

**Tackling unregistered work
through social dialogue:
Final report of the 2005-2007 EU-ILO Project**

**Paper for the High Level Conference
on Social Dialogue, Unregistered Work
and Local Development**

**Edited by Dr Jason Heyes,
University of Birmingham, UK**

Copyright © International Labour Organization 2007
First published 2007

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to the Publications Bureau (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: pubdroit@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered in the United Kingdom with the Copyright Licensing Agency, 90 Tottenham Court Road, London W1T 4LP [Fax: (+44) (0) 20 7631 5500; email: cla@cla.co.uk], in the United States with the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923 [Fax: (+1) (978) 750 4470; email: info@copyright.com] or in other countries with associated Reproduction Rights Organizations, may make photocopies in accordance with the licences issued to them for this purpose.

Heyes, J., editor
*Tackling unregistered work through social dialogue:
Final report of the 2005-2007 EU-ILO Project*

Geneva, International Labour Office, 2007

DIALOGUE Paper No. 14

ISBN 92-... (print)
ISBN 92-... (web html)

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address, or by email: pubvente@ilo.org

Visit our website: www.ilo.org/publns

Printed in Switzerland

Contents

Introduction	1
1. International policies addressing the informal economy and unregistered work	5
1.1 The informal economy and unregistered work: The policy of the ILO	5
1.2 Other international agencies	6
1.3 European-level developments	7
2. European practices	11
2.1 Measures designed to address the issue of undeclared work	11
2.2. Action by social partners, collective bargaining and social dialogue	20
2.3. Some reflections on practices in European countries.....	24
3. The Turkish experience and the EU-ILO Project.....	26
3.1 The macroeconomic and labour market context	26
3.2 EU-ILO project methodology	28
3.3 Social dialogue framework.....	30
3.4 Mapping the three provinces	31
3.5 Lessons learned	37
4. Conclusions and recommendations	39
4.1 Social dialogue as a method	39
4.2 Creating decent job opportunities.....	40
4.3 Improving governance.....	41
4.4 Promoting entrepreneurship and fair competition.....	41
4.5 Combating poverty	42
4.6. Raising awareness and understanding.....	42
References	43
Appendix 1. Estimated size of undeclared work in Europe as a percentage of GDP	47
Appendix 2. Declaration of the National Tripartite Conference on Social Dialogue and Unregistered Employment	48
Appendix 3. Socio-economic development indicators for Bursa (2000)	49
Appendix 4. Together against unregistered work	51

Introduction

This report describes and comments on activities that were undertaken in Turkey between 2005 and 2007 in the context of a project designed to address unregistered work through social dialogue. The objectives of the project, which was overseen by the International Labour Office (ILO), were to increase knowledge and understanding of unregistered work and the informal economy, and to encourage and facilitate the development of proposals for new policy measures to tackle the relevant issues by building consensus and ownership through social dialogue. The project's guiding premise was that policy interventions in respect of the informal economy are most likely to be effective where the key social partners (employers' organizations and trade unions) have opportunities to contribute to their development and give their ongoing support to measures during implementation. It was therefore regarded as essential to the success of the project that effective social dialogue be instigated, sustained and developed, and that policy measures should emerge through a process of consensus-building.

How best to define the informal economy has been a matter of considerable debate. The definition adopted by the 15th International Conference of Labour Statisticians (ICLS) in 1993 included all "unregistered or incorporated enterprises below a certain size, including: micro-enterprises owned by informal employers who hire one or more employees on a continuing basis; and own-account operations owned by individuals who may employ contributing family workers and employees on an occasional basis" (ILO, 2002a: 11). However, some organizations and experts¹ regarded this enterprise-based definition of the informal sector as insufficiently broad, given that it excluded, for example, workers hired by formal enterprises on a casual basis and those with no fixed employer (Chen et al. 2002: 5). An employment-based definition was therefore advocated. The 2002 ILO Report *Decent work and the informal economy* (ILO, 2002b) reflected this view by defining employment in the informal economy as comprising: first, employment in the informal sector as defined by the 15th ICLS; and second, other forms of informal employment (i.e. informal employment outside the informal sector) (Husmanns, 2004). A conceptual framework to facilitate the measurement of informal employment on the basis of the expanded definition was subsequently endorsed by the 17th ICLS in 2003.²

