



European Platform Undeclared Work

**Tackling undeclared work in the
construction industry:
A learning resource**

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SUMMARY

On 3 May 2017, the European Platform Tackling Undeclared Work organised a seminar in Brussels on *Tools and approaches to deal with undeclared work in the construction sector*. The seminar brought together Platform members and observers from 21 EU Member States (MS) and Norway (EEA) representing labour inspectorates and social security, tax and customs authorities, as well as national and European social partner representatives from the construction sector. It provided participants with an opportunity to exchange and discuss construction-related initiatives, challenges and good practices. Participants reflected on the pros and cons of different national and bilateral efforts to monitor and tackle undeclared construction work more effectively. They also assessed national and transnational initiatives.

This learning resource paper builds on the background paper prepared before the seminar (Cremers 2017) and describes the seminar outcomes. The first section looks at the extent and nature of undeclared work in the construction sector. This is followed by an overview of the various policy approaches to tackling undeclared work in the construction sector, along with the discussions which took place at the seminar about various policy approaches and measures, particularly in relation to effective detection on construction sites, and tackling undeclared work in supply chains.

Key findings:

- 19% of all undeclared work in the EU-28 is undertaken in the construction sector.
- The proportion of all undeclared work that is in the construction sector varies from 34% in AT, 32% in LU and 30% in SL and CY, to just 11% in ES and IT and 9% in DE. A focus upon the construction sector when tackling undeclared work is therefore more important in some MS than others.
- Although some undeclared workers in the construction industry do so out

of necessity, as a last resort in the absence of alternative means of livelihood (such as illegal migrant workers), others seem to operate on an undeclared work basis out of choice (such as some self-employed craftspeople doing home repair, maintenance and improvement).

- Policy approaches range from direct controls that seek to alter the costs of undeclared work and/or benefits of operating on a declared basis, to indirect controls that seek to encourage voluntary compliance of suppliers and purchasers of construction services.
- The workshop revealed that most emphasis is at present on altering the costs of undeclared work by increasing the perceived or actual probability of detection, such as by using ID cards, supply-chain responsibility, joint inspections and so forth. Social partners have played an active role in developing initiatives to tackle undeclared work both at national and EU level.
- Less emphasis is currently put on direct incentive measures that make it beneficial and easier to operate on a declared basis, and indirect policy measures that seek to encourage voluntary compliance using awareness campaigns and addressing the structural conditions that cause undeclared work in the construction sector.

1 EXTENT AND NATURE OF UNDECLARED WORK IN THE CONSTRUCTION SECTOR

Key question:

- What is the prevalence and character of undeclared work in the construction sector?

Although undeclared work is widespread across a range of sectors, it is concentrated in the construction sector. To see this, we here report on one of the only databases on this issue, namely the 2013 special Eurobarometer survey on

undeclared work which interviewed 27,563 respondents across the EU-28. This examines both the supply and purchase of undeclared work.

As Table 1 reveals, of the 4% of respondents across the EU-28 who had undertaken undeclared work in the 12 months prior to the interview, 19% had undertaken home repair, maintenance or improvement work. Therefore, some one-fifth of all undeclared work in the EU-28 reported in this survey is in the construction sector.

Table 1. Supply of undeclared work: % in construction sector

Region/ country	Supplying undeclared work	Of which, home repair, maintenance or improvement
	(%)	(%)
<i>28 EU Member States</i>	4	19
<i>East-Central Europe</i>	4	26
Slovakia	5	30
Czech Republic	4	29
Latvia	11	29
Bulgaria	5	28
Poland	3	28
Romania	3	26
Croatia	7	24
Lithuania	8	24
Hungary	4	19
Slovenia	7	18
Estonia	11	17
<i>Nordic nations</i>	6	24
Denmark	9	29
Finland	3	29
Sweden	7	18
<i>Western Europe</i>	4	17
Austria	5	34
Luxembourg	5	32
United Kingdom	3	27
Belgium	4	18
Ireland	2	16
France	5	15
Netherlands	11	13
Germany	2	9
<i>Southern Europe</i>	3	12
Cyprus	2	30
Portugal	2	25
Malta	1	24
Greece	3	18
Italy	2	11
Spain	5	11

Source: 2013 special Eurobarometer survey on undeclared work

However, there are significant variations across European regions in the proportion of undeclared work that is in the construction sector. In the Nordic nations and East-Central Europe, some one-quarter of all undeclared work is in the construction sector, but only 17% in Western Europe and 12% in Southern Europe.

There are also significant cross-national variations. Although 34% of all undeclared work is in the construction sector in AT, 32% in LU and 30% in SL and CY, its share of all undeclared work is just 11% in ES and IT and 9% in DE. Therefore, a focus upon the construction sector when tackling undeclared work is more important in some European regions and MS than others.

Examining the purchase of undeclared goods and services, meanwhile, Table 2 reveals that 11% of respondents across the EU-28 had knowingly purchased goods and services from the undeclared economy in the 12 months prior to the interview. Of all undeclared purchases, 29% were in the home repair, maintenance or improvement realm.

Table 2. Purchase of goods & services in undeclared economy: % from construction sector

Region/ country	Purchasing undeclared goods or services	Of which, Repairs or Renovations
	(%)	(%)
<i>28 EU Member States</i>	11	29
<i>East-Central Europe</i>	11	32
Slovakia	17	53
Czech Republic	19	45
Bulgaria	16	33
Croatia	17	30
Romania	10	29
Hungary	11	27
Poland	5	25
Slovenia	22	23
Estonia	12	22
Latvia	28	14
Lithuania	14	13
<i>Western Europe</i>	10	29
Austria	14	43
United Kingdom	8	42
Ireland	10	37

Region/ country	Purchasing undeclared goods or services	Of which, Repairs or Renovations
	(%)	(%)
Belgium	15	34
Luxembourg	14	28
Germany	7	25
Netherlands	29	25
France	9	22
<i>Southern</i>	12	28
<i>Europe</i>		
Spain	8	33
Italy	12	28
Cyprus	15	25
Greece	30	25
Malta	23	24
Portugal	10	22
<i>Nordic nations</i>	17	24
Denmark	23	25
Sweden	16	23
Finland	11	22

Source: 2013 special Eurobarometer survey on undeclared work

Again, there are variations across European regions. In East-Central Europe, some one-third (32%) of all undeclared work purchased is in the construction sector, but only a quarter (24%) in Southern Europe.

