



Factsheet on undeclared work – Latvia

March 2023

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



The authors would like to thank all of the stakeholders consulted for their input into the [paper / study – adapt or remove].
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1.0 Nature and estimated scale of undeclared work

1.1 Legal definition

In Latvia, there is no definition of undeclared work outlined in the legislation. The Ministry of Welfare², State Labour Inspectorate (SLI)³ and State Revenue Service⁴, which are key institutions in tackling undeclared work in Latvia, use a definition that follows the one at EU level, 'Undeclared work are paid activities that are legal in its nature' but without a written employment agreement and/or without notification (registration) to the State Revenue Service.

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 methodologies⁵.

Examining the extent of undeclared work based on Labour Input Method (LIM) estimates⁶ in 2019, 14.0 % of total labour input in the private sector in Latvia was undeclared (18.3 % in 2013). Therefore, between 2013 and 2019, there has been a decline in undeclared work. This displays the progress in tackling undeclared work. Nevertheless, the extent of undeclared work in Latvia was higher compared to the EU-27 average (see Figure 1 below).

² See [Sākumlapa en | Labklājības ministrija \(lm.gov.lv\)](#), contact: lm@lm.gov.lv, accessed 1 December

³ See [State Labour Inspectorate \(SLI\)](#), contact: vdi@vdi.gov.lv, accessed 30 November

⁴ See [Sākumlapa en | Valsts ieņēmumu dienests \(vid.gov.lv\)](#), contact: vid@vid.gov.lv, accessed 30 November

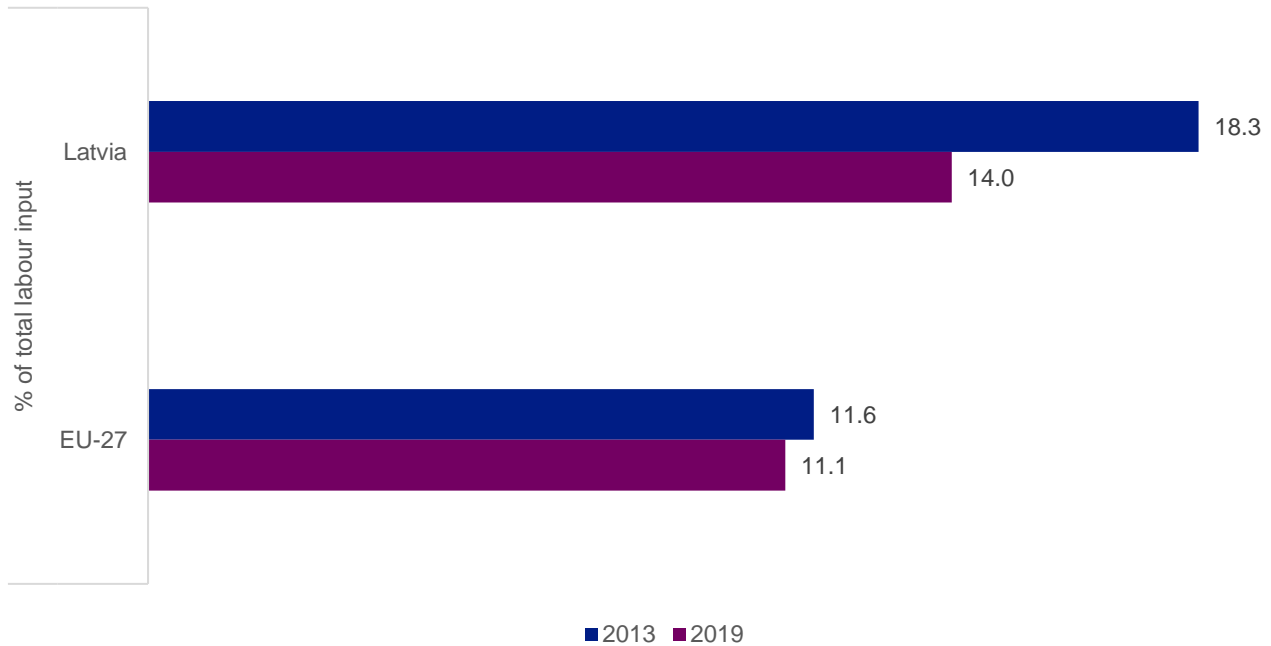
⁵ Undeclared work can be measured both directly and indirectly. Indirect methods are based on the comparison of macroeconomic aggregates (such as national accounts). Direct methods, on the contrary, are based on statistical surveys and have advantages in terms of comparability and detail, but tend to 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.