While the extent of informal employment is greatest in the developing regions, its contribution to total employment in the developed economies is also significant. The negative aspects and consequences of informal employment are outlined in the OECD 2004 *World Outlook Report* (OECD, 2004: 4). These include low tax and social security receipts; difficulties in targeting and managing social protection; lower costs for enterprises operating in the informal economy, which results in unfair competition; the cost governments incur in attempting to detect and penalize work in the informal economy; costs to workers (for example, the lack of social protection, sub-minimum wages and hazardous working conditions); costs to businesses, including constraints on their ability to expand, lack of access to formal

¹ For example, the International Expert Group on Informal Sector Statistics (commonly referred to as the Delhi Group) and the policy and research network WIEGO (Women in Employment: Globalizing and Organizing).

² Details relating to the 1993 and 2003 guidelines can be found in the annex of Husmanns (2004), available at: <http://www.ilo.org/public/english/bureau/stat/download/papers/wp53.pdf>

sources of finance and the time and effort spent in trying to keep their activities hidden; and the role of the informal economy in facilitating illegal migration. Moreover, citing a number of studies, the OECD emphasizes that where the size of the informal economy is significant, vicious circles can develop. For example, low tax yields resulting from a large informal sector might result in increased pressure to raise tax rates in the formal sector of the economy so as to fund public expenditure. However, as tax rates increase, so do the incentives that individuals face to avoid paying taxes.

Workers and businesses enter and remain in the informal economy for a variety of reasons. For workers, the reasons may include a lack of alternative employment opportunities, a need to supplement a low income derived from employment in the formal sector or a desire to supplement social security benefits with undeclared income. The reasons why businesses enter and remain in the informal economy include the difficulties entrepreneurs sometimes experience when attempting to navigate complex bureaucratic procedures, low skills and low productivity, a desire to increase competitiveness by avoiding or reducing the costs associated with taxes and social security contributions, and inadequate inspection services, which implies a low risk of being detected. Perceptions of what constitutes acceptable behaviour in respect of economic activity vary between and within countries over time and may alter according to changes in economic circumstances (for example, the level of unemployment and the availability of decent work opportunities in the formal sector of the economy). On the other hand, in countries where the informal economy has traditionally been relatively large, a perception that undeclared work represents a socially acceptable practice may become highly ingrained, thus presenting additional challenges for policy makers seeking to secure public support for measures to address the informal economy.

Clearly the informal economy is a highly complex phenomenon and the product of numerous interrelated causal factors. Policy makers are therefore unlikely to develop effective remedies unless they examine the phenomenon holistically and recognize the need to develop an integrated approach that connects different areas of policy and administration, including those relating to employment (e.g. active and passive labour market policies), social protection, education and vocational training, taxation, other areas of fiscal and monetary macroeconomic policy, and industrial development. This requires careful analysis of both economic and social policies that have a bearing on labour markets and the informal economy as well as the interactions and trade-offs between them. An integrated approach to the informal economy is essential in order to assess patterns of causality and to develop policies that would deal with the root factors of the problem rather than merely the symptoms. Moreover, policy integration is also crucial in linking local development policies with national strategies for economic and social progress in order to effectively address the informal economy.

Policy makers also need to consider the relative emphasis that might be placed upon interventions that have a coercive intent (for example, those relating to detection and punishment), and those that have as their aim the creation of incentives and supporting measures to encourage and enable workers and businesses in the informal economy to transfer to the formal economy. Moreover, ongoing success in tackling the informal economy may require changes in public attitudes, which implies that policy makers will need to consider developing education and information campaigns to raise the awareness of particular sections of society.

The complexity and interconnectedness of the factors which perpetuate the informal economy implies that governments will face challenges in ensuring that policies are coordinated and consistent. As noted, the informal economy has implications for policy and administration in a number of areas, both at local and national levels, including employment, social security, health and safety, migration, education, employment relations and macroeconomic policy. Responsibilities for these different areas are typically distributed across a number of government ministries and agencies. Governments must find ways of joining up the activities of the various ministries and agencies so as to ensure coordination of actions, coherence of policies and sharing of information. Effective governance is therefore essential if governments are to succeed in tackling the informal economy.

