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Undeclared Work in Greece: Nature, Drivers and Way Forward



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Tackling the undeclared economy in Greece remains a major economic and social challenge despite the efforts made in recent years by the Government, including imposing stricter sanctions, reducing non-wage costs and reducing bureaucratic obligations and the administrative burden.

Greece is characterized by relatively high under-reporting rates, as well as a relatively high share of undeclared work. This, along with high unemployment, has undermined the collection of tax revenue and social security contributions.

Apart from significant negative impacts on the economy and social institutions, undeclared work implies risks for the individual workers, including lack of social security, protection of rights and possibilities for career advancement.

Greece is now marked by be a solid political will to design and implement appropriate and efficiently integrated policy to enable the transition from undeclared to declared work.

There is consequently an urgent need to reformulate questions of policy intervention in a way that can enable Greece to tackle this realm and promote decent work while providing an enabling business environment for inclusive growth.

Taking fully into consideration ILO Recommendation 204 on “Transition from the informal to the formal economy”¹, the ILO has launched in 2015 in partnership with the Greek Government and social partners, and with the financial support of the European Union, an investigation about the main determinants of the undeclared economy with the objective to formulate a road map to tackle undeclared work in Greece.

The resulting diagnostic report² provides support to the Greek Government and social partners in tackling undeclared work by identifying the causes, circumstances and forms of undeclared work in Greece. This has been achieved through a multi-stakeholders diagnostic and through tri-partite mechanisms.

Some definitions

Although there is no official universal definition of ‘undeclared work’, it is widely accepted across the European Union that this covers *‘productive activities that are lawful as regards their nature, but are not declared to the public authorities, taking into account the differences in their regulatory systems between Member States’*³. In Greece, it is this definition which is used. Article 32 of Law 3996/2011 entitled ‘terminology’ in paragraph 7 states: ‘Wherever in this Act, the term “undeclared work” means any paid activities that are lawful as regards their nature but not declared to the public authorities, in breach of the rules.

Undeclared work refers to work entirely undeclared to the state for taxation, social insurance and/or labour law purposes. This includes unregistered employees without a contract who work for a business, for a household, as family members, private tutors, or as farm workers. They may be Greek citizens, legal immigrants or immigrants with an irregular status. These workers might be secondary or multiple job holders who have social security coverage in their main job but do not contribute in their second job, or they may be pensioners, students, or others not in additional forms of declared employment. Besides undeclared wage work, there is also undeclared own-account work conducted on a self-employed basis where all or some of

¹ See ILO, 2015, *Text of the recommendation R.204 concerning the transition from the informal to the formal economy*, Geneva: ILO.

² See ILO, 2016, *Diagnostic report on undeclared work in Greece*, Geneva: ILO.

³ See European Commission, 2007, *Stepping up the fight against undeclared work COM (2007) 628 final*, Brussels: European Commission.

their transactions are not declared. Many of these self-employed in Greece may well be 'bogus self-employed'.

Under-declared work, meanwhile, here refers to the illegal employer practice of salary under-reporting, including the practice of declared employers paying declared employees two salaries: (a) an official salary declared for tax, social security and labour law purposes, and (b) an additional undeclared remuneration received 'under the table' or by 'envelope'. Another variant of under-declared work in Greece is where larger businesses such as supermarkets employ a person on say a 4 hour contract but they work for 7-8 hours. Detection of this form of under-declared employment by the authorities is difficult.

The ILO (2015) Recommendation 204 provides a broader concept of informal economy of which undeclared work is part, which (a) refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements; and (b) does not cover illicit activities, in particular the provision of services or the production, sale, possession or use of goods forbidden by law, including the illicit production and trafficking of drugs, the illicit manufacturing of and trafficking in firearms, trafficking in persons, and money laundering, as defined in the relevant international treaties.'

