Balkan Business Barometer, meanwhile, asks businesses what percentage of the total number of employees a typical company in their area of business registers with the relevant authorities. In Albania, 1% of businesses assert that 26-50% of all employees are registered, 1% that 51-75% are registered, 95% that 76-100% are registered, with 2% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a).

**Under-declared employment** is measured by the SELDI (2016) survey. The finding is that 28.8% of employees declare that they pay social security on the minimum wage and that 18.9% receive higher remuneration than in their contracts of employment. This is reinforced in the National Business Forum 2015 survey of 400 businesses which reveals that even if businesses do report the real number of their employees to the state authorities, they use envelope wages to reduce the tax and social contributions that they need to pay (Kosta, 2016).

Turning to **bogus self-employment**, the only known data available is from the 2015 European Working Conditions Survey (EWCS). The finding is that across all employment (employees and self-employed) in Albania, 28% are in dependent self-employment and 59% of all classified as in self-employment are in fact bogus self-employed. This is one of the highest rates of bogus self-employment in Europe (Williams and Horodnic, 2019).

### **Bosnia and Herzegovina**

Although there are no direct estimates of the number of **unregistered enterprises** in Bosnia and Herzegovina, the World Bank Enterprise Survey in 2019 reveals that 42.1% of surveyed businesses assert that they compete with unregistered or informal businesses, with manufacturing firms less likely to compete against unregistered or informal firms than service sector businesses (37.3% compared with 44.8%). Indeed, 28.6% of firms view the practices of informal and unregistered competitors as a major constraint on their operations, with 19% of manufacturing firms stating this compared with 34% of service sector businesses.

Again, there are no direct estimates of the proportion of **registered businesses** that declare only a portion of their work and revenue to the state authorities. However, one proxy measure is to examine the size of the undeclared economy as a proportion of GDP. Examining various recent estimates, they range between 25% to 35% of GDP (Ernst & Young, 2014; Schneider, 2015; SELDI, 2016; Pasovic and Efendic, 2018). The 2020 Balkan Business Barometer, meanwhile, asks businesses what percentage of the actual wage bill a typical company in their area of business reports for tax purposes. In Bosnia and Herzegovina, 1% of businesses assert that 0-25% of the actual wage bill is reported for tax purposes, 12% that it is 26-50%, 6% that it is 51-75%, 67% that it is 76-100%, with 15% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a). The 2020 Balkan Business Barometer also asks businesses what percentage of total annual sales a typical company in their area of business reports for tax purposes. In Bosnia and Herzegovina, 1% of businesses assert that 0-25% of total annual sales is on average reported for tax purposes, 6% that it is 26-50%, 5% that it is 51-75%, 73% that it is 76-100%, with 15% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a).

Turning to **undeclared workers**, the estimations of undeclared work in Bosnia and Herzegovina suggest that between 10% to 40% of the workforce in the period 2000-2016

(Economic Institute Sarajevo, 2015; SELDI, 2016) with the labour force in 2016 accounting for some one million people (Bosnia and Herzegovina Agency for Statistics, 2017). Based on a representative survey involving 6,021 interviews conducted in 2015, 34% of respondents engaged in undeclared work, of which 8% of all respondents engage in undeclared work in addition to their regular declared job and 26% of all respondents receive their income only from undeclared work. Given that only 27% of all respondents have a declared job, undeclared work is far from an activity existing only in the margins of the labour market in Bosnia and Herzegovina. More respondents (34%) engage only in undeclared work than in declared work (27%) and of all in declared work, 30% also engage in undeclared work. As such, over one quarter of all workers receive their income solely from undeclared work and over one-third of all workers receive income from undeclared work in addition to their declared work. For over three-quarters (76%) of undeclared workers, therefore, their income from undeclared work is their only source of income from employment. Analysing the population groups most likely to be involved in undeclared work, the 2015 survey identifies that individuals who are young, less educated, coming from rural areas and from economically weak families have the highest probability of participation in the informal economy in Bosnia and Herzegovina (Efendic and Williams, 2018). Interestingly, those who have lived and worked abroad are also significantly more likely to engage in undeclared work (Williams and Efendic, 2020).

In the period from 01.01.2016 to 30 March 2020, the Tax Administration of the Federation of Bosnia and Herzegovina performed 23,900 inspections from which it was determined that 2,599 taxpayers perform their activity without approval. 7,253 unregistered workers were found, and in 1,847 cases taxpayers did not install fiscal devices (i.e., did not record turnover). For 6,175 taxpayers, non-recording of turnover through fiscal devices was determined. 4,445 buildings were closed and misdemeanour fines amounting to BAM 32,243,222 issued in 13,135 inspections.

The 2020 Balkan Business Barometer, meanwhile, asks businesses what percentage of the total number of employees a typical company in their area of business registers with the relevant authorities. In Bosnia and Herzegovina, 1% of businesses assert that 0-25% of all employees are registered, 7% that 26-50% are registered, 5% that 51-75% are registered, 68% that 76-100% are registered, with 18% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a).

Turning to **bogus self-employment**, no known surveys have been conducted to estimate the proportion of the self-employed who are misclassified as self-employed when they should be classified as in dependent employment.

### **Kosovo\***

Although there are no direct estimates of the number of **unregistered enterprises** in Kosovo\*, the World Bank Enterprise Survey in 2019 reveals that 18.7% of surveyed businesses assert that they compete with unregistered or informal businesses, and 63.4% of all firms view the practices of informal and unregistered competitors as a major constraint on their operations. Meanwhile, a 2017 survey of entrepreneurs in Kosovo\* reveals that 42.5 per cent of entrepreneurs are informal entrepreneurs and that they are more likely than formal entrepreneurs to have had fewer years in formal education and to live in lower-income households. They are also more likely than formal entrepreneurs to be necessity-driven (Williams and Gashi, 2020).

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\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence

There are again no direct estimates of the proportion of **registered businesses** that declare only a portion of their work and revenue to the state authorities. However, one proxy measure is to examine the size of the undeclared economy as a proportion of GDP. In 2017, in the EU-funded project, “Further Support to Kosovo\* Institutions in the Fight against Organized Crime, Corruption and Violent Extremism”, led by the Ministry of Finance and based on 2015 data, it was estimated that the undeclared economy in Kosovo\* accounts for 31.7% of GDP, a one percentage point drop from 2013 (KTA, 2018: 58). By sector, undeclared work is highest in the agriculture, construction, wholesale and retail, real estate, finance and insurance sectors and among freelancers (KTA, 2018). The 2020 Balkan Business Barometer, meanwhile, asks businesses what percentage of the actual wage bill a typical company in their area of business reports for tax purposes. In Kosovo\*, 8% of businesses assert that 0-25% of the actual wage bill is reported for tax purposes, 14% that it is 26-50%, 18% that it is 51-75%, 20% that it is 76-100%, with 42% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a). The 2020 Balkan Business Barometer also asks businesses what percentage of total annual sales a typical company in their area of business reports for tax purposes. In Kosovo\*, 10% of businesses assert that 0-25% of total annual sales is on average reported for tax purposes, 9% that it is 26-50%, 22% that it is 51-75%, 23% that it is 76-100%, with 38% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a).

Turning to **undeclared workers**, the KTA (2018) study estimates that there are some 45,000 employees working full time in the undeclared economy, with an estimated loss of €60.1 million annually of personal income tax and corporate income tax. In the construction sector alone, it is estimated that there are 9,978 undeclared workers, amounting to a loss of €3.2 million in personal income tax and €5.2 million in corporate income tax (KTA, 2018).

The Labour Force Survey provides annual data on the share of employed individuals without an employment contract. 2019 LFS data shows that 13.4% of employees were in **unregistered employment**, which is a significant decline on 2016 when 26.3% were classified as in unregistered employment. This is difficult to explain, as no specific measures have been introduced to stimulate such a trend. Meanwhile, SELDI (2016) estimates that some 32% of employment is unregistered employment and that this is more prevalent among men (24.4% compared to 18.8% for women) and youth. According to the MCC survey, unregistered employment is most prevalent in the construction sector with 77.1% of employees not having a contract, 50% of employees in the agriculture sector are in unregistered employment, 42.3% in manufacturing, 41.7% in other services and 34.5% in services (Gashi and Williams, 2019).

The Labour Inspectorate (LI) of Kosovo\* represents another source of information. In 2018, the LI conducted 9,531 inspections, during which 1,251 cases of unregistered employment were identified (Kosovo\* Labour Inspectorate, 2020). More cases, both in absolute and relative terms were identified in 2017 and 2016 (1,750 out of 8,128 in 2017, and 1,340 out of 7,285 visits in 2016) (Kosovo\* Labour Inspectorate, 2017, 2018a). However, these statistics cannot be taken as a measure of the magnitude of unregistered employment, since the inspections are not conducted on a random selection of businesses.

The 2020 Balkan Business Barometer, meanwhile, asks businesses what percentage of the total number of employees a typical company in their area of business registers with the relevant authorities. In Kosovo\*, 9% of businesses assert that 0-25% of all employees are registered, 16% that 26-50% are registered, 16% that 51-75% are registered, 21% that 76-100% are registered, with 40% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a).

Examining **under-declared employment**, the only available data is provided by SELDI (2016), which found that 22.6% of wage earners with contracts receive higher salaries (not bonuses) than that written in their contracts. This indicates that more than 1 in 5 formal employees receive in addition to their declared official salary an additional undeclared (“envelope”) wage.

Turning to **bogus self-employment**, no known surveys have been conducted to estimate the proportion of the self-employed who are misclassified as self-employed when they should be classified as in dependent employment.

## Montenegro

Although there are no direct estimates of the number of **unregistered enterprises** in Montenegro, the World Bank Enterprise Survey in 2019 reveals that 57.5% of surveyed businesses in Montenegro assert that they compete with unregistered or informal businesses, with manufacturing firms more likely to compete against unregistered or informal firms than service sector businesses (79.3% compared with 51.2%). Indeed, 25.2% of all firms view the practices of informal and unregistered competitors as a major constraint on their operations, but again 30.1% of manufacturing firms compared with 23.7% of service sector businesses.

There are also no direct estimates of the proportion of **registered businesses** that declare only a portion of their work and revenue to the state authorities. However, one proxy measure is to examine the size of the undeclared economy as a proportion of GDP. The assessment of the share of the undeclared economy in GDP in the 1990s ranged from 35-60% of GDP. According to a 2005 survey by the Institute for Strategic Studies and Projections (ISSP) (2005), the share of the undeclared economy in GDP was estimated at 25%, or about €400 million, although there were variations, with the undeclared economy recorded in the most developed Southern region to be 30.6% of GDP, 23.8% in the Central region and 45.6% in the least developed Northern region of Montenegro. The key sectors were trade (38.1% of all undeclared work), agriculture (18.2%), the hospitality industry (19.1%), construction industry (10.8%), and transportation (9.6%). An IPSOS (2014) survey conducted in 2014 indicates the share of the undeclared economy in Montenegro amounted to 24.5% of GDP. The 2020 Balkan Business Barometer, meanwhile, asks businesses what percentage of the actual wage bill a typical company in their area of business reports for tax purposes. In Montenegro, 6% of businesses assert that 0-25% of the actual wage bill is reported for tax purposes, 13% that it is 26-50%, 10% that it is 51-75%, 53% that it is 76-100%, with 18% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a). The 2020 Balkan Business Barometer also asks businesses what percentage of total annual sales a typical company in their area of business reports for tax purposes. In Montenegro, 5% of businesses assert that 0-25% of total annual sales is on average reported for tax purposes, 10% that it is 26-50%, 8% that it is 51-75%, 58% that it is 76-100%, with 19% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a).

Turning to undeclared workers, the share of employees partially or fully engaged in undeclared work in the last ten years is relatively stable at some one third of the total number of employees (Katnic, 2016). **Unregistered employment** was estimated in a study by the Centre for Development of Industrial Democracy in 2000 in a survey among employees in the private sector as 38.6% of all employees in trade, catering and construction. A labour force survey conducted by the Institute for Strategic Studies and Prognoses in 2007 identified that 22.6% of all employees in Montenegro were unregistered employees. Regarding the structure of unregistered employment, 40% of unregistered employees were women and the largest share (32.7%) aged from 20 to 29. A 2014 IPSOS survey of the general population about working conditions, conducted for the Ministry of Labour and Social Welfare under the

auspices of UNDP, reveals that 22.3% of all employees were in unregistered employment (Katnic and Williams, 2018).

The 2020 Balkan Business Barometer, meanwhile, asks businesses what percentage of the total number of employees a typical company in their area of business registers with the relevant authorities. In Montenegro, 4% of businesses assert that 0-25% of all employees are registered, 10% that 26-50% are registered, 7% that 51-75% are registered, 64% that 76-100% are registered, with 14% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a).

**Under-declared employment** is estimated by a 2007 labour force survey conducted by the Institute for Strategic Studies and Prognoses. It reveals that 17.5% of employees received underreported salaries in the form of envelope wages so that employers could avoid paying the full taxes and social contributions owed. The 2014 IPSOS survey reveals that 10.3% of all employees had under-reported salaries and received envelope wages in addition to their declared salary (Katnic and Williams, 2018).

Examining **bogus self-employment**, the 2015 European Working Conditions survey reveals that 11% of all employment in Montenegro is bogus self-employment and that 46% of all self-employed are in fact bogus self-employed.

