



Factsheet on undeclared work – CROATIA

March 2023

¹ This is an update of the [2017 factsheet](#)



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1.0 Nature and estimated scale of undeclared work

1.1 Legal definition

In Croatia, undeclared work is defined as any work conducted for an employer under the arrangement that, given the nature and type of this work and the authority of the employer, can be characterised as an employment relationship, but is either not lawfully contracted or does not have a valid legal basis². Specifically, this definition captures all activities in which a worker:

- ▶ performs work without a written employment contract or without a written confirmation of the concluded employment contract
- ▶ is not registered for mandatory pension insurance prior to starting work or on proper working hours
- ▶ has signed any contract other than employment contract, even though the nature and type of this work and the authority of the employer imply the requirement for standard employment contract to be signed, or
- ▶ is a third-country national whose employment relationship is not fully aligned with the provisions of the acts regulating the conditions of entry, movement, residence, and work of foreigners who are citizens of third countries

In a broader sense, undeclared work connotes any work which, according to its characteristics, enables the avoidance of the employer's social and labour obligations towards their employees. This would say that undeclared employment, bogus self-employment, and unpaid overtime work are also considered undeclared work in Croatia.

However, despite covering a large portion of the undeclared sphere, there are gaps to this definition. Specifically, there are many other forms of noncompliance recognised as undeclared work by the European Commission, which have nothing to do with waged employment³. Undeclared self-employment, afternoon moonlighting and informal transactions between companies are just some examples of undeclared work that remained outside the scope of this definition. In Croatia, such forms of noncompliance are scrutinised from the tax evasion perspective, which is a clear indication of the fragmented approach towards tackling undeclared work in this country.

1.2 Estimates of undeclared work

Estimates of undeclared work in this section are based on two available sources providing cross-country comparable data: Eurobarometer surveys and the Labour Input Method (LIM) study. Caution is required because of various limitations of the applied methodologies⁴.

² Government of the Republic of Croatia (2022) The Prevention of Undeclared Work Act. Available at https://narodne-novine.nn.hr/clanci/sluzbeni/2022_12_151_2329.html.

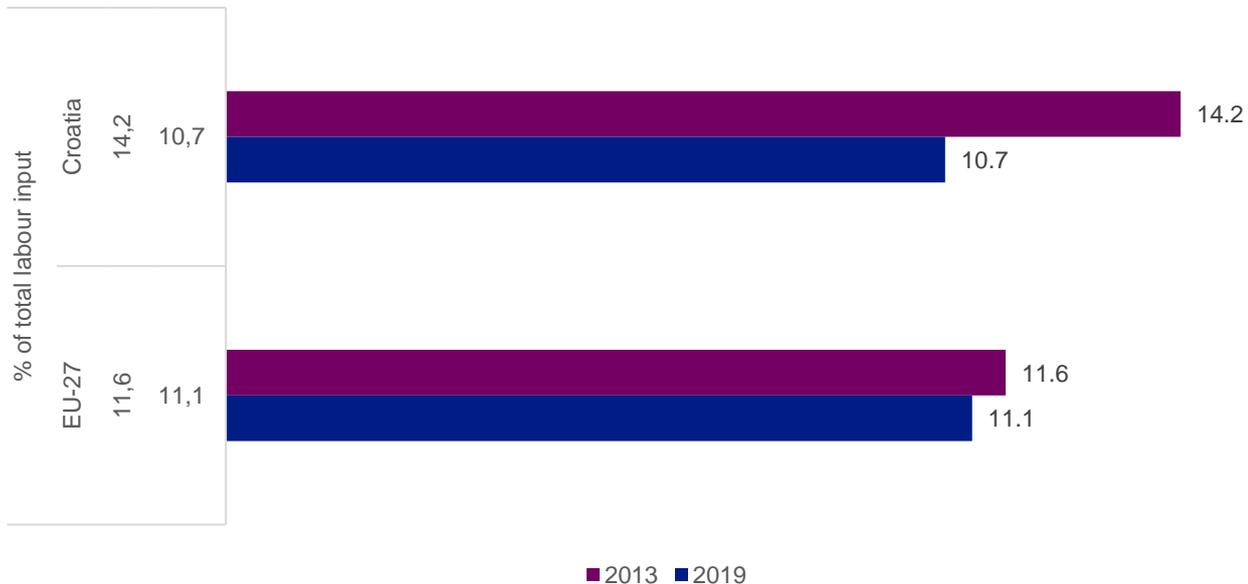
³ European Commission (2022) Employment, social affairs and inclusion – undeclared work. Available at <https://ec.europa.eu/social/main.jsp?catId=1298&langId=en>.

⁴ Undeclared work can be measured both directly and indirectly. Indirect methods are based on the comparison of macroeconomic aggregates (such as national accounts). Direct methods, on the contrary, are based on statistical surveys and



Examining the extent of undeclared work based on LIM estimates, in 2019, 10.7 % of total labour input in the private sector in Croatia is undeclared (14.2 % in 2013). Therefore, between 2013 and 2019, there has been a decline in undeclared work. This displays the progress in tackling undeclared work⁵. The extent of undeclared work in Croatia was lower compared to the EU-27 average (see Figure 1 below).

Figure 1. The scale of undeclared work in the private sector in Croatia and EU-27 and 2019



Source: Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work. Figures 3 and 6. Retrieved on 30 November 2022.