The factors that give rise to informal economic activities are likely to differ between countries, reflecting historically forged social and economic structures, the organization, resourcing and orientation of the welfare state, tax regimes and so forth. As well, the economic and social forces that promote and sustain the informal economy may also vary across regions and localities within individual countries, and across industrial sectors. Policy makers therefore need to carefully consider the specific context in which policy measures will be implemented. Furthermore, it is important that workers in the informal economy not be regarded as a homogeneous mass. The nature and severity of the constraints faced by men and women when choosing between declared and undeclared work may differ in fundamental ways and it is thus important that measures not be “gender blind”.

As described in this report, social dialogue between governments, employers’ organizations and trade unions can be an extremely valuable means for ensuring that the process of policy development takes account of contextual factors and the interests of groups within society. Moreover, it can enhance the likelihood that resulting measures will be regarded as legitimate and attract widespread support. National governments and social partners typically share an interest in tackling the informal economy. While their motives in this regard may differ in important respects, considerable scope may nevertheless exist for the development of jointly-agreed initiatives. The project described in this report has piloted such an approach and it is hoped that the ILO will be able to share the positive outcomes of the project with other countries and thereby encourage them to adopt a similar approach.

The report comprises four substantive sections. Section 1 provides an overview of the positions and policies of the ILO and other international organizations in respect of the informal economy and examines recent policy developments within the European Union. Section 2 examines in more detail a range of measures that have been adopted by countries in Europe and explores some of the different ways in which social partners have been involved. In Section 3 the focus turns to the project’s activities, which were undertaken in three Turkish provinces: Gaziantep, Çorum and Bursa. This section provides an overview of macroeconomic and labour market conditions, the social dialogue framework and the extent of unregistered employment in Turkey in general and in the three provinces in particular, and discusses the methodology pursued as well as the activities undertaken in the course of the project. The report concludes with a number of recommendations.

1. International policies addressing the informal economy and unregistered work

1.1 The informal economy and unregistered work: The policy of the ILO

The informal economy is not a new phenomenon for the ILO: in fact, the term “informal economy” was first used more than 30 years ago to describe work that was not recognized, protected or regulated by public authorities.³ Since that time – and contrary to earlier predictions – the informal economy has expanded in both developing and industrialized countries, in spite of economic growth; indeed “the bulk of new employment in recent years, particularly in developing and transition countries, has been in the informal economy.”⁴

The ILO reacted to these developments by elaborating a new strategy, set out in the Resolution concerning decent work and the informal economy and adopted by the International Labour Conference at its 90th session in 2002. The strategy is premised on the belief that informality is principally a governance issue and that its growth is often encouraged by inappropriate or badly implemented macroeconomic and social policies (often developed without tripartite consultation), a lack of appropriate legal and institutional frameworks and of governance capacity to ensure the proper and effective implementation of policies and laws.⁵ According to the ILO, measures directed at the informal economy should address not just the symptoms but the whole range of underlying causes. Moreover, policy initiatives should involve all four components of decent work, namely the promotion of rights, decent employment, social protection and social dialogue. The member States should be assisted in addressing governance, employment generation and poverty-reduction issues. This integrated and comprehensive strategy would in the immediate term give priority to reducing decent work deficits in the informal economy; in the short and medium-term, to ensuring that new jobseekers and potential entrepreneurs are able to enter more formal, protected and decent sectors of the economy; and in the long term, to creating sufficient employment opportunities. Most of the measures that may be taken in the governance field are within the competence of national governments. These include:

- comprehensive employment policies which promote the creation of decent jobs;
- a business-friendly legal environment (simplified registration and licensing procedures; reasonable and fair taxation, etc.);
- a coherent legal, judicial and financial framework for securing property rights;
- implementation and enforcement of rights and protections, including improved systems of labour inspection, dispute resolution and combating corruption;

³ ILO. 1972. *Employment, incomes and equality: A strategy for increasing productive employment in Kenya* (Geneva).

⁴ ILO. 2002. *Decent work and informal economy* (Geneva).