⁶ 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. Retrieved on 30 November 2022.



Figure 1. The scale of undeclared work in the private sector in Latvia and EU-27, 2013 and 2019



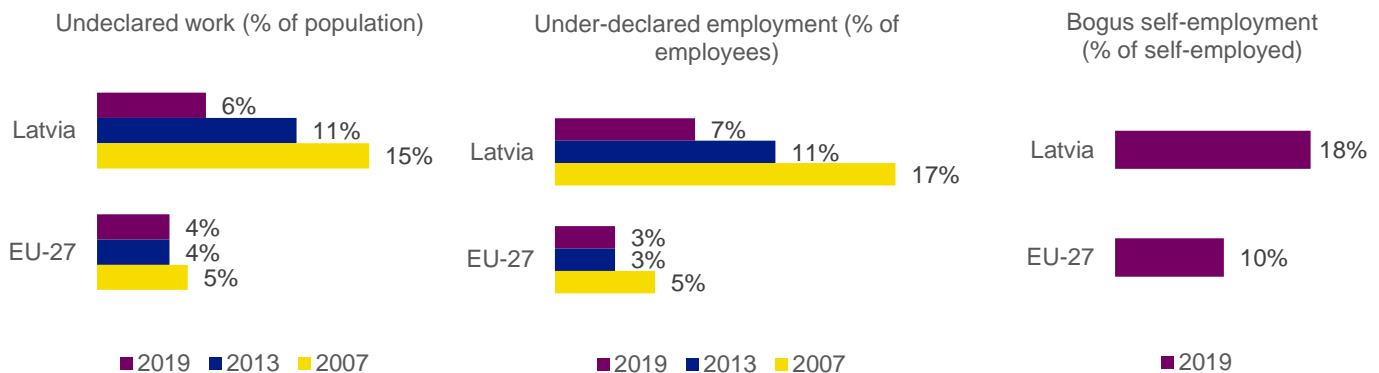
Source: Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work. Figures 3 and 6. Retrieved on 30 November 2022.

The figures below indicate the current state and development of undeclared, under-declared and bogus self-employment between 2007 and 2019 for Latvia, 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 relationships⁷.

⁷ 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.



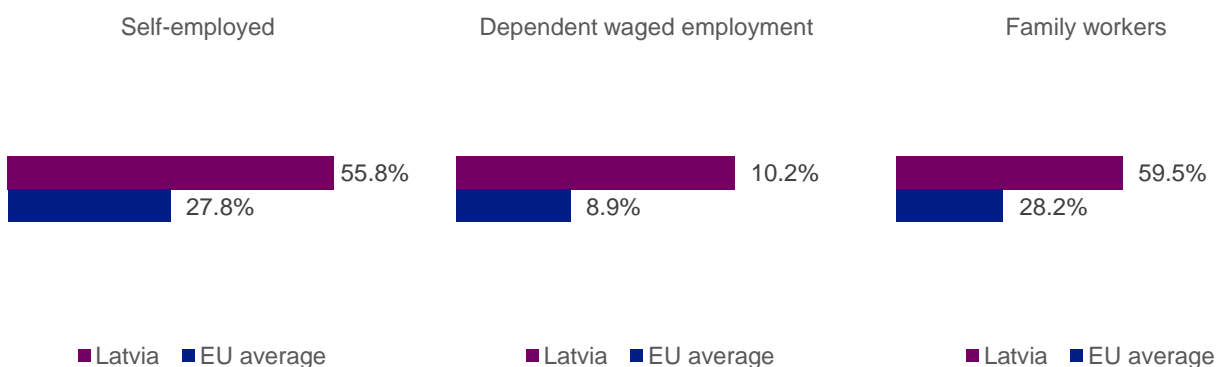
Figure 3. Composition of undeclared work, Latvia and EU-27, 2007, 2013 and 2019