The figures below indicate the current state and development of undeclared, under-declared and bogus self-employment between 2007 and 2019 for Croatia, based on Eurobarometer surveys. It should be noted that this is not a measure of the size of the undeclared economy. It only measures the proportion of the population who have engaged in undeclared work in the past 12 months. In some Member States, undeclared work may be more characterised by small-scale one-off acts of baby-sitting or home repairs and in others such work may be more regular wage employment relationships⁶

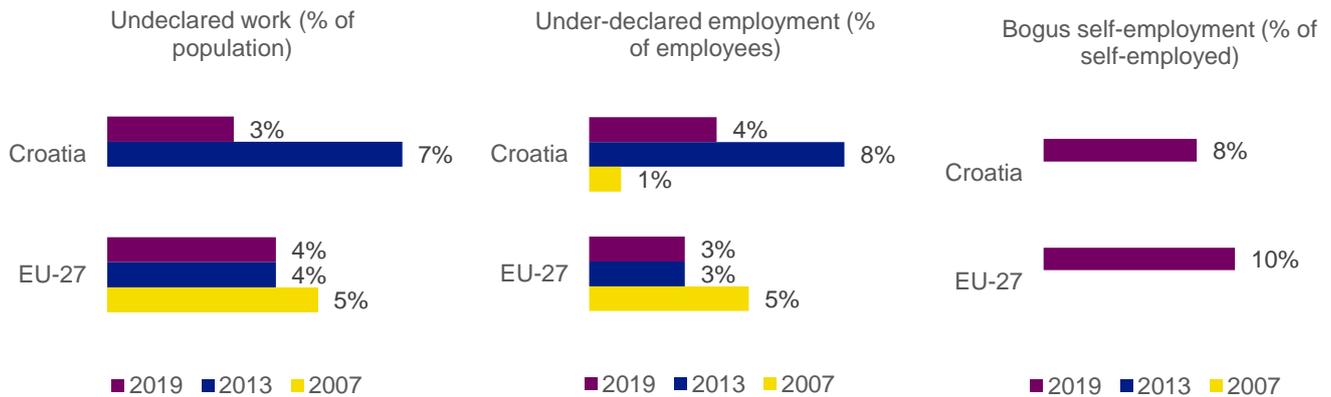
have advantages in terms of comparability and detail, but tend to under-report the extent of undeclared work. There is a consensus among both practitioners and academics that a direct approach should be used more to explore the nature of undeclared work in terms of who engages in such work, why they do so, which forms of undeclared work they undertake, and their reasons for doing so. When estimating the magnitude of undeclared work, the consensus is supportive of the use of indirect methods that search for discrepancies in comparable sets of secondary macroeconomic data (i.e. data constructed and/or collected for other purposes). The LIM study is based on the indirect method, whereas Eurobarometer surveys on the direct method.

⁵ However, a note of caution is necessary here. Since joining the EU in 2013, Croatia has witnessed substantial emigration of citizens to other EU Member States. To fill empty workplaces, the authorities lessened the immigration procedures for third-country nationals. As the work efforts of many of these newcomers (and this especially applies to seasonal workers in tourism) were not included in LFS nor adequately captured by other relevant statistics, the resultant estimates of undeclared work in Croatia are most likely underestimated.

⁶ Williams, C.C and Horodnic I.A. (2020). Trends in the undeclared economy and policy approaches Evidence from the 2007, 2013 and 2019 Eurobarometer surveys, European Platform tackling undeclared work. Figure 10. Retrieved on 28 September 2022.



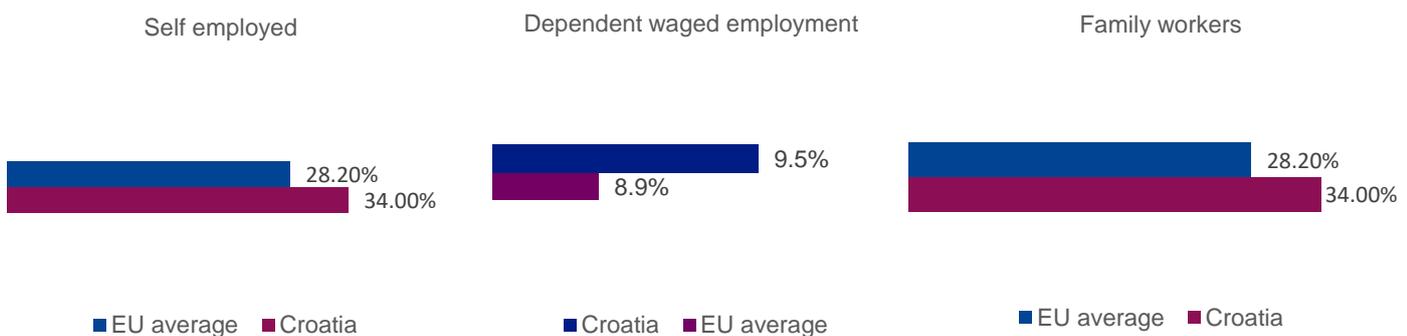
Figure 2. Composition of undeclared work, Croatia and EU-27, 2007, 2013 and 2019



Source: Williams, C.C and Horodnic I.A. (2020). [Trends in the undeclared economy and policy approaches Evidence from the 2007, 2013 and 2019 Eurobarometer surveys](#), European Platform tackling undeclared work. Figure 10. Retrieved on 28 September 2022.

There are also marked differences in the prevalence of undeclared work in different types of employment relationships. Figure 2 gives a detailed overview of the extent of undeclared work in different types of employment relationships, namely self-employment, dependent waged employment, and family work. Analysing the 2019 Labour Input Method (LIM) estimates⁷, in Croatia, 9.5 % of waged employment is undeclared (measured as a share of total labour input), the proportion of self-employment that is undeclared is 21.4 % (measured as a share of their total labour input) and the proportion of family work that is undeclared is 34.6 %⁸.

Figure 3. Prevalence of undeclared work in the private sector by the type of employment relationship, in Croatia, EU-27 average, 2019



Source: Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work. Table 2. Retrieved on 30 November 2022.