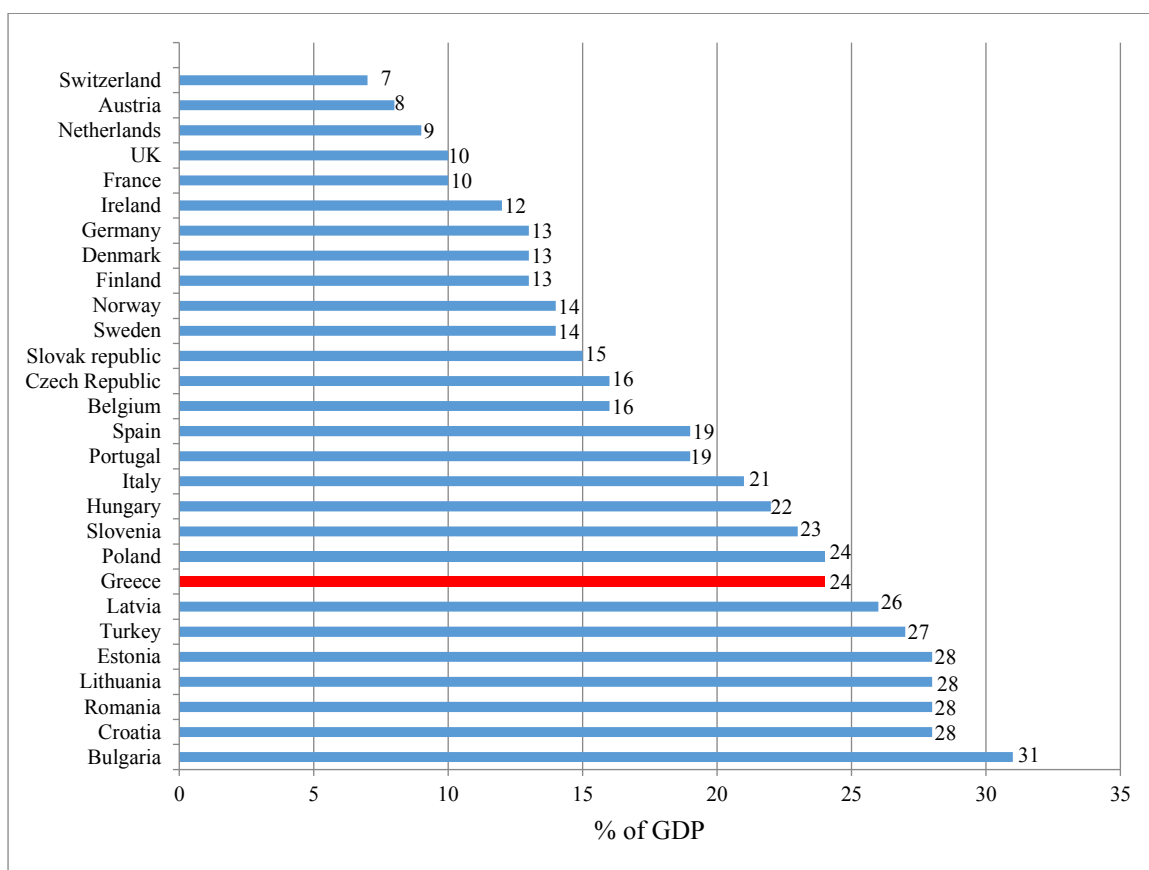
Extent of the undeclared economy in Greece

The size of the undeclared economy is commonly estimated to be equivalent to some 25% of GDP in Greece. A catalyst for its prevalence is the relatively high level of self-employment and large share of micro- and small enterprises. Micro enterprises with 1-9 employees represent 96% of all enterprises in Greece, employing 55% of the labour force (compared with less than 30% in the EU-28). Greece also has the highest percentage of self-employed people in the EU28 at a rate of more than 32% (14% in the EU-28). Figure 1

provides an estimate of the size of the Greek undeclared economy relative to the EU-28 using the Multiple Indicators Multiple Causes method⁴. This reveals that Greece in 2013 was among the largest undeclared economies in Europe.

⁴ See Schneider, F. (2013), *The Shadow economy in Europe, 2013*, London: AT Kearney and Visa.