There are also cross-national variations. The proportion of all undeclared purchases that are in the realm of home improvement, maintenance and improvement, ranges from 53% of all undeclared purchases in SL, 45% in CZ and 43% in AT, to 14% in LT and 13% in LT. Tackling the purchase of undeclared home repair, maintenance and improvement work, therefore, will bring greater benefits in some MS than others.

Who, therefore, is employed in the undeclared construction sector? Table 3 reveals for example, that 29% of all men working undeclared are working in the construction sector compared with just 2% of women who are working undeclared, and that 95% of the undeclared construction workforce are men.

Some undeclared workers, therefore, are more likely to be working in the construction sector than others. Men, older undeclared workers, those undeclared workers who finished their formal education earlier, the divorced or

separated, those living in larger households, and officially classified as retired, unemployed or manual workers, are all more likely when they conduct undeclared work, to be employed in the construction sector.

The key characteristics of the undeclared construction workforce, moreover, are that it is composed predominantly of less educated, middle aged, men, living in larger households, and those who are officially classified as unemployed or manual workers.

Table 3. Characteristics of the undeclared construction workforce

Socio-demographic characteristics	% of undeclared workers in construction sector	% of undeclared construction workforce
	(%)	(%)
<i>Gender</i>		
Male	29	95
Female	2	5
<i>Age</i>		
15 - 24 years	10	16
25 - 39 years	19	35
40 - 54 years	23	31
55 years and older	28	18
<i>Age education ended</i>		
Up to 15	32	24
16-19	23	53
20+	12	16
Still studying	8	7
<i>Marital status</i>		
Unmarried	14	26
(Re-) married/ single with partner	19	55
Divorced or separated	34	18
Widowed	11	1
<i>Household size</i>		
One	17	19
Two	16	23
Three	23	27
Four and more	18	31
<i>Occupation</i>		
Self-employed	19	12
Managers	4	1
Other white collars	17	8
Manual workers	27	35
House persons	10	3
Unemployed	23	25
Retired	24	9
Students	8	7

Source: 2013 special Eurobarometer survey on undeclared work

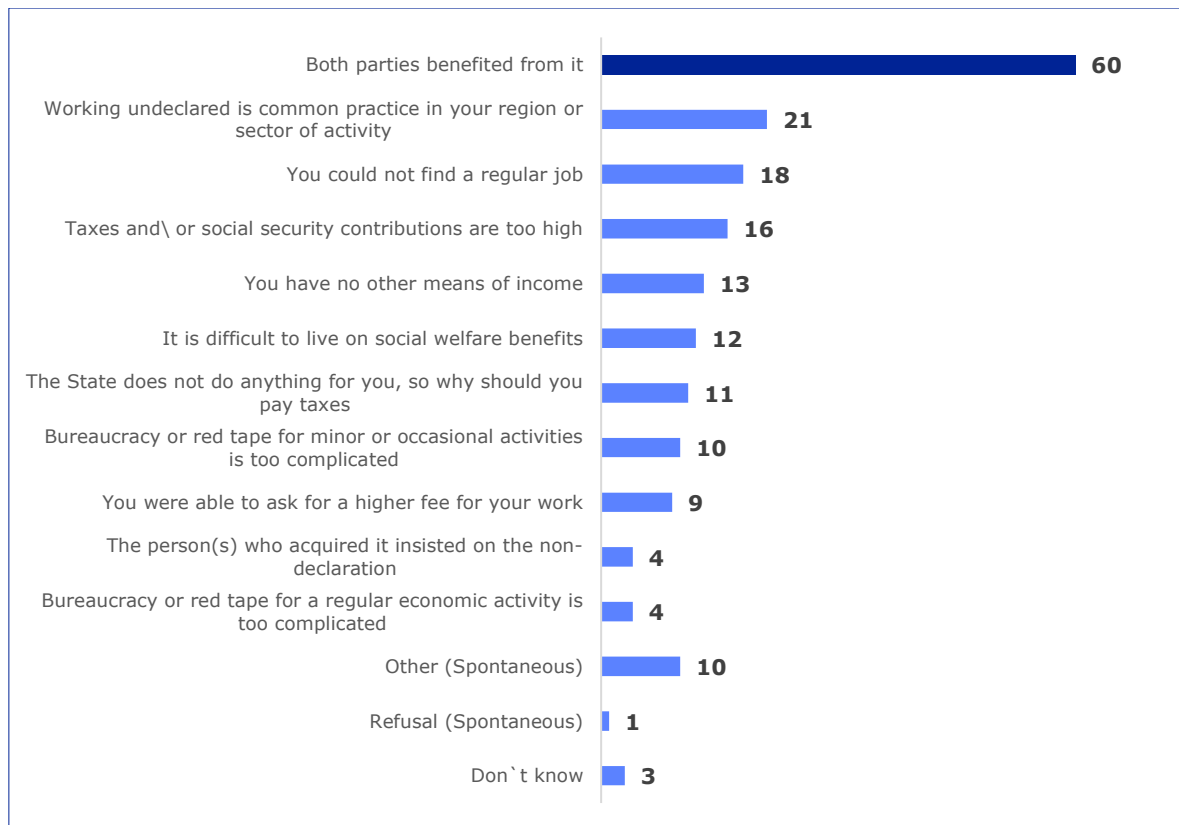
What are their motives, therefore, for working on an undeclared basis in the construction sector? Figure 1 reports undeclared construction workers' reasons for operating on such a basis.