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 relationship. Figure 2 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) estimates⁸ in Latvia, 10.2 % of waged employment is undeclared measured as a share of total labour input, the proportion of self-employment that is undeclared is 55.8 % (measured as a share of their total labour input) and the proportion of family work that is undeclared is 59.5 %⁹. These are higher than the EU-27 average.

Figure 2. Prevalence of undeclared work in the private sector by type of employment relationship, Latvia, EU-27 average, 2019



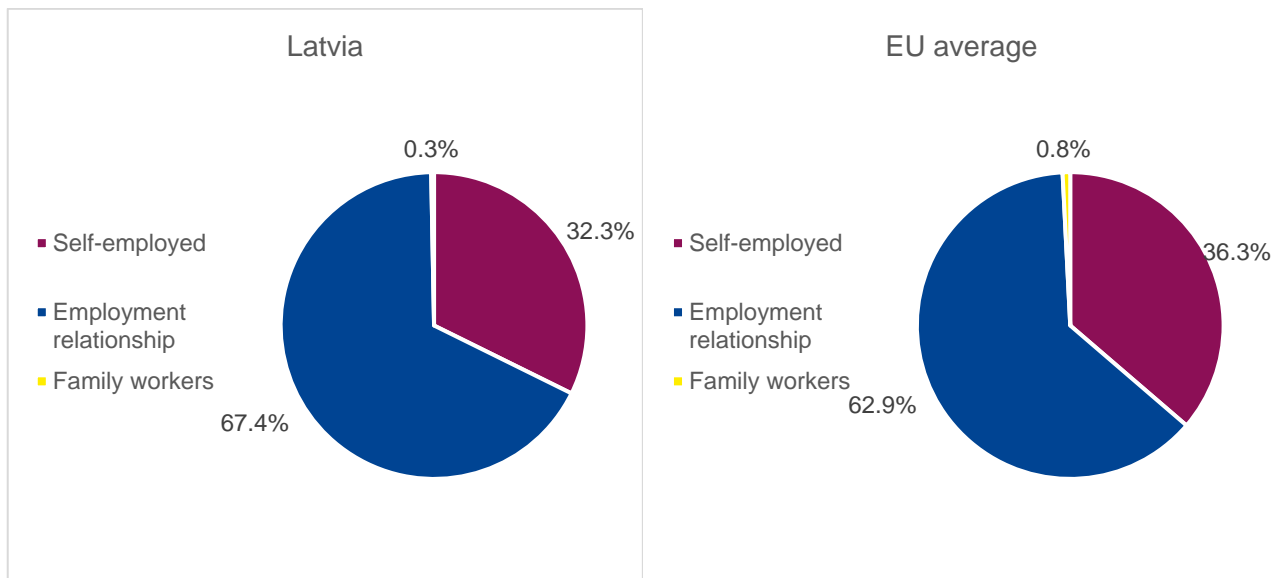
Source: Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work. Table 2. Retrieved on 30 November 2022.

⁸ Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work.

⁹ 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 Latvia, in 2019 using the LIM estimates (see Figure 3),¹⁰ the proportion of undeclared labour input that is waged employment is 67.4 % (62.9 % in the EU-27), 32.3 % 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 0.3 % (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, Latvia 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.