Figure 1. Undeclared economy as a percentage of GDP, 2013



Source: derived from Schneider (2013)

Nature of the undeclared economy in Greece

According to the 2013 Eurobarometer survey, of all undeclared work in Greece, 67.3% was waged employment (with 13.3% wholly undeclared waged employment and 54% under-declared employment), 10.2% was undeclared self-employment and 22.5% was paid favours for close social relations. However, under-declared employment is also important, which is where a formal employer under-reports a formal employees' salary, such as by paying them two salaries, a declared official salary and as undeclared ('envelope') wage, in order to avoid the full tax and social contributions due.

Undeclared work is undertaken by all social groups. However, there appears to exist a necessity-driven 'lower tier' populated by younger people and those with financial difficulties, and a more voluntary-oriented 'upper tier' occupied by professional groups such as lawyers, doctors and accountants, who not only appear to gain greater rewards from their undeclared work but also from using undeclared labour such as for domestic cleaning and home maintenance (just 24% of unemployed people but 40% of self-employed and 34% of employed people purchase undeclared goods and services).

Some 30% of the participants in Greece in the 2013 Eurobarometer survey reported purchasing undeclared goods and services in the previous 12 months and spent on average about €750 on such goods and services. Examining the goods and services obtained in the undeclared economy, the finding is that 13.5% of all surveyed participants had bought other goods (besides food) in the undeclared economy in the 12 months prior to the survey, 7.4% home repairs or renovation services, 6.5% food products, 6.3% other services (to those elsewhere on this list), 4.7% healthcare services, 3.8% car repair services, 3.5% house cleaning services, 0.8% gardening

services, 0.7% tutoring, 0.5% clothes ironing services, 0.5% help moving house, 0.4% elder care services, and 0.1% IT assistance, and 0.1% baby-sitting services.

Drivers of the undeclared economy in Greece

The relatively high level of self-employment and large share of micro- and small enterprises in Greece is frequently seen as the catalyst for the prevalence of the undeclared economy. This structural feature of the Greek economy certainly helps understand the prevalence of undeclared work. Other features exist, however, that need to be also recognised.

To identify the drivers of the undeclared economy is important because it is these that need to be tackled to reduce the undeclared economy. In the past few years, significant advances have been made in understanding the determinants of undeclared work by a new institutional approach. To explain undeclared work, this asserts that every society possesses institutions which prescribe, monitor and enforce the 'rules of the game' regarding what is socially acceptable. In all societies, these institutions are of two types: formal institutions that prescribe 'state morality' about what is socially acceptable (i.e., laws and regulations), and informal institutions which prescribe 'citizen morality' (i.e., socially shared rules, usually unwritten).

Undeclared work, from this institutional perspective, is explained as arising when the failings of formal institutions lead to state morality being different to citizen morality. These formal institutional failings are of four types: (i) formal institutional voids, such as a weak welfare 'safety net' which forces citizens into undeclared work to survive; (ii) formal institutional inefficiencies, or resource misallocations by formal institutions; (iii) formal institutional uncertainty, and/or (iv) formal institutional weaknesses and

instability. These failings result in citizens viewing as socially acceptable what is deemed illegal by the state. Undeclared work arises, therefore, due to the failings of formal institutions which leads citizen morality to not be aligned with state morality.

Analysing the evidence on which formal institutional failings are significantly associated with the growth of undeclared work, the last few years have seen multiple studies which reveal that undeclared work is more extensive in those nations when there is: lower GDP per capita; higher public sector corruption and lower quality governance; lower expenditure on labour market interventions to help the most vulnerable groups; lower social expenditure, and social transfer systems that are ineffective in reducing the level of inequality and severe material deprivation.