It is often assumed that people work undeclared in the construction sector out of necessity and as a last resort when no other livelihood opportunities are available to them. This is the case for some: 18% state that they could not find a regular job, 13% say they work undeclared in construction because they

have no other means of income and 12% because it is difficult to live on social welfare benefits.

For many, however, it appears to be more an active decision to do so. 60% state that both parties benefit (displaying a lack of understanding of the wider negative consequences of their actions), 16% because taxes and social contributions are too high, 11% due to a perception that the state does nothing for them so why should they pay taxes, 10% because the bureaucracy or red tape for minor or occasional jobs is too complicated, and 9% because they can request a higher fee for their work.

Figure 1. Reasons for working undeclared in construction sector (% of respondents)



Source: 2013 special Eurobarometer survey on undeclared work

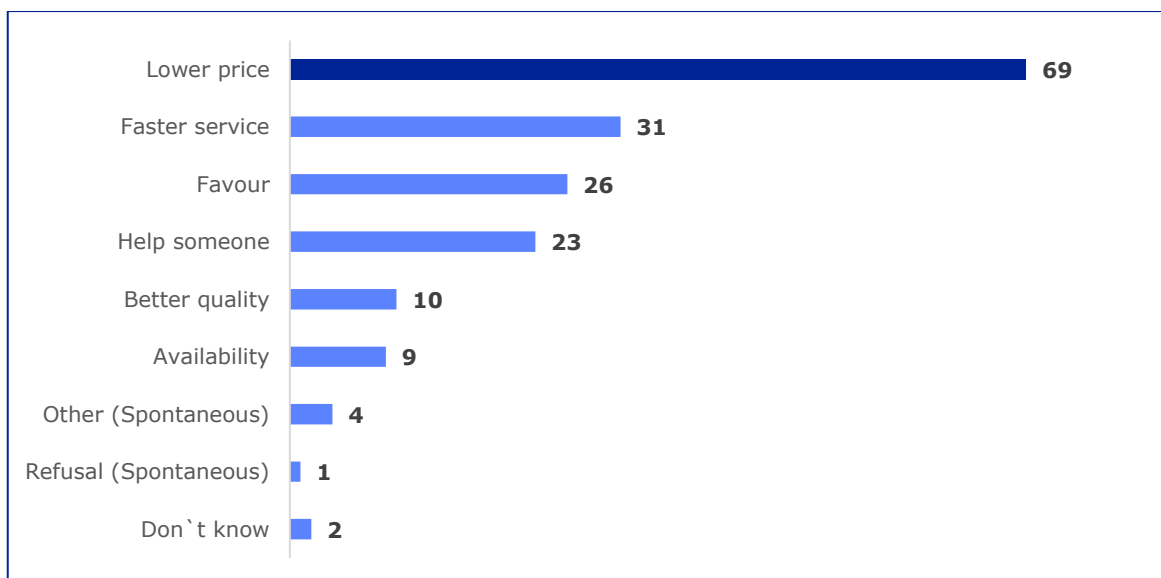
Meanwhile, Figure 2 reports the reasons for purchasing home repair, maintenance and improvement work on an undeclared basis. After all, not all undeclared work is a supplier-driven decision. Much undeclared work in the construction sector is purchaser-driven decision, exemplified by the common

saying "how much for cash?". Examining their reasons reveals that some two-thirds is acquired on an undeclared basis because it is cheaper. However, one-third of undeclared purchases are for reasons not associated with a lower price.

On the one hand, home repair, maintenance and improvement work is acquired on an undeclared basis due to the shortcomings of the declared economy construction businesses. These shortcomings include firstly, the availability and reliability of declared construction businesses, such as when they either are simply not available to do

various tasks or just fail to turn up to undertake the work, secondly, the fact that goods and services can be delivered faster if undeclared transactions are used and third and finally, the view that the quality of provision is higher if one sources the work on an undeclared basis.

Figure 2. Reasons for purchasing undeclared construction services (% of respondents)



Source: 2013 special Eurobarometer survey on undeclared work

On the other hand, there are in a quarter of cases redistributive and social reasons for purchasing home repair, maintenance and improvement work on an undeclared basis. For example, they pay friends or kin on an undeclared basis for doing some home improvement task (e.g., decorating) as a way of giving them some money (e.g., if they are unemployed or short of money) in a way that avoids any connotation of charity being involved.¹

This Eurobarometer survey data, however, does not address business-to-business undeclared transactions. In the construction sector, there is a long-history of businesses outsourcing and sub-contracting to undeclared workers as a way of cutting costs, and of

undeclared labour being employed on construction sites.

The status of self-employment is abused, with bogus self-employment being used, as well as foreign 'independent' workers entering the market through labour-only subcontracting.

Dubious agencies and labour traffickers supplying cheap illegal labour, mainly in a cross-border context, have also become very active in the sector. The workers are vulnerable in many ways (they are employed in '3-D jobs - dirty-dangerous-difficult' - as labelled by the ILO). But 'illegals never complain and work hard' and little 'persuasion' is

¹ Further analysis of the Eurobarometer surveys can be found in Williams (2012), Williams and Nadin (2012) and Williams et al. (2011, 2012).

needed because of the undeclared character of the work.

Indeed, reviewing the field, it can be asserted that inspection authorities have paid considerable attention to business-to-business undeclared work on construction sites, not least due to the exploitative working conditions often endured, but have paid less attention and had less success in tackling undeclared work in the business-to-consumer home repair, maintenance and improvement realm. To tackle undeclared work in the construction sector, nevertheless, both aspects of undeclared work require attention.

2 POLICY APPROACHES TO TACKLING UNDECLARED WORK IN CONSTRUCTION

Key question

- What approaches are available for tackling undeclared work in the construction sector?

As displayed in the Platform learning resource paper on *Developing a Holistic Approach for Tackling Undeclared Work* (Williams, 2017, pp. 3-5), a wide range of tools exist for tackling undeclared work (see Figure 3).

