Factsheet[1] on undeclared work – LITHUANIA

March 2023

Contents

1.0 Nature and estimated scale of undeclared work

1.1 Legal definition

The current Law on Employment of the Republic of Lithuania provides a definition of illegal work. According to the Law on Employment (Article 56), illegal work shall mean the work functions performed, for remuneration, by a natural person (an employee), who is subordinate to another person (an employer), for the benefit of the latter, where: 1) the employer has not concluded an employment contract in writing according to the established procedure or has not given a notification of the hiring of the employee to a territorial office of the State Social Insurance Fund Board at least one day prior to the start of the work; 2) the person of third-country national employed in violation of employment procedures laid down in the relevant legal acts.. According to the Law on Employment (Article 58), undeclared work shall mean the work functions performed, for remuneration, by a natural person (an employee), who is subordinate to another person (an employer), for the benefit of the latter, where the following has not been recorded in the working time accounting documents according to a procedure prescribed by the Labour Code of the Republic of Lithuania: 1) overtime worked by the employee; 2) the employee's work during holidays or days-off unless such work is set according to a schedule; 3) the employee's night-time work. According the same law (Article 55) prevention of illegal work, undeclared work and undeclared self-employment shall be implemented and inspections based on risk assessment shall be carried out by the State Labour Inspectorate, the State Tax Inspectorate, the Financial Crimes Investigation Service, and the Police according to the legal acts governing their activities.

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 methodologies[2].

Examining the extent of undeclared work based on Labour Input Method (LIM) estimates,[3] in 2019, 20.8 % of total labour input in the private sector in Lithuania was undeclared (19.8 % in 2013).

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[2] 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 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.

[3] Williams, C.C., Bejakovic, P., Mikulic, D., Franic, J., Kedir, A. and Horodnic, I.A. (2017) An evaluation of the scale of undeclared work in the European Union and its structural determinants: estimates using the Labour Input Method, European Commission, Brussels.
Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work

Figure 1. The scale of undeclared work in the private sector in Lithuania and EU-27, 2013 and 2019
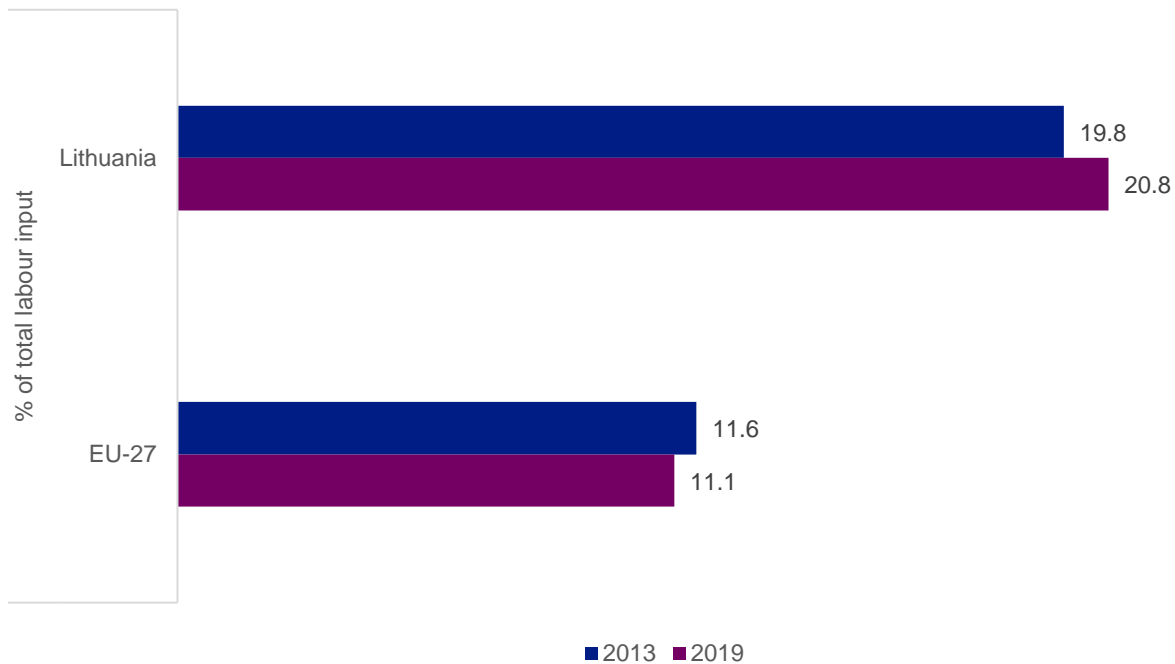
Source: Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work. Figures 3 and 6. Retrieved on 30 November 2022.