### **Republic of North Macedonia**

Although there are no direct estimates of the number of **unregistered enterprises** in the Republic of North Macedonia, the 2019 World Bank Enterprise Survey reveals that 54.5% of surveyed businesses assert that they compete with unregistered or informal businesses, with manufacturing firms more likely to compete against unregistered or informal firms than service sector businesses (60% compared with 52.2%). Indeed, 38.5% of all firms view the practices of informal and unregistered competitors as a major constraint on their operations, but again 38.9% of manufacturing firms compared with 38.3% of service sector businesses.

There are again no direct estimates of the proportion of **registered businesses** that declare only a portion of their work and revenue to the state authorities. However, the proxy measure of the size of the undeclared economy as a proportion of GDP can be again used. The results from the direct and indirect measures show that the undeclared economy is in the range of 17-40% of GDP. For instance, Schneider *et al.* (2010) estimate the size of the shadow economy in The Former Yugoslav Republic of Macedonia at 35% in 2007. On the other hand, Dybka *et al.* (2017) estimate the size of the shadow economy in 2015 to range between 8.2% and 17.2% of GDP. The State Statistical Office (SSO) implements an adjustment to the official Gross Domestic Product (GDP) to cover for the non-observed economy. The adjustments for the non-observed economy have been decreasing from 20.1% in 2008 to 17.2% in 2014 (see Mojsoska Blazevski and Williams, 2018). The 2020 Balkan Business Barometer, meanwhile, asks businesses what percentage of the actual wage bill a typical company in their area of business reports for tax purposes. In the Republic of North Macedonia, 2% of businesses assert that 0-25% of the actual wage bill is reported for tax purposes, 5% that it is 26-50%, 5% that it is 51-75%, 76% that it is 76-100%, with 12% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a). The 2020 Balkan Business Barometer also asks businesses what percentage of total annual sales a typical company in their area of business reports for tax purposes. In the Republic of North Macedonia, 3% of businesses assert that 0-25% of total annual sales is on average reported for tax purposes, 5% that it is 26-50%, 7% that it is 51-75%, 72% that it is 76-100%, with 13% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a).

Turning to the types of undeclared worker, data from the Labour Force Survey (LFS) of the SSO for the period 2008-2016 indicate the share of **unregistered employment** in total employment in the economy has decreased from 28.6% in 2008 to 18.1% in 2017. Men are more likely to be in unregistered employment than women: 20.5% of men in employment compared with 15.4% of women. Unregistered employment is highest for the population aged 65+ (who are mainly retired people) and for younger persons aged 15-24 (35%). According to the 2014 LFS data, unregistered employment was mainly prevalent in manufacturing (19.3% of total unregistered employment), agriculture (18.5%), trade (13.5%) and construction (7%). However, in some of these sectors the prevalence of unregistered employment is very high whereas in others it is low. For instance, although manufacturing has a large share of total unregistered employment, a small proportion of manufacturing workers is unregistered (4.7%). On the other hand, 64% of agricultural workers are unregistered. Workers employed in elementary occupations, plant and machine operators and crafts and related workers were most represented among unregistered workers in 2014. In addition, 62% of the workers with elementary occupations were unregistered.

The 2020 Balkan Business Barometer, meanwhile, asks businesses what percentage of the total number of employees a typical company in their area of business registers with the relevant authorities. In the Republic of North Macedonia, 0% of businesses assert that 0-25% of all employees are registered, 5% that 26-50% are registered, 6% that 51-75% are registered, 80% that 76-100% are registered, with 9% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a).

Turning to **under-declared employment**, it is widely known that envelope wages or hidden wages are present (Mojsoska Blazevski and Williams, 2018). A 2015 representative survey of citizens comprising 2,014 face-to-face interviews finds that 13% of employees surveyed received under-reported wages by an amount that averaged 39% of their net salary, and that in just under half (46%) of reported cases, employees are active instigators of such a wage arrangement (Williams and Bezeredi, 2017; Williams and Franic, 2017). Meanwhile, examining a 2015 survey of 450 employers, 35.1% asserted that they never paid envelope wages, 38.0% sometimes did so, 22.9% in most cases did so, and 4.0% always did so (Williams and Bezeredi, 2018).

Examining **bogus self-employment**, the 2015 European Working Conditions survey reveals that 18% of all employment in North Macedonia is bogus self-employment and that 64% of all self-employed are in fact bogus self-employed. This, therefore, is relatively widespread phenomenon.

## **Serbia**

Although no direct estimates exist of the number of **unregistered enterprises** in Serbia, the World Bank Enterprise Survey reveals that 49.7% of surveyed businesses in Serbia in 2019 assert that they compete with unregistered or informal businesses, with manufacturing firms less likely to compete against unregistered or informal firms than service sector businesses (38.2% compared with 55.3%). Indeed, 20.2% of all firms view the practices of informal and unregistered competitors as a major constraint on their operations, but again 12.5% of manufacturing firms compared with 24% of service sector businesses.

In Serbia, there are direct estimates of the proportion of **registered businesses** that declare only a portion of their work and revenue to the state authorities. Krstić and Radulović (2018) report that 16.9% of registered businesses in Serbia were engaged in undeclared activities in 2017. Approximately one tenth of businesses (10.8%) had undeclared employees, while 6.9% conducted cash payments, even though they were VAT payers. However, the share of registered businesses engaged in undeclared activities has significantly decreased from

28.4% in 2012 to 16.9% in 2017. Meanwhile, using the proxy measure of the size of the undeclared economy as a proportion of GDP, the finding is that the undeclared economy was 27.9% of GDP during 2013 (Hassan and Schneider, 2016). Using a survey of company managers to measure the size of the undeclared economy based on an income approach to measuring GDP, Krstić and Radulović (2018) develop the “shadow economy index” based on data on undeclared employee salaries and undeclared corporate profits. The undeclared economy is found to be 14.9% of GDP. A similar approach based on data derived from the enterprises and entrepreneurs’ survey estimates the undeclared economy at a similar scale of 15.4% of GDP in 2017 compared with 21.2% in 2012 (Schneider et al. 2015). These are lower-bound estimates because both the survey and “shadow economy index” cover only registered enterprises and entrepreneurs (Radulović and Williams, 2018).

The 2020 Balkan Business Barometer, meanwhile, asks businesses what percentage of the actual wage bill a typical company in their area of business reports for tax purposes. In Serbia, 4% of businesses assert that 0-25% of the actual wage bill is reported for tax purposes, 4% that it is 26-50%, 5% that it is 51-75%, 67% that it is 76-100%, with 20% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a). The 2020 Balkan Business Barometer also asks businesses what percentage of total annual sales a typical company in their area of business reports for tax purposes. In Serbia, 3% of businesses assert that 0-25% of total annual sales on average is reported for tax purposes, 2% that it is 26-50%, 6% that it is 51-75%, 69% that it is 76-100%, with 18% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a).

Turning to undeclared workers, according to the Serbian Labour Inspectorate (2018), the most common recorded violation was **unregistered employment** without a contract of unskilled and semi-skilled workers that are over 40 years old or that are receiving social assistance. This is followed by non-declaring to pension or health insurance authorities and hiring seasonal workers for seasonal jobs in agriculture on an undeclared basis. The LFS, meanwhile, identifies that the unregistered employment rate slightly increased from 19.5% in 2015 to 20.7% in 2017 (Radulović and Williams, 2018).

The 2020 Balkan Business Barometer, meanwhile, asks businesses what percentage of the total number of employees a typical company in their area of business registers with the relevant authorities. In Serbia, 2% of businesses assert that 0-25% of all employees are registered, 2% that 26-50% are registered, 3% that 51-75% are registered, 73% that 76-100% are registered, with 20% either refusing to answer or stating that they do not know (Regional Cooperation Council, 2020a).

Examining **under-declared employment**, according to the 2017 NALED Survey, 13% of all employees interviewed assert that their employer paid them either a declared wage plus an additional undeclared (envelope) wage or their total wage was paid as envelope wage (see Radulović and Williams, 2018).

Analysing **bogus self-employment**, the 2015 European Working Conditions survey reveals that 18% of all employment in Serbia is bogus self-employment and that 67% of those recorded as self-employed are in fact bogus self-employed. This, therefore, is a relatively widespread phenomenon.

In sum, a large proportion of both enterprises and workers in the six Western Balkan economies will have been excluded from fully or even partially accessing the short-term financial support being made available to deal with the pandemic. Below, in section 4, the details of this short-term financial support will be outlined along with the potential abuses that might have occurred in relation to them. Before doing so, however, the immediate challenges that state authorities have faced in terms of protecting enforcement authority staff and

adapting their working methods are considered to facilitate mutual learning on the practices being adopted.

### **3 Impacts on Enforcement Authorities**

State authorities have faced severe challenges in terms of protecting their staff and adapting their working methods due to confinement and social distancing. Here, to facilitate mutual learning on the practices adopted, the discussion at the first Plenary of the Western Balkan Network Tackling Undeclared Work is reported and this is supplemented by information on what is being done in the enforcement authorities in the 27 European Union member states. Firstly, the ways in which enforcement authorities have protected inspectors and other staff are reviewed and secondly, the ways in which state authorities are adapting and innovating in terms of new ways of working in the context of social distancing and (de)confinement. The intention in doing so is to **encourage reflection on whether any of these new ways of working might be continued in future.**

#### **3.1 Protection of enforcement authority staff**

With confinement, some enforcement authorities closed their premises and inspections severely reduced in number or even ceased. Others remained open and inspections continued, albeit at a reduced level. This was often dependent on whether the enforcement authority was deemed an “essential” service or not. For labour inspectorates, this has been closely related to whether occupational safety and health (OSH) is a responsibility or not. In Serbia, for example, inspections continued throughout the lockdown period, as was the case in many other labour inspectorates with OSH responsibilities. However, other labour inspectorates without the OSH function (e.g., the Workplace Relations Commission in Ireland) were not classed as an essential service, at least in the early stages of the lockdown, and closed. It is also the case that many tax administrations remained functioning, and deemed as essential services during the lockdown, as was for example the case with the Kosovo\* tax authority (KTA).

Those deemed essential services have therefore had to pioneer a range of **new working practices in their offices.** In terms of the office-based work of inspectors and other staff, social distancing has been introduced between desks, one-way systems for staff entering and exiting and moving around the offices, and where elevators exist, a limit of one person in an elevator at a time has been introduced (e.g., in the Netherlands). In addition, some economies have introduced Perspex screens in their offices to separate staff at their desks (e.g., Belgium, Estonia).

It has also been recognised that before clients can be allowed in state authority offices, changes will need to be made. In the tax administration of the Federation of Bosnia and Herzegovina, visitors have been suspended to limit direct contact and taxpayers have instead been contacted by phone or email, while decisions have been made about how to protect enforcement authority employees when visitors are allowed again. Regarding the protection of all employees, including inspectors, from the risk of infection, cleaning and disinfection were regularly performed with the use of disinfectants for floor surfaces, toilets, counters, tables, work surfaces and all tangible surfaces of office premises. Disinfectants (with antiseptic and disinfectant) and other means for general disinfection of the floor and tangible surfaces are provided, as well as personal protective equipment (gloves, masks, hand disinfectants) for all employees who worked, for all official vehicles, etc. All measures taken have contributed to the fact that no employee of this institution has been infected or tested positive for the virus, which is important given that the health of employees are the most important resource and greatest value of any institution. Similarly, the Kosovo\* tax authority



shifted away from direct contact with clients in their offices. It has been also widely recognised that screens will need to be erected before the offices can reopen for client consultations in order to protect enforcement authority staff.

Turning to **on-site physical workplace inspections** and field audits, these have continued in some economies, albeit at a reduced frequency and only for urgent cases (mostly in relation to OSH matters). In Albania, for example, the General Directorate of State Labour and Social Services Inspectorate (SLISS) continued to investigate complaints and accidents at work. So did inspections continue by the labour inspectorate in Serbia. In some other economies, on-site physical inspections temporarily ceased with confinement. In the tax administration of the Federation of Bosnia and Herzegovina, field audits were suspended temporarily.

In many economies, **risk assessment** has been introduced firstly, for inspectors and secondly, to determine whether an on-site physical inspection is necessary and the personal protective equipment (PPE) is issued based on the assessment of the level of risk involved. In the case of **risk assessment for inspectors**, in many economies, inspectors who medically are part of the at-risk groups (immune-compromised and those with chronic illnesses) do not carry out on-site inspections. In the tax administration of the Federation of Bosnia and Herzegovina, for example, vulnerable groups including employees over 60, those with chronic illnesses and pregnant women were instructed to use their annual leave, taking care to provide a minimum number of employees for the smooth functioning of the administration. Similarly, in Serbia, the labour inspectorate allowed those employees older than 60, employees with children up to the age of 12, employees with diagnosed chronic diseases (cardiovascular, oncological, pulmonary diseases and diabetes) to work from home.

Turning to **risk assessment for physical inspections**, such inspections were generally only conducted in the most urgent cases at the height of the pandemic. In many economies, it had to be justified that the physical inspection visit was indispensable. Although in the COVID-19 context, all inspections were risky, in Portugal the following organisations were assessed as too risky for inspections to take place: health facilities (e.g., hospitals, health centres); elderly support institutions, and undertakers. Therefore, the sector was the principal risk assessment criteria used to determine whether the risk of an inspection was too high. When deciding on whether to undertake a physical inspection, furthermore, economies have also differentiated between labour law focused inspections and OSH inspections. Pure OSH physical inspections have been more commonly conducted, whilst labour law focused inspections more often carried out through documentary analysis and deemed not to require direct on-site inspections.