On the one hand, there are 'direct' tools. These tackle undeclared work by ensuring that the benefits of declared work outweigh the benefits of undeclared work. This is achieved either by using deterrence measures ('sticks') to increase the costs of undeclared work and/or by making the conduct of declared work more beneficial and easier using incentives ('carrots').

On the other hand, there are 'indirect' tools. These seek either to change the norms, values and beliefs regarding the acceptability of undeclared work, so that these are in symmetry with the laws and regulations (e.g. using awareness raising campaigns and educational initiatives), and/or to change the formal institutional imperfections that lead to undeclared work.

In the following sections, we use this to structure the policy approaches and

measures discussed at the seminar on 3 May 2017, which are being used to tackle undeclared work in the construction sector.

3 DIRECT POLICY APPROACH: DETERRENCE MEASURES

Key question

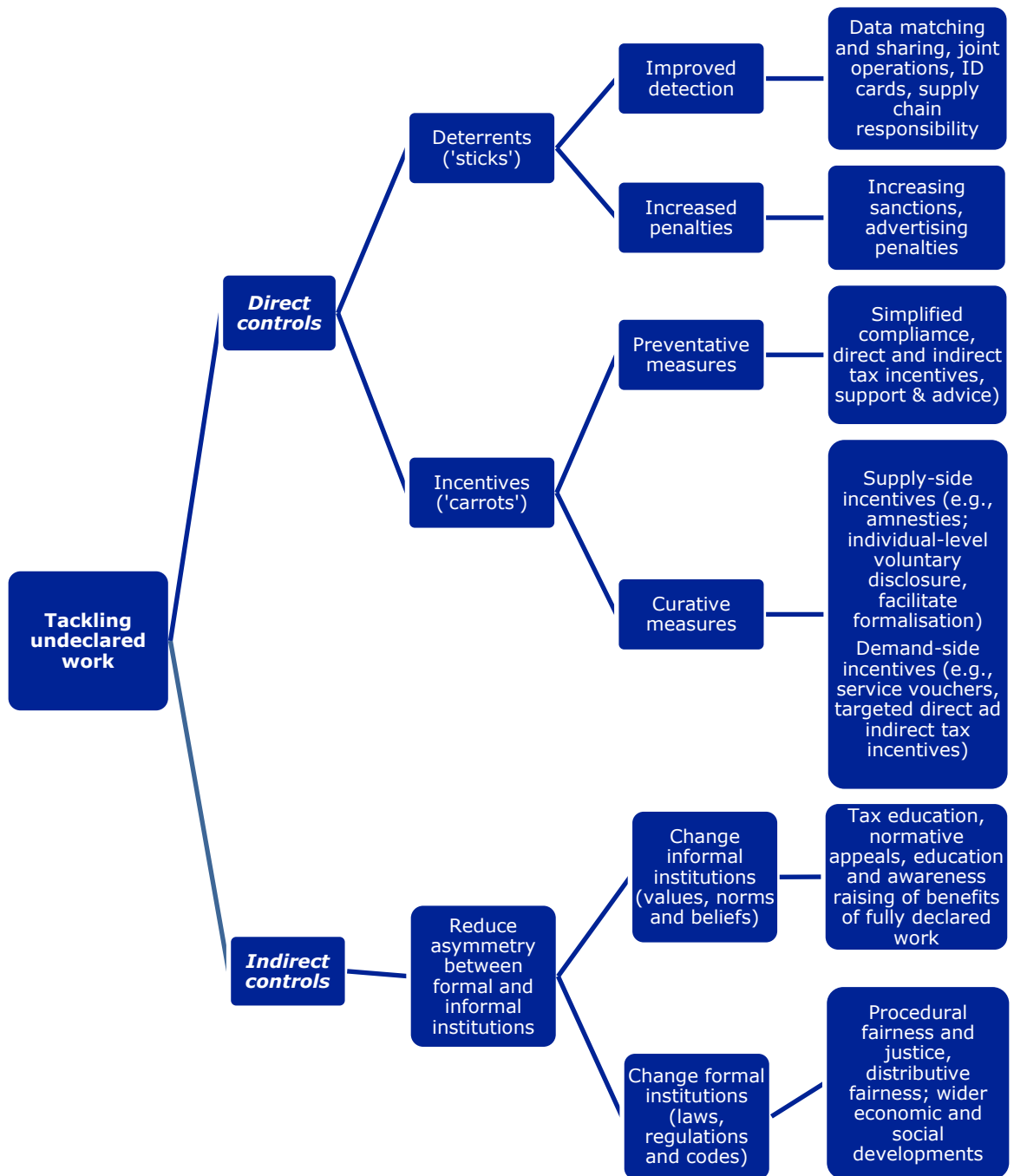
- What deterrence measures have been found to be effective in tackling undeclared work in the construction sector?

Direct controls reduce the costs and increase the benefits of suppliers and purchasers in the construction sector operating on a declared basis, and increase the costs and reduce the benefits of them operating undeclared. Viewing those participating or considering participation in undeclared work in the construction sector as rational economic actors, who weigh up whether the pay-off is greater than the expected cost of detection and punishment, the objective is to alter the cost/benefit ratio confronting them.

To do this, **deterrence measures** seek to increase the costs. On the one hand, this is achieved by *raising the penalties and sanctions for those caught* (e.g. besides fines, innovative forms of sanction are emerging in many countries, such as the use of 'black lists' which prohibit offenders from applying for public support programmes or public procurement tenders, or 'naming and shaming' initiatives where the names of offenders are made public).

On the other hand, the cost/benefit ratio is altered by *increasing the perceived or actual likelihood of detection* (e.g. using workplace inspections; ICT systems to enable data matching; worker registration initiatives prior to starting work or on their first day of work; ID cards in the workplace; coordinated data sharing initiatives across government; joint inspections; coordinating strategy; and the use of peer-to-peer surveillance (e.g. telephone hotlines).

Figure 1. Policy approaches and measures available for transforming undeclared work into declared work



At the seminar, firstly, participants revealed that implementing effective policy measures to increase the perceived or actual risk of detection had been until now the primary focus of both most enforcement bodies as well as social partners when tackling undeclared work in the construction sector.