The figures below indicate the current state and development of undeclared and under-declared work and bogus self-employment between 2007 and 2019 for Lithuania, 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 relationships[4].

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[4] 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, Lithuania and EU-27, 2007, 2013 and 2019

Undeclared work (% of population)

Lithuania
- 2019: 3%
- 2013: 8%
- 2007: 7%

EU-27
- 2019: 4%
- 2013: 4%
- 2007: 5%

■2019 ■2013 ■2007

Under-declared employment (% of employees)

Lithuania
- 2019: 3%
- 2013: 6%
- 2007: 11%

EU-27
- 2019: 3%
- 2013: 3%
- 2007: 5%

■2019 ■2013 ■2007

Bogus self-employment (% of self-employed)

Lithuania
- 2019: 7%

EU-27
- 2019: 10%

■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 relationship. Figure 3 gives a detailed overview of the extent of undeclared work in different types of employment relationship, namely self-employment, dependent waged employment, and family work. Analysing the 2019 Labour Input Method (LIM) estimates[5], in Lithuania, 19.1 % of waged employment is undeclared measured as a share of total labour input, the proportion of self-employment that is undeclared is 35.9 % (measured as a share of their total labour input) and the proportion of family work that is undeclared is 33.7 %[6].

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

Self-employed
- Lithuania: 35.9%
- EU average: 27.8%

■Lithuania ■EU average

Dependent waged employment
- Lithuania: 19.1%
- EU average: 8.9%

■Lithuania ■EU average

Family workers
- Lithuania: 33.7%
- EU average: 28.2%
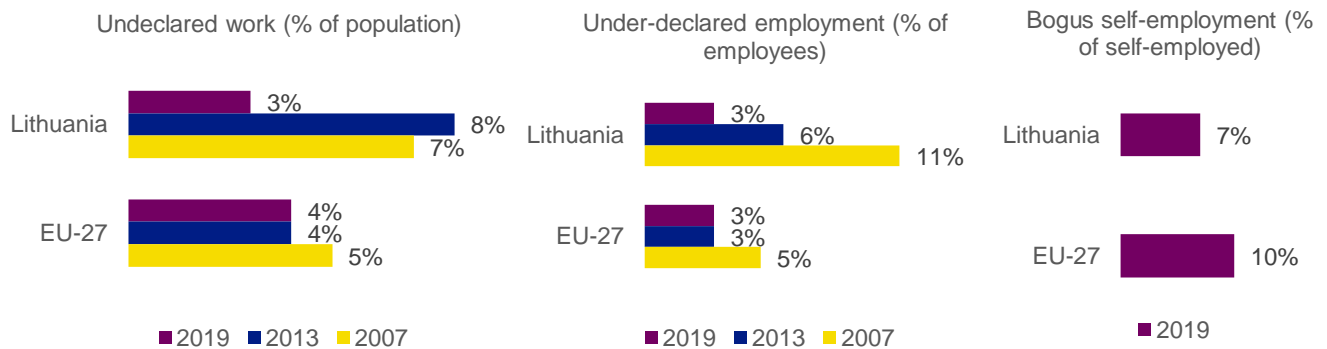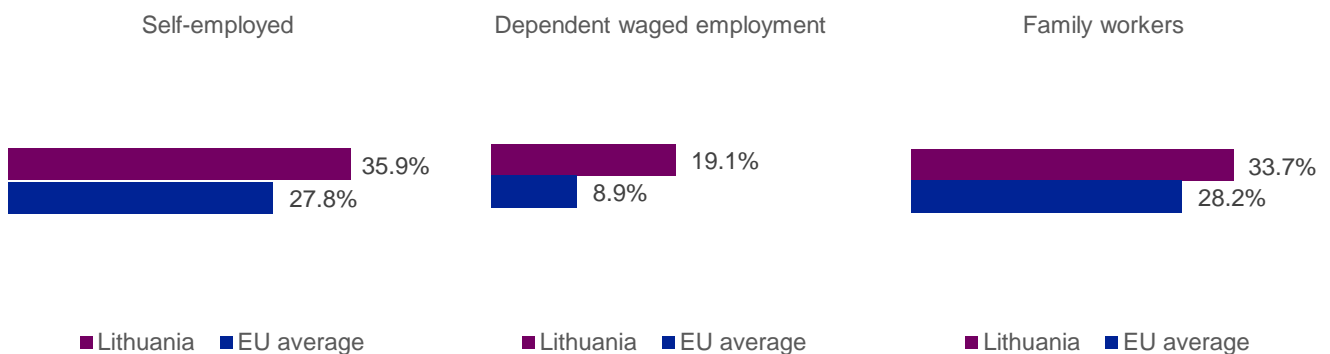
■Lithuania ■EU average