For example, in Portugal, the only labour law-focused inspections have been in the following situations: occupational exposure to biological risks; investigation of accidents at work; abusive responses with an emphasis on unlawful termination of employment contracts, and harassment situations. In other words, only reactive inspections to complaints have been conducted in most economies. Moreover, in Portugal, the labour inspectorate (ACT) have also insisted that inspectors engage in careful pre-planning of all inspections including a consideration of whether the evidence can only be gathered by an on-site inspection, the people who need to be contacted and consideration of the risk situation likely to be found, in order that the appropriate PPE can be issued.

Economies have adopted similar approaches for **protecting staff during on-site physical workplace inspections** in terms of both the personal protective equipment (PPE) used and how inspections are conducted to ensure the health and safety of inspectors, such as respecting social distancing rules.

On the use of PPE, key issues have been equipping inspectors to protect themselves from the risk of infections, what PPE to issue, and what other precautions to take. Firstly, **masks** have

been introduced for inspectors (e.g. in Albania, Bosnia and Herzegovina, Greece, Latvia, Luxembourg, Montenegro, Portugal, Serbia) and in some economies training provided on the correct way to put on a mask (e.g., Greece). In most cases, simple masks have been used, and sometimes face shields/visors (e.g., Serbia), rather than the most serious industrial respirators like the P2 or P3 category. However, this is determined by the level of risk of the inspection. Most economies have not used P2 or P3 respirators, except for the riskiest inspections. Some economies have provided more extensive guidance in terms of the use of masks and visors than others. For example, in France, the Ministry of Employment speedily produced a very detailed 34-page “Mask and visor control guide: a support tool for the COVID-19 pandemic” for their inspectors.

Secondly, **gloves** have been provided in most economies (e.g., Albania, Bosnia and Herzegovina, Greece, Latvia, Luxembourg, Montenegro, Portugal, Serbia) and so too have disinfectants (e.g., Albania, Bosnia and Herzegovina, Greece, Latvia, Luxembourg, Portugal, Serbia) and **one-time protective clothes** have only been issued for the riskiest inspections. In Serbia, for example, before the introduction of the state of emergency in the Republic of Serbia, labour inspectors received e-flyers with instructions for proper hand washing and instructions on prevention measures for coronavirus and protection against the spread of COVID-19. After the declaration of the state of emergency in the Republic of Serbia, all labour inspectors received and regularly used masks, gloves and visors, along with appropriate disinfectant for work surfaces and hand sanitiser.

Thirdly, inspectors have been instructed to respect **social distancing** during inspections (e.g., Albania, Bosnia and Herzegovina, Greece, Latvia, Luxembourg, Montenegro, Portugal, Serbia). If inspectors do not feel it safe, such as they cannot maintain 2 m (or 1.5m in some economies) social distancing inside the premises of the workplace, then they either do not enter the workplace and abandon the inspection or they are advised to ask the person to step outside the physical workplace for the inspection to take place outside the physical premises (e.g., the Netherlands). In Portugal, it has been requested that written inspection procedures should not be done during the on-site inspection but done electronically afterwards.

Fourthly, when visiting the workplace, **contact and time spent** in the workplace is recommended to be reduced to the minimum (e.g., Portugal, the Netherlands). In most economies, inspectors have been advised to avoid making any compliments with physical contacts (e.g., handshaking). Similarly, contact with clients has been reduced to a minimum across most Western Balkan economies. In this regard, inspectors are asked to consider what needs to be done during the actual physical inspection and what can be done before and afterwards away from the workplace. In the Netherlands for example, they are asked to consider whether a pre- or post-video call can be used to collect some of the information.

Fifthly, when using the authorities’ **cars**, these must be disinfected after each use (e.g., Luxembourg). When using and cleaning service vehicles, economies (e.g., Luxembourg, Portugal) ask inspectors to: clean all items where hands have touched them (door locks, steering wheel, gearshift, handbrake, controls and keys); ask inspectors to carry out the cleaning process of the vehicle with the doors open and to register that the cleaning has been undertaken in the vehicle document, and when working in teams of two, the non-driver must occupy the rear seat; teams should never have more than three inspectors. Indeed, many economies now expect these hygiene etiquette rules when using service vehicles and during inspections to continue after the pandemic (e.g., Portugal). In other economies, staff have stopped using public transport and used their own private cars (e.g., Sweden) when attending workplace inspections.

A measure of the effectiveness of these protective measures is that in many enforcement authorities in the Western Balkans, no employee has tested positive. In the tax administration of the Federation of Bosnia and Herzegovina, for instance, none of the 1,200 employees had tested positive. This was similarly the case among the 240 employees in the labour inspectorate in Serbia.

### 3.2 New working methods and lessons learned

With confinement and social distancing, enforcement authorities have had to adapt and innovate in terms of their working practices.

Firstly, there have been **changes in inspections**. A decrease in the number of on-site physical inspections has led many inspectorates to adopt more frequently other types inspection. Authorities have substituted physical on-site workplace inspections with telephone or video conference inspections, and/or postal inspections (e.g., Albania, Bosnia and Herzegovina, Denmark, Norway). In the tax administration of the Federation of Bosnia and Herzegovina, for example, field audits were suspended and replaced with desk audits, and taxpayers were contacted by phone or email rather than asking them to come to the office. The tendency has been to use telephone rather than video for inspections in some economies due to secrecy and privacy issues regarding video online platforms, which need to be resolved before using video inspections. New written procedures have also had to be produced for documentary and postal inspections. One new innovative form of distance inspection that has emerged in Latvia is an inspection based on observing visually from a car. Indeed, many authorities have discovered that a lot can be done without visiting workplaces, although the verification of some rights and labour conditions still require a visit (e.g., visits to call centres in Albania to check on social distancing of employees). For example, in many economies, it has been learned that complaint investigation regarding labour law issues (payments, salaries, firing etc.) can be solved with document exchange and asking opinions from both parties in written form and without a need to physically visit the company.

Although desk-operated inspections have increased, some economies have seen them as a precursor to a physical inspection later and others not, some put demands which will be followed up and others have viewed them more purely as a check-up. It has also been learned that these new means of conducting inspections appear to be effective, although many economies assert that there is a need for caution regarding whether they are a long-term substitute for physical on-site inspections when detecting undeclared work. Therefore, the crisis has raised issues about whether more inspections could be done remotely in future without human contact by utilising different information sources or doing the inspections in a more restricted way. **The lesson has been that many inspections require no physical presence.** Indeed, some inspectorates now view written procedures as more objective and less stressful for all involved, suggesting that they could be more widely used in future.

One other type of inspection that greatly reduced during confinement was joint inspections with other authorities. Nevertheless, it is expected that these will resume in the recovery period.

It is important to state, however, that complaints did not stop being reported during the confinement period. In Serbia for instance, the labour inspectorate received 4,650 complaints during the crisis period, resulting in 1,522 inspections. These included 644 complaints from employees, of which 417 were due to a lack of PPE, 79 about undeclared work, 126 about the termination of employment, and 317 about other violations of labour rights (e.g., non-payment of salaries). In Montenegro, the complaints to the labour inspectorate have involved mainly termination of employment, temporary employment, unpaid wages and paid leave. Indeed, they were overwhelmed with enquiries on rights and obligations.

Secondly, the reduction in physical workplace inspections has led to greater emphasis being put on the use of **data mining and matching** to detect violations in some economies. This, for example, has been the case in the tax administration of the Federation of Bosnia and Herzegovina. The net outcome is that the reduced ability to conduct workplace inspections during confinement has acted as a catalyst for the increased use of additional policy tools that are available for detecting undeclared work beyond workplace inspections. Remote staff access to resources (e.g., inspection case management databases; other databases) has also been often enhanced.

Thirdly, there has been a shift towards **home-based working** for staff. In the Kosovo\* tax authority at the time of the webinar, the number of employees in the office was approximately 120 out of the total number of 830 employees in the authority. The rest are working from home. The result of the pandemic is that authorities have had to actively consider what can be done from home and what needs to be done in the office and realised that many tasks can be done via home-based working. There is recognition, however, that this requires additional support to set-up homeworking for employees. This includes the acquisition of extra laptop computers, a VPN connection, and mobile apps for phone consultants. It often also involves the creation of online document sharing sites/share points, such as for case management databases and other documents. Vulnerable staff have been in all authorities given priority for distance working.

This shift towards home-based working has also resulted in some economies in the introduction of training for managers on distance work management (e.g., Latvia, Sweden). New competencies have also emerged as being required by staff. These include the ability to adapt to change, the ability and willingness to engage with technology, new communication skills and the ability to manage from a distance. Some used to the “old style” working practices have found the change to a new working environment to be a challenge. Nevertheless, **the overall lesson is that many of the tasks undertaken by staff can be done from home**. For some economies, the view is that nearly everything except physical inspections can be home-based work, namely: consultations, telephone information, documentary inspections; training; strategic planning/supervision; writing reports/paperwork/analysis/preparation of cases, and policy making. However, this has required resourcing. For example, in Kosovo\*, the range of services provided by the tax authority to clients declined because they were unable to provide them online due to a lack of resources and tools. Other activities, however, shifted to electronic provision (e.g., phone, email) during the three months that the offices were closed.

Fourthly, with the reduction in physical inspections, inspection resources have been in some cases shifted to the provision of **advisory consultations**. In Latvia, for example, triple the resource is now devoted to advisory consultations. A mobile app (Softphone App) has been adopted for such distance consulting. This is an app that can be downloaded onto employees’ phones or portable devices that mimics the functionality of a desk phone, allowing consultants to work remotely from home or anywhere else. So too has a new web page, the “virtual consultant”, been implemented in Latvia, which was not due to COVID-19, as its development was already underway, but has been useful in the “new normal”. In Serbia, meanwhile, 200 emails had been received from employees during the crisis period, mainly regarding the termination of employment, lack of PEE or problems related to transport to and from work. The Kosovo\* tax authority, meanwhile, has been receiving 200 phone calls per day and 155 emails per day on average during the crisis.

Fifthly, **virtual meetings** of staff have often replaced physical meetings. This shift towards virtual meetings includes both regular internal staff meetings as well as training. For example, the internal training provided for new inspectors is now conducted virtually in the Latvian

State Labour Inspectorate, as is training for managers in distance work management, measuring the productivity of staff and monitoring their well-being/health status in many inspectorates. There have also been virtual court hearings of cases of undeclared work in some economies (e.g., Ireland). The **lesson has been that physical staff meetings are not always required**, and this has benefits such as reducing fuel usage, per diems, premises, etc. One constraint, nevertheless, has sometimes been that there are data capacity and wi-fi reception constraints. In some economies, the **wider lesson learned is that 8-5 attendance at the office five days per week is not necessary** and that there are more flexible ways of working that can be adopted and even might be more efficient.

Sixth, there has been the greater adoption of **education and awareness raising campaigns** in many state authorities. Special educational materials and advice have been developed both on COVID-19 as well as on the benefits of declared work, and extra communication has been pursued on social media to distribute this information (e.g., Albania, Bosnia and Herzegovina, Bulgaria, Latvia, Portugal, Spain Sweden). In Albania, this focus upon awareness raising has targeted mainly employers. From 10 March 2020, the official website of the IPHSH has served as a bridge of communication with all interested parties through the address Info.Sli.gov.al. The tax administration of the Federation of Bosnia and Herzegovina has also published more information and notifications on its website. Indeed, the labour inspectorate in Portugal (ACT) found new ways of contacting employers and employees electronically and received 3.5 million “hits” on its website. It now intends to continue contacting employers and employees via its website in the recovery period. So too has Bulgaria developed with the assistance of the Ministry of Health its labour inspectorate website. In some economies, the procedure for making complaints has shifted online through the website of the enforcement authority, therefore avoiding contact with paper and the transmission of the virus (e.g., Albania, Portugal). Indeed, in Albania, the number of complaints has increased with the shift to an online system on the website of the General Directorate of State Labour and Social Services Inspectorate (SLISS).

In sum, many of the innovations are digital solutions and **COVID-19 provided the impetus for authorities to update their working practices to digital solutions**, reflecting the wider technological developments in society. This will result in **new skillsets and competencies being required by inspectorate staff** in the future, particularly in relation to communication skills and IT competencies. Rather than view these new working methods as replacing physical inspections, many economies view them as “extras” that can now continue and strengthen the efficiency and effectiveness of physical inspections.

Besides these changes in working practices, there has also been greater **organisational coordination and cooperation**. In other words, COVID-19 has acted as a stimulus for **a shift away from working in “silos” and towards a more joined-up policy approach**.

Firstly, there has been greater **coordination**, with the establishment of **special teams/units** to handle the crisis in some authorities. In Serbia, on 25 March 2020, a National Contact Centre of the Inspection Services was launched as the only contact point for the receipt of complaints and launch of resultant inspections. In the period from 26 March to 6 May 2020, the Labour Inspectorate received 297 complaints from employees and citizens of the Republic of Serbia through the Contact Centre, which mostly related to the exercise of employment rights, but also to the non-application of preventive measures in relation to the spread of infection caused by COVID-19.