In Latvia, there are no national level indicators to measure undeclared work but the annual study on the ‘Shadow Economy Index for the Baltic Countries’, by Sauka and Putniņš conducted since 2009 provides some measurements for undeclared work in Latvia. It measures the size of the shadow economies in Latvia, Lithuania and Estonia. According to this study, the main components of shadow economy in Latvia are:

- ▶ The underreporting of salaries (46.2 %)
- ▶ The underreporting of income (30.0 %)
- ▶ The underreporting of employees (23.8 %)

Overall, the shadow economy in Latvia grew from its lowest level of 21.1 % of GDP in 2012 to 26.6 % of GDP in 2021. Sauka and Putniņš attribute this increase to various factors including, the outbreak of the COVID-19 pandemic and the Russian war against Ukraine. However, the development also indicates that even in years of economic growth (until 2019) policy makers failed to implement measures combatting the shadow economy effectively.¹¹

In addition, the SLI developed some key performance indicators that refer to undeclared work, (1) the number of work inspections completed, (2) the effectiveness of these inspections, e.g how many resulted in discovering

¹⁰ Franic, J., Horodnic, I.A. and Williams, C.C. (2022).

¹¹ [Sauka, A., Putniņš, T. J., \(2022\) Shadow Economy Index for the Baltic Countries retrieved on: Shadow Economy Index for the Baltic Countries | Stockholm School of Economics in Riga \(sseriga.edu\).](#)



undeclared work, and (3) the number of legalised labour relations, which refers to the percentage of legal labour relations registered to the State Revenue Service/ written contracts that were concluded after the SLI inspection.¹²

The SLI conducts workplace inspections to detect undeclared work and workers. In 2022, the SLI conducted 10 000 inspections of which 2 000 were aimed at detecting undeclared work, of which 10% were repeated inspections. The effectiveness of inspections targeting undeclared work was around 25 %.¹³

In 2020, for example, the SLI completed 1 876 inspections in the context of undeclared work, whereby 30 % were successful, meaning that around one out of three persons identified in the inspections had no written employment contract and/or who had not been declared by their employer to the State Revenue Service as working employees. In numbers, 885 persons were found to be in undeclared employment, of whom 520 persons had no written contract, 245 persons had a written employment contract but did not declare the income to the State Revenue Service and 120 persons who had no written employment contract but declared to the State Revenue Service.¹⁴

The sectors with the largest share of shadow economy (as percentage of GDP) are (i) the construction, (ii) the services and (iii) the retail sector. Considering the size and age of companies, it appears that younger and smaller companies are proportionally more engaged in shadow activities than larger and more established companies. These findings are similar to the ones from previous studies. Other statistically significant factors are:

- ▶ Balance of costs and benefits associated with tax evasion;
- ▶ General discontent and precisely with business legislation lead to higher involvement in the shadow economy;
- ▶ Russian speakers are likewise more inclined to be involved with shadow activities.

2.0 Institutional framework

2.1 Responsibilities for addressing undeclared work

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

Key institutional feature	Existence
A high-level coordinating body in the country	Yes
A national strategy for tackling undeclared work	Yes
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.¹⁵ + Platform members (to verify/amend if necessary); Carlsen et al (2020). Combating undeclared work: recommendations, procedures and challenges. Report to the Nordic-Baltic Working Group.

¹² Carlsen, K., Ekle, R., Ellifson, T., Kentelius, H., Lūsis, R., Naaber, L., Nordtømme, M. E., Rajamäki, R., (2020). Combating Undeclared Work: Recommendations, Procedures and Challenges, Report to Nordic-Baltic Working Group

¹³ Lūsis, R., (2022). Developing KPIs to measure the performance of labour authorities, presentation held in Bratislava on 8 November 2022 during Plenary meeting of the Platform

¹⁴ Valst darba inspekcija, (2021). 2020. gada darbības pārskats, <https://www.vdi.gov.lv/lv/media/1970/download?attachment>
¹⁵ 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.



- ▶ The **Council for Combating the Shadow Economy** brings together representatives from more than 15 authorities and interest groups chaired by the Prime Minister and can also invite relevant experts in a particular field and representatives of non-governmental organisations. Its objective is to coordinate and supervise the activities of the responsible institutions, state administrations and non-governmental organisations, in combating the shadow economy.