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.

Analysing the structure of the undeclared labour market in Lithuania in 2019 using the LIM estimates,[7] the proportion of undeclared labour input that is waged employment is 82.2 % (62.9 % in the EU-27), 17.7 % of undeclared labour input is self-employment (36.3 % in the EU-27) and the proportion of undeclared labour input

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[5] Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work.
[6] This data (taken from the labour force survey), is based on a small sample, which might affect its statistical reliability.
[7] Franic, J., Horodnic, I.A. and Williams, C.C. (2022).

that is family work is 0.1 % (0.8 % in the EU-27). Therefore, compared with the EU-27, waged employment is a larger proportion of undeclared work and self-employment a smaller share.

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

Lithuania

- Self-employed
- Employment relationship
- Family workers

0.1%
17.7%
82.2%

EU average

- Self-employed
- Employment relationship
- Family workers

0.8%
36.3%
62.9%

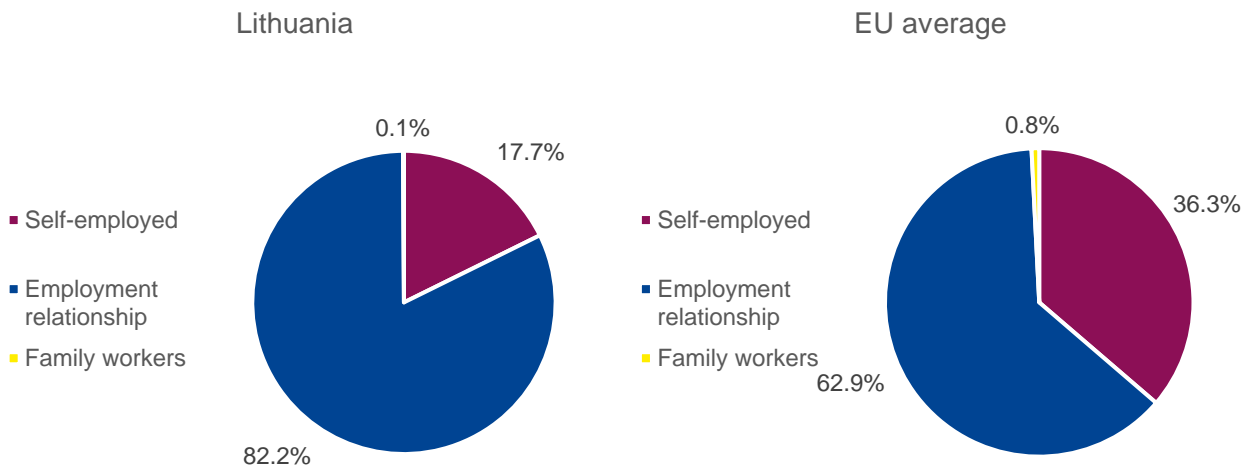*Source:* Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work. Figure 8. Retrieved on 30 November 2022.

During the first half of 2022, the institutions carrying out the control and prevention of illegal work identified a total of 1 412 persons who worked illegally, including 714 persons who carried out unregistered individual activities[8]. 1 005 protocols were issued for illegal work and for violations of employment of foreigners.

Construction was identified as the sector with the highest level of undeclared work. For example, in the first half of 2022, 52 % of all illegally employed worked in construction, followed by transport, storage and communications (16 %), farming (8 %) and manufacturing (6 %).