Similarly, the Netherlands labour inspectorate established a COVID-19 “crisis team” to coordinate COVID-19 issues. The team assesses the seriousness of cases where complaints are received and makes decisions on whether an inspection needs to occur. It also conducts

risk assessment of the inside and outside work of inspectors and provides a central triage table which identifies urgent cases and what action is required. In Spain, a new COVID-19 management unit has been established within the labour inspectorate (ITSS). This coordinate's and gives support to the inspectorate units, coordinating actions, formulating plans and establishing the follow-up activities required. Its remit covers occupational health and safety, temporary employment adjustment procedures, and restriction of workers' rights. It has developed an inspection procedure regarding the measures that businesses have taken to prevent infection. This verifies OSH standards compliance about biological risk (activities where SARS-Cov-2 exposure is an occupational hazard) and provides warnings about compliance of health advisories and informs health authorities in the cases of non-fulfilment of their responsibilities. This new unit facilitates coordination with other state authorities including the health authorities, social security bodies and other administrative authorities (e.g., police force, prosecutor's office).

Secondly, there has been greater **cooperation across government** to provide (coordinated) advice on COVID-19 and to ensure that they are adopting a common approach to comply with the COVID-19 situation. In Albania, a cross-government "task force" has been established, under Decision No. 15 dated 25.04.2020 of the Prime Minister "On the establishment of the Task Force to guarantee the implementation of security protocols within the epidemic caused by COVID-19". This is led by the Ministry of Health, and involves all other inspection authorities, to tackle the pandemic. Similarly, in Kosovo\*, to address the pandemic, a cross-government group has been established to coordinate the response and an operational plan was produced comprised of 15 measures. Measure 3 provides financial assistance to businesses subsidising the wages of employees whilst measure 14 relates to a regularisation scheme (see sections 4.1 and 4.3 below).

More particularly, the tax authority in Kosovo\* was also assigned as head of a cross-government "task force" to check the prices of goods and services and to conduct audits over the lockdown period. Similar price hikes have been detected in Albania (Oculus News, 2020). In Kosovo, this task force focused particularly on pharmacies and grocery stores, and over 100 cases of malpractice were identified. In addition, this task force, through electronic and print media, has also informed the citizens that the unreasonable increase of prices can be reported to the tax authority. Any information received from citizens has been immediately addressed by TAK inspectors, who, for the irregularities found, have imposed fines and penalties to the persons and businesses who have abused prices. This has been a joined-up cross-government approach and the activity has been handled together with the Market Inspectorate and the Economic Crimes Police.

A further exemplary initiative of where the pandemic has acted as a stimulus for cross-government cooperation on tackling undeclared work is found in the Netherlands. Here, an interdepartmental "boosting" team has been established involving seven Ministries working together with stakeholders, including social partners, at the local and sectoral level, especially in relation to the working conditions of migrant workers, which has risen up the political agenda in the Dutch parliament during the crisis. This improved cooperation with the social partners on this issue is now likely to continue in the future. The concerns related to migrant workers resulted in interviews being conducted at the residences of migrant workers, collaboration with other authorities to collate information and resultant visits to risky businesses, including distribution centres, construction industry firms, slaughterhouses and meat processing industries where many Polish and Romanian migrant workers are employed.

Key issues identified have been firstly, social distancing of workers in their accommodation and secondly, social distancing when transporting workers. This has also been identified in other economies (e.g., France, Netherlands, Serbia, Sweden). In Serbia, the labour

inspectorate had received 200 emails from employees reporting complaints, and a common complaint regarded transport from and to work, and too many in the vehicles to allow social distancing. In Serbia, however, there has been no need to establish a cross-government working group on the informal economy because one already existed prior to the pandemic to coordinate the fight against undeclared work.

Thirdly, there has been sometimes greater **cooperation and coordination with social partners**. In Ireland, for example, there has been greater cooperation with social partners during the crisis, such as inviting them to online virtual hearings of labour law cases. And in the Netherlands, as displayed above, social partners have been heavily working in partnership with government agencies in tackling the working conditions of migrant workers.

Consequently, on some aspects of joined-up coordinated action, the pandemic has acted as a stimulus for exemplary cooperation initiatives. However, on other aspects of a joined-up cross-government approach, namely the use of joint inspections, these in many economies temporarily either ceased or greatly reduced during the lockdown period, and there was a reversion to only single agency inspections. This, however, appears to be a temporary setback, with many enforcement authorities asserting that joint inspections will be recommencing after the confinement period.

Meanwhile, no enforcement authorities have explicitly voiced that the pandemic had acted as a catalyst for greater cross-government cooperation on data mining, sharing and analysis. Neither have any enforcement authorities asserted that they have used the pandemic as a catalyst for seeking greater access to other enforcement authorities' databases so that they can more efficiently detect cases of undeclared work and identify risky businesses for inspections, notification letters, educational and awareness raising, etc. However, this possibility is still open for state authorities to use the pandemic as an opportunity to improve cross-government cooperation on data mining, sharing and analysis. With the potential money involved in the abuse of the short-term financial support schemes, there is still an opportunity for enforcement authorities to argue the case for improving cross-government cooperation on data mining, sharing and analysis.

In sum, the crisis has resulted in some exemplary initiatives on pursuing a joined-up cross-government coordinated approach, many innovations in relation to doing inspections differently, greater emphasis on data mining and awareness raising, but less innovation in the adoption of cross-government data mining, sharing and analysis.

The main lessons from the pandemic are that in the future, there could be: (i) less dependence on physical workplace inspections and greater risk assessment of whether a physical inspection is required, or whether some other form of inspection can be conducted; (ii) continued use in the future of some of the new hygiene standards implemented during the pandemic for inspectors and inspections; (iii) greater home-based working and use of virtual staff meetings, (iv) more emphasis put on the use of data mining and matching to detect violations; (v) greater emphasis on digital solutions (e.g., use of social media and websites for information distribution and complaint reporting) and a consequent consideration of the new skills and competencies required by inspectorates and their staff, and (vi) greater use of joined-up action via task forces and cross-government coordination and cooperation on strategy, operations and data mining, sharing and analysis.

#### **4 Immediate Challenges and Responses**

It is not only the state authorities that have witnessed challenges and had to adapt due to the COVID-19 pandemic. With the pandemic, the closure of businesses resulted in the cessation or severe reduction of not only declared work but also undeclared work. The result is that

governments have had to take quick action to protect workers, support jobs and income, and stimulate the economy and employment, including social protection for those affected, support for employment retention, and financial and tax relief for the affected enterprises (ILO, 2020b). This has resulted in an unprecedented level of short-term financial support being provided to the enterprises and workers affected (IMF, 2020).

Firstly, therefore, this section outlines the short-term financial support provided to both businesses and workers in the six Western Balkan economies, followed in the second section by a brief review of possible abuses and illegitimate practices with regard to these short-term financial support schemes, which will need to be investigated by the state authorities in the near future. Recognising that the crisis has resulted in not only revenue reductions for declared enterprises and workers but also undeclared enterprises and workers, the third and final section considers the possibility of using the opportunity offered by the pandemic to implement regularisation schemes for undeclared enterprises and workers as a means of transforming undeclared work into declared work.

#### **4.1 Short-term financial support schemes in Western Balkan economies**

Economies across the world have implemented short-term financial support schemes to protect employees and the self-employed against dismissal and loss of income and business support to temporarily reduce the hours of employees or suspend their employment, with government funding covering the hours not worked, and the self-employed have been provided with short-term income replacement by governments to replace lost revenue. Here, a review is provided of these short-term financial support schemes in the six Western Balkan economies. It should be kept in mind that these have been made available largely only to enterprises and workers operating in the declared economy prior to the lockdown. The situation below is as of 18 June 2020 (see IMF, 2020).

##### **Albania**

**(De)confinement.** The economy detected its first case on March 8<sup>th</sup> and shut its borders in mid-March except for trade and repatriation flights. The parliament adopted on April 18<sup>th</sup> amendments to the penal code, legislating harsh punishments for those breaching the lockdown or quarantine. As of June 18, Albania had 1,788 confirmed cases (of which 663 are active cases), and 39 deaths. As new cases dropped, the economy re-opened its borders on 1 June 2020 and hotels and beaches have opened in preparation for the forthcoming tourist season, with new hygiene and distancing requirements. Albania remained in a state of natural catastrophe until June 23<sup>rd</sup>, which enabled the government to use extended powers.

On June 1<sup>st</sup>, Albania removed all domestic restriction to movement and travel. Most businesses opened, including bars and restaurants for outside sitting. However, two weeks after the reopening, new infections spiked, with the number of active cases doubling. The government has postponed the opening of public transport and called on the citizens to abide to physical distancing measures to avoid a second lockdown. Large gatherings continue to be banned and cinemas, theatres, night clubs and swimming pools remain closed. Wedding parties are not allowed, and funerals are restricted to family members. Gradual reopening measures have started since mid-April based on the [reopening strategy](#) prepared by the Ministry of Health, which factor in the number of new cases, hospitalisation and patients needing intensive care. Schools resumed on May 18<sup>th</sup> only for graduating high school students that sit university admission exams, while some universities will resume staggered classes in the summer to ensure fewer students per class. Kindergartens opened on June 1<sup>st</sup>. Courts have resumed work as April 27<sup>th</sup>.



**Short-term financial support schemes.** So far as short-term financial support for businesses and workers affected by the COVID-19 pandemic are concerned, the government has adopted two packages worth a combined total of Lek 45 billion (2.8% of GDP).

The first package adopted on March 19th through a [normative act](#) had support measures of Lek 23bn (1.4% of GDP). Besides additional funding for the health sector of Lek 3.5 billion, the main measures are: (i) Lek 6.5bn for the support of small businesses/self-employed that are forced to close activities due to the COVID-19 pandemic by paying them minimum salaries (up to two in the case of family businesses with unpaid family members), and a doubling of the unemployment benefits and social assistance payouts; (ii) Lek 2bn of defence spending reallocated toward humanitarian relief for the most vulnerable; (iii) Lek 11bn (0.6% of GDP) sovereign guarantee fund for companies to access overdrafts in the banking system to pay wages for their employees for up to 3 months with an interest rate capped at 2.85% for a maturity of up to 2 years. The government will bear the interest costs.

The second package [adopted](#) on April 15th includes (i) Lek 7bn (0.4% of GDP) fund to pay for a one-off transfer of Lk40,000 to employees of small businesses affected by the pandemic not covered in the first package, employees of large businesses laid off due to the pandemic, and employees in the tourism sector; (ii) a sovereign guarantee of Lek 15 billion (0.9% of GDP) to provide loans for working capital for all private companies that were tax-compliant and solvent before the pandemic. The government will guarantee 60% of the loans, and interest is capped at 5%. As of 2 June 2020, 70% of the budgeted direct support measures had been paid out. The government has also adopted tax deferral measures allowing all companies (except banks, telecommunication, public enterprises and companies in the chain of supply of essential goods) to defer payment of profit tax until after September. Tourism, active processing and call centres, as well as small businesses with turnover of Lk14m or less, can defer payments of profit tax to 2021.

### **Bosnia and Herzegovina**

**(De)confinement.** Bosnia and Herzegovina has reported 3,119 positive cases, claiming 168 lives as of June 18, 2020 (ECDC, 2020; IMF, 2020). The government declared a state of emergency throughout the economy, closed schools and universities, shuttered restaurants and shops, suspended public transportation, banned public gatherings, and imposed severe restrictions on the movement of people. Borders are closed to non-Bosnia and Herzegovina citizens. Incoming Bosnia and Herzegovina citizens are quarantined for 14 days.

Both entities have ended their curfews for individuals of all ages. K-12 educational institutions are still closed, public events remain cancelled, and spots for public gatherings face limitations on the total number of people present. Restaurant and cafes throughout the economy are open, along with most other businesses. There are still social distance restrictions in many places. Grocery stores, and pharmacies continue to operate under previous conditions. Masks or scarves are no longer required when social distancing measures can be observed. Masks should be worn when social distancing is not possible. Sarajevo airport has reopened to passenger traffic. The border is open to the citizens of Croatia, Serbia, and Montenegro as of June 1. There is still a ban to entry for most non-resident foreign nationals.

**Short-term financial support schemes.** The entity governments have allocated around KM 50 million (0.15% of GDP) for dealing with COVID-19. Beyond health care costs, the Republika Srpska (RS) has postponed payments for business tax from end-March to end-June, while speeding up tax and SSC refunds. The RS decided to cover PIT and SSC for about 40,000 workers in the sectors that are closed by the government decision from March to May (KM 50 million, 0.15% of GDP). The RS also announced that the government will pay

minimum salaries for all employees in these sectors in April (KM 53 million, 0.16% of GDP) and is planning to increase the transfers to unemployment funds (KM 25 million, 0.08% of GDP). The Federation of Bosnia and Herzegovina plans to subsidize contributions and taxes and pay minimum wages for all employees of the companies impacted by COVID-19. The Federation of Bosnia and Herzegovina announced that a total amount of about KM 1 billion (3% of GDP) will be secured to support the economy, through: (1) setting up a special fund to stabilize the economy (KM 500 million, 1.5% of GDP); and (2) establishing a guarantee fund at the Development Bank (up to KM 500 million, 1.5% of GDP) which will serve to maintain and improve the liquidity of companies. The RS is also developing a credit guarantee scheme.