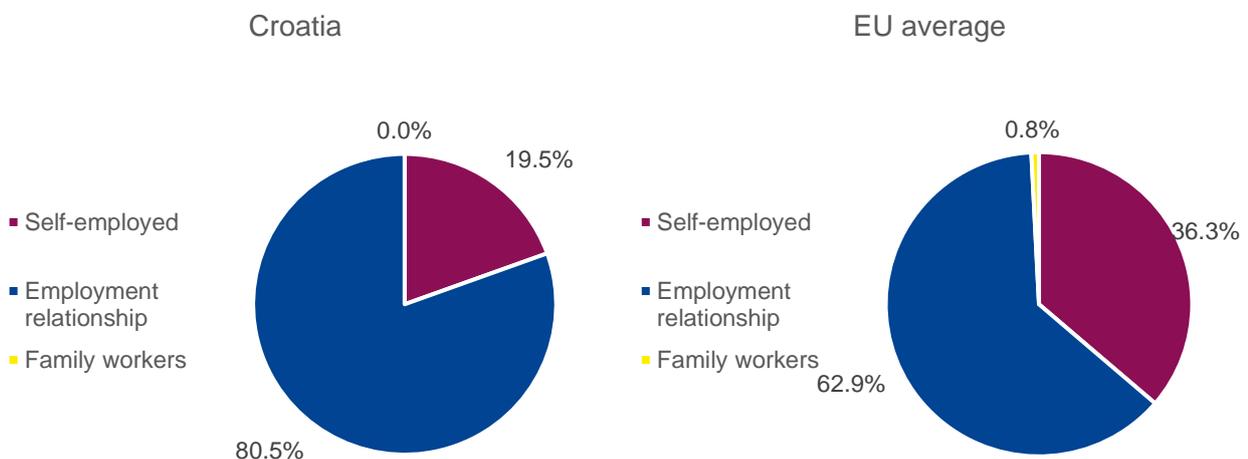
⁷ Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work.

⁸ This data (taken from the labour force survey), is based on a small sample, which might affect its statistical reliability.



Analysing the structure of the undeclared labour market in Croatia in 2019 using the LIM estimates⁹, the proportion of undeclared labour input that is waged employment is 80.5 % (62.9 % in the EU-27), 19.5 % of undeclared labour input is self-employment (36.3 % in the EU-27) and the proportion of undeclared labour input that is family work is less than 0.1 % (0.8 % in the EU-27) as indicated in Figure 4 below. Therefore, compared with the EU-27, waged employment is a larger proportion of undeclared work, and self-employment is a smaller share of undeclared work in Croatia. This has implications for tackling undeclared work. Given that undeclared work occurs less through self-employment, less emphasis will need to be put on policy initiatives encouraging businesses to start up legitimately and making it easier and more beneficial for businesses to shift towards becoming fully legitimate than in the EU-27 in general. In contrast, given that undeclared work predominantly occurs through waged employment, greater emphasis will need to be put on making unregistered and under-declared employment more expensive and/or less appealing than in the EU-27 in general.

Figure 4. Structure of the undeclared labour market in the private sector, Croatia and EU-27, 2019.



Source: Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work. Figure 8. Retrieved on 30 November 2022.

Although undeclared work is found throughout many sectors in Croatia, it is by far most pervasive in construction, tourism, and agriculture¹⁰. It is small and medium-sized companies that are most frequently detected in employing workers on an undeclared basis¹¹. When it comes to the suppliers, violations of labour and tax legislation in Croatia are highly prevalent among manual workers (one-third of all undeclared workers), formally unemployed individuals (every fourth undeclared worker), and foreigners¹². Prior to the Amendments to the Pension Insurance Act, which came into force on 1 January 2019, undeclared work was also widespread among pensioners (one in seven

⁹ Franic, J., Horodnic, I.A. and Williams, C.C. (2022).

¹⁰ Williams, C., and Bezeredi, S. (2019). Explaining and tackling unregistered employment: evidence from an employers' survey. *Journal of Contemporary Central and Eastern Europe*, 27(2-3), 173–189. doi:10.1080/25739638.2019.1694254.

¹¹ Franic, J., and Williams, C. (2014). Undeclared Work in Croatia. A baseline assessment. GREY Working Paper No. 2. Sheffield University Management School: Sheffield, United Kingdom.

¹² Government of the Republic of Croatia (2021). National Program for the Suppression of Undeclared Work in the Republic of Croatia 2021-2024 and the Action Plan for Implementing the National Program. Available from <https://vlada.gov.hr/UserDocsImages/2016/Sjednice/2021/Velja%C4%8Da/45%20sjednica%20VRH/45%20-%207%20Nacionalni%20program.pdf>.



undeclared workers). The above categories accounted for about 70 % of all undeclared workers in Croatia according to the government statistics¹³.

Most common violations detected by the labour inspectors include:

- ▶ employment of workers without an employment contract or without delivery of the written confirmation on the concluded contract, in cases where the contract has not been concluded in written form;
- ▶ concealing of working relation through the conclusion of different forms of contracts (e.g., service contract) for jobs with characteristics that require the conclusion of work contracts;
- ▶ employment of foreigners contrary to the relevant legislation (e.g., on jobs different from those stated in the work permit);
- ▶ Incomplete or false declaration of workers' working conditions (e.g., full-time worker officially hired on a part-time job);
- ▶ Payment of envelope wages;
- ▶ Failure to pay overtime work and work conducted in situations that require increased remuneration (e.g., holidays, night shifts, and work in difficult conditions).

Undeclared work in Croatia is a product of a wide range of factors. The most important ones include social embeddedness (which is reflected through a permissive attitude towards tax evasion), low trust in the authorities, and perceived weak rule of law¹⁴. Despite recent reforms of the tax system, the tax burden still remains an important driver of undeclared work. Finally, the expansion of platform work and increased immigration of third-country nationals have added an additional dimension to the issue¹⁵.

2.0 Institutional framework

2.1 Responsibilities for addressing undeclared work

Table 1. Overview of key institutional features in Croatia for addressing undeclared work

Key institutional feature	Existence
A high-level coordinating body in the country	No
A national strategy for tackling undeclared work	Yes
Common cross-government strategic objectives and KPIs/targets for tackling undeclared work	No

¹³ Ibid.

¹⁴ Bejaković, P., and Bezeredi, S. (2019). Determinants of tax morale in Croatia: an ordered logit model, *Business Systems Research*, 10(2), 37-48.