Thus, Lithuanian authorities pay special attention to the construction sector. For this, the State Labour Inspectorate (SLI)[9] monitors construction sites, collects information and analyses it, assesses potential risks and even uses drones[10] to monitor construction sites to record, investigate and disclose labour law violations. According to the amendments to the Law on Construction of the Republic of Lithuania, since 1 April 2022, having the Transparent Worker ID Code is obligatory for construction workers. This ID Code enables the competent authorities to verify the status of a worker, a self-employed person, or a person seconded to Lithuania. In other words, it will allow inspectors to determine whether the person is working legally on the construction site.

Regarding the most serious violations, working time and rest time violations accounted for 35% of the total number of the identified violations in the first half of 2022, while payment for work (incorrect payment for overtime and holidays) accounted for 33 %, and violations of the conclusion, execution and termination of the employment contract accounted for 16 % of the cases.

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[8] Report available at https://www.vdi.lt/PdfUploads/ND_ataskaita_2022.pdf
[9] Website: https://www.vdi.lt, contact email: info@vdi.lt, accessed 25 November 2022.
[10] From 2021 drones are used by all territorial departments of SLI.

In the first half of 2022, of the total number of persons found working illegally, 50 % were natural persons performing unregistered individual activities, 43 % of cases were in companies and 7 % in farmers.

In 2021, most violations of labour laws in Lithuania were detected in companies with 10 to 49 employees; they accounted for about 48% of all violations of labour laws.[11]

Based on earlier research[12], one of the main motivators for undeclared work in Lithuania is the high tax burden and low wages: in the conditions of the overall low level of income and high tax wedge, people are more inclined to increase their income through undeclared work. Other identified motivators for undeclared work in Lithuania include a high administrative burden (in case of labour relations), to continue receiving support from the state (e.g., unemployment or social benefits) after entering employment, and avoidance of financial obligations (e.g., payment of child support, debts, etc.). A more recent study[13] demonstrates that the lower the tax morale, the more likely is the participation in undeclared work in Lithuania.

2.0 Institutional framework

2.1 Responsibilities and characteristics of organisations involved in tackling undeclared work

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

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

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.[14]

The Central Coordination Group (CCG) for the Control of Illegal Work acts as a key point for organisations that tackles undeclared work in Lithuania and consists of:

▶ **The State Labour Inspectorate (SLI)** under the Ministry of Social Security and Labour of the Republic of Lithuania carries out the controls of the compliance with laws regulating labour relations (Labour Code, including related to the employment contracts, remuneration, organization of work and rest time etc.), occupational safety and health (OHS) requirements, as well as the prevention of accidents at work and occupational diseases in enterprises, by controlling the compliance with this legislation and by providing

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[11] Report available at https://www.vdi.lt/PdfUploads/Seselio_mazinimas_2021.pdf.

[12] Pocius, A. (2015). Evaluation of shadow economy and informal employment in Lithuania. Lithuanian Journal of Statistics. 2015. Vol. 54, No.1, p. 18–32. Available at http://www.statisticsjournal.lt/index.php/statisticsjournal/article/viewFile/138/pdf Patapas, A., Gudonis, N. (2014). The problem of undeclared work control efficiency in Lithuania. Public Policy and Administration. Vol. 13, No. 4, p. 659–670. Available at https://www.mruni.eu/upload/iblock/d96/VPA-14-13-4-09.pdf

[13] Williams, C.C. and Horodnic, I. (2015). Explaining and tackling the shadow economy in Estonia, Latvia and Lithuania: a tax morale approach. Journal of Baltic Economics, Vol. 15, No. 2, pp. 81-98.

[14] 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.

consultations to employees, their representatives, trade unions, employers, OHS services and committees in enterprises, as well as carrying out a public educational role within the framework of the SLI competence.

▶ **State Social Insurance Fund Board ("Sodra")**[15] is an agency established at the Ministry of Social Security and Labour to organise state social insurance. Sodra and its territorial offices are responsible for the administration of state social insurance contributions. Sodra receives notifications from employers about concluded employment contracts and collects such information in its information system. However, Sodra itself does not carry out inspections in companies to check whether social security contributions arising from an employment relationship are withheld. Such inspections are carried out by the State Tax Inspectorate.