### **Kosovo\***

**(De)confinement.** The number of confirmed COVID-19 cases reached 1,833 with 968 recovered and 34 deaths as of June 18. The Ministry of Health has prepared a manual which sets rules to be respected by everyone in order to control the situation. Containment measures taken by the government in order to delay the spread of the coronavirus include temporary suspension of educational process on all levels, closures of all non-essential businesses, social distancing, travel and movement restrictions. Starting from April 15th stronger movement restriction was introduced allowing people to go out only for 1.5 hours, since May 4th this was extended to 3 hours per day and from May 18 to 4 hours. From May 27, movement of people was extended to 16 hours per day from 5.00 until 21.00 and starting from June 8 no movement restrictions

Starting from May 4, relaxation of some containment measures began by the Ministry of Health. Business activities in the construction sector, real estate, trade of vehicles and some small shops have been allowed to work. The second phase of relaxation measures started on May 18 when more business activities were allowed to work such are dentists, barbers, restaurants (take away), green markets, museums, art galleries, and urban transport. Starting from June 1st third phase was implemented where almost all business activities were allowed to operate. Also, workers in public institutions been asked to show up in the office starting from June 1st. Starting from June 8 no movement restrictions and borders with economies in the region are open.

**Short-term financial support schemes.** Key spending and tax measures include: (i) allocation of €6 million to the health ministry; (ii) deferrals for corporate income and personal income taxes, and VAT; (iii) advancing payments for social assistance schemes by an additional one month's amount (from one month to two months) to support families in need; (iv) removal of VAT on imports of wheat and flour; (v) deferral of public utilities payments until end of April. In addition, a fiscal package to the amount of €170 million (2.5% of GDP) has been adopted by government and 42 percent of this package been executed as of June 18th. The Ministry of Finance has approached supra-national institutions (e.g., IMF, World Bank, EU and EBRD) and other bilateral donors for financial support and has started making payment to workers as planned under fiscal package where €82 million been paid so far. The process of midyear budget review is taking place soon by which the government is planning to execute remaining part of the package. and more payments to take place in coming days. The Central Bank of Kosovo\* (CBK) together with the Kosovo\* Banking Association decided to suspend the payment of loan instalments for businesses and individuals starting from March 16 until April 30 and later on was extended to three months until mid-June and later to mid-August. The CBK will apply regulatory forbearance on loan provisions and capital requirements on reprogrammed loans.

The Kosovo\* government emergency fiscal package worth more than €170m contained 15 measures to help businesses pay salaries and not close. The government package includes

help for businesses in paying salaries for a period of two months at the level of the minimum wage (€170) as well as pension contributions, and for small and medium -sized enterprises, up to half the cost of renting premises. It also provides interest-free loans for public enterprises and monthly payments of €130 to employees made jobless. Of the salient measures for protecting the declared economy and preventing the growth of the undeclared economy, measure 3(a) covers monthly wages for two consecutive months at the minimum wage (€170) as well as pension contributions under measure 3(c). measure 3(b) supports the payment of up to 50% the cost of renting premises. Measure 14 provides financial support of €130 per month per employee for two consecutive months providing businesses put workers on contracts of at least one year. According to the Kosovo\* tax authority, so far businesses have applied for support for 170,000 employees ahead of a May 15 deadline, at a cost estimated at some €51m in salary payments for two months, not including pension contributions.

A joint survey of 462 businesses was conducted by the Kosovo\* Chamber of Commerce, the American Chamber of commerce in Kosovo, the German-Kosovo\* Chamber of Commerce, the council of European Investors and the Kosovo\* Manufacturers Club. 95% of businesses assert that the pandemic has or will have a negative impact on their operations. Only 6% asserted that the government's package was of significant support and a similar percentage said it did nothing to alleviate their difficulties (Bami, 2020).

## Montenegro

**(De)confinement.** Montenegro had 337 registered cases of COVID-19 infections and nine deaths as of June 18, 2020. Since the pandemic erupted, the government has implemented a range of [containment measures](#) including travel restrictions, border closures, as well as the closures of schools, restaurants, and public transportation.

A phased reopening of the economy [began](#) on May 4, with social distancing restrictions as well as sanitary and protective conditions that need to be implemented by the respective facilities. Retail outlets and services (such as hairdressers, gyms and fitness centres, driving schools) were allowed to operate, and citizens allowed to visit their holiday homes in other municipalities. Public and taxi transportation in municipalities with no active cases were also resumed. A gradual [return](#) to sporting activities was also allowed from May 6. In the second phase (from May 15), restaurants, cafes, hotel terraces, beach bars, beaches and shopping malls were reopened. Intercity transit resumed from June 1 and borders were [reopened](#) to economies with infections of less than 25 per 100,000 inhabitants. Several containment measures have been lifted: public gatherings of up to 200 people are allowed, as well as the operation of discos, bars, cinemas, theatres, and kindergartens.

**Short-term financial support schemes.** A first round of measures included: (i) the removal of the excise on medical alcohol sold in pharmacies; (ii) the delay of tax payments and social security contributions; (iii) the creation of a new Investment Development Fund (IRF) credit line of €120 million to improve the liquidity of entrepreneurs; (iv) the deferral of lease payments for state-owned real estate; (v) advance payments to contractors for capital projects; (vi) one-off financial assistance to low-income pensioners and social welfare beneficiaries in the amount of €50 each (€1 million has been allocated); (vii) and an increase in the March wages of healthcare workers by up to 15% (€0.5 million has been allocated).

On April 24, the Montenegrin cabinet approved a €75 million (with a net impact of €40 million) [second package](#) of measures. This includes (i) subsidies in April and May of 70% of the minimum wage for employees in sectors closed because of the pandemic, employees who are unable to work due to childcare for children aged under 11, or people who have to be self-isolated and quarantined; (ii) a subsidy of 50% of the minimum wage for employees in sectors at risk due to the lockdown; (iii) a subsidy of 70% of the gross minimum wage of newly

employed workers in small and medium sized enterprises for six months if these workers are registered as unemployed; (iv) state bodies and state-owned companies will impose a six-month moratorium on the enforcement of claims for companies that are not operating due to the pandemic; (v) energy firms will exempt the fixed portion of electricity bills for businesses that have stopped operating due to the pandemic-related lockdown; (vi) the state utility EPCG will double its electricity subsidies for vulnerable households; (vii) assistance to the agriculture and fisheries sector, including one-off [assistance](#) to fishermen and payments for the contributions of insured agricultural workers; and (viii) one-time assistance of €50 to all persons recorded as unemployed in the Employment Agency of Montenegro and who did not receive any compensation.

On March 17, the central bank announced a [moratorium](#) on loan repayments for a period of up to 90 days. The moratorium is available to all borrowers and includes the interim suspension of all payments of obligations based on the loan (principal, interest, default interest, fees, etc.). On May 20, it was further announced that banks can approve a new [moratorium](#) for borrowers facing difficulties due to the pandemic. Banks may also, under clearly specified conditions, approve the restructuring of loans, including unsecured cash loans.

### **Republic of North Macedonia**

**(De)confinement.** North Macedonia had reported 4,664 confirmed cases and 216 deaths as of June 18, 2020. The government is taking measures to gradually reopen the economy including entry into the economy, but social-distancing restrictions remain to slow down contagion.

**Short-term financial support schemes.** The government has adopted fiscal measures to help address firms' liquidity problems, protect jobs and support the most vulnerable. The measures, which are temporary, include subsidies on private sector wages and social security contributions for firms that maintain employment, postponement of income tax payments, loans at favourable terms and loan guarantees, and sector-specific support. Also, vulnerable households will receive financial support through existing social assistance schemes and cash vouchers. Students will receive partial re-imbursment of university tuition fees and IT courses. Finally, the government has implemented price controls on basic food products, medicines, and disinfection products, and abolished the import duty on medical supplies.

The first two packages were primarily aimed at saving jobs at risk due to the lockdown and helping businesses mainly in the most affected sectors, such as transport and tourism. On May 17, the third set of measures worth €355m was adopted as direct assistance to citizens and businesses to offset the impacts of the pandemic. One of the measures in the third package is issuing payment cards of MKD9,000 for the benefit of the 119,000 jobless people. The government will allocate €16m for this measure. The cards are available for people who are active in the labour market and they can only spend the money in July to buy domestic products and services. 85,000 unemployed people not looking for a job actively are excluded. The government will also issue cards of MKD3,000 for employees with income lower than MKD15,000 (Dimitrievska, 2020). At the time of writing, financial assistance of over €28m has been approved for over 21,500 businesses benefitting about 126,000 employees (Dimitrievska, 2020).

The government has also promised MKD7,000 (€113) aid to people in the undeclared economy, who have been left without income. To qualify, they must live alone, have no assets and receive no cash in their bank accounts to qualify for the two-month social benefit during the crisis (Dimitrievska, 2020). An issue raised is that very few meet the qualifying criteria.



## Serbia

**(De)confinement.** Serbia has reported 12,522 positive cases and 257 deaths as of 17 June 2020. Pursuant to Article 200, paragraph 5 of the Constitution of the Republic of Serbia, the State of the Republic, the President of the National Assembly and the Prime Minister, which entered into force on March 15, 2020, declared a state of emergency on the territory of the Republic of Serbia. The state of emergency on the territory of the Republic of Serbia lasted from March 16 to May 6, 2020 and [several containment measures](#) were adopted. These included closing borders, prohibiting movement of citizens during the weekends and between 5pm and 5am during weekdays (total ban for senior citizens), suspension of public transport and all activities in parks and public areas intended for recreation and sports, closing education centres and shopping malls (except grocery stores and pharmacies).

Since April 21, containment measures have been gradually relaxed (with protective measures in place), including the reopening of green markets, fitness centres, hairdressers, parks, bars, coffee shops, and restaurants; and allowing outdoor sports and recreation activities. Inter-city and urban public transportation resumed on May 4. On May 7, the state of emergency was lifted, abolishing the ban on movement of citizens, including senior citizens. Shopping malls reopened on May 8 and kindergartens on May 11 and commercial flights have resumed since mid-May. Since May 15, both Serbian and foreign citizens are allowed to enter the economy presenting a negative PCR testing not older than 72 hours (Serbs could alternatively stay in quarantine for 14 days). As of May 22, a negative test will no longer be required to enter Serbia. As of June 1, outdoor sports competitions with the public are allowed, with safety measures in place, as well as outdoor public gatherings with a maximum of one thousand people. As of June 5, there are no more restrictions on the number of people allowed in outdoor public gatherings and events. For indoor gathering and events, the maximum number of attendees has been increased from 100 to 500.

**Short-term financial support schemes.** Fiscal measures adopted so far amount to about RSD 353bn (6.5% of GDP). Besides health care spending, key measures include: (i) one-off payment to all pensioners (RSD 7bn); (ii) universal cash transfer of €100 to each citizen over 18 years old (about RSD 65bn); (iii) three-month deferment of labour taxes and social security contributions for all private companies, to be repaid in 24 instalments starting from 2021 (RSD 100bn); (iv) deferment corporate income tax advance payment during the second quarter of 2020 (RSD 21bn); and (v) wage subsidies, including payment of minimum wages for all SME employees and entrepreneurs for three months (RSD 93bn) and payment of 50% of the net minimum wage for three months for employees in large private sector companies and for employees who are currently not working (RSD 4bn). Other measures include a 3-month moratorium on enforcement and interests on tax debt under rescheduling agreements and 10 percentage points reduction of the interest rate on tax debt. A state guarantee scheme for bank loans to SMEs has been approved (RSD 240bn), as well new loans to SMEs from the Development Fund (RSD 24bn).

### 4.2 Abuses of short-term financial support schemes

These short-term financial support packages have been introduced across the six Western Balkan economies very quickly and without perhaps the due diligence normally associated with such large amounts of spending due to the speed of their design and implementation. Given the very large amounts of state expenditure involved, a concern has started to emerge in some economies that there may have been abuses of these schemes by businesses and workers. These abuses relate to the legitimacy of the claims being made for short-term financial support.

Examples of the types of abuse that may have occurred (varying by economy) are:

- Employees might continue to undertake work for the employer despite the temporary suspension of their employment contracts and receipt of short-term financial support;
- Employers and workers might have applied for two types of short-term financial support when they are entitled to only one;
- There may have been an increase in benefit claims fraud due to the looser checks and increase in the speed of applications. Some may be claiming benefits whilst also continuing to work, and
- Employers might have claimed the compensation for the temporary suspension of employment contracts and then either: employed the same workers (for who they are claiming support) on an undeclared basis, such as asking them to “volunteer” on reduced pay; or employed new workers. Indeed, workers might continue to work and not even know that the employer is claiming compensation for the temporary suspension of their employment contracts.

The relevance of these abuses obviously varies on a economy-by-economy basis, and there may be a range of additional abuses to those mentioned above. Given the enormous amounts of money involved in these short-term financial support packages, the investigation of **whether there have been abuses will need to be a new focus of work of enforcement authorities** over the next year or so.

The first step required by enforcement authorities will be to **identify specific types of abuse** and forms of undeclared work arising from the short-term financial support arrangements in their economy. The Western Balkan Network Tackling Undeclared Work, such as at Plenary sessions, could be a useful forum for enforcement authorities to share their experiences in this regard to facilitate mutual learning. Social partner intelligence on this matter could be also very useful.

The second step required is for enforcement authorities to **develop operational plans** and mechanisms for investigating these abuses as soon as possible. This will require the following decisions to be made:

- which abuses to prioritise for investigation and which to investigate later;
- whether to establish a specialist unit within the enforcement authority to tackle abuses of the short-term financial support systems;
- whether to use data mining and matching to do so, and if so, to determine what bilateral agreements are required with other government agencies to share data from various databases;
- what criteria to use to conduct a risk assessment;
- what mechanisms to use to follow-up on the identification of risky employers and workers, and
- if a sanctions mechanism was not built into these short-term financial support schemes for abuses, then decisions might be required on the sanctions used and process for imposing sanctions.