The two national authorities whose key responsibilities are identifying, tackling and/or preventing undeclared work are:

- ▶ The **State Labour Inspectorate** with its tasks being (i) the supervision and control of laws and regulations regarding legal labour relationships and labour protection; (ii) the control of the fulfilment of employment contracts and collective agreements from employer and employee side; (iii) the performance of investigations and unified registration of accidents at work; and (iv) the control of work equipment at workplaces and protective equipment for personnel, as well as harmful substances according to the applicable law. The SLI is part of the Ministry of Welfare covering all sectors at a national level. It operates from its main office in Riga, as well as its 5 regional inspectorate centres (there are structural SLI units in 13 different cities in Latvia). In 2022, the SLI employed around 100 inspectors.¹⁶
- ▶ The **State Revenue Service** which is responsible for ensuring the collection of state taxes, duties and mandatory payments within the Republic of Latvia, at the customs borders and also for the budget of the European Union. It prevents and detect criminal offenses in the field of state taxes, duties and mandatory payments. It is a sub-body of the Ministry of Finance, having around 4 100 employees, it operates from its offices in Riga.

Additionally, the following authorities and bodies are also contributing to identify and address undeclared and underdeclared work.

- ▶ The **State Social Insurance Agency**¹⁷ recovers all the overpaid state budget funds used for the disbursement of state social insurance services, state social benefits and state service pensions.
- ▶ The **State Police**¹⁸ prevents and detects criminal offences, provide assistance to individuals, institutions and associations in protecting their rights and enforce administrative and criminal penalties within the scope of their competence.
- ▶ The **State Border Guard**¹⁹ controls the compliance with laws applicable to the entry, stay, employment, exit and transit of foreigners.

The stakeholders conduct some joint agency inspections but as of now these do not follow a national plan for inspections.

The State Labour Inspectorate also started discussions on how it can build a relationship with social partners. Currently the focus is on discussing potential for joint activities and how social partners can become a part of the authorities' strategy. In addition, the State Labour Inspectorate aims at strengthening the relationship with some

¹⁶ Businska, Z. (2022). Supervision and control of employment of TCNs, presentation held in Bratislava on 17 October 2022 during ELA National Liaison Officers Event.

¹⁷ [Sākumlapa | Valsts sociālās apdrošināšanas aģentūra \(vsaa.gov.lv\)](#), contact: pasts@vsaa.gov.lv, accessed 22 November 2022

¹⁸ [Sākumlapa | Valsts policija \(vp.gov.lv\)](#), contact: pasts@vp.gov.lv, accessed 22 November 2022

¹⁹ [Sākumlapa | Valsts robežsardze \(rs.gov.lv\)](#), contact: pasts@rs.gov.lv, accessed 22 November 2022



sector specific social partner organisations. The key approaches taken by the social partners in Latvia are shown below.

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

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	No
Providing policy and legal advice on procedural and legal changes needed	Yes
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	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 Characteristics of the responsible organisations

While two authorities, the SLI and the State Revenue Service, are primarily concerned with preventing and tackling undeclared work there are many other institutions that may play a role in the process. In 2016, the Council for Combating the Shadow Economy adopted the ‘Work Plan to Combat the Shadow Economy 2016-2020’, it involved 30 different institutions and indicated 60 measures across six lines of actions. In March 2022, a renewed ‘Plan for the Restriction of the Shadow Economy for 2021/2022’ was approved.

The plan identified five lines of action:

Unregistered economic activity;

- ▶ Undeclared work and unreported wages;
- ▶ Unaccounted transactions and illegal movement of goods;



- ▶ Unaccounted and uncontrolled movement of cash;
- ▶ Facilitation of tax payment.

The objective of the plan and the indicated 45 measures is the reduction of the shadow economy and to bring its share in Latvia closer to the EU Member States' average.²⁰

The two ministries primarily involved with the development of legislation regarding undeclared work especially with respect to tax compliance are the Ministry of Finance in association with the Ministry of Welfare.