▶ **State Tax Inspectorate (STI)**[16] is a central tax administrator subordinate to the Ministry for Finance. STI is responsible for tax administration. In the fight against undeclared work, it focuses on the controls of payment of envelope wages, infringements of the procedure of calculations of wages and payments etc. The key tasks of STI are to assist taxpayers and tax withholding agents; to implement tax laws; to ensure the payment of taxes to the budget; to ensure efficient work of local STI offices. STI ensures that taxes are correctly calculated, paid and declared on time. STI also carries out control of illegal work, payment of envelope wages, infringements of the procedure of wage accounting and payment, as well as other functions delegated to it in the STI Regulations and other legislation.

▶ **Financial Crimes Investigation Service (FCIS)**[17] is a state law enforcement agency accountable to the Ministry of the Interior with the purpose of detection and investigation of crimes, other violations of law against the financial system and related crimes. FCIS focuses on the disclosure and investigation of acts related to financial crimes.

▶ **Police Department**[18,] The Police focus on controlling human trafficking, including forced labour.

By controlling the compliance with laws regulating labour relations, SLI inspects compliance with the provisions of the Law on Employment and Labour Code, including those related to employment contracts, work pay, organisation of work and rest, as well as the enforcement of respective legislation.

SLI also organises advisory and educational events. For example, in the first half of 2022 they conducted an awareness campaign for young people about finding the first job, necessary information before getting work legally, and the disadvantages of illegal work. SLI also organises seminars for business and targets the public on social networks. SLI informs about control and prevention of illegal work and other violations of labour law through publishing informative reports, video clips, and advertising campaigns.

The average amount of fines imposed for illegal work on persons grew from EUR 1 064 in 2020 to EUR 1 455 in 2022. The average fines imposed for illegal work on legal entities grew from EUR 1 619 in 2020 to EUR 2 873 in 2022. There is a phone line and an online form[19] to report illegal work in Lithuania.

In fact, SLI developed an instrument of estimating the effectiveness of illegal work control as the ratio of cases where persons were found to have worked illegally to the number of illegal work inspections. This effectiveness grew from 38 % in 2020 to 46 % in 2022.

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[15] Website: www.sodra.lt/en, contact: info@sodra.lt, accessed 25 November 2022.
[16] Website: https://www.vmi.lt, contact email: vmi@vmi.lt, accessed 25 November 2022.
[17] Website: https://www.fntt.lt, contact email: dokumentas@fntt.lt, accessed 25 November 2022.
[18] Website: https://policija.lrv.lt, contact email: info@policija.lt, accessed 25 November 2022.
[19] Available at https://www.vdi.lt/Forms/Nelegalus_pranesk.aspx.

If during the inspection SLI finds that workers are employed under exploitative working conditions, it informs the Police which (in the fight against undeclared work) primarily focus on combating human trafficking, including forced labour.

In addition, **the Ministry of the Interior** of the Republic of Lithuania coordinates the implementation of the Action plan against trafficking in human beings which is implemented by several institutions in Lithuania.

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

Social partner tools to tackle undeclared work	Existence
Raising awareness and changing behaviours through campaigns, awards, dedicated websites, etc at sectoral and company level	No
Referring cases of undeclared work to enforcement and judicial authorities	No
Negotiating collective agreements which contain instruments to tackle undeclared work, including in supply or subcontracting chains	No
Supporting workers by protecting them when in undeclared work situations, and aiding transition into a declared work situation	No
Raising awareness of situations of undeclared work and making calls for action	No
Cooperating across borders in the fight against undeclared work	No
Performing research to identify the key reasons, manifestations, specifics and impact of undeclared work	No
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	No
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	No
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.

2.2 Cooperation and collaboration between authorities and cross-border authorities

2.2.1 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 Labour Inspectorate	Law of employment, Chapter IV[20] Code of Administrative Offences[21] Law on the State Labour Inspectorate[22]
State Tax Inspectorate	Law of employment, Chapter IV Code of Administrative Offences Law on Tax Administration[23]
Financial Crimes Investigation Service	Law of employment, Chapter IV Code of Administrative Offences Law on the Financial Crime Investigation Service[24]
Police	Law of employment, Chapter IV Code of Administrative Offences Police Law[25]

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

2.2.2   Cooperation between authorities in Lithuania

The State Labour Inspectorate (SLI), State Tax Inpectorate (STI), Financial Crimes Investigation Service (FCIS) and the Police implement prevention and carry out inspections of (illegal) undeclared work and undeclared self-employment in accordance with the legal acts regulating their activities. The majority of inspections are carried out and most infringements are identified by SLI and STI.

