

# Undeclared work in Croatia

A baseline assessment

Josip Franic  
Institute of Public Finance, Croatia  
University of Sheffield, Management School

# Contents

- ▶ 1. Croatia - economic, social and political context
- ▶ 2. Extent of undeclared work in Croatia
- ▶ 3. Sectoral, business and socio-economic variations
- ▶ 4. Causes of undeclared work and barriers to formalisation
- ▶ 5. Institutional framework for combatting illicit activities
- ▶ 6. Policy approach and measures to tackle undeclared work in Croatia

# Undeclared economic activities - definition and scope

## Undeclared work

*“any paid activities that are lawful as regards their nature but not declared to the public authorities, taking into account differences in the regulatory system of Member States” (European Commission, 1998, p. 4).*

## Croatia: Unregistered activity

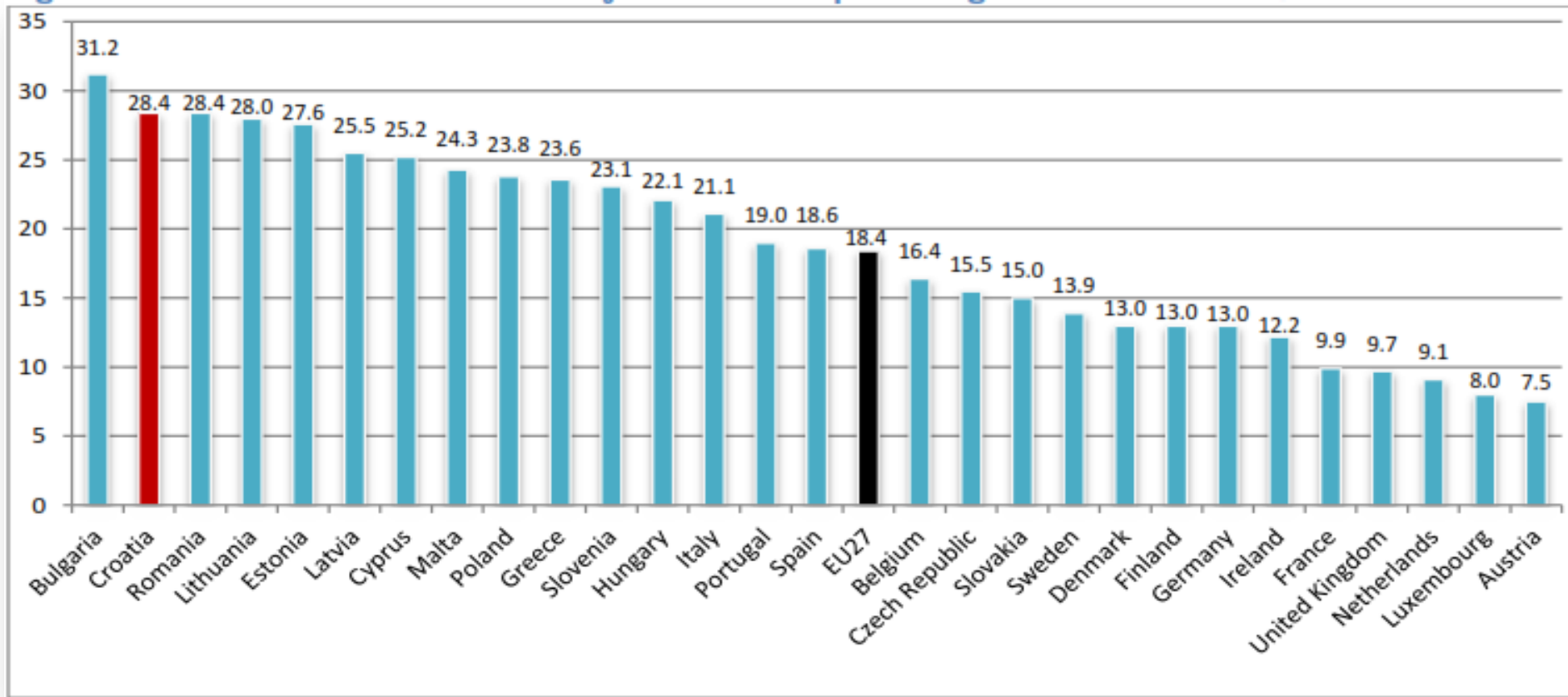
*”any type of paid legal work conducted by individuals or firms without complete and valid documentation and required permissions” (Official Gazette, 61/2011)*