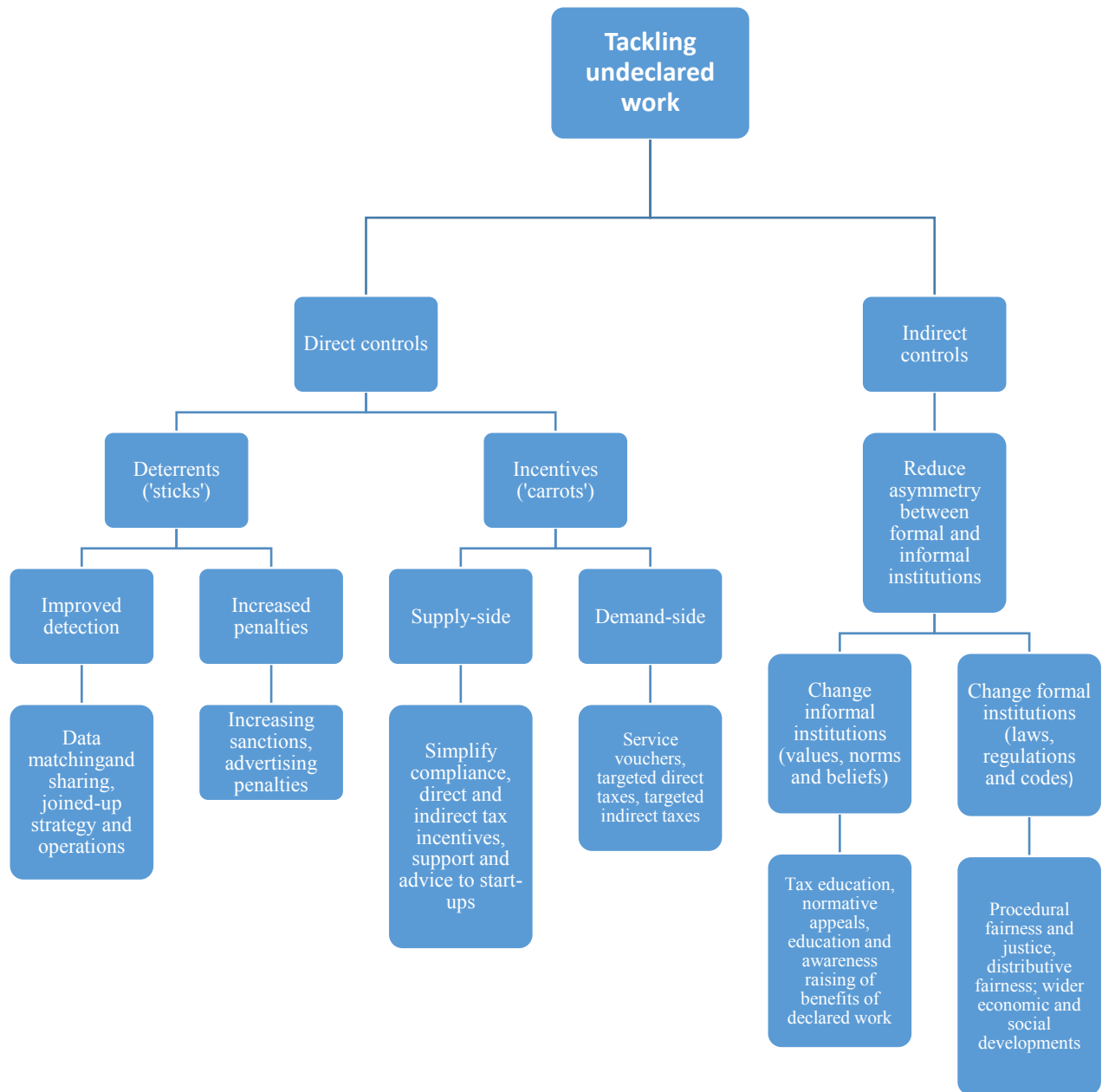
Policy approaches towards undeclared work

It is now widely accepted across the developed, transition and developing world, that the aim of governments is not to eradicate the undeclared economy, but to move undeclared work into the declared economy⁵. Figure 2 displays the full range of tools available for transforming undeclared work into declared work. On the one hand, there are direct tools. These transform undeclared into declared work by ensuring that benefits of operating in the declared economy outweigh the costs of working in the undeclared economy. This is accomplished either by using deterrence measures to increase the costs of non-compliance ('sticks') and/or by making the conduct of 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 dealing with the formal institutional failings so as to repair the social contract between the state and its citizens in order to foster a high trust high commitment culture.