Secondly, it was revealed that these tools to increase the perceived or actual risk of detection target larger construction sites, and less emphasis is given to the home repair, maintenance and improvement sector. The principal rationale was that this is where the most exploitative forms of undeclared work were found.

And third and finally, it was revealed that social partners, rather than wait for legislative measures to be imposed, had played a more active role in developing initiatives to tackling undeclared work in the construction sector both at national and EU level than has been the case in other sectors.

At the EU level, European social partner organisations jointly presented to the seminar how they had conducted studies

on bogus self-employment (2009) and social ID-cards (2015) in the construction sector, and have taken the lead in a 2012-2017 project to improve collaboration between public authorities and social partners on the posting of workers and a website on the implementation of the Posting Directive²; as well as joint advocacy activities emphasising the importance of national and bilateral solutions and bottom-up learning at EU level.

At the national level, employer organisations and trade unions play a prominent role in the construction sector in monitoring and addressing undeclared work. In some MS, the social partners have installed joint monitoring and enforcement bodies. In others, social partners are involved in carrying out specific inspections on construction sites.

During the Seminar, this was exemplified by presentations on voluntary industry-led initiatives to introduce **social ID cards** in Belgium and Finland/Sweden. The Belgian example is outlined in the box below.

Box 1. Social ID cards, Belgium

The fundamental premise behind social ID cards is that they confirm whether people on a construction site are meant to be there or not. In this way, they help to improve the detection of undeclared work. Many different enterprises send workers to a construction site and they do not necessarily know each other, thus ID cards help to overcome this. They can also be used for other purposes, e.g. training, safety certificates, to control driver licences, access, presence registration.

In Belgium, ID cards were introduced on a phased basis, following an initiative of the social partners, starting with a test phase on eight construction sites in 2013. Today, they are widely used on (large) construction sites but are not mandatory. The intention is to make the cards mandatory for all construction workers.

The Belgian ID cards enable both visual (via a photo) and digital (through an electronic chip and RFID- antenna) identification of the workers. They are highly secured against counterfeiting.

The production process for the ID cards is fully automated. Data is collected from the social security network and the cards are produced at one central point (Constructiv).

During the discussions, it was noted that social ID cards are also open to abuse. If the original data provided is not

reflective of the real situation of the worker, then the cards cannot achieve their purpose. However, this should not

² www.posting-workers.eu

be a reason to abandon the use of ID cards, which are effective in the majority of cases. Alongside ensuring that the ID cards are secured against counterfeiting, it is also important to ensure an interconnection of data sources. Moreover, enforcement authorities must go beyond the paperwork to verify the reality, e.g. to detect letterbox companies.

Platform Seminar participants who took part in the workshop on effective monitoring and controls shared their experiences on the main challenges and success factors in monitoring and controlling a construction site.

There was a shared understanding amongst participants that non-compliance in one area is likely to mean lack of compliance in another, which has implications for the selection of construction sites for inspection. This selection is currently based on receiving information from other bodies (e.g. other inspectorates, police, complaints by workers or by compliant undertakings) and from previous inspections. There was agreement that

tools such as hotlines, websites or apps for reporting issues are useful tools that can further improve the perceived or actual probability of detection of undeclared work. Preparation and planning for inspections of construction sites, as well as impact analysis of controls, were also commonly seen as key tools for improving the effectiveness of detection.

Joint working was also seen as an important means of improving the effectiveness of detection, especially in relation to large building sites. A good practice in regard to joint working was felt to be carrying out preparation and planning with strategic partners.

Joint working could involve for example data sharing. However, a legal framework for data exchange may be needed and one of the challenges identified during the workshop was national and transnational data exchange.

An example of a national collaboration project is presented in the box below.

Box 2. Joint actions against undeclared work – Danish Working Environment Authority, Danish Ministry of Taxation (SKAT) and the police

This national collaboration project, operating since 2012, was established in response to a number of challenges, notably globalisation and the increase in cross-border working. The project involves a formalised cooperation agreement, setting the framework for cooperation at central and regional level, between the Danish Working Environment Authority, the Ministry of Taxation (SKAT) and the police. The agreement is renewed annually. Under the agreement, the three authorities carry out coordinated enforcement through:

- Common control actions – national and regional,
- Individual control actions – national and regional,
- Creating visibility through press initiatives and the involvement of partners and stakeholders through dialogue.

The agreement focuses on different sectors / branches which have been selected on the basis of risk and non-compliance: building construction; agriculture, forestry and horticulture; and services (hotels, restaurants, cleaning etc).

The agreement has led to a considerable increase in control and supervision of regulatory compliance. It has led to greater visibility in the public arena (through the press) and greater political awareness of the issue. The network created has facilitated the exchange of relevant information between the authorities involved and has helped them to improve their knowledge of each other as co-operators and partners, leading to improved working processes. Finally, the collaboration has led to a better understanding of the target group, leading to more successful enforcement activities.

The challenges experienced include the difficulties associated with bringing three different authorities together, each with different working cultures; the continued strong increase in the number of companies and workers covered by the target group; and legislative barriers, which make it difficult to exchange information between authorities.

With regard to the first Workshop on **organising effective monitoring and controls of a construction site**, again preparation and planning were felt to be key. Inspections are expensive and using electronic data makes it possible for the authorities to focus them where needed.

The use of occupational health and safety (OSH) information was identified as a way of giving an inspector advance knowledge of how many workers there should be on the site, who their (notional) employers are, etc. Many countries use checklists and in Ireland for example there is a common checklist with an agreed series of questions.

Finally, the need for different language versions of documents was mentioned, to ensure that workers and contractors from other EU and third countries are able to fully understand their rights and obligations. Non-compliance is not always voluntary, in which case information is needed, rather than inspections.