# Croatia - economic, social and political context

- ▶ Transition state - independent since 1991.
- ▶ Population: 4.3 million.
- ▶ EU - member since 1.7.2013.
- ▶ GDP per capita: 10,147 € in 2013 (Croatian Bureau of Statistics, 2014).
- ▶ Unemployment rate: 17.2% in 2013 (Eurostat, 2014).

# Extent of undeclared work in Croatia

Figure 1 The size of the shadow economy in the EU as a percentage of the official GDP, in 2013



Source: Based on Schneider (2013)

# Extent of undeclared work in Croatia (2)

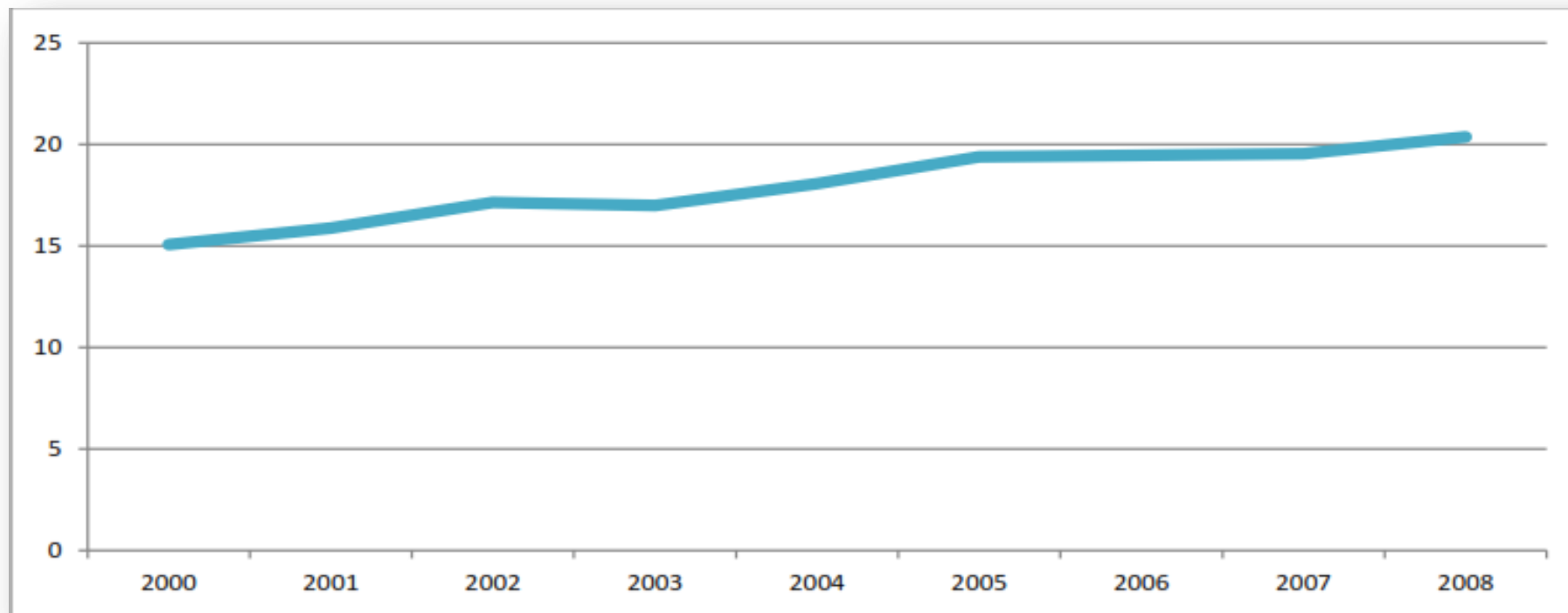
Table 1 Unregistered activities in Croatia, % of the official GDP