¹⁵ Government of the Republic of Croatia (2021). National Program for the Suppression of Undeclared Work in the Republic of Croatia 2021-2024 and the Action Plan for Implementing the National Program. Available from <https://vlada.gov.hr/UserDocsImages/2016/Sjednice/2021/Velja%C4%8Da/45%20sjednica%20VRH/45%20-%207%20Nacionalni%20program.pdf>.



Source: Williams, C.C. and Horodnic, I.A. (2022). [Progress of national authorities towards a holistic approach, Study using a common assessment framework May 2022](#). European Platform tackling undeclared work.¹⁶

There is no single public organisation responsible for tackling undeclared work in Croatia. Instead, responsibility is shared between different ministries and government departments, including:

- ▶ Ministry of Labour, Pension System, Family and Social Policy¹⁷
- ▶ State Inspectorate¹⁸
- ▶ Ministry of Finance, especially Tax Administration and Customs Administration¹⁹
- ▶ Ministry of Interior²⁰
- ▶ Ministry of Tourism and Sport²¹
- ▶ Ministry of Physical Planning, Construction and State Assets²²
- ▶ Ministry of Agriculture²³
- ▶ Croatian Employment Service²⁴, and
- ▶ Croatian Pension Insurance Institute²⁵

Departments which carry the highest responsibilities around the detection of undeclared work in Croatia are the State Inspectorate and Tax Administration. Ministry of Labour, Pension System, Family and Social Policy and the Ministry of Finance oversee the legislative basis for tackling undeclared work. Due to increased immigration, the Ministry of Interior has also recently taken an important role in combating undeclared work. Lower-level responsibilities in this respect are situated within the Ministry of Physical Planning, Construction and State Assets, Ministry of Tourism and Sport, Ministry of Agriculture, Croatian Employment Service and Croatian Pension Insurance Institute.

In general, there is a need for better coordination among these institutions as currently each of them sets their own goals and takes actions within their scope of responsibility. Also, there are no common cross-government strategic objectives and targets for tackling undeclared work. To address this issue, the government is planning to establish a high-level coordinating body²⁶. Besides synchronising the activities of the stakeholders, this institution is also envisaged to have an operational role in the form of the collection, exchange, and analysis of data essential for a more successful fight against the phenomenon. This important change is announced in the National Program

¹⁶ A questionnaire survey that was sent to the 32 labour, tax and social security authorities participating in the European Platform tackling undeclared work (hereafter “the Platform”) in the 27 European Union member states plus Norway and Iceland (i.e., 28 labour authorities, 3 tax authorities and 1 social security authority), Replies received between December 2021 and February 2022.

¹⁷ [Ministarstvo rada, mirovinskoga sustava, obitelji i socijalne politike](#), contact: kabinet@mrosp.hr, accessed 30 November 2022.

¹⁸ [Državni inspektorat](#), contact: press@dirh.hr, accessed 30 November 2022.

¹⁹ [Ministarstvo financija - Porezna uprava](#), contact: informiranje@porezna-uprava.hr, accessed 30 November 2022.

[Ministarstvo financija – Carinska uprava](#), contact: javnost@carina.hr, accessed 30 November 2022.

²⁰ [Ministarstvo unutarnjih poslova](#), contact: kabinet@mup.hr, accessed 30 November 2022.

²¹ [Ministarstvo turizma i sporta](#), contact: kabinet@mints.hr, accessed 30 November 2022.

²² [Ministarstvo prostornoga uređenja, graditeljstva i državne imovine](#), contact: tajnistvo@mpgi.hr, accessed 30 November 2022.

²³ [Ministarstvo poljoprivrede](#), contact: kabinet@mps.hr, accessed 30 November 2022.

²⁴ [Hrvatski zavod za zapošljavanje](#), contact: hzz@hzz.hr, accessed 30 November 2022.

²⁵ [Hrvatski zavod za mirovinsko osiguranje](#), contact: press@mirovinsko.hr, accessed 30 November 2022.

²⁶ Government of the Republic of Croatia (2021). National Program for the Suppression of Undeclared Work in the Republic of Croatia 2021-2024 and the Action Plan for Implementing the National Program. Available from <https://vlada.gov.hr/UserDocsImages/2016/Sjednice/2021/Velja%C4%8Da/45%20sjednica%20VRH/45%20-%207%20Nacionalni%20program.pdf>.



for the Suppression of Undeclared Work in the Republic of Croatia 2021-2024 and the Action Plan for Implementing the National Program²⁷, which outlines the strategic approach towards tackling undeclared work.

The involvement of social partners is accomplished through the Economic and Social Council²⁸, a tripartite body established in 1994 to enable knowledge exchange and foster dialogue between representatives of the government, employers and trade unions. Besides taking part in consultations and working groups, social partners are also actively engaged in the negotiation of collective agreements, organisation of awareness-raising campaigns, and protection of workers when in undeclared work situations (see Table 2).

Table 2. Overview of tools to tackle undeclared work used by social partners in Croatia

Social partner tools to tackle undeclared work	Existence
Raising awareness and changing behaviours through campaigns, awards, dedicated websites, etc at sectoral and company level	Yes
Referring cases of undeclared work to enforcement and judicial authorities	Yes
Negotiating collective agreements which contain instruments to tackle undeclared work, including in supply or subcontracting chains	Yes
Supporting workers by protecting them when in undeclared work situations, and aiding transition into a declared work situation	Yes
Raising awareness of situations of undeclared work and making calls for action	Yes
Cooperating across borders in the fight against undeclared work	No
Performing research to identify the key reasons, manifestations, specifics and impact of undeclared work	Yes
Providing policy and legal advice on procedural and legal changes needed	No
Providing policy advice on where enforcement authorities should focus their efforts (e.g., bogus self-employment, particular sectors)	No
Taking part in consultations and working groups	Yes
Providing technical support to enforcement authorities in developing information tools, data mining and risk assessment, building websites and social media platforms	No
Establishing relevant contacts through their networks of members	Yes
Serving as access points to corporate databases	No
Conduct workplace inspections	No

Source: Williams, C.C. and Horodnic, I.A. (2022). [Progress of national authorities towards a holistic approach, Study using a common assessment framework May 2022](#). European Platform tackling undeclared work.