In the second workshop session of the Seminar, the focus was upon **tackling undeclared work in supply chains in the construction industry**. Participants again highlighted the key challenges as revolving around increasing the probability of detection, including: the identification of sub-contractors; and the lack of resources/inspectors who can carry out on-site inspections. Possible solutions were presented based on the experience of Belgium and Finland with joint or several liability in construction supply chains.

Examples from Finland and Belgium are presented in Boxes 3 and 4.

It was noted in relation to the Finnish example that the introduction of the system was resource-intensive and it took time for companies to learn how to use it. The example from Belgium shows how the authorities have tried to make their tools and applications accessible and user-friendly to employers.

A further common thread across discussions at the seminar on improving the risk of detection was the importance of data mining and analysis (for example as an enabler of targeted inspections) and data sharing both between competent national authorities and between member states. It was considered that, for data exchange to work best, the sample of data should be small and cooperating authorities should establish and maintain a good working relationship among one another.

Some countries, including Belgium, Spain and Norway, now limit the number of sub-contractors in construction chains. In other countries, including Bulgaria, there is an obligation on the main contractor to keep all records, for their employees but also for sub-contractors. Participants at the seminar widely agreed that limiting the number of sub-contractors to 2-3 was a key to tackling undeclared work in construction industry supply chains.

Both in this regard and on wider joint actions, the seminar participants viewed collaboration between neighbouring countries (e.g. Baltic region, Nordic countries, the Benelux, etc.), to be important, both on data sharing, short-term projects to try new tools and/or approaches for tackling undeclared work in construction.

Box 3. Information reporting requirement in the Finnish construction industry

In Finland, new reporting requirements in the construction sector are in place which are part of a set of measures to ensure real-time tax control to combat the grey economy. The aim is to ensure that the tax administration and labour inspectorate have a complete overview of all workers present at the construction site at all times.

The new arrangements place responsibility with all links in the supply chain, thereby emphasising the overall responsibility of the buyer and the main contractor: all parties of the supply chain – buyer, developers, main contractor as well as sub-contractors - have the obligation to report contract and employee details. The buyer and the main contractor are responsible for collecting this information and filing a monthly report to the Tax Administration:

Parties who purchase construction services or are otherwise on the buying end of construction services are responsible for collecting information on the contracts in place. Every month, each 'buyer' must give the names of all companies or people from whom they have ordered construction services directly to the Tax Administration. This includes details of the contracts (including contracting parties, total amount, and duration) and transaction data related to the contract (including the amount invoiced during the reporting period).

The project supervisor (main contractor) of the construction project is responsible for collecting information from its sub-contractors on the people who work at the construction site. Each company operating at the site must submit details of their employees to the project supervisor. In case of a shared construction site, it is also the project supervisor who is obliged to file reports on all the people who work there - including their own employees, the employees of other contractors, and any independent, self-employed individual contractors and leased employees (temporary agency workers) working on the building site.

In case a buyer or contractor fails to fulfil the obligation report, a negligence fee is issued. The maximum amount is 15,000 euros.

Box 4. The Belgian liability system for social security debts and non-paid wages in the chain of sub-contractors

In Belgium there are a number of tools and applications to tackle undeclared work within chains of sub-contractors. In the construction sector³, the following tools apply.

Declaration of Works is an electronic declaration of all construction sites, contractors and sub-contractors (small assignments, with a total value of less than EUR 30,000, are exempt). The information which must be declared is as follows:

- Start / end of the construction site,
- Start / end of activities of each contractor and sub-contractor,
- Identification of each contractor & sub-contractor,
- Description of the works.

*Checkin@Work*⁴ helps to tackle fraud by showing who is present at the construction site, when, for whom work is carried out and under which status (employee or self-employed). This enables targeted inspections to be made. The following data must be recorded for all works on construction sites with a total value of EUR 500 000 or more:

³ The tools mentioned also apply to the security services and meat processing industry.

⁴ An animated film about Checkin@Work can be found here:
<https://www.youtube.com/watch?v=tDITwS4wDQQ>

- Identification of the natural person,
- Address of the construction site,
- Capacity in which the person carries out his activities (employee, self-employed, project supervisor, employers, coordinator,...),
- Identification of the employer or of the person by whose order the work is being carried out,
- Identification number of the declaration of work,
- Time of recording.

Efforts have been made to make Checkin@Work as accessible as possible. Data can be entered in various ways, including via a laptop or Smartphone. In terms of sanctions / liabilities, if the non-declaration is not an administrative error, then there is a penalty of 5% of the total value of the work (this 5 % relates to only 'one level in the chain', i.e. [the liability is only calculated on the value of the contract between contractor-subcontractor \(or between subcontractor and subcontractor-level-1\) and not on the value of the whole construction site](#)). For sub-contractors with social security debts, their status is checked before payment of any invoice on the social security portal site (www.socialsecurity.be). If they have social security debts, a deduction of 35% is made on each payment and transferred to the National Social Security Office (NSSO). The benefits of the Belgian approach include for example the possibility to carry out targeted inspections, the use of the databases for data mining projects, the exclusion of fraudulent or financially viable companies from the market and the protection of workers' rights. However, there are also some threats: for example, there is a danger of formalising fraud structures – it is easy to 'tick the boxes', make deductions and then simply replace one fraudulent sub-contractor with another.

4 DIRECT POLICY APPROACH: INCENTIVE MEASURES

Key question:

- What incentive measures can be used to make it easier and/or reward declared work in the construction sector?

To enable undeclared work in the construction sector to be transformed into declared work, incentive measures seek to make it easier to undertake, and reward, participation in declared work.

On the one hand, there are *preventative measures* that discourage suppliers and customers from engaging in the undeclared economy (e.g. by simplifying compliance, using direct and indirect tax incentives to make it beneficial to operate on a declared basis, and providing support and advice about how to start-up legitimately).

One preventative measure discussed during the Seminar was allowing access

to public procurement contracts for those who had not had any violations for undeclared work against them, and preventing access to those who had engaged in such violations (in accordance with EU Directives). This would provide a major incentive to be compliant, given that many construction contracts arise from public procurement.