- ▶ **The Ministry of Finance (MoF)** is responsible for (i) the formation of financial policy of the state including the state budget; (ii) the organisation and coordination of tax policy; as well as (iii) the performance of various statutory regulatory functions. The MoF is part of the central government operating from Riga, it covers all sectors of the Latvian economy at a national level.
- ▶ **The Ministry of Welfare (MoW)** is responsible for (i) the formation of policies on employment and the labour market, social security, child and family rights, as well as equal opportunities for handicapped persons, and gender equality; (ii) the implementation of the indicated policies and (iii) the liaison with other labour market related institutions such as the State Employment Agency and the SLI. Like the MoF, it is part of the central government in Riga, operating on a national level and covering all sectors.

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 Revenue Service	Law on the State Revenue Service , effective since 1993 .
State Labour Inspectorate	State Labour Inspectorate Law , effective since 2008
State Social Insurance Agency	Cabinet Regulation No. 911, By-laws of the State Social Insurance Agency , effective since 2013
State Police	Law on Police , effective since 1991
State Border Guard	State Border Guard Law , effective since 2020

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

²⁰ Finanšu ministrija (2022). Plan to curb the shadow economy, retrieved on: [Plan to curb the shadow economy | Ministry of Finance \(fm.gov.lv\)](#), accessed 25 November 2022



2.3.2 Cooperation between authorities in Latvia

Although each of the main executive authorities, State Labour Inspectorate and State Revenue Service, operate separately within the limit of their distinguished competencies, they can request data from other authorities (Article 12, paragraph 4 of State Labour Inspectorate regulations and Article 4, paragraph 17 of State Revenue Service regulations ensure co-operation in the form of data sharing —the general director of State Revenue Service can authorise its officials to acquire and share information).

While the largest exchange of information is with the State Revenue Service the State Police and the Municipality Police also provide much information and administrative protocols to work on. Moreover, quite frequently joint inspections are practiced with the State Police, the State Border Guard and the Municipality Police. The support by the Police and Border Guard is necessary not only for the safety of the labour inspectors but also to allow inspections in case of obstacles encountered at the premises.

As described above, the Ministry of Welfare claims that this data sharing is very fast and highly efficient. Information is shared between the State Revenue Service and the State Labour Inspectorate using an FTPS server where both institutions frequently put relevant information regarding companies where undeclared work has been discovered by any of the participant institutions. Nevertheless, two challenges encountered by the State Labour Inspectorate are that (1) it cannot access the data from the State Revenue and (2) often companies are resistant to cooperation.

There are no external evaluations of effectiveness but internally the State Labour Inspectorate evaluates its co-operation with the State Revenue Service and other institutions involved as fairly effective.

2.3.3 Cooperation with other Member States

Latvia has a multilateral cooperation agreement with Lithuania and Estonia that allows it to facilitate joint inspections between the three countries. There is also an annual meeting of all three Baltic States' State Labour Inspectorates where the agenda includes exchange of information and practices on undeclared work issues. Additionally, there has been practical cooperation in the form of cases when information about violation performed in one Baltic country by a company from another country is then given to the neighbouring State Labour Inspectorate to prosecute the case.

3.0 Policy focus and measures

3.1 Policy approach

Apart from policy implemented by the State Labour Inspectorate, policy on undeclared work is seen as one aspect of policy on the shadow economy. However, it receives rather little attention since the main concern regarding the shadow economy is the lost revenue it represents more than the economic distortions it generates.

The main instruments for addressing undeclared work are aimed at making the controlling mechanisms more effective i.e., deterrence. There have also been attempts at informing society of the negative consequences of undeclared work, for example, with the aim of improving tax morale. These practices have included: promotional campaigns and press conferences.