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>MIMIC<sup>*</sup></b>	-	-	-	32.3	32.3	31.5	31.2	30.4	29.6	30.1	29.8	29.5	29.0
<b>MIMIC<sup>**</sup></b>	6.7	6.2	5.3	5.4	5.3	5.0	4.8	4.7	4.6	4.2	-	-	-
<b>Labour force method<sup>***</sup></b>	-	-	-	-	4.0	3.7	3.4	3.1	1.7	3.8	4.2	-	-
<b>Non-exhaustiveness of national accounts<sup>***</sup></b>	8.5	8.3	8.2	7.4	7.3	7.3	6.7	6.1	5.9	6.4	-	-	-

Sources: \* Schneider (2012), \*\* Klarić (2011), \*\*\* Galić Nagyszombaty (2012)

# Extent of undeclared work in Croatia (3)

Figure 2 Unofficial economy in Croatia, 2000-2008, in billion HRK



Source: Based on Lovrinčević et al. (2011)

# Extent of undeclared work in Croatia (4)

According to the Special Eurobarometer Survey on undeclared work:

- ▶ 7.3% of population carry on undeclared activities.
- ▶ 17.4% buy undeclared goods and services.
- ▶ 40% personally know someone engaged in undeclared activities.
- ▶ 8.3% of formal employees are under-declared.