This process of enforcement authorities establishing operational plans and mechanisms for detecting these abuses has already commenced in some economies. In Norway, the analytical unit in the tax authority has been conducting research on abuses of the short-term financial support schemes and when inspections commence the plan is to start with inspections of businesses that have been identified as risky.

The Canadian Revenue Agency (CRA) have also initiated such an exercise. In Canada, businesses have been provided with short-term support if their revenues fell by 15% in March or 30% in April and May 2020, compared with the same period last year, or to January and

February 2020. Supporting documents and evidence were not requested in the online application stage. The CRA has recognised that many businesses operating in the undeclared economy prior to the pandemic will have declared in their online application their real entire losses, rather than their losses based on what they declared previously, in order to gain greater short-term funding. The CRA is now engaged in data mining and data matching activities related to these online applications. For those making fraudulent claims, a sanction was written into the rules for making false claims for short-term financial support. Those making a false claim will be required to repay the money and deliberate abusers face fines of up to 255% of the value of the subsidy claimed or up to five years in prison.

In Belgium, the Flemish government is claiming that €8-10 million in coronavirus short-term support premiums have been wrongly granted. Of the 200,000 applications for short-term financial support, 25,000 were immediately rejected. After a risk analysis of the remaining 175,000 applications, 3,500 were considered “potentially suspect” and were the subject of an audit. One-third of these “suspect” cases, namely 1,244 applications, were wrongly granted and were fraudulent. This represent some 1% of the total, so €10 million in funding will be recovered out of a total of €1 billion. This is based on a risk analysis of inspectors of the Flemish Agency for Innovation and Entrepreneurship (Vlaio). However, it is not yet known how many applications have intentionally defrauded. The number of identified cases is expected to increase further since, each week, inspectors check around 700 files, which turn out to be suspicious after a risk analysis. Those caught risk a fine of up to €800,000 and five years' imprisonment. Accountants who cooperate in the fraud may also be suspended, according to the Flemish Minister for Employment (see Agence Belga, 2020).

In the UK, HM Revenue and Customs (HMRC) has received more than 3,000 fraud reports regarding the UK short-term financial support scheme. The UK government pays 80% of staff salaries up to £2,500 a month for employees unable to work due to the temporary closure of their business. But once an employee takes this, they cannot do any work that would help their employer make money. However, there is evidence of abuse, with employers asking those whose employment has been suspended to work and threatened them with redundancy if they do not. One survey found that more than one-third of suspended employees have been asked by their employers to undertake work while receiving funds under the government's coronavirus job retention scheme. An anecdotal example reported by the BBC is a woman employee working 20 hours a week, who states: “The whole team is still working. They've told us if we want to stop we can, but I know that if I did, it would look bad - that I wouldn't look committed. Also, I want my company to survive this.” Where employers are found to have unintentionally broken the rules, they could be made to return the cash. If HMRC can prove they intended to do it, the employer faces up to 10 years in prison (Mahy and Warhurst, 2020).

In the Federation of Bosnia and Herzegovina, the government has subsidized contributions and taxes and pay minimum wages for all employees of the companies impacted by COVID-19-19. Given that the businesses must have witnessed a greater than 20% decline in turnover to qualify for support, the tax administration of the Federation of Bosnia and Herzegovina has compared their turnover reported through the fiscal cash register records and whether they have registered or deregistered employees. However, at the time of the first Plenary meeting of the Western Balkan Network Tackling Undeclared Work, it was still too early to know whether there had been abuses of the short-term financial support scheme. One further innovative initiative pursued by the tax administration of the Federation of Bosnia and Herzegovina to facilitate the detection of abuses is that it will publish and make publicly available on its website those who have requested subsidies on its website, so that it is

available to all. This is a good practice since it enables potential instances of abuse to be reported.

The reason the tax administration cannot yet know whether there is abuse is because the Law on Mitigation of Negative Economic Consequences entered into force on 08.05.2020 which was also the deadline for submitting applications for subsidising social security contributions to the Tax Administration for the month of April 29.05.2020, and for May 10.06.2020 and June the deadline is 10.07.2020. The law prescribes which taxpayers are entitled to subsidised social security contributions amounting to BAM 244.85 per month per employee, non-payment of profit tax advances, non-payment of income tax advances and what conditions they must meet to exercise the right. Pursuant to its actual jurisdiction, the Tax Administration keeps records of paid contributions and income tax for all taxpayers, and thus it will be able to control whether the taxpayer has settled the obligations for contributions and income tax as of February 2020, which is one of the conditions for exercising the right to subsidise social security contributions. Furthermore, the Tax Administration keeps records of applications and de-registrations of insured persons on the basis of employment submitted by employers and autonomous enterprises, and at any time, i.e. on a daily basis, has an overview of the number of employees of taxpayers. In addition, the Tax Administration keeps records of the realised fiscal turnover of taxpayers subject to fiscalisation through fiscal devices connected to the Tax Administration server, so it will have control over whether the turnover in the month for which the subsidy is requested had a decline of 20% and more compared with the same month in 2019, which is also another condition for exercising the right to subsidise contributions. In cases where a significant number of workers have been deregistered and the fiscal device sends data to the tax administration's server, intelligence inspectors determine by field check how many workers currently work in the facility, whether the facility works at all and the number of employees on 5/31/2020. In all cases where intelligence inspectors determine deviations, the taxpayer becomes a potential subject of control. The Sector for Inspection Supervision has so far identified the case for 230 inspections to be carried out.

In Spain, the Anti-Fraud Unit has also commenced data mining and matching to evaluate the legitimacy of the claims made. To commence, it has engaged in data matching to identify businesses who have claimed compensation for the temporary suspension of employment contracts and at the same time have registered the employment of new workers. However, and as Box 1 reveals, this investigation of businesses claiming compensation for the temporary suspension of employment contracts and at the same time have registered the employment of new workers is just one type of abuse that may have occurred. Indeed, it will be a complex process to identify all the multi-faceted abuses of the Spanish short-term financial support schemes and a very lengthy process.

#### **Box 1. Identifying abuses of the short-term financial support schemes in Spain**

In Spain, the Anti-Fraud Unit has begun data matching to identify businesses who have claimed compensation for the temporary suspension of employment contracts and at the same time registered the employment of new workers. This is the perhaps the “tip of the iceberg” and a multiplicity of additional multi-faceted abuses are likely to have occurred. To display this, a review of the support schemes is here provided.

In Spain, there has been entitlement to unemployment benefit for workers temporarily laid off under the Temporary Employment Adjustment Schemes (ERTE) due to COVID-19, with no requirement for prior minimum contributions or reduction of accumulated entitlement (€17.8 billion); increased sick pay for COVID-19 infected workers or those quarantined, from 60 to 75% of the regulatory base, paid by the Social Security budget (€1.4 billion); an allowance for self-employed workers affected by economic activity suspension (€3.8



billion); a [temporary subsidy](#) for household employees affected by COVID-19 with an amount equal to 70% of their contribution base (€3 million); a temporary monthly allowance of about €430 for temporary workers whose contract (at least two months' duration) expires during the state of emergency and are not entitled to unemployment benefits (€17.6 million); [extension of unemployment benefit](#) to cover workers who were laid off during the probation period (since March 9), as well as those who were switching jobs but with the new offer fell through (€42 million); expansion of ERTE to cover workers and companies with significant activity reduction in sectors considered essential; strengthened unemployment protection for workers under permanent discontinuous contracts who cannot resume work but are not qualified for unemployment benefits (€99 million); additional budgetary funds of €300 million and further budget flexibility for the provision of assistance to dependents; transfer of €25 million to autonomous communities funding meals for children affected by the school closure; new rental assistance programs for vulnerable renters and additional state contribution to the State Housing Plan 2018-21 (€400 million); and extension of the social benefit for energy provision.

Further measures include exemptions of social contributions by impacted companies that maintain employment under the ERTE (€2.2 billion); exemption from the payment of contributions for self-employed persons affected by the declaration of the state of alert (€980 million); tax payment deferrals for small and medium enterprises and self-employed for six months, with the first four months exempt from interest (€14 billion); [extension of the deadlines](#) for filing tax returns and self-assessment to May 30 for SMEs and self-employed; [flexibility for SMEs and self-employed](#) to calculate their income tax and VAT instalment payment based on the actual profit in 2020 (€1.1 billion); zero VAT rate on purchases of medical material essential to combat the COVID-19 until July 31, 2020 (€1 billion); reduction in VAT on digital publications from 21 to 4% (€24 million); 50% exemption from employer's social security contributions, from February to June 2020, for workers with permanent discontinuous contracts in the tourism sector and related activities; a 6-month suspension of social security contributions for the self-employed (for the period May-July) and companies (for the period April-June) in selected industries (€352 million); deferral of social security debts for companies and the self-employed (€340 million); no surcharge for late payment of tax debts for companies obtaining financing through the ICO Guarantee Lines; more flexibility for workers to access savings from their pension plans; budget flexibility to enable transfers between budget lines and for local governments to use budget surplus from the previous years for supporting measures in the area of housing; modification of spending ceilings for certain lines of ministries and local governments; centralisation of medical supplies; and an emergency management process for the procurement of all goods and services needed by the public sector to implement any measure to address COVID-19 (IMF, 2020).

Given this diverse array of support measures, it becomes obvious that the data mining being undertaken by the Anti-Fraud Unit to identify businesses claiming support for the temporary suspension of employment contracts (ERTE) whilst employing new workers is just one small facet of the whole array of multiple types of abuse that are likely to have occurred.

To identify abuses and fraud in relation to the short-term financial support schemes, considerable new resource will be required. To bid for additional resource to do this, enforcement authorities could forecast the return-to-cost ratios of such an investment. However, given that the provision of such short-term support schemes is unprecedented, estimating a return-to-cost ratio will be difficult.

A way forward is to conduct a pilot study of an individual abuse. As shown above, the Anti-Fraud Unit in the Inspectorate of Work and Social Security of Spain (ITSS) has already begun this by tracking (using data mining, matching and analysis) which businesses have claimed short-term financial support to temporarily lay-off workers (ERTE) but also registered new workers. In this economy, therefore, the return-to-cost ratio that results from this tracking exercise could be used to bid for further resource to conduct data mining, matching and sharing.

A third step, which could be run alongside this investigation exercise, will be for enforcement authorities and social partners to **engage in mutual learning** to learn lessons for the future. The Western Balkan Network Tackling Undeclared Work, such as at Plenary sessions, could be a useful forum for enforcement authorities to share their experiences in this regard to facilitate mutual learning. Social partner intelligence on this matter could be also very useful. This learning relates to sharing experiences on:

- the most common types of illegitimate practice;
- the data mining, sharing and matching practices being used;
- the risk assessment methodologies employed, and
- sanction systems.

This is required not only in case there is a repeated use of such short-term financial support schemes in the immediate future but also to learn lessons in preparation for any future crises.

#### **4.3 Protecting undeclared workers: regularisation schemes**

A further immediate challenge for state authorities is the protection of vulnerable undeclared workers during the crisis period and thereafter. As already stated, declared enterprises and workers have been provided with access to short-term financial support funding. However, in many cases, and as shown in section 2.1, this has not been available to many undeclared workers and businesses. The main “at-risk” groups here are those who are wholly undeclared and migrant workers. The main sectors involved are agriculture, construction, transport, domestic work and personal services, HORECA and tourism more broadly.

To protect these workers and at the same time transform undeclared work into declared work, several governments and numerous social partners have advocated using regularisation schemes. Until now, this has been commonly targeted at migrant workers operating in the undeclared economy. Applying it to the wider population of unregistered employees and under-declared employees has been less commonly discussed.

In Ireland, for example, there are an estimated 15,000-20,000 unregistered workers operating in essential services (e.g., elder care, healthcare, cleaning, food processing, agriculture). A group of 21 social partner organisations (e.g., Chambers Ireland, the Irish Congress of Trade Unions, Restaurant Association of Ireland, Family Carers Ireland, and the Migrant Rights Centre of Ireland) have called for a programme to enable these workers, most of whom are migrant workers, to regularise their status, and in accord with the 2008 European Pact on Immigration and Asylum, the Department of Justice has asserted that this will be judged on a case-by-case basis (Holland, 2020).

Portugal, meanwhile, has implemented a regularisation scheme, deciding to grant temporary residency rights to migrants and asylum seekers with pending immigration applications, until July 1<sup>st</sup>, in order to guarantee access to healthcare and social services during the pandemic. In Spain, similarly, a regularisation scheme has been implemented to grant irregular workers in agriculture (temporary) work permits. In Italy, meanwhile, there has been much debate on temporary and sector-based regularisation to provide: undocumented migrant agricultural workers variously with work permits and temporary six-month renewable residency permits;

regularisation of undeclared foreign domestic workers engaged in elderly care; regularisation of Italians working in the undeclared economy, and the provision of short-term financial support to undeclared workers (Follain, 2020; Follain and Rotundi, 2020; Reuters, 2020).