²⁷ Ibid.

²⁸ [Gospodarsko-socijalno vijeće](#), contact: partnerstvo@mrosp.hr, accessed 30 November 2022.



2.2 Characteristics of the responsible organisations

The State Inspectorate is the central surveillance body in Croatia. Among other things, it is responsible for the control of activities related to trade, service delivery, food processing, agriculture, hunting, forestry, plant protection products, sustainable use of pesticides, mining, pressure equipment, energy, construction, environmental protection, sustainable waste management, air protection, and water management. Surveillance of work relations and safety at work is also under the jurisdiction of the Inspectorate. Besides controlling the validity of work contracts, existence of the mandatory pension and compulsory health insurance, and other vital aspects of work relations, labour inspectors also monitor the employment of third-country nationals and the posting of workers.

The control of tax payments is the responsibility of the Tax Administration. It monitors and audits the collection of taxes, contributions, and other financial liabilities, suppresses tax fraud, conducts misdemeanour proceedings, analyses data on collected taxes and contributions, and plans tax revenues. In addition, the Tax Administration proposes improvements to the tax system and tax policy which, among other things, would reduce the occurrence of tax evasion.

The Customs Administration supervises the implementation of regulations governing trade and the provision of services. Among other things, it is responsible for combating all illicit transactions having an international character, including those that fall within the definition of undeclared work. In addition, the Customs Administration oversees surveillance of compliance regarding sojourn tax.

The Ministry of Interior is responsible for combating the illegal employment of third-country nationals (in cooperation with the State Inspectorate). The contribution of other ministries is primarily reflected through the prevention of undeclared work via legislative changes in their respective domains. Ministry of Physical Planning, Construction and State Assets, Ministry of Agriculture, and Ministry of Tourism and Sport are particularly important in this regard, as they oversee the sectors in which undeclared work is particularly prevalent in Croatia. However, the key role in this respect is played by the Ministry of Labour, Pension System, Family and Social Policy, which sets the legislative framework for the labour market. Labour Act and the Prevention of Undeclared Work Act, are the most important, but not the only tools through which this Ministry tackles undeclared work.

Finally, the Croatian Employment Service and the Croatian Pension Insurance Institute monitor compliance with social security legislation. Given this, they have access to information that can help other government bodies in detecting and prosecuting undeclared work.

2.3 Cooperation and collaboration between authorities and cross-border authorities

2.3.1 The legal basis

The main legal basis for the work of authorities involved in tackling undeclared work are as follows.

Table 3. Key authorities and their legal basis to tackle undeclared work

Authority	Legal framework
State Inspectorate	Act on the Structure and Scope of State Administration Bodies , Article 27 State Inspectorate Act Regulation on the Internal Organization of the State Inspectorate
Tax Administration	Act on the Structure and Scope of State Administration Bodies , Article 8



	Regulation on the Internal Organization of the Ministry of Finance , Articles 39-86
Customs Administration	Act on the Structure and Scope of State Administration Bodies , Article 8 Regulation on the Internal Organization of the Ministry of Finance , Articles 87-107
Ministries	Act on the Structure and Scope of State Administration Bodies
Croatian Employment Service	Labour Market Act , Articles 82-102
Croatian Pension Insurance Institute	Pension Insurance Act

Source: ELA (2022) Overview on responsibilities, inspection competences and legal frameworks in Member States, Cooperation Support Unit, (March 2022), unpublished.

2.3.2 Between authorities in Croatia

Collaboration between different institutions responsible for tackling undeclared work is insufficient both in the strategic and operational sense. The lack of cooperation is also evident when it comes to data sharing and setting common goals. Indeed, improving coordination and collaboration between government bodies has been identified as one of the central priorities in the National Program for the Suppression of Undeclared Work in the Republic of Croatia 2021-2024 and the Action Plan for Implementing the National Program²⁹. In line with this, there is a plan to establish a specialised cross-government body that will not only coordinate the activities of enforcement authorities, but also be responsible for the collection, analysis and exchange of employment, tax and other relevant data.

An important step towards this holistic approach for tackling undeclared work was accomplished in 2019 with the establishment of the State Inspectorate³⁰. This institution put under the same umbrella 17 different inspection services that were previously scattered across multiple ministries. Not only did this open the prospects for the planning of joint actions and formation of strategic plans, but it also eliminated overlaps between jurisdictions.

2.3.3 With other Member States

Croatia does not have a specific legal framework for cross-border joint inspections³¹. In Croatia, a visiting inspector from another Member State will have limited competence - corresponding to an observer role. On the other hand, evidence gathered during an inspection conducted in another Member State can be used as evidence before a court in Croatia, on condition that that it is provided through the Internal Market Information system. Likewise, the evidence gathered during an inspection in another Member State can be used as evidence in administrative proceedings in Croatia if provided through the Internal Market Information system.

²⁹ Government of the Republic of Croatia (2021). National Program for the Suppression of Undeclared Work in the Republic of Croatia 2021-2024 and the Action Plan for Implementing the National Program. Available from <https://vlada.gov.hr/UserDocsImages/2016/Sjednice/2021/Velja%C4%8Da/45%20sjednica%20VRH/45%20-%207%20Nacionalni%20program.pdf>.

³⁰ Government of the Republic of Croatia (2021). State Inspectorate Act. Available from <https://www.zakon.hr/z/298/Zakon-o-Dr%C5%BEavnom-inspektoratu>.

³¹ ELA (2020). Guidelines for concerted and joint inspections, Annex 4. https://www.ela.europa.eu/sites/default/files/2021-02/Item01_Guidelines-for-concerted-and-joint-inspections.pdf



Cross-border cooperation is not among the defined strategic objectives of the enforcement authorities, nor is it specified in the National Program for the Suppression of Undeclared Work in the Republic of Croatia 2021-2024³². However, a discussion is currently taking place within the State Inspectorate about the prospects for setting cross-border cooperation as a strategic objective in future³³.