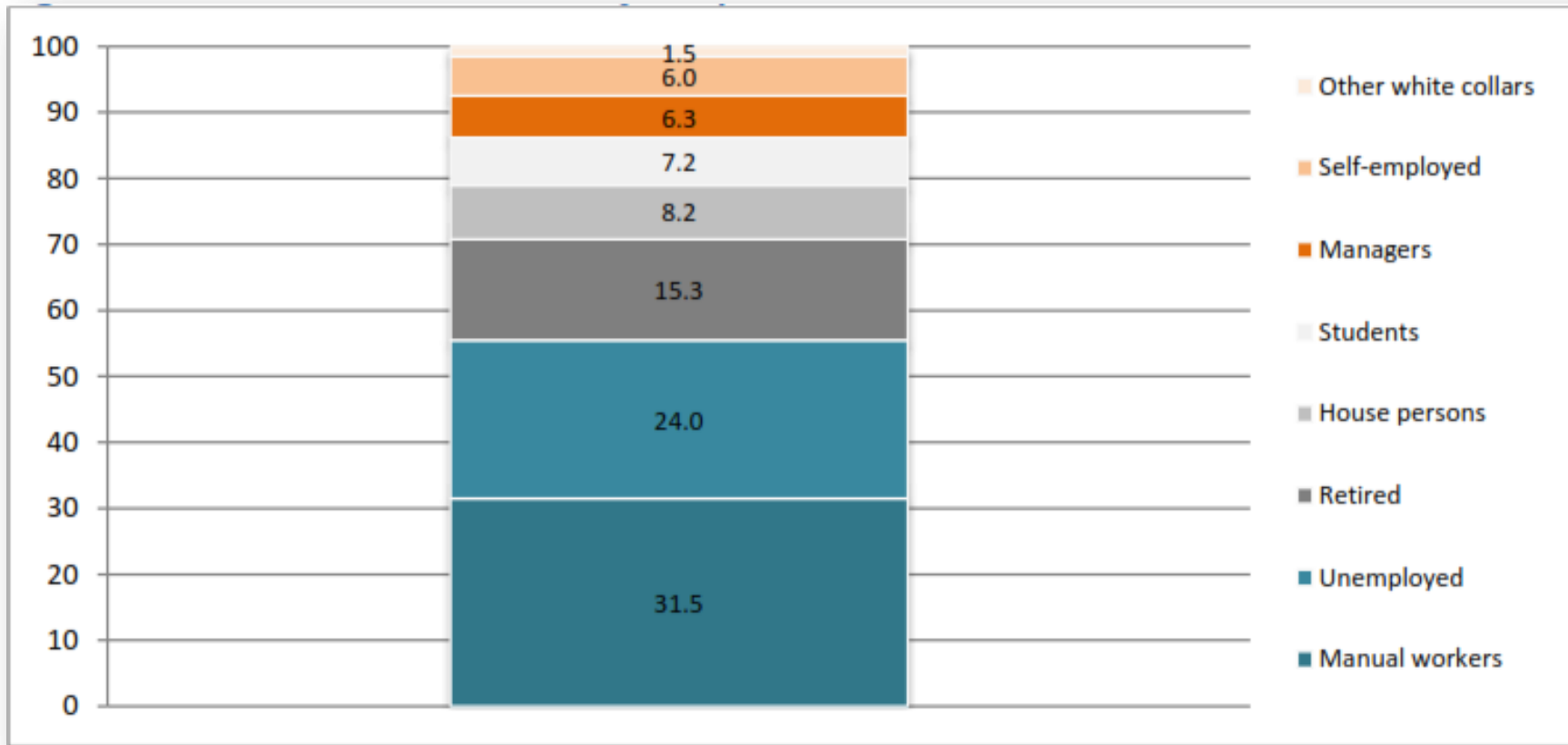


# Sectoral, business and socio-economic variations

- ▶ Individuals from rural areas are more likely to be engaged in undeclared activities on the labour supply side, while those from urban areas are more often involved on the demand side.
- ▶ Undeclared activities are most often found in agriculture and related industries, construction and catering sector.
- ▶ Small and medium enterprises are more likely to operate informally, as well as domestic owned and non-exporting ones.
- ▶ Undeclared activities are particularly prevalent in Zagreb (on both firm and labour supply level).

# Sectoral, business and socio-economic variations (2)

Figure 3 Undeclared workers in Croatia by occupation, %



Source: Authors' calculations based on the Special Eurobarometer 402

# Causes of undeclared work and barriers to formalisation - labour supply side

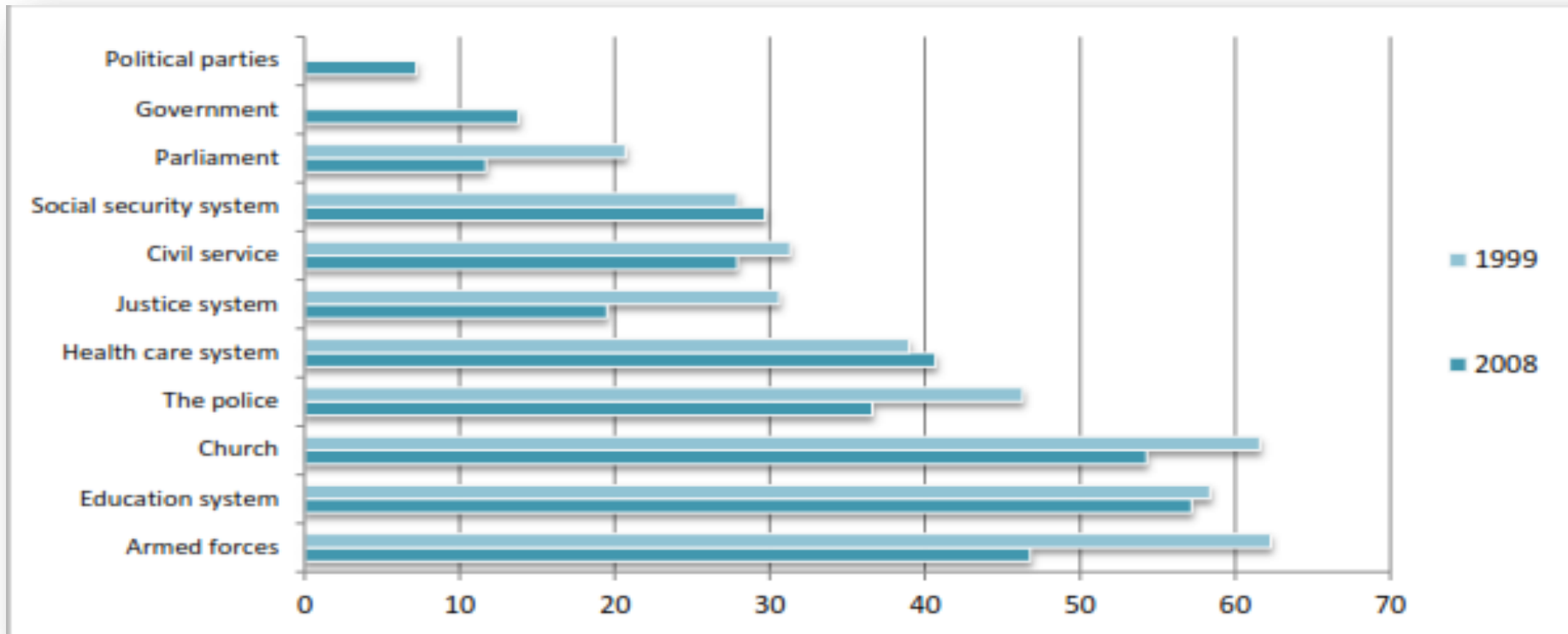
- ▶ Unemployment
- ▶ High tax burden
- ▶ ‘Benefit traps’
- ▶ Broadly accepted belief among workers in Croatia that high social security contributions are not proportionate to their future benefits
- ▶ 28% of all retired people in Croatia are receiving an amount that is below the minimum value necessary for basic needs