During the control of illegal (undeclared) work, SLI checks whether the notification from an employer about the concluded employment contract has been submitted to Sodra (and if a person is socially insured) and provides relevant information to Sodra in accordance with their cooperation.

Although SLI performed 90% of all illegal work control inspections in the first half of 2022, SLI cooperates with other institutions carrying out control and prevention of illegal work (STI, FCIS and the Police Department) and other institutions.

In order to develop interinstitutional cooperation, the Risk Assessment Centre (RAC) and Joint Operation Centres (JOCs) were established in Lithuania in 2019. They bring together the STI, the SLI, the FCIS, the Police, the Customs, the State Border Guard Service and the State Food and Veterinary Service to prevent and detect undeclared work. This initiative is set to strengthen collaboration on between agencies at national and regional level. The RAC and JOCs enhance information exchange and coordinate resources aimed at combating undeclared work and other issues related to the shadow economy.[26]

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[20] Available at https://e-seimas.lrs.lt/portal/legalAct/en/TAD/5f0be3809c2011e68adcda1bb2f432d1, accessed 28 February 2023.
[21] Available at https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/b8d908c0215b11e58a4198cd62929b7a, accessed 28 February 2023.
[22] Available at https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.220102/asr, accessed 28 February 2023.
[23] Available at https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.276549?jfwid=q8i88lr3s, accessed 28 February 2023.
[24] Available at https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.163326/asr, accessed 28 February 2023.
[25] Available at https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.111665/asr, accessed 28 February 2023.
[26] See more at https://www.ela.europa.eu/sites/default/files/2022-10/GP-fiche-LT-Risk-Assessment-Centre-and-Joint-Operation-Centres-2022-EN.pdf, accessed 28 February 2023.

The aforementioned institutions regularly exchange relevant information, organise joint undeclared work inspections and large-scale check-ups of risky entreprises. Cooperation between authorities is effective as the authorities also regularly exchange relevant information.

2.2.3 Cooperation with other Member States

There is a legal framework for cross-border joint inspections between Lithuania and the Baltic States, Norway, and Poland. For instance, cooperation agreements are signed with the Baltic States (Estonia and Latvia) and Norway that allow taking joint actions. The cooperation agreement with Poland is more focused on the exchange of information: the cooperation with the National Labour Inspectorate in Poland is carried out on the basis of the bilateral agreement through participation in conferences and seminars, study visits and working meetings and exchange of inspectors at the central level and at the level of district labour inspectorates of Poland and Lithuania.

Anticipating the growing need to organise and participate in joint and concerted inspections, the Law on the State Labour Inspectorate was amended to define the status of labour inspectors and other officials from other EU Member States and the Members of European Free Trade Association while participating in inspections in the territory of the Republic of Lithuania, as provided for in Articles 8 and 9 of the ELA Regulation. The date of entry into force of the amendments is 1 December 2021. During the inspection, foreign inspectors and other officials have the right to receive oral or written explanations from persons representing employers, persons authorised by the employer, employees, other persons in the inspected workplace regarding labour, occupational safety and health laws, other regulatory enactments regulating occupational safety and health and employment relationships, violations or non-compliance with instructions of the State Labour Inspectorate and, without prejudice to the privacy of a person guaranteed by law, take photographs, make audio and video recordings – and the obligation – to respect the rights and legitimate interests of the inspected entity, protect and not disclose state, employer trade secrets, which they have learned in the course of their duties. These rights and obligations will be able to be exercised by foreign labour inspectors and other officials only in the presence of inspectors of the State Labour Inspectorate of Lithuania.

3.0 Policy focus and measures

3.1 Policy approach

To reduce the scale of undeclared work, Lithuania applies both deterrence and enabling compliance policy approaches. From 2012 onwards, there is an increasing emphasis on the enabling compliance policy approach in Lithuania, whereas until 2012, more emphasis was put on the methods of detecting and punishing non-compliances in tackling undeclared work. Regarding the enabling compliance approach, the method of fostering commitment is probably most frequently applied in Lithuania, based on awareness-raising and information campaigns for different social groups to inform them of the costs and risks related to undeclared work. It is also important to note that Lithuania has made big progress in strengthening collaboration with various education establishments and NGOs in order to change population's attitudes towards undeclared work and, consequently, to reduce the incidence of undeclared work in Lithuania. However, the tools to tackle undeclared work used by social partners in Lithuania seem to be only developing and not yet present in the agenda to combatting undeclared work.