Another preventative incentive discussed was the provision of information and counselling to (foreign) employees and employers using helpdesks and websites for conveying basic information about the existing regulatory framework, which might otherwise not be known.

A case study of such support and advice presented at the seminar was from Germany, where the Arbeit und Leben services provide support and advice to workers from other EU and third countries affected by undeclared work in the construction sector (see Box 5, below).

Box 5. Arbeit und Leben, Germany

Arbeit und Leben is a counselling service workers from other EU and third countries, which was set up in 2010. The services are available in a number of Federal states, including Berlin, financed by the respective federal state. The services target the following groups:

- posted workers;
- EU citizens exercising the free movement of labour;
- self-employed people with an unclear labour status;
- refugees.

Its main objectives are to provide a point of contact for workers on labour rights, assuring non-discrimination and fair implementation of the free movement of labour, and achieving 'decent work' (gute Arbeit) as well as equal pay for equal work (*Gleicher Lohn für gleiche Arbeit am gleichen Ort*). Arbeit und Leben provides three types of services, all free-of-charge:

- Prevention, e.g. through information sessions, web-based and paper materials
- Problem-based services, i.e. individual or collective counselling on concrete problems concerning employment of mobile workers
- Holistic support, in cases of human trafficking

The vast majority of their work (around 90%) is problem-based services – clients ask for help with problems like unpaid wages or overtime. Arbeit und Leben cooperates with both the local authorities and labour inspectorates abroad when dealing with clients. Although this cooperation is vital to the success of the service, it is also one of the challenges in the work. Another important partner is the [trade unions and the services partly function as a link between workers and German trade unions](#).

Another preventative approach is to introduce new categories of declared work to make compliance easy. In Germany, for example, it was for many years difficult for an individual to undertake small jobs, such as on a one-off basis, on a declared basis in the home repair, maintenance and improvement realm. To address this, a 'mini-jobs' category of employment was created. In 2002, the German government introduced three types of mini job: jobs with a EUR 400 earning threshold; mini-jobs in the household sector; and 'midi jobs' for earnings ranging between EUR 400 and EUR 800.⁵ By 2004, the number registered in minor employment was 7 million people. Some 1.21 million were already in a declared job, and 580,000 were

estimated to have transferred their small-scale endeavour to the declared realm under this scheme.⁶ Schneider (2008) argues that mini-jobs led to a reduction in undeclared work of some EUR 9 billion and that between 2006 and 2007 alone, it decreased undeclared work by some EUR 2.5-3.5 billion. The act was updated in 2012 and the earnings threshold increased to EUR 450, effective 1 January 2013. In addition, individuals undertaking mini-jobs (from 1 January 2013) are now subject to compulsory pension insurance⁷. It is possible to opt out of making pension contributions, but if this is the case, the 'mini-jobber' no longer has full pension insurance coverage.

Another incentive scheme to make declared work beneficial so as to prevent

⁵ See Williams and Renooy (2009)

⁶ See Baumann and Wienges (2003)

⁷ This not only (usually) increases their pension, but also entitles them to other benefits under

pension law, such as in the case of reduced working capacity.

workers operating on an undeclared basis, and again organised by social partners, is the Builders Social House (*Casa Socială a Constructorilor, CSC*) in Romania. Established in 1998, trade unions and employer organisations in the construction sector contribute to this privately run welfare organisation in equal measure. Its role is to provide welfare benefits during the cold season (1 November–31 March) to construction workers in registered formal jobs and in doing so, provides an incentive to work declared. Corporate contributors pay 1.5% of their turnover into the CSC scheme, and employees contribute 1% of their gross base salary. In 2008, CSC had 573 member organisations accounting for 40% of the construction workforce. During the 2007-08 winter period, 102,387 benefited from this scheme as welfare recipients.⁸

On the other hand, there are **curative measures** that incentivise citizens, workers and businesses to make the transition from the undeclared to the declared realm. These are of two varieties.

Firstly, there are supply-side curative incentives targeting construction businesses and workers in the undeclared economy (e.g. society-wide amnesties, individual-level voluntary disclosure schemes, and advisory and support services to those wishing to move from the undeclared into the declared realm).

Secondly, there are demand-side curative incentives targeting the customers of home repair, maintenance and improvement work with rewards for using declared goods and services (e.g. granting income tax deductions on the costs incurred of obtaining services on a declared basis; issuing of vouchers so that consumers only pay a proportion of the hourly wage rate, leaving the remaining part to be covered by the state; and the use of indirect tax deductions).

To facilitate declared work, curative measures can either help those working undeclared to legitimise, such as

society-wide amnesties, voluntary disclosure and bespoke business support and advisory services, or encourage purchasers to use declared work, such as targeted indirect and direct tax measures.

When targeting consumers, most current approaches seek to reduce the differential cost between declared and undeclared construction work. In the repair, maintenance and improvement sphere, for example, tax rebates on home maintenance expenses were first introduced in France in 2000, and similar tax reductions for house repairs have been used in Italy and Luxembourg.

In Denmark, from 1 June 2011 until the end of 2013, it was possible for each member of the household over 18 years of age to deduct from their taxes up to DKK 15,000 (EUR 2000) of the costs of employing craftspeople and domestic helpers under a pilot project called 'Home-Job Plan' (*Bolig-Jobplan*). One of the activities covered was indoor-outdoor maintenance of the house, but also gardening, cleaning and babysitting. The cost to the government was estimated to be DKK 1 billion (EUR 134 million) in 2011 and around DKK 1.75 billion (EUR 234 million) in 2012 and 2013. The expenses and the company involved was informed digitally by the buyer of the services to the tax authorities in a special template, who then deducted 15% of the amount in the yearly tax or fiscal income. The action involved for the buyer of these services resembles an ordinary payment transfer, and the system does the rest. Relative to expectations, the pilot project was a success. Some 270,000 people used the deduction in 2011 and most of the work involved home improvement, maintenance and repair. They have on average reported deductions of DKK 9800 (EUR 1315) per person. In total, the deductions reported constitute DKK 2.7 billion (EUR 362 million). The tax value of those deductions is around DKK 900 million (EUR 121 million) (Jørgensen, 2013). This therefore reduces the cost of

⁸ Williams and Renooy (2009)

declared work, providing an incentive to use it rather than undeclared work.