# Causes of undeclared work and barriers to formalisation - business level

- ▶ Fast-changing legislation
- ▶ Complexity of administrative procedures
- ▶ Tax burden
- ▶ Corruption
- ▶ Inflexibility of the labour market

# Socio-cultural factors

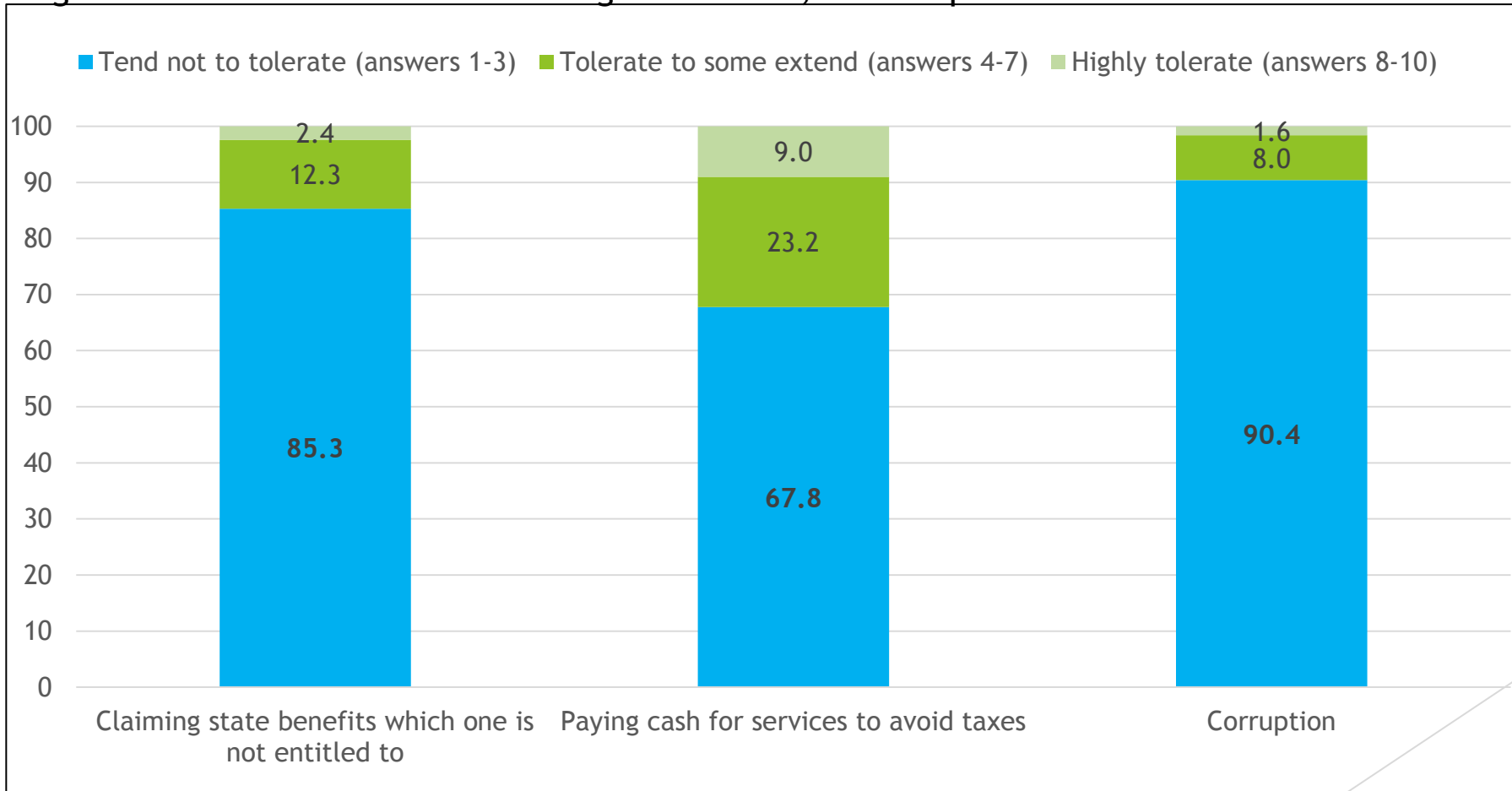
Figure 4 Confidence in institutions in Croatia, 1999 and 2008, % of respondents