⁵ See Eurofound (2013), *Tackling Undeclared Work in 27 European Union Member States and Norway: approaches and measures since 2008*. Dublin: Eurofound.; ILO, 2015, *op. cit.*; Williams, C.C. (2014a), *The Informal Economy and Poverty: evidence and policy review*, York: Joseph Rowntree Foundation

Figure 2. Policy approaches and measures for tackling undeclared work



Direct controls, therefore, seek to reduce the costs and increase the benefits of operating on a declared basis. 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 undeclared work. This can be achieved in two ways:

- *Deterrence measures* seek to detect and punish non-compliant ('bad') behaviour (i.e., 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 'negative reinforcement' approach thus seeks behaviour change by using 'sticks' to punish non-compliant ('bad') behaviour.
- *Incentive measures* seek to make it easier to undertake, and reward, compliant ('good') behaviour

(i.e., declared work). To achieve this, one can use either:

- Preventative measures to stop people moving into the undeclared economy in the first place (e.g., by simplifying compliance, using direct and indirect tax incentives to make it beneficial to operate on a declared basis, and providing support and advice about how to start-up legitimately); or
- Curative measures to incentivise workers and businesses to make the transition to the declared realm. These can be either (a) supply-side incentives targeting businesses and workers in the undeclared economy or (b) demand-side incentives targeting their customers with rewards for using declared goods and services.

Box 1 Joining-up data mining

Initiative: Grey Economy Information Unit (*Harmaan talouden selvitysyksikkö*), Finland

Aim: To join-up the previously fragmented function of data-mining.

Description: In Finland, data mining is the responsibility of the Grey Economy Information Unit (*Harmaan talouden selvitysyksikkö*). Established on 1 January 2011, this specialist unit within the tax administration (in the Ministry of Finance) gathers information and conducts investigations into undeclared work. This unit produces reports on the undeclared economy and investigates specific organizations and persons suspected of engaging in undeclared work at the request of other organizations, such as the police, customs bureau and Finnish Centre for Pensions as well as authorities dealing with work safety, debt recovery and bankruptcies. The unit has the power to obtain information from the authority that requests the compliance report. A compliance investigation can also be a general phenomenon report. The unit does not charge for the preparation of compliance reports and is entitled to obtain the necessary information free of charge. A compliance report can be used only for the requested purpose, although it can be used as basis for another report requested by the same authority on the same subject. The Grey Economy Information Unit is authorised to keep a database within the meaning of the Data Protection Directive (95/46/EC, 1995), containing information necessary for the preparation of reports. The data controller is the tax administration.

Evaluation: Its budget in 2011, the unit's first year, was €1.6 million and €1.9 million in 2012. Some 20 persons are employed. After a year and a half of operation, the unit completed over 40 information gathering and dissemination tasks. It also produced approximately 11,000 compliance reports to other authorities (this mandate started in July 2011). During 2011, 732 tax audits were conducted on information provided, resulting in €42 million of undeclared wages and €65 million in undeclared sales being recovered (Virtanen, 2013).

The problem with using these direct tools is that those operating on an undeclared basis are not always rational economic actors purely calculating the costs and benefits. They can be also social actors who engage in undeclared work because there is lack of alignment between their own morality and the laws and regulations, such as due to a lack of trust in the state and what it is seeking to achieve.

Indirect controls, therefore, seek to deal with the formal institutional failings and repair the social contract between the state and its citizens so as to create a high trust high commitment culture. The intention is to seek a voluntary commitment to compliant behaviour rather than force citizens to comply using threats, harassment and/or incentives. Undeclared work occurs where formal institutional failings lead to citizens' norms, values and beliefs differing to the laws and regulations, meaning that what formal institutions deem illegal activities are seen as socially legitimate in the eyes of citizens. To tackle undeclared work therefore, there is a need to address the formal institutional failings and repair the social contract. To align citizen morality with state morality, one can either:

- *Change the informal institutions* - to change the norms, values and beliefs of citizens regarding the acceptability of undeclared work, so that these are in symmetry with the laws and regulations, one can use awareness raising campaigns and educational initiatives about the costs of undeclared work and benefits of declared work.
- *Change the formal institutions* – this is particularly important in societies in which there is a lack of trust in government, such as due to public sector corruption (European Commission, 2014) 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 the formal institutions to improve the perception amongst citizens that there is procedural and distributive fairness and justice, and/or
 - Change in the *products* of formal institutions by pursuing wider economic and social developments (e.g., increased social expenditure levels, more effective social transfers).