3.2 Main policy measures

The 2022 holistic approaches study²¹ indicates that four types of measures are commonly used in Latvia 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 practices²²

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 Latvia:

- ▶ ['I spit on' it awareness raising campaign](#) (2021). The 'I spit on it' awareness raising campaign was the first stage of a wider national scheme (Against the Shadow Economy – for Fair Competition) which aimed to combat the shadow economy, including undeclared work. This campaign specifically aimed to raise general awareness of the negative consequences of the shadow economy on social provision.
- ▶ [New State Labour Inspectorate Strategy and the Prevention of Undeclared Work](#) (2020). The New State Labour Inspectorate Strategy 2018-19 has introduced a preventative approach to tackle undeclared work, with two new key performance indicators (KPIs) to measure how effectively it achieves this objective. One KPI focuses on achieving legitimised labour relations and the other measures the provision of advice and support to employers.
- ▶ [Risk analysis to detect letterbox companies involved in tax debt schemes](#) (2019). The State Revenue Service conducts risk analysis using specific criteria and specialised computer software to detect letterbox companies, combat fraud and deter undeclared work. This led to a reduction in the number of tax debt schemes in operation and increasing state revenue. It requires minimal additional resources on top of existing activities.
- ▶ [#Fraudoff!](#) (2018). “#FraudOff!” is an anti-fraud movement to promote public awareness of the shadow economy and fraud, and its negative consequences for individuals and the country as a whole. The campaign also promotes whistleblowing by raising awareness of how and why it is important to report suspicions of fraud to relevant law enforcement institutions.
- ▶ [Tackling the shadow economy](#) (2017). The measure relates to inter-institutional supervision, planning, coordination and analyses of activities to prevent the shadow economy. This also includes action plans, according to the needs of relevant bodies.

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

²¹ 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.

²² [Virtual library | European Labour Authority \(europa.eu\)](#)



3.4 Challenges and barriers

Latvian legislation has not yet defined undeclared work and follows a European definition. However one of the results is that research in the country and policy approaches rather focus on the general field of shadow economy. This lack of precise data on undeclared and underdeclared work also leads to significant challenges in addressing undeclared work in a holistic manner.

The estimations from the Eurobarometer suggest that the level of undeclared and underdeclared work in Latvia is significantly higher compared with the EU average even though the level has decreased significantly since 2007.²³ Since 2016 the country pursues a ‘Work Plan to Combat the Shadow Economy 2016-2020’ bringing together more than 30 parties to reduce tackle the shadow economy, including undeclared and underdeclared work.

The two main authorities are the State Revenue Service and the State Labour Inspectorate. The latter targets around 20% of its inspections on detecting undeclared work. Additionally, many other authorities, including the State Social Insurance Agency, the State Police and the State Border Guard aim to combat the shadow economy. This wide-ranging stakeholder group is also reflected in the extensive legal basis applicable to undeclared work.

The State Labour Inspectorate is granted immediate access to essential State Revenue data for pre-trial investigations. In cases where private sector entities persistently decline cooperation with the State Labour Inspectorate, officials of the State Labour Inspectorate have the authority to impose administrative penalties on such individuals.

The main barriers previously identified include the overall difficult situation of the economy, unemployment, legislative shortcomings and subsequent deficiencies in the control activities in case of bankruptcy of enterprises.

Besides these practical challenges, it is also noticeable that in Latvia, the citizens' perceptions of tax morale is lower than on average in the EU, other key indicators like horizontal trust, vertical trust towards the tax authority and the labour inspectorate are similar to the EU-27 averages. These indicators can also be considered to be among the key drivers of participation in undeclared work (see Table 4).

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

	Tax morale*	Horizontal trust**	Vertical trust: Tend to trust tax authority***	Vertical trust: Tend to trust labour inspectorate***
Latvia	7.88	36 %	50 %	49 %
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.