Source: Authors' calculations based on EVS (2011)

# Tax morale

Figure 5 Toleration of some violating behaviours, % of respondents



Source: Authors' calculations based on EVS (2011)

# Institutional framework for combating illicit activities in Croatia

- ▶ Responsibility for tackling undeclared work shared between different ministries and government departments: the Ministry of Labour and Pension System, Ministry of Finance, Ministry of Interior, Ministry of Tourism, Ministry of Agriculture, Tax Administration, Employment Service and Customs Administration.
- ▶ The Ministry of Labour and Pension System and the Ministry of Finance have a leading role.
- ▶ There is a lack of coordination among these ministries and departments.

# Policy approach and measures to tackle undeclared work

- ▶ The fight against undeclared work is characterised by frequent and instant changes of legislation which do not leave enough time for adaptation, not only for the target population, but also for the authorities.
- ▶ Measures are mainly introduced without systematic assessment of costs and benefits.
- ▶ There is a general lack of studies evaluating the effectiveness of the introduced strategies.
- ▶ Deterrence is still the predominant policy approach; however a number of preventative measures have also been introduced recently.



# Repression

- ▶ Targeted controls: since 2010 the number of controls in tourism has been increased, particularly during the summer period.
- ▶ Office for large taxpayers established in 2012.
- ▶ The personal identification number introduced in 2009.
- ▶ Penalties for carrying out undeclared activities were proscribed in 2011 by the Prohibition and Prevention of Unregistered Activities Act.

# Prevention

- ▶ Certified cash registers introduced in 2013.
- ▶ 'HITRO.HR' introduced in 2005.
- ▶ In 2009 an online registration service (e-Company) was established as a part of HITRO.HR system.
- ▶ Since May 2012 employers are not allowed to pay a salary without simultaneous payment of social contributions.
- ▶ Since January 2014, every new employee must be registered with the Pension Insurance Institute within 24 hours after starting the job.

# Prevention (2)


- ▶ New Social Welfare Act in 2013.
- ▶ A possibility for professional training without formal employment introduced in 2012.
- ▶ Various self-employment schemes offered by the Croatian Employment Service.
- ▶ A list of all employers who have not paid wages and/or social contributions for their employees for more than three months was published in July 2014.

# Encouraging movement out of the shadow economy

- ▶ A voucher scheme for seasonal and occasional work in agriculture introduced in 2012.
- ▶ Act on Child-minders introduced in 2013.

# Fostering commitment

- ▶ National competition named ‘It doesn't count without a receipt’ was launched in 2013 to increase awareness among Croatian citizens about the importance of taking a receipt after each payment.
- ▶ Tax debtors’ list was first published in 2012 and is now updated several times per year, aiming to create a negative public image of tax debtors, as well as informing taxpayers why it is important to pay taxes.

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the right side of the slide, creating a modern, layered effect.

# Thank you for your attention.

Full report: <http://www.grey-project.group.shef.ac.uk/>