⁵ ILO. 2002. *Conclusions concerning decent work and the informal economy* (Geneva).

-
- extension of social security coverage.

However, while national governments have the key responsibility for providing appropriate macroeconomic, social, legal and political frameworks for a sustainable economy and for situating decent employment at the centre of economic policies, the ILO recommends involving social partners in the formulation and implementation of these policies, in line with the ILO Employment Policy Convention, 1964 (No. 122). According to the ILO, the social partners can play a crucial role in awareness-raising campaigns and in lobbying the public authorities for more efficient policies and institutions to combat unregistered work. It is recommended that employers' and workers' organizations endeavour to extend their membership and services to employers and workers in the informal economy, thereby bringing them into the social dialogue processes. Employers' organizations can potentially facilitate the establishment of links between informal and formal enterprises and assist the former by providing access to information and other "business support and basic services for productivity improvement, entrepreneurship development, personnel management, accounting and the like."⁶ Trade unions, for their part, can make efforts to organize unregistered workers or include them in collective agreements. They can also provide them with special services, including information on legal rights, educational and advocacy projects, legal aid, provision of medical insurance, credit and loan schemes and the establishment of cooperatives.⁷

But to become a realistic and efficient tool to address the informal economy and unregistered work, social dialogue must be underpinned by an appropriate legal and institutional framework which guarantees basic human rights, including the freedom of association and the right to bargain collectively. The core international labour standards are as applicable to the informal economy as to the formal economy, but the standards are not always incorporated in national legislation and, even when they are, they are not always adequately enforced. This is why the ILO places emphasis on removing obstacles, including those associated with the legal and institutional framework, that stand in the way of the realization of all fundamental principles and rights at work.

1.2 Other international agencies

The informal economy is also a matter of concern for international agencies other than the ILO. The ability of workers to find employment in the formal sector of the economy is often subject to severe social and economic constraints. Work in the informal sector is often precarious, extremely low-paid and of intermittent duration, and is thus often associated with poverty and extreme inequality. The World Bank therefore regards improving access to paid employment as a crucial prerequisite if its objectives, which include the elimination of poverty, reduced inequity and improved opportunities for people in low- and middle-income countries, are to be met.⁸ Furthermore, it emphasizes that in addition to increasing paid employment

⁶ idem

⁷ idem

⁸ See:

http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/STRATEGIES/CDF/0,,contentMDK:20072923~menuPK:60755~pagePK:139301~piPK:139306~theSitePK:140576,00.html#_Toc507393732

opportunities, the quality of jobs is a fundamental consideration – it therefore endorses the emphasis placed by the ILO on the promotion of decent work.

The OECD World Outlook Report for 2004 recommends a number of policy measures that can be implemented by national governments in tackling informal employment. First, the OECD advocates that governments recognize that informal employment can take different forms and can be defined in different ways, which implies that a multi-method approach to measuring the extent of the informal economy would be beneficial. Such an approach might include self-standing interview surveys, national accounts estimates of the non-observed economy, and theoretical tax liability calculations. Second, efforts to address informal employment should include “governance issues such as providing an effective legal framework for transactions in the formal economy; adequate pay for public servants; and improving the administrative capacity of central government, particularly the tax authorities, across the country” (OECD, 2004: 273). Third, governments should ensure that regulations in the formal sector do not result in high compliance costs for workers and businesses (which would serve as additional incentives for participating in the informal economy) and should instead create incentives to encourage the declaration of work. Fourth, where businesses do not keep accurate accounts, tax authorities should create incentives for small businesses to declare wages and salaries (as opposed to paying workers on a cash basis) by attempting to measure businesses’ profits (as opposed to more easily observed indicators such as floor area), and taxing on this basis. The OECD argues that “where business owners are taxed on the basis of true profits and the marginal tax rate on profits is higher than it is on wages and salaries, there is a positive incentive to declare a maximum amount of wages and salaries” (2004: 273). Fifth, policies that promote gradual transformation from the informal to the formal economy are advocated, as opposed to those that aim to bring about rapid and dramatic adjustment. Finally, the OECD emphasizes the importance of well-managed social programmes that provide adequate unemployment benefits alongside fraud checks.