On 13<sup>th</sup> May 2020, as part of the “Relaunch” decree in Italy, it was agreed that from 1 June to 15 July 2020, requests for regularisation may be submitted for agricultural workers, and domestic workers and carers. The duration of employment contract and the agreed remuneration must be indicated, the latter not to be less than that provided for in the collective labour agreement. During the same period, migrants with a residency permit which had expired by 31 October 2019 and who are already operating in the agricultural sector or as domestic helpers, will be able to apply for a temporary 6-month permit in order to be able to look for work and, if they are hired during that time, they can convert it to a regular work permit. If they are already working undeclared, their employer can apply to regularize their contract. The same applies to Italian citizens with an undeclared job. Applicants should not have left Italy since at least March 8<sup>th</sup> (D’Ignoti, 2020; Local Italy, 2020; Salvi, 2020).

Under the Italian scheme, therefore, employers can regularise existing employment contracts and migrants whose permit has expired can request a temporary residency permit to look for employment. A website and a helpline have been developed to provide them with support. Workers can apply until 15 July 2020 with a passport or similar ID document, for the procedure, they also receive compensation of 500 EUR. The deadline of 15 July 2020 and the need to present identification have been criticised by NGOs and social partners, as too early and many asylum seekers have no identification. Italy’s target is 200,000 regularisations by 15 July 2020 which seems now unlikely. As Gagliardi (2020) outlines, since 1 June, 32,000 requests have been made by employers, 91% of them in domestic work. Ghidini and Maggioni (2020) report that the trade union “*Unione italiana lavoratori agroalimentari*” states that many agricultural employers are not interested in regularising and residency permits do not guarantee regular contracts.

The European Trade Union Confederation (ETUC) have also called for the introduction of “regularisation measures to reduce vulnerability, labour exploitation and social exclusion of irregular migrant workers ensuring their full equal treatment, decent working conditions and access to public healthcare” (ETUC, 2020, p.1). Similarly, the European Federation of Trade Unions in Food, Agriculture and Tourism (EFFAT) state “the need to regularize undocumented migrants is now crucial, especially in some Member States...” (EFFAT, 2020, p.1).

To implement such a regularisation initiative, one option is to use the tried and tested method of a **voluntary disclosure scheme**. These enable those who voluntarily disclose to the state authorities their past undeclared work to have the penalties waived (or reduced) that would have applied, if they are compliant in the future (Williams, 2014, 2017). In the present crisis period, these schemes could instead offer an incentive, rather than waive penalties, by providing access to the temporary financial support being offered to declared enterprises and workers, in return for voluntarily disclosing their previous undeclared work. This would not be some benevolent act. It would be used to bring these undeclared enterprises and workers out of the shadows to eradicate unfair competition and protect the workers. It would be a time-limited offer to become legitimate.

European economies who have previously used voluntary disclosure regularisation schemes include Belgium, Cyprus, France, Italy, Lithuania, Slovenia and the UK. In 2001 in Italy, a voluntary disclosure scheme to encourage undeclared enterprises and workers to formalise either by fully formalising straight away or doing so gradually over a three-year period, produced 1,794 declarations from enterprises and 3,854 new declared workers, although there

was also a larger “silent” formalisation in that 385,000 extra declared workers were registered that year during a time of economic stagnation (Meldolesi 2003). In a Spanish regularisation campaign, 11,000 foreigners benefitted from a 1991 regularisation and the “*arraigo laboral*” programme targets employers who illegally hire workers by encouraging their employees to come forward and to collaborate to take legal action against the employer.

Spain in 2011 again had an amnesty period, free of sanctions, allowing employers to register their workers and sign contracts with them lasting at least six months. Severe sanctions were then imposed for those failing to comply and they were ineligible to apply for public contracts for five years. No known evaluation exists. A 2019 voluntary disclosure initiative in Lithuania by the tax authority offered all businesses and personnel the ability to voluntarily declare incomes or other taxes without any penalty from 1 January until 30 June 2019. They collected an additional €42 million in taxes during this period arising from this initiative.

In the UK, voluntary disclosure schemes have been regularly employed. A VAT short-term incentive scheme in 2003 offered businesses the opportunity to regularise their VAT situation without penalty. It cost the tax authorities £500,000 in marketing costs and £2.7 million in penalties foregone. They received 3,000 registrations raising £11.4 million in tax and an additional £2.5 million in fines applied to those not continuing to comply, with a resultant return-to-cost ratio of 23:1 (National Audit Office, 2008). Another UK voluntary disclosure initiative on offshore bank accounts resulted in 64,000 bank accounts and around 45,000 disclosing by the closure in June 2007, bringing in £400 million in taxes at a cost of £6 million, or a return of 67:1 (National Audit Office, 2008). Belgium has used a similar voluntary disclosure scheme on offshore banking in both 2004 and 2005, as has the Australian Tax Office (see Gould and Rablen, 2020). The Canadian Revenue Agency has extensively used voluntary disclosure to transform undeclared work into declared work (Canadian Revenue Agency, 2020). So too has New Zealand where in October 2019 a voluntary disclosure initiative was launched targeting the hospitality sector including restaurants, cafés, bakeries, takeaway shops and liquor outlets (Vaughan, 2019).

In the current crisis, there are the following **options when designing a regularisation scheme**:

- Disclosure could be with or without penalty for past non-compliance.
  - If penalties are used, the level of the penalty could be on a sliding-scale reduced by set amounts depending on whether the employer agrees to employ the undeclared or under-declared worker on a (full-time) declared basis for at least 3, 6 or 12 months.
- The scheme could be universal, or it could be targeted at:
  - specific sectors, such as:
    - Tourism industries;
    - Construction sector;
    - Personal and household services, or
    - Agriculture.
  - specific population groups or types of undeclared work, such as:
    - Undocumented migrant workers;
    - Seasonal workers;
    - Unregistered employed;
    - Undeclared self-employed workers;
    - Online platform economy service providers, or
    - The bogus self-employed

- Access to the temporary financial support could be offered as an incentive to come out of the shadows, or not offered.
  - Access to such short-term support could be conditional on the business offering the undeclared workers voluntarily disclosed a declared contract (or the under-declared worker a full-time contract) for at least x months, or not.

A regularisation scheme has been offered in **Kosovo\*** during the current crisis (see Box 2).

## **Box 2. Regularisation scheme, Kosovo\***

### **Aim**

To facilitate the transformation of undeclared work into declared work, employers who voluntarily disclose to the state authorities that they previously employed unregistered employees are provided with access the short-financial financial assistance available during the 2020 coronavirus pandemic, if they employ the workers on a declared contract of at least one year.

### **Description**

In Kosovo\*, to address the pandemic, a cross-government group established an operational plan with 15 measures. This operational plan provides short-term financial support to businesses who have witnessed declines in revenue due to the lockdown and closure of their business. Measure 14 of this operational plan provides financial support of €130 per month per employee for two consecutive months providing businesses put workers on contracts of at least one year. The Kosovo\* tax authority has offered businesses access to this short-term support if they voluntarily disclose that they employed unregistered workers, and they then employ the workers on declared contracts for at least one year.

### **Evaluation**

On May 6, the Finance Minister Besnik Belsemi reported that 10,597 new employees have so far registered, which is an increase of 2.6% in total official employment (Bami, 2020). This, therefore, provides some indication of the potential impacts and effectiveness of this regularisation scheme.

To understand who is making use of this scheme, Bami (2020) reports the anecdotal case of a company distributing household equipment that had changed its legal basis to a limited liability company just before lockdown and had not registered its employees. This company is making use of the scheme to put the employees on declared contracts and to “ease the burden of wage payments”. However, not all businesses are making use of this scheme. Bami (2020) reports a restaurant where the owner is covering the salary of workers without contract on their own rather than taking advantage of the scheme because “we cannot risk being charged a fine”. The restaurant is nevertheless applying for aid in paying its rent. If this is more widely relevant, it displays that advertising that there will be no penalty would increase uptake of the scheme.

In an expert opinion poll conducted by the Facebook group “Fjalori Ekonomik” (“Economic dictionary”) of economists in the region, 17 asserted that they were “not sure” whether the government’s package would significantly and sustainably cut the level of undeclared work in the labour market, and 14 asserted that they believed it would do so.

To examine this, interviews have been conducted with employers on the uptake of this scheme by Besnik Krasniqi, a Kosovan economist. The intention has been to investigate why some enlist in this regularisation measure 14 and others do not. One interviewee is a

coffee bar owner who employed 11 employees, 4 of which were unregistered. He has applied for the €170 wage subsidies for his 7 registered employees and the €130 benefits for his 4 unregistered employees. The financial support was welcomed as a way of retaining the employees:

“I will register all my employees, and also will report turnover. Now I have problem with the lease of my facilities. The government of Kosovo\* is subsidizing 50% of the lease contract, but unfortunately, I will not benefit much because my monthly lease contract is €1000, but I pay through the bank only €500. In this case I will benefit only €250. These things have made me to think that I should seriously think to make register employees and contracts and to report sales. Now I need a bank loan, but my turnover shows very low in bank account and banks are reluctant to loan my businesses.”

On whether the employees were happy to be registered, he states:

“The employees were very happy, they kept calling me at all times when they heard in news about the measure 14. They were afraid that I will not report them, and they will not be able to receive benefits. One concern for them was if the current salary once registered as formal employee will go down because the payment of taxes and contributions. But I have decided that their net salary will not be affected. I will take charge of all these wage extras to pay myself.”

Therefore, it appears that some businesses are using measure 14 as a welcome opportunity to regularise their previous undeclared work practices.

In **Albania**, meanwhile, the short-term financial support was coordinated by the tax authority and employment office. However, the labour inspectorate received many complaints from workers that they were not able to access the short-term support being made available because they were not in the social insurance scheme. The labour inspectorate intervened with inspections and found that in most cases, this was correct. The employees were subsequently put into the social insurance scheme and were then able to access the short-term financial support available to workers. Similarly, the Albanian Public Employment Agency found that a number of undeclared workers approached its offices to seek support during the first few months of the pandemic. These people working undeclared are left out of different governmental aid schemes, so they could not get any benefits. So, the employment agency has been exploring a package to promote formalization and decent work, which will include information and counselling, training/counselling about the content of a contract, information of the obligations and rights they must have, a contract template as well as provision of trainings in different fields and employment promotion programs tailored to them.

## **5 Future Challenges and Responses**

Having discussed some of the more immediate challenges and possible responses, this section turns to future challenges that will be faced in the recovery or “new normal” period where societies learn to manage the infection rate. The first issue that needs to be considered is whether the conventional measures that have been used by state authorities to transform undeclared work into declared work will remain valid in the “new normal” recovery period. The second issue is whether the same or different policy measures will be required for preventing declared work shifting into the declared economy and the third and final future challenge regards the need to evaluate the management of the withdrawal of the short-term financial support packages in terms of its implications for the growth of undeclared work. Each is here considered in turn.



## 5.1 Transforming undeclared work into declared work

The key strategic objective of both the European Platform Tackling Undeclared Work and the ILO in Recommendation 204 is not to reduce undeclared work. It is to transform undeclared work into declared work (European Commission, 2016), or as the ILO terms it, to facilitate the transition to formality (ILO, 2015).

To transform undeclared work into declared work, two broad sets of tools exist. On the one hand, there are direct tools which ensure that benefits of operating in the declared economy outweigh the costs of working in the undeclared economy. These involve deterrence measures to increase the costs of non-compliance (“sticks”) and/or incentive measures to make declared work more beneficial and easier (“carrots”). On the other hand, there are indirect tools. These shift away from using “sticks” and “carrots”, and instead focus on repairing the social contract between the state and its citizens in order to foster a high trust high commitment culture.

**Direct controls**, therefore, seek to increase the costs and decrease the benefits of undeclared work. Viewing the non-compliant as rational economic actors who engage in undeclared work when the pay-off is greater than the expected cost of detection and punishment, the objective is to change the cost/benefit ratio facing those participating or considering participation in the undeclared economy (e.g., Allingham and Sandmo, 1972). This can be achieved in two ways:

- *Deterrence measures* detect and punish undeclared work. This is achieved by firstly, raising the perceived or actual likelihood of detection and/or secondly, increasing the penalties and sanctions for those caught. This approach thus uses “sticks” to punish those engaged in undeclared work.
- *Incentive measures* seek to make it easier to undertake, and reward, declared work. To achieve this, one can use either:
  - Supply-side incentives to make it easier and/or more beneficial for businesses and workers to operate in the declared economy.
  - Demand-side incentives targeting their customers with rewards for using declared goods and services.

The problem with using direct tools is that those operating in the undeclared economy are not always rational economic actors purely calculating the costs and benefits. The best example of this is that many do not engage in undeclared work even when the benefits outweigh the costs and if they were rational actors, they should do so. This is because they are social actors who engage in the undeclared economy when there is a lack of vertical trust (in the state) and horizontal trust (in others).

**Indirect controls**, therefore, seek to improve vertical trust (in the state) and horizontal trust (in others). The intention is to seek voluntary compliance rather than force citizens to comply using threats, harassment and/or incentives. To achieve this, one can either:

- *Change citizens, workers and employers’ attitudes* regarding the acceptability of undeclared work using educational initiatives and awareness raising campaigns about the costs of undeclared work and benefits of declared work.
- *Change the formal institutions*, particularly important in societies in which there is a lack of trust in government, such as due to public sector corruption or in societies where citizens do not believe that they receive back from government what they expect. This can involve either:
  - Changes in the internal *processes* of formal institutions to improve the perception amongst citizens that there is procedural and distributive fairness and justice, and/or

- Change *products* of formal institutions through wider economic and social developments (e.g., increase social expenditure, effective social transfers).

Table 1 provides a list of the full range of policy initiatives available for transforming undeclared work into declared work.