3.0 Policy focus and measures

3.1 Policy approach

Croatia applies a wide range of policy measures aiming to tackle undeclared work. Although deterrence is still the most prevalent strategy, substantial improvements have been made when it comes to prevention and awareness raising (see Annex 1). Most importantly, the Prevention of Undeclared Work Act³⁴, which came into force on 1 January 2023, set the ground for a shift in the overarching goal away from largely reducing undeclared work and towards the transformation of undeclared work into declared work. The Act stipulates that every undeclared worker detected by the authorities must be retroactively registered with the relevant institutions for the whole period of the employment. If there is no clear evidence of the duration of employment up to the moment of detection, it will be assumed that it lasted for previous six months. Besides paying the median gross wage (calculated on a national basis) to the worker for this period and the accompanying social security contributions, the employer also must pay a EUR 2 650 fine for each undeclared employee detected. This fine will be increased for subsequent cases of undeclared work found in the company. If the violation is repeated more than twice in a period of six years, the supervisory authorities will prohibit the employer from doing business for at least 30 days. Given this, the current strategy for tackling undeclared work in Croatia can be defined as a combination of a repressive and transformative approach.

At the moment there are no common cross-government strategic objectives and KPIs/targets for tackling undeclared work. However, the discussion is taking place in this respect. As already mentioned, increased cooperation and coordination between various government bodies responsible for tackling undeclared work is one of the key strategic goals outlined in the National Program for the Suppression of Undeclared Work in the Republic of Croatia 2021-2024. When it comes to social partners, their involvement is limited to participation in working groups and consultations.

3.2 Main policy measures

The 2022 holistic approaches study³⁵ indicates that four types of measures are commonly used in Croatia to tackle undeclared work - predominantly the use of:

- ▶ penalty measures
- ▶ initiatives to increase the risk of detection (e.g., inspections)

³² Government of the Republic of Croatia (2021). National Program for the Suppression of Undeclared Work in the Republic of Croatia 2021-2024 and the Action Plan for Implementing the National Program. Available from <https://vlada.gov.hr/UserDocsImages/2016/Sjednice/2021/Velja%C4%8Da/45%20sjednica%20VRH/45%20-%207%20Nacionalni%20program.pdf>.

³³ Williams, C., and I. Horodnic (2022). [Progress of national authorities towards a holistic approach, Study using a common assessment framework May 2022](#). European Platform tackling undeclared work.

³⁴ Government of the Republic of Croatia (2022). The Prevention of Undeclared Work Act. Available from https://narodne-novine.nn.hr/clanci/sluzbeni/2022_12_151_2329.html.

³⁵ Williams, C. and I. Horodnic (2022). Progress of national authorities towards a holistic approach, Study using a common assessment framework May 2022. European Platform tackling undeclared work.



- ▶ incentives to make declared work easier and more beneficial
- ▶ education, awareness raising campaigns and normative appeals

Annex 1 provides more detail on the specific policy measures used to tackle undeclared work.

3.3 Good practices³⁶

Good practices in tackling undeclared work have been explored by the European Platform tackling undeclared work. The following good practices addressing undeclared work are identified in Croatia:

- ▶ [Enterprise vouchers to formalise undeclared work in agriculture](#) (2018). Employers in the agricultural sector can remunerate seasonal and occasional workers using the specialised (prepaid) vouchers. This scheme entitles the unemployed and pensioners to work up to 90 days per calendar year, performing various jobs in the agricultural sector.
- ▶ [National Awareness Campaign ‘Stop undeclared work – Stop Moonlighting’](#) (2018). This multi-media national campaign aimed to improve public awareness of the negative sides of undeclared work and the underground economy in general, while strengthening the administrative capacities of government in tackling this issue.
- ▶ [IPA 2012 Twinning Project: Strengthening Policy and Capacities to Reduce Undeclared Work](#) (2016-2018). The goal of the project was to help build up an effective system of policies, measures and control mechanisms to decrease the rate of undeclared work in Croatia and increase labour contributions paid. It was implemented in partnership with Slovak and German Twinning partners who contributed their expertise (Ministry of Labour, Social Affairs and Family of the Slovak Republic, the Federal Ministry of Finance of the German Republic, and the Regional Development Agency of the Slovak Republic).

There are also some noteworthy examples of good practices which are brought about by the Prevention of Undeclared Work Act and the amendments to the Labour Act:

- ▶ [Joint and several liability](#) (2023). Contractors will now share responsibility for the wages in the subcontracting chain. A worker of the subcontractor that has not been fully paid by the said subcontractor for the work performed or the service provided is now entitled to demand payment from the contractor. If this happens, the contractor has the right to demand from the subcontractor the full amount paid to the worker.
- ▶ [Regulation of work performed through digital work platforms](#) (2023). Amendments to the Labour Act, which came into force on 1 January 2023, fully conceptualized platform work³⁷. Besides clearly defining this type of work, the Act now provides detailed account of rights and responsibilities for all actors involved. Platform work is further regulated by the Prevention of Undeclared Work Act, which stipulates that the platform owners keep the records of self-employed individuals working via their platform. These records, which also include work schedules of individuals involved, must be shared with the relevant authorities.

Other practices are available on the European Labour Authority [website](#).

³⁶ [Virtual library | European Labour Authority \(europa.eu\)](#).

³⁷ Government of the Republic of Croatia (2022). Amendments to the Labour Act. Available from <https://vlada.gov.hr/UserDocImages/2016/Sjednice/2022/Prosinac/171%20sjednica%20VRH/171%20-%203.docx>.



3.4 Challenges and barriers

The lack of coordination and cooperation between government bodies on strategy, operations and data sharing continues to represent a key obstacle to more efficient fight against undeclared work in Croatia. Neither is a definition of undeclared work currently used that captures the multifarious forms of tax and social insurance non-compliance which are elsewhere included within the definition of such work. The term ‘undeclared work’ in Croatia captures solely the violations happening within the standard employment relationship (e.g., undeclared employment, under-declared employment, and bogus self-employment). Other forms of tax and social insurance noncompliance are not included.