1.3 European-level developments

The importance the ILO attaches to social dialogue and appropriate legal and institutional frameworks is echoed in the European Commission’s pronouncements in respect of the informal economy. The OECD (2004: 229) notes that the informal economy has become a core concern of the European Union (EU) for four principal reasons: first, over half of the EU budget is derived from a schedule of contributions based on gross national income; second, the informal economy and the problems associated with it (such as corruption and tax evasion) continue to present significant difficulties for the accession countries that joined the EU in 2004; third, the association between the informal economy and cross-border crime and illegal migration; and fourth, the negative implications of undeclared work for social protection and employment policy.

Across most of the EU15 undeclared work accounts for no more than approximately five per cent of GDP, although significantly higher in Greece and Italy are (over 20 per cent in Greece and 16-17 per cent in Italy) (Renooy et al., 2004: 106). Across the expanded EU, however, undeclared work accounts for 11-16 per cent of GDP and the size of the informal economy in many of the accession countries is substantially higher. It has been estimated that in 2000-01 the informal economy accounted for 36.4 per cent of GDP in Bulgaria and 33.4 per

cent of GDP in Romania (Schneider, 2002, cited in Stănculescu, 2006). Estimates of the size of the informal economy in particular countries, however, often vary considerably: estimates of the size of the Romanian informal economy in 2003, for example, ranged from 18 per cent to 30-40 per cent (Stănculescu, 2006: 12).

In 1998 the European Commission issued a Communication on Undeclared Work in an effort to encourage debate on the causes of undeclared work and ways of addressing it. The Communication defined undeclared work as "any paid activities that are lawful as regards their nature but not declared to the public authorities, bearing in mind that differences in the regulatory system of Member States must be taken into account" (EC, 1998: 2). The Communication called for undeclared work to be addressed in the European Employment Strategy, and indeed since 2001 the issue has been included in the EU Employment Guidelines. The 2004 EU Employment Guidelines,⁹ for example, refer to the desirability of transforming work in the informal economy into formal employment. It includes a number of recommendations to this end, such as the removal of disincentives, the creation of incentives through the tax and benefit systems, and ensuring that appropriate sanctions and enforcement methods are in place.

A stronger focus on the issue of undeclared work has also been prompted at EU level by the 2003 Council of Europe Resolution on undeclared work and economic migration. It called upon Member States to tackle this issue by, for example, simplifying administrative procedures, reducing costs and constraints that might affect the creation of small businesses, removing disincentives to declare work, addressing the tax burden on low-paid workers, and increasing surveillance of those that benefit from undeclared work.¹⁰ The resolution also called upon the European social partners to address the issue in their multi-annual work programme, urging the national social partners to promote declared employment through awareness-raising activities and by supporting the simplification of the business environment, particularly for small and medium-sized enterprises (SMEs).¹¹

Measures to address undeclared work are reported in EU Member States' National Reform Programme Reports (formerly National Action Plans), which provide an overview of the Members' actions in respect of the Lisbon Strategy. The objective of the latter, which was developed by the Lisbon European Council in 2000, is to make Europe "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion".¹² The Strategy was revamped in 2005 in an effort to bring about more concerted efforts on two key policy concerns: strong and sustainable growth and "more and better jobs".¹³

The European Employment Strategy (EES) is regarded as fundamentally important in this respect. A number of new employment guidelines were adopted in 2005 to guide activity for the subsequent three-year period. Two of the guidelines have clear implications for action in respect of undeclared work. Guideline No. 21, which calls upon the Member States to "promote flexibility combined with

⁹ See: http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/1_197/1_19720030805en00130021.pdf

¹⁰ See: <http://europa.eu/bulletin/en/200310/p103021.htm>

¹¹ http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/c_260/c_26020031029en00010003.pdf

¹² http://ec.europa.eu/employment_social/employment_strategy/index_en.htm

¹³ http://ec.europa.eu/growthandjobs/pdf/COM2005_330_en.pdf

employment security and reduce labour market segmentation, having due regard to the role of the social partners”, explicitly encourages Member States to address the issue of undeclared work. This is likewise implicit in Guideline No. 19, which asks the Member States to:

ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive through: active and preventive labour market measures [...]