3.2   Main policy measures

The 2022 holistic approaches study[27] indicates that four types of measures are commonly used in Lithuania to tackle undeclared work - predominantly the use of:

▶ Penalty measures;

▶ Initiatives to increase the risk of detection (e.g., inspections);

▶ Incentives to make declared work easier and more beneficial;

▶ Education and awareness-raising campaigns and initiatives to modernise authorities to improve trust in government.

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

3.3   Good practices[28]

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 Lithuania:

▶ The Central Coordination Group (CCG) (2020). The CCG provides a central point for institutions involved in tackling undeclared work, which has led to increased coordination and joint implementation of measures and approaches.

▶ Cherry letters (2019). "Cherry letters" were part of a nationwide preventative approach which alerted employees about the implications for their future pension payments if they did not accumulate a full annual pension entitlement, which would result if they did not declare, or under-declared their work.

▶ Social insurance contribution top-ups for employee wages below the minimum wage (2019). A recent amendment to social security legislation aims to ensure that employers pay social insurance contributions at the minimum wage rate, even though they may be paying their employees less than the minimum monthly wage rate (in effect, a 'top-up'). This in turn ensures that these employees accumulate a year's pension and help to reduce under-declared employment.

▶ Evaluation of communication and consultation activities by the State Labour Inspectorate (SLI) (2018). To evaluate its communication efforts to the general public and employers specifically, SLI monitors both the effects of their consulting activities and the impact of their communication actions through a number of evaluation activities.

▶ Consultations with the State Labour Inspectorate via Facebook Messenger (2018). Consultations via Facebook Messenger was introduced by the State Labour Inspectorate in order to introduce more forms of consultation with employers, employees and their representatives, and to improve the availability of consultations on issues concerning occupational health and safety and declared work.

Other practices are available on the European Labour Authority website.

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[27] 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.
[28] Virtual library | European Labour Authority (europa.eu)

3.4   Challenges and barriers

There is the network of institutions and the cooperation between these authorities is effective: the authorities not only regularly exchange relevant information, but also work together and implement joint operations. SLI regularly estimates the effectiveness of illegal work control (as the ratio of illegal work cases to the number of inspections), and this effectiveness grew from 38 % in 2020 to 46 % in 2022. As a matter of fact, some government departments and agencies have shared targets to tackle undeclared work. Lithuania experienced higher levels of undeclared and under-declared work in 2007 and 2013, however for 2019 the respective levels have been comparable with the EU-27 average. The level of bogus self-employment is lower than the EU-27 average (Figure 1 above).

Challenges to tackling undeclared work in Lithuania include no legal definition of undeclared work within the legislative framework, absence of a high-level coordinating body in the country and a national strategy for tackling undeclared work. This creates barriers to developing a coordinated approach at national level and across borders. While a wide range of deterrence policy measures are used, a narrower range of preventative measures exist to make undeclared work easier and beneficial and to modernise the formal institutions. The tools to tackle undeclared work used by social partners should be developed.

In Lithuania, the citizens' perceptions of tax morale and horizontal trust is lower than on average in the EU, while vertical trust is somewhat higher than the EU-average. This can be considered among the key drivers of participation in undeclared work (see Table 4).

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

	Tax morale*	Horizontal trust**	Vertical trust: Tend to trust tax authority***	Vertical trust: Tend to trust labour inspectorate***
Lithuania	8.43	32 %	56 %	56 %
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.