Another important challenge is the high tolerance towards undeclared work among the population. There is low vertical trust (i.e., trust in the authorities) and horizontal trust (trust in fellow citizens). As shown in Table 4, only one in three Croatian citizens tends to trust tax authorities and labour inspectors. In comparison, these shares on average account for 49 % when the EU is evaluated. Despite a number of normative appeals and awareness-raising campaigns, research studies have exposed an upsurge in the readiness of Croatians to participate in undeclared work³⁸. There is, therefore, a need to put more emphasis on indirect policy measures which would improve the trust in state institutions, as well as in other taxpayers. These indirect measures include, firstly, initiatives to modernise state institutions (such as by developing customer-friendly, accessible and human-centric digital public services), and to improve perceived procedural justice (by which is meant the perception that public authorities and officials treat citizens, workers, employers and businesses in an impartial, respectful and responsible way) and secondly, education and awareness raising campaigns on the benefits of declared work.

Table 4. Level of tax morale, horizontal and vertical trust, Croatia and the EU

	Tax morale*	Horizontal trust**	Vertical trust: tend to trust tax authority***	Vertical trust: Tend to trust labour inspectorate***
Croatia	8.52	42%	33%	32%
EU-27 average	8.55	36%	49%	49%

Source: Williams, C.C and Horodnic I.A. (2020). [Trends in the undeclared economy and policy approaches Evidence from the 2007, 2013 and 2019 Eurobarometer surveys](#), European Platform tackling undeclared work. Figures 35, 36 and 37. Retrieved on 28 October 2022

*Tax morale is an index where respondents were asked to rank five different types of undeclared work on a scale of 1 to 10 (recoded here as 1 representing ‘totally acceptable’ behaviour and 10 representing ‘totally unacceptable’ behaviour).

**Horizontal trust was measured as the percentage of respondents who personally know people engaged in undeclared work.

***Vertical trust was measured as the percentage of respondents who tend to trust the main state institutions tackling undeclared work.

Increased immigration and the expansion of platform work also represent challenges for the authorities. While the legislative changes aiming to regulate the latter undoubtedly represent a step forward, it remains to be seen whether they alone will manage to reduce the occurrence of undeclared work within this sphere. Participation of immigrants in the undeclared economy, especially the irregular ones, is yet to be efficiently addressed. Above all, this would require greater involvement of the Ministry of Interior.

³⁸ Franic and Cichocki (2022). Envelope wages as a new normal? An insight into a pool of prospective quasi-formal workers in the European Union (EU). *Employee Relations*, 44(1), 37-53. <https://doi.org/10.1108/ER-02-2021-0073>.



Finally, despite several tax reforms recently implemented, a high tax burden still remains an important driver of undeclared work in Croatia³⁹. However, research has shown that it is not a real burden, but rather a perceived burden that plays a vital role in the decision-making process of taxpayers about (un)declaration of activities⁴⁰. This is again associated with the (dis)trust in the authorities and the subjective reasoning about value one gets for paid taxes. The actual issue is therefore one of improving the procedural fairness (by which is meant citizens, workers, employers and businesses believing that they pay a fair share relative to others) and perceived redistributive justice (by which is meant citizens, workers, employers and businesses believing that they receive the public goods and services that they deserve given the tax and social insurance contributions that they make).

Additional macro-economic and structural conditions of institutions affecting the prevalence of undeclared work in Croatia are provided in Annex 2.

³⁹ Even more problematic in this respect are parafiscal charges, most of which are imposed on companies.

⁴⁰ Franic (2020). Dissecting the illicit practice of wage underreporting: some evidence from Croatia, *Economic Research-Ekonomska Istraživanja*, 33:1, 957-973, doi:10.1080/1331677X.2020.1745083.



Annex 1: Approaches used to tackle undeclared work

Table A.1. Approaches used to tackle undeclared work

Approaches used	Existence
PENALTIES	
Use of penalties and fines to prevent participation in undeclared work	Yes
Use of penalties to transform undeclared work into declared work	Yes
Penalties for people or businesses who buy undeclared work	Yes
Reclassifying false employment relationships (e.g., bogus self-employment)	Yes
Use of non-compliance lists ('blacklists')	Yes
Previous non-compliance excludes firms from bidding for public procurement contracts	No
'Naming and shaming' lists	No
RISK OF DETECTION	
Workplace inspections	Yes
Online/desk-based inspections	No
Joint inspections with other national inspectorates	Yes
Announced inspections	Yes
Cross-border inspections	No
Registration of workers prior to first day at work	Yes
Data matching and sharing to identify risky businesses	No
Use data mining to determine risky businesses for inspection	No
Coordination of data mining and sharing across government departments	No
Coordination of strategy on undeclared work across government departments	No
Use of complaint reporting tools (e.g. telephone hotlines) ⁴¹	Yes
Certification of business, certifying payments of social contributions and taxes	Yes
Notification letters	No
Mandatory ID in the workplace	No

⁴¹ [Information and tools for working declared | European Labour Authority \(europa.eu\)](https://european-labour-authority.europa.eu/information-and-tools-for-working-declared)



Supply chain responsibility (e.g., joint and several liability, due diligence)	Yes
INCENTIVES	
Supply-side measures (i.e., to stimulate suppliers to operate declared)	
Simplify procedures for complying to existing regulations (e.g., easier registration procedures; simplify forms; reduce duplication)	No
Compliance lists	Yes
Society-wide amnesties	No
Individual-level amnesties for voluntarily disclosing undeclared activity	No
'Formalisation' advice to start-ups	No
'Formalisation' support services to existing businesses	No
Targeted VAT reductions	No
Provide free record-keeping software to businesses	No
Provide fact sheets on record-keeping requirements	No
Provide free advice/training on record-keeping	No
Gradual formalisation schemes	Yes
Initiatives to ease transition from unemployment into self-employment	Yes
Initiatives to ease transition from employment into self-employment	No
Access to free marketing	No
Demand-side measures (i.e., to encourage purchasers to buy declared goods and services)	
Service vouchers	Yes
Targeted direct tax incentives (e.g., income tax reduction/subsidy)	Yes
Targeted indirect taxes (e.g., VAT reductions)	Yes
Initiatives for customers to request receipts (e.g., Lottery for receipts)	No
FOSTERING COMMITMENT TO OPERATE DECLARED	
Campaigns to inform suppliers of undeclared work of the risks and costs of working undeclared	Yes
Campaigns to inform suppliers of undeclared work of the benefits of formalising their work (e.g., informing them where their taxes are spent)	Yes
Campaigns to inform users of undeclared work of the problems of purchasing goods and services from the undeclared economy	No
Campaigns to inform users of undeclared work of the benefits of declared work (e.g., informing citizens of the public goods and services they receive with the taxes collected)	Yes
Normative appeals to businesses to operate on a declared basis	No