Box 2 Tackling the demand-side: the use of tax deductions

Initiative: Tax deductions for household work, Sweden

Aim: To use direct tax incentives to bring domestic services provided in the undeclared economy into the declared realm

Description: Since 8 December 2008, Swedish citizens have been able to apply for a tax deduction amounting to 50% of the labour cost for the renovation, conversion and extension of homes (ROT), and also for household services (RUT), including cleaning, laundry, basic gardening and babysitting. The maximum annual tax deduction that can be applied for is SEK 50 000 (€6000) for each individual. In the government bill from 2007 where the RUT deduction was proposed, the measure was estimated to cost SEK1.3 billion per year (€155 million). The ROT-deduction was in the spring budget bill in 2009 and was calculated to cost SEK 13.5 billion per year (€416 million) (Swedish Tax Agency, 2011). As of 1 July 2009, companies performing household services charge the customer the costs of materials and half the labour costs, including VAT. The company performing the work then requests the outstanding sum from the Swedish Tax Agency. As a result, the customers only pay half of the labour cost at the point of purchase of the service.

Evaluation: Comparing data from 2005 and 2011, the Swedish Tax Agency (2011) display that undeclared work has decreased by about 10% within the categories of jobs covered by the ROT and RUT-deduction. In the autumn of 2011, the Swedish Federation of Business Owners (*Företagarna*) conducted a survey of 2447 construction companies. The results show that nearly 90% felt that the ROT-deduction had a positive impact on reducing undeclared work in the sector compared with 78% in 2009. In 2010, 1.1 million people bought household services with a tax deduction (RUT and ROT) and the Swedish Tax Agency paid out SEK 1.4 billion (€166 million) in RUT deductions and SEK 13.5 billion (€1.6 billion) in ROT-deductions. This means that around 7.6 million hours of cleaning and household (ROT) services and 53 million hours of renovation work (ROT) were performed using these schemes.

Box 3 Initiative: Home-job plan, home-job tax deduction, Denmark

Aim: To use direct tax incentives to bring domestic services provided in the undeclared economy into the declared realm

Description: Since 1 June 2011 until the end of 2013, it has been possible for each member of the household over 18 years of age to deduct from their taxes up to DKK 15 000 (€2000) the costs of employing craftspeople and domestic helpers under a pilot project called 'Home-Job Plan' (*Bolig-Jobplan*). The major difference compared with the Swedish scheme therefore, is that whilst Sweden has a maximum tax deduction of €6600, the cap is €2000 in Denmark. The activities covered include cleaning, indoor-outdoor maintenance of the house, gardening and babysitting. The cost to the government is estimated to be DKK 1 billion (€134 million) in 2011 and around DKK 1.75 billion (€234 million) in 2012 and 2013. The expenses and the company involved is informed digitally by the buyer of the services to the tax authorities in a special template, who then deduct 15% of the amount in the yearly tax or fiscal income. The action involved for the buyer of these services resembles an ordinary payment transfer, and the system does the rest.

Evaluation: Relative to expectations, the pilot project has so far been a success. Some 270 000 people used the deduction in 2011 and most of the work involved home improvement, maintenance and repair. They have on average reported deductions of DKK 9800 (€1315) per person. In total, the deductions reported constitute DKK 2.7 billion (€362 million). The tax value of those deductions is around DKK 900 million (€121 million).

The emerging evidence-base is that the 'best practice' when tackling undeclared work is to **combine direct and indirect tools**.