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

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)	No
Use of non-compliance lists ('blacklists')	Yes
Previous non-compliance excludes firms from bidding for public procurement contracts	Yes
'Naming and shaming' lists	No
RISK OF DETECTION	
Workplace inspections	Yes
Online/desk-based inspections	Yes
Joint inspections with other national inspectorates	Yes
Announced inspections	Yes
Cross-border inspections	Yes
Registration of workers prior to first day at work	Yes
Data matching and sharing to identify risky businesses	Yes
Use data mining to determine risky businesses for inspection	Yes
Coordination of data mining and sharing across government departments	Yes
Coordination of strategy on undeclared work across government departments	Yes
Use of complaint reporting tools (e.g. telephone hotlines)[29]	Yes
Certification of business, certifying payments of social contributions and taxes	No
Notification letters	Yes

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[29] Information and tools for working declared | European Labour Authority (europa.eu)

Mandatory ID in the workplace	No
Supply chain responsibility (e.g., joint and several liability, due diligence)	No
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	Yes
'Formalisation' support services to existing businesses	Yes
Targeted VAT reductions	No
Provide free record-keeping software to businesses	No
Provide fact sheets on record-keeping requirements	Yes
Provide free advice/training on record-keeping	No
Gradual formalisation schemes	No
Initiatives to ease transition from unemployment into self-employment	No
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)	No
Targeted indirect taxes (e.g., VAT reductions)	No
Initiatives for customers to request receipts (e.g., Lottery for receipts)	Yes
FOSTERING COMMITMENT TO OPERATE DECLARED	
Campaigns to inform suppliers of undeclared work of the risks and costs of working undeclared	No
Campaigns to inform suppliers of undeclared work of the benefits of formalising their work (e.g., informing them where their taxes are spent)	No
Campaigns to inform users of undeclared work of the problems of purchasing goods and services form the undeclared economy	Yes
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	Yes
Public information on the work and achievements of the enforcement authorities	No

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 Lithuania. 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

LITHUANIA				
	2009	Latest available year	Trend: 2009-latest available year	EU-27, latest available year
1. Level of modernisation of government				
Government effectiveness (-2.5 to 2.5 (strong performance))			🟩	
2. Formal institutions acting in a corrupt manner				
Corruption Perceptions Index (CPI) (0-100 (very clean))			🟩	
Control of corruption (-2.5 to 2.5 (strong performance))			🟩	
II. FORMAL INSTITUTIONAL VOIDS AND WEAKNESSES				
1. Modernisation Explanation - Level of 'development'				
GDP (current prices, euro per capita)			🟩	
Human Development Index (HDI) (0-1 (highest development))			🟩	
Social Progress Index (SPI) (0-100 (high))			🟩	
2. State intervention				
Burden of government regulation (1-7 (best))			🟩	
Restrictive labour regulations (% of respondents)			🟩	
Business flexibility index (0-10 (high))			🟩	
Expense of government (% of GDP)			🟥	
Research & Development expenditure (% of GDP)			🟩	
Tax revenue (% of GDP)			🟩	
Social contributions (% of revenue)			🟩	
Impact of social transfers on poverty reduction (%)			🟩	
Labour market policy (LMP) expenditure (% of GDP)			🟥	
Unemployment rate (% of active population)			🟩	
People at risk of poverty/social exclusion (% of total population)			🟩	
Severe material deprivation rate (% of total population)			🟩	
Inequality of income distribution (income quintile share ratio)			🟥	
Gini coefficient (0-100 (perfect inequality))			🟥	
Labour productivity (% change on previous period)			🟩	
III. FORMAL INSTITUTIONAL POWERLESSNESS				
Reliability of police services (1-7 (best))			🟩	
Judicial independence (1-7 (best))			🟩	
Rule of law (-2.5 to 2.5 (strong performance))			🟩	
Regulatory quality (-2.5 to 2.5 (strong performance))			🟥	
Voice and accountability (-2.5 to 2.5 (strong performance))			🟥	
Trust in Government (% tend to trust)			🟥	
Trust in Parliament (% tend to trust)			🟥	
IV. FORMAL INSTITUTIONAL INSTABILITY AND UNCERTAINTY				
Democracy Index (0-10 (full democracy))			🟩	
Political stability (-2.5 to 2.5 (strong performance))			🟩	
B. INFORMAL INSTITUTIONS				
Social capital (0-100 (high))			🟩	

Tax compliance (0-10 (high))			🟩
		Year:	
Acceptability of undeclared work (% total 'unacceptable')			
Firm hires worker on undeclared basis			🟥
Undeclared work by firm for firm			🟥
Undeclared work by individual for private household			🟩
Undeclared work by firm for private household			🟥
Someone partially of completely conceals their income			🟥
Personally know people engaged in undeclared work (% 'yes')			🟥

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