Measures to improve the degree to which customers of the enforcement agencies believe they have been treated in a respectful, impartial and responsible manner	No
Measures to improve labour, tax and/or social security law knowledge	No
Public information on the work and achievements of the enforcement authorities	Yes

Sources: Williams, C.C. and Horodnic, I.A. (2022). [Progress of national authorities towards a holistic approach, Study using a common assessment framework May 2022](#). European Platform tackling undeclared work.



Annex 2: Dashboard: overview of key indicators relevant to undeclared work

The dashboard below provides an overview of the key structural conditions that are associated with the extent of undeclared work. The trends in each driver display whether it improved (“green”) or worsened (“red”) in Croatia. For comparative purposes, the trends in each driver of undeclared work are also presented for the EU-27.

Table A.2. Trends in key structural drivers of undeclared work

CROATIA				
INDICATOR	YEAR:		TREND 2009 vs. 2019	EU-27, 2019 ****
	2009	2019		
A. FORMAL INSTITUTIONS				
I. FORMAL INSTITUTIONAL RESOURCE MISALLOCATIONS AND INEFFICIENCIES				
1. Level of modernisation of government				
Government effectiveness (-2.5 to 2.5 (strong performance))	0.59	0.49	■	-
2. Formal institutions acting in a corrupt manner				
Corruption Perceptions Index (CPI) (0-100 (very clean)) *	46	47	■	-
Control of corruption (-2.5 to 2.5 (strong performance))	-0.09	0.08	■	-
II. FORMAL INSTITUTIONAL VOIDS AND WEAKNESSES				
1. Modernisation Explanation - Level of ‘development’				
GDP (current prices, euro per capita)	10 590	13 680	■	31 300
Human Development Index (HDI) (0-1 (highest development))	0.816	0.861	■	-
Social Progress Index (SPI) (0-100 (high)) **	77.91	80.86	■	-
Self-employment (% of total employment)	16.9	10.5	■	13.4
2. State intervention				
Burden of government regulation (1-7 (best))	2.5	1.9	■	-
Business flexibility index (0-10 (high))	7.18	7.46	■	-
Expense of government (% of GDP)	40.2	38.7	■	36.6
Research & Development expenditure (% of GDP)	0.84	1.08	■	2.23
Tax revenue (% of GDP)	19.5	21.7	■	19.7
Social contributions (% of revenue)	33.1	29.1	■	33.0
Impact of social transfers on poverty reduction (%)	31.33 ¹⁾	24.69	■	32.38
Labour market policy (LMP) expenditure (% of GDP)	0.64 ²⁾	0.69	■	1.65
Unemployment rate (% of active population)	9.2	6.6	■	6.8
People at risk of poverty/social exclusion (% of total population)	31.1 ¹⁾	23.3	■	20.9
Severe material deprivation rate (% of total population)	14.3 ¹⁾	7.2	■	5.5
Inequality of income distribution (income quintile share ratio)	5.54 ¹⁾	4.76	■	4.99
Gini coefficient (0-100 (perfect inequality))	31.6 ¹⁾	29.2	■	30.2
Labour productivity (% change on previous period)	-6.6	0.3	■	0.7
III. FORMAL INSTITUTIONAL POWERLESSNESS				
Reliability of police services (1-7 (best))	4.4	4.3	■	-
Judicial independence (1-7 (best))	3.1	2.4	■	-
Rule of law (-2.5 to 2.5 (strong performance))	0.04	0.37	■	-
Regulatory quality (-2.5 to 2.5 (strong performance))	0.47	0.56	■	-
Voice and accountability (-2.5 to 2.5 (strong performance))	0.49	0.46	■	-
Trust in Government (% tend to trust)	12	15	■	35
Trust in Parliament (% tend to trust)	12	16	■	34
IV. FORMAL INSTITUTIONAL INSTABILITY AND UNCERTAINTY				
Democracy Index (0-10 (full democracy)) ***	6.81	6.57	■	-
Political stability (-2.5 to 2.5 (strong performance))	0.61	0.69	■	-
B. INFORMAL INSTITUTIONS				
Social capital (0-100 (high))	45.4	43.1	■	-
Tax compliance (0-10 (high))	7.80	7.69	■	-
	Year:	2013	2019	
<i>Acceptability of undeclared work (% total ‘unacceptable’)</i>				
Firm hires worker on undeclared basis		86	81	82



Undeclared work by firm for firm	88	82	■	85
Undeclared work by individual for private household	61	72	■	67
Undeclared work by firm for private household	86	81	■	82
Someone partially or completely conceals their income	80	78	■	78
<i>Personally know people engaged in undeclared work (% 'yes')</i>	41	42	■	36

TREND (2009-2019): ■ = positive ■ = unchanged ■ = negative

Notes: * 2009 data not available; 2012 data used instead; ** 2009 data not available; 2014 data used instead; *** 2009 data not available; 2010 data used instead; **** EU-28 average for Expense of government (% of GDP); Tax revenue (% of GDP) and Social contributions (% of revenue)

Source of methodology: 2022 update by Horodnic, I.A. of the Williams, C.C. and Horodnic, A.I. (2020). [Horizon scanning: early warning signals of future trends in undeclared work](#), European Platform tackling undeclared work. Extraction date: 30 October 2022.