**Table 1.** Policy measures for transforming undeclared work into declared work

<b>Approach</b>	<b>Tools</b>	<b>Examples of policy initiatives</b>
Direct controls: deterrents	Improved detection	Efficient workplace inspections Data mining, matching and sharing Improved risk assessment methods Registration prior to first day at work Use of peer-to-peer surveillance (e.g. telephone hotlines to inform about abuses / cases) Certification of business, certifying payments of social contributions and taxes Use of mandatory ID in the workplace Supply chain responsibility
	Improved penalties	Increase sanctions Non-compliance lists (“blacklists”)
	Increased perception of risk	Advertise penalties Advertise effectiveness of detection
Direct controls: incentives	Supply-side incentives	Simplification of compliance Direct tax incentives (e.g., exemptions, deductions) Indirect tax incentives (e.g., VAT reductions) Support and advice on formalisation Society-wide amnesties Individual amnesties for voluntary disclosure Notification letters Advisory inspections Compliance (“white”) lists Free record-keeping software to businesses Fact sheets on record-keeping requirements Free advice/training on record-keeping
	Demand-side incentives	Targeted direct tax incentives (e.g. income tax reduction / subsidy) Targeted indirect taxes (e.g. VAT reductions) Service vouchers Initiatives for customers to request receipts (e.g. lottery for receipts) “Black box” cash registers
Indirect controls	Change employers’, workers’ and customers’ attitudes	Education to improve tax/social contributions/labour law knowledge Normative appeals Awareness raising of benefits of declared work and costs of undeclared work to suppliers and/or purchasers
	Change formal institutions	Improve procedural and redistributive fairness and justice of government bodies Wider economic and social developments

**Source:** derived from Lapeyre and Williams (2020)



To transform undeclared work into declared work, it is not an either/or choice between using either direct or indirect policy measures. Direct and indirect policy measures are not mutually exclusive. Both can be used. For example, governments may target key economy-level macro-economic and social conditions that have a direct influence on the prevalence of the undeclared economy, change the organisational culture of government departments, such as tax offices and labour inspectorates, towards a more customer-oriented approach, and introduce public awareness raising campaigns on the benefits of formality, whilst simplifying regulatory compliance for business start-ups and introducing incentives for employers, workers and customers to operate in the formal economy (e.g. amnesties, tax deductions). For those failing to comply, sanctions along with improvements in the ability to detect those operating in the informal economy may be also used.

Indeed, this holistic approach using all tools is advocated both by the ILO (2015) and the European Platform Tackling Undeclared Work (European Commission, 2016).

During the **current pandemic**, the same strategic objective remains of transforming undeclared into declared work. The question, as always, is how one can most effectively transform undeclared work into declared work. However, with the pandemic, various additional issues have emerged. These are:

- whether the direct and indirect policy measures discussed before the pandemic remain relevant to transforming undeclared work into declared work in its aftermath;
- whether lessons have been learned during the confinement period and some policy initiatives are now prioritized for increased use in the future (e.g., data mining and matching) and other policy measures now seen to be of slightly lesser importance (e.g., physical inspections), and
- what policy lessons have been learned from the first lockdown that can be applied in any subsequent repeat lockdowns (due to second or third peaks) at the economy or regional/local levels.

Has the pandemic resulted in a fuller range of policy initiatives being used, or a change in the priority given to different policy measures? The lockdown reduced the ability of enforcement authorities to conduct conventional physical workplace inspections. This appears to have acted as a catalyst for considerable innovation on inspections leading to a range of new types, including telephone or video conference, documentary, postal and even observation inspections. There have also been in some enforcement authorities greater emphasis on data mining, and the greater use of information provision in the form of education and awareness raising, often via website developments. So too have voluntary disclosure regularisation schemes been used, such as in Italy, Kosovo\* and Portugal (see section 4.3 above). Therefore, many additional policy initiatives beyond workplace inspections have been used during the confinement period and given greater priority.

However, some policy measures have not been used. For example, no economy has devoted more resource to data mining to identify risky businesses for the preventative purposes of (i) targeting their information materials or (ii) for sending notification letters to these businesses. Nevertheless, this is not to assert that no economy has used these policy measures during the crisis, only that it has not been mentioned by any enforcement authorities.

It appears, therefore, that the crisis has resulted in some exemplary initiatives on pursuing a joined-up cross-government coordinated approach, many innovations in relation to doing inspections differently, greater emphasis on data mining and awareness raising, but less innovation in the use of other policy measures, such as notification letters.

## **5.2 Preventing declared work shifting into the undeclared economy**

A new concern for the recovery period may be how to prevent declared work shifting into the undeclared economy. There is a concern that enterprises operating in the undeclared economy, and therefore, unfair competition, might well increase in the immediate future. This is particularly the case if social distancing continues. Many businesses have been based on a “pile them high, sell them cheap” business model, dependent on selling a high volume of goods and services. With social distancing and more stringent health and safety standards, some businesses may be unable to operate commercially on a declared and legitimate basis. Indeed, the 2020 Balkan Barometer (i.e., the Regional Cooperation Council’s annual public and business survey) reveals that 81% of Western Balkan businesses report negative effects of the coronavirus to their operations. 2% of businesses have already had to close and 60% of businesses have had to downscale their operations. Moreover, 68% of citizens surveyed are very much concerned about their jobs.

During the confinement period, some European economies have already witnessed a shift from declared to undeclared work in some sectors such as hairdressing (Renda and Ahmetaji, 2020; RTE, 2020). If social distancing reduces the viability of many commercial enterprises, this tendency might continue. This will require close monitoring and evaluation on a sectoral basis. It might be that some sectors will simply raise their prices to reflect their inability to meet the same level of demand as before, and to make the products they provide more exclusive activities (e.g., restaurants, dentists, bars). Their good and services will become what Hirsch (1977) termed “positional” goods due to their social scarcity. Alternatively, it might be that unregistered and unlicensed service providers will emerge to meet the shortfalls in supply by legitimate providers to meet the existing demand.

Three factors are important in determining whether this transformation of declared work into the undeclared economy occurs. First, it will depend on whether business models in different sectors manage to adapt to the “new normal”, without turning to the undeclared economy. Secondly, and related, it will depend on whether social distancing continues for a prolonged period. And third and finally, it will depend on whether the short-term financial support schemes are able to protect declared enterprises and jobs.

The tax administration of Federation of Bosnia and Herzegovina believe that the short-term support schemes will have prevented this from happening and that during the withdrawal period of these subsidies and after, education and awareness raising campaigns will be important to prevent declared work shifting into the undeclared economy. Encouraging voluntary compliance, therefore, through education and information will be key to preventing declared work moving into the undeclared economy.

It will be therefore necessary to consider whether the same policy measures used to transform undeclared work into declared work are also appropriate for preventing declared work shifting into the undeclared economy. Firstly, this will require an evaluation of the degree to which declared work is shifting into the undeclared economy, and in relation to which goods and services, and secondly, whether the current direct and indirect policy measures are appropriate and if not, what additional measures, or variants of existing policy measures, are needed.

## **5.3 Impacts of short-term support packages on preventing undeclared work**

During the pandemic, there have been unprecedented levels of state short-term financial support to declared businesses and workers. Many will evaluate whether these schemes have been successful in retaining declared enterprises and jobs. Fewer will evaluate whether this short-term support funding of declared enterprises and workers has prevented the growth of the undeclared economy. Therefore, it will be important for labour inspectorates and tax

administrations to evaluate whether the short-term financial support schemes in their economies has prevented the growth of undeclared work. Sharing this learning across economies regarding which schemes worked in individual economies and which did not will be important. The Western Balkan Network Tackling Undeclared Work can provide a forum for this mutual learning, such as at Plenary sessions. There are three issues that need to be addressed.

- 1) There is a need to evaluate the **comparative effectiveness of the different short-term rescue packages** in preventing a turn to the undeclared economy as a survival practice in the recovery period. Mutual learning is needed on what schemes worked in doing this and what schemes did not, as well as what aspects of the short-term financial support packages did so. This will be especially important if there are repeat lockdowns (due to second and third peaks) at the economy and/or regional/local levels, and short-term financial support again becomes necessary. Learning what has worked in the first period in preventing undeclared work is required for knowing what schemes and support should be used in repeat lockdowns.
- 2) The prevalence of undeclared work in the recovery period will also depend on the **phasing of the withdrawal of the financial support** offered, such as avoiding “cliff edge” withdrawals of support. If the phasing of withdrawal does not enable declared businesses and jobs to survive, then the undeclared economy may well grow to fill the gaps left by the demise of declared enterprises and workers. Again, the lessons from the exit from confinement will be useful for any subsequent re-confinements.
- 3) The growth of the undeclared economy will also depend on **synchronising the timing** between sectors recommencing trade and the demand of citizens and other businesses for their products and services (i.e., matching supply and demand so that the undeclared economy does not fill the gaps). Smoothing the transition from the confinement phase, through the recovery phase, to the fully operational phase is therefore key to preventing greater dependency on the undeclared economy. This will require an unparalleled level of, and capacity for, economic management by governments. It is again essential that lessons are learned from the release from confinement so that they can be applied in any repeat re-confinements at the economy or regional/local level.

## 6 Conclusions and Recommendations

The following conclusions result from the evaluation of COVID-19 and undeclared work.

### 6.1 Impacts on enforcement authorities

- Measures have been taken to protect enforcement authority staff. This has involved risk assessment for firstly inspectors and staff and secondly, physical inspections. A range of approaches have been used for protecting staff during workplace inspections including masks, gloves, visors, social distancing, time spent at the inspection and hygiene issues related to transport used.
- New working methods have included: changes in inspections; greater data mining and matching, more home-based working; greater use of distance consultations; more virtual meetings and the greater use of education and awareness raising campaigns.
- There has also been greater organisational coordination and cooperation with specialist units/teams being formed to deal with COVID-19 issues and greater cooperation with both other government agencies and social partners to create a more joined-up approach.

- The main **lessons learned** by enforcement authorities are that in future, there could be:
  - less dependence on physical workplace inspections and greater risk assessment of whether a physical inspection is required, or whether some other form of inspection can be conducted;
  - continuing use in the future of the new hygiene standards implemented during the pandemic for inspectors and inspections;
  - greater home-based working and use of virtual staff meetings,
  - more emphasis on the use of data mining and matching to detect violations;
  - greater resource dedicated to digital solutions (e.g., use of social media and websites for information distribution and complaint reporting) and a consequent consideration of the new skills and competencies required by inspectorates and their staff, and
  - greater use of joined-up action via task forces and cross-government coordination and cooperation on strategy, operations and data mining, sharing and analysis.

## 6.2 Immediate challenges and responses

- The emergent view is that there have been various **illegitimate practices and abuses related to the short-term financial support rescue packages**. Mutual learning would be useful to:
  - identify the most common types of illegitimate practice;
  - share the data mining and matching practices used;
  - review risk assessment methodologies, and
  - evaluate sanction systems.
- Various types of **regularisation scheme** to bring vulnerable undeclared workers into the declared economy, to stamp out unfair competition and protect workers, could be usefully evaluated.

## 6.3 Future challenges and responses

There is a need to consider:

- The policy lessons from the crisis for **transforming undeclared work into declared work**. Are the same range of direct and indirect policy measures still relevant? Will the same emphasis be given to workplace inspections in future operational plans in the recovery period? Have additional policy initiatives now come more to the fore? What are the policy lessons from the first peak for any subsequent repeat lockdowns?
- How can we **prevent declared work shifting into the undeclared economy**? Are the same policy measures used to transform undeclared work into declared work also appropriate for preventing declared work shifting into the undeclared economy? Or are additional measures or variants of existing measures required?
- Evaluation of **the impacts of the short-term financial support schemes** on preventing undeclared work in the aftermath is required, focusing upon:
  - the comparative effectiveness of different rescue packages in preventing a turn to the undeclared economy in the aftermath, and what aspects of the short-term financial support did so;
  - evaluating how the timing of the withdrawal of the short-term financial support impacted on the growth of the undeclared economy, and

- evaluating how synchronising the timing between sectors recommencing trade and the demand of citizens and other businesses for their products and services, influenced the growth of the undeclared economy in the aftermath.

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## **List of abbreviations**

**CBK** – Central Bank of Kosovo\*  
**CRA** – Canadian Revenue Agency  
**EFFAT** – European Federation of Trade Unions in Food, Agriculture and Tourism  
**ERTE** – Temporary Employment Adjustment Schemes  
**ESAP** – Employment and Social Affairs Platform  
**ETUC** – European Trade Union Confederation  
**EU** – European Union  
**EWCS** – European Working Conditions Survey  
**GDP** – Gross Domestic Product  
**HMRC** – Her Majesty’s Revenue and Customs  
**HORECA** – hotel, restaurant and café sector  
**ILO** – International Labour Organisation  
**IMF** – International Monetary Fund  
**ISSP** – Institute for Strategic Studies and Projections  
**ITSS** – Inspectorate of Work and Social Security of Spain  
**KTA** – Kosovo\* Tax Authority  
**LFS** – Labour Force Survey  
**NALED** – National Alliance for Local Economic Development  
**OSH** – Occupational Safety and Health  
**PPE** – Personal Protective Equipment  
**RS** – Republika Srpska  
**SELDI** – Southeast Europe Leadership for Development and Integrity  
**SMEs** – Small and Medium Sized Enterprises  
**SSO** – State Statistical Office  
**UNDP** – United Nations Development Programme  
**VAT** – Value-Added Tax