Organization of the fight against undeclared work: Institutional framework

Ministry of Labour, Social Security and Solidarity

The Ministry of Labour, Social Security and Solidarity takes overarching responsibility for labour law violations, and given that tackling undeclared work in Greece is primarily perceived as concerned with the social protection of workers, this Ministry is viewed as the lead Ministry in tackling undeclared work, taking responsibility for the definition and implementation of policies on employment, working conditions and social security, coordinating the system of labour administration, including the Labour Inspectorate (SEPE) and the Labour Force Employment Organization (OAED).

Labour Inspectorate (SEPE). This was established in 1955 and restructured to its present form in 1999. In accordance with Article 2 of Act 3996/2011: the “project of the Labour Inspection Corps is the supervision and control of the implementation of the provisions of labour legislation, the investigation of the insurance cover and illegal employment of workers, reconciliation and settlement of labour disputes, and the provision of information to workers and employers concerning the most effective means of complying with the current provisions”. The total staff of SEPE is some 750 employees, of whom 324 are labour inspectors and 253 are health and safety inspectors.

Ministry of Finance

The Ministry of Finance, meanwhile, takes responsibility for that aspect of the undeclared economy related to tax non-compliance. This Ministry is responsible for tax revenue and more particularly in relation to the undeclared economy, tax non-

compliance, and includes the *Financial and Economic Crime Unit (SDOE)* which is the tax inspectorate and takes responsibility for investigating tax non-compliance, the Independent Authority of Public Revenues (IAPR) and the General Secretariat of Information Systems (GSIS). In recent years, considerable progress has been made on strengthening tax compliance.

Social Insurance Institutions

So far as the third prong of the undeclared economy is concerned, namely social security fraud, this is the responsibility of the social security institutions. The main insurance fund for salaried employees is EFKA, offering coverage to approximately 6 million insured and pensioners. The social insurance contributions to EFKA cover the following provisions: illness and maternity (monetary and in kind benefits), pension plans (principal and subsidiary pensions), unemployment, and housing benefits. EFKA conducts inspections through PEKA and the 101 local EFKA branches. Most inspections respond to grievances. There are three levels of inspections: (a) local inspection at a company’s premises, when they may charge a €10,500 fine for undeclared workers, (b) typical control of records, and (c) substantive controls, which combine local and informational controls. In 2017, 17,000 inspections were conducted, with 17% having instances of uninsured workers

Social partners

Workers and employers organizations are committed in tackling undeclared work in Greece as it constitutes a threat for both fair competition of enterprises and working conditions of workers. They have developed capacity building and awareness raising activities for their members related to undeclared work and they have participated to the diagnostic on undeclared work in Greece and the formulation of the Road map to tackle this issue.

Way forward: The road map to tackle undeclared work in Greece

Based on a multi-stakeholder diagnostic of the causes, circumstances and forms of undeclared work in Greece, and the ILO expertise, a comprehensive a roadmap to tackle undeclared work in Greece, was adopted on 26th October 2016 by the Greek Government and social partners. The validation of the roadmap aimed at building consensus on priority policy measures to tackle undeclared work in Greece. It provides a solid ground for political commitment and the implementation of the integrated strategy proposed in the roadmap. The roadmap contains a sequence of interrelated actions combining deterrence, preventive, curative and punitive measures which will support the fight against undeclared work in Greece between 2017 and 2019.

A very important measure after the tripartite validation of the national roadmap on tackling undeclared work was the adoption on 28/04/17 of the new Law 4468/2017,⁶ which establishes the Tripartite Committee with equal representation under the Supreme Labour Council on undeclared work. This Tripartite Committee has been established by the Government, in consultation with social partners, and will be responsible for steering and monitoring the implementation of the roadmap, involving social partners in the design and implementation of economic, employment and social policies.

⁶ Law 4468/2017 - Government Gazette 61 / A / 28-4-2017, "Establishment of NIPID under the name" National Accreditation System "and other provisions".

See more on facilitating transition from the informal to the formal economy and tackling undeclared work in Greece:

- Informal economy Unit, Employment Policy Department, ILO:
<http://www.ilo.org/employment/units/emp-invest/informal-economy/lang--en/index.htm>
 - ILO project website on Tackling undeclared work in Greece:
<http://adilotiergasia.org/>
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