A similar scheme has operated in Sweden since December 2008. Citizens have been able to apply for a tax deduction amounting to 50% of the labour cost for the renovation, conversion and extension of homes (ROT), and also for household services (RUT), including cleaning, laundry, basic gardening and babysitting. The maximum annual tax deduction that can be applied for is SEK 50 000 (EUR 6000) for each individual. In the government bill from 2007 where the RUT deduction was proposed, the measure was estimated to cost SEK 1.3 billion per year (EUR 155 million). The ROT-deduction was in the spring budget bill in 2009 and was calculated to cost SEK 13.5 billion per year (EUR 416 million) (Swedish Tax Agency, 2011). As of 1 July 2009, companies performing household services charge the customer the costs of materials and half the labour costs, including VAT. The company performing the work then requests the outstanding sum from the Swedish Tax Agency. As a result, the customers only pay half of the labour cost at the point of purchase of the service.

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

(ROT) were performed using these schemes (Brunk, 2013). This scheme, therefore, again reduces the cost of declared work, providing an incentive to use it rather than undeclared work.

However, only just over two-thirds of all undeclared purchases in the RMI sphere are made for the rationale of paying a lower price. One-third are not, as shown above.

Besides saving money, cash-in-hand consumers are seeking to circumvent the shortcomings of formal sector provision in terms of its availability, speed, reliability and quality, as well as pursuing social and redistributive rationales.

Therefore, attention will need to turn towards not only improving formal goods and services provision but also tackling cash-in-hand goods and services provided for social and redistributive rationales. This can be perhaps overcome using local-level phone hotlines, web-portals and one-stop shops that customers can contact to find suppliers and where suppliers can advertise their services, and where customer-instigated quality assurance 'labelling' is used to tackle the issue of reliability and quality. Similarly, whether a laissez-faire approach should be adopted towards cash-in-hand transactions between closer social relations conducted for redistributive and social rationales, whether the tax regulations need to be changed, or whether new institutions are needed to enable people to conduct such paid favours legitimately, such as Local Exchange and Trading Schemes (LETS) or time banks,⁹ requires evaluation.

5 INDIRECT POLICY APPROACHES

Key question:

- What indirect controls can reduce undeclared work in the construction sector?

Indirect approaches recognise that citizens and construction businesses are not just rational economic actors (purely

⁹ See Williams et al (2001)

calculating the costs and benefits). They are also social actors who engage in undeclared work because their norms, values and beliefs do not align with the laws and regulations, for example due to a lack of trust in the state and what it is seeking to achieve.

To align them, two approaches are pursued. On the one hand, indirect policy approaches seek to **change the norms, values and beliefs** regarding the acceptability of participating in undeclared work, so that these are in symmetry with the laws and regulations (e.g. using awareness raising campaigns and educational initiatives).

Examples include the employer-led 'Come Into the Light' campaign (2007) and 'Work Legally' campaign (2008) in Bulgaria. In Germany, a public campaign against undeclared work led to sectoral tripartite alliances being formed, including in the construction sector¹⁰. The treaties were signed by the social partners and the Federal Ministry of Finance. They included a general declaration against undeclared work and specific measures to be undertaken by the partners.

On the other hand, indirect policy approaches also seek to **change the formal institutions**. Firstly, this can involve *changing the internal processes of formal institutions to improve the perception amongst citizens and businesses that there is procedural and distributive fairness and justice*, so as to improve trust in government.

Secondly, measures can be taken to *change the products of formal institutions*. The finding is that reducing the prevalence of undeclared work is significantly associated with: increasing GDP per capita; improving the quality of governance and reducing corruption; increasing expenditure on labour market interventions to help the most vulnerable groups; increasing social expenditure, and developing more effective social transfer systems so as to reduce the level of inequality and severe material deprivation.

¹⁰ For more detail see the good practice fiche on this example, available [here](#)

Given this range of policy approaches and measures for tackling undeclared work in the construction sector, a further follow-up to the seminar will be the production of a toolkit that will set out a wide range of specific policy initiatives that can be used for tackling undeclared work in the construction sector in much greater depth than has been possible here.

6 KEY LEARNING OUTCOMES

Given that 19% of all undeclared work in the EU-28 is undertaken in the construction sector according to the 2013 special Eurobarometer survey no 402, this is an important sector to focus upon when tackling undeclared work at the EU level. Nevertheless, the proportion of all undeclared work in the construction sector varies from 34% in AT to 9% in DE. A focus upon the construction sector when tackling undeclared work is therefore more important in some member states than others.

The policy approaches available for tackling undeclared work in the construction sector range from direct controls that seek to alter the costs of undeclared work and/or benefits of operating on a declared basis, to indirect controls that seek to encourage voluntary compliance of suppliers and purchasers of construction services.

The seminar revealed that unlike in other sectors, the social partners, rather than wait for legislative measures to be imposed, have played an active role in developing initiatives to tackling undeclared work both at national and EU level. It also revealed that most of the current emphasis by both enforcement authorities as well as social partners is on altering the costs of undeclared work by pursuing policy initiatives that increase the perceived or actual probability of detection, such as the use of ID cards, supply-chain responsibility, joint inspections and so forth. These tools target larger construction sites, and less emphasis is given to the home

repair, maintenance and improvement sector, based on the rationale that the former is where the most exploitative forms of undeclared work are found.

Less emphasis is currently put on direct incentive measures that make it beneficial and easier to operate on a declared basis, and indirect policy measures that seek to encourage voluntary compliance using awareness

campaigns and addressing the structural conditions that cause undeclared work in the construction sector.

The forthcoming toolkit on policy measures for tackling undeclared work in the construction sector will thus provide a wider and more detailed in-depth examination of the full range of initiatives available.

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