²³ [Trends in the undeclared economy and policy approaches - Publications Office of the EU \(europa.eu\), accessed 17 November 2022](#)



Additional macro-economic and structural conditions of institutions affecting the prevalence of undeclared work in Latvia 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	No
Reclassifying false employment relationships (e.g., bogus self-employment)	Yes
Use of non-compliance lists ('blacklists')	No
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) ²⁴	Yes
Certification of business, certifying payments of social contributions and taxes	No
Notification letters	Yes
Mandatory ID in the workplace	Yes

²⁴ [Information and tools for working declared | European Labour Authority \(europa.eu\)](https://european-labour-authority.europa.eu/information-and-tools-for-working-declared), accessed 25 November 2022



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	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	No
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	No
Targeted direct tax incentives (e.g., income tax reduction/subsidy)	No
Targeted indirect taxes (e.g., VAT reductions)	Yes
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	Yes
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 from 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	Yes



Measures to improve the degree to which customers of the enforcement agencies believe they have been treated in a respectful, impartial and responsible manner	Yes
Measures to improve labour, tax and/or social security law knowledge	Yes
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 undeclared work. The trends in each driver display whether it improved ('green') or worsened ('red') in Latvia. 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

LATVIA				
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))	0.62	1.10	■	-
2. Formal institutions acting in a corrupt manner				
Corruption Perceptions Index (CPI) (0-100 (very clean)) *	49	56	■	-
Control of corruption (-2.5 to 2.5 (strong performance))	0.20	0.51	■	-
II. FORMAL INSTITUTIONAL VOIDS AND WEAKNESSES				
1. Modernisation Explanation - Level of 'development'				
GDP (current prices, euro per capita)	8 830	16 040	■	31 300
Human Development Index (HDI) (0-1 (highest development))	0.826	0.871	■	-
Social Progress Index (SPI) (0-100 (high)) **	78.71	81.32	■	-
Self-employment (% of total employment)	9.8	11.0	■	13.4
2. State intervention				
Burden of government regulation (1-7 (best))	3.2	3.6	■	-
Business flexibility index (0-10 (high))	7.72	8.26	■	-
Expense of government (% of GDP)	52.4	43.9	■	36.6
Research & Development expenditure (% of GDP)	0.45	0.64	■	2.23
Tax revenue (% of GDP)	18.7	21.3	■	19.7
Social contributions (% of revenue)	33.3	32.9	■	33.0
Impact of social transfers on poverty reduction (%)	14.84	23.41	■	32.38
Labour market policy (LMP) expenditure (% of GDP)	1.32	0.57	■	1.65
Unemployment rate (% of active population)	17.7	6.3	■	6.8
People at risk of poverty/social exclusion (% of total population)	37.9	27.3	■	20.9
Severe material deprivation rate (% of total population)	22.1	7.8	■	5.5
Inequality of income distribution (income quintile share ratio)	7.40	6.54	■	4.99
Gini coefficient (0-100 (perfect inequality))	37.5	35.2	■	30.2
Labour productivity (% change on previous period)	0.1	2.7	■	0.7
III. FORMAL INSTITUTIONAL POWERLESSNESS				
Reliability of police services (1-7 (best))	4.1	4.7	■	-
Judicial independence (1-7 (best))	3.7	3.7	■	-
Rule of law (-2.5 to 2.5 (strong performance))	0.79	1.01	■	-
Regulatory quality (-2.5 to 2.5 (strong performance))	0.92	1.19	■	-
Voice and accountability (-2.5 to 2.5 (strong performance))	0.85	0.86	■	-
Trust in Government (% tend to trust)	9	28	■	35
Trust in Parliament (% tend to trust)	6	19	■	34
IV. FORMAL INSTITUTIONAL INSTABILITY AND UNCERTAINTY				
Democracy Index (0-10 (full democracy)) ***	7.05	7.49	■	-
Political stability (-2.5 to 2.5 (strong performance))	0.35	0.44	■	-
B. INFORMAL INSTITUTIONS				
Social capital (0-100 (high))	47.1	45.0	■	-
Tax compliance (0-10 (high))	6.72	8.11	■	-
Year:	2013	2019		

Acceptability of undeclared work (% total 'unacceptable')



Firm hires worker on undeclared basis	57	77	■	82
Undeclared work by firm for firm	66	79	■	85
Undeclared work by individual for private household	33	47	■	67
Undeclared work by firm for private household	53	72	■	82
Someone partially or completely conceals their income	53	60	■	78
<i>Personally know people engaged in undeclared work (% 'yes')</i>	46	36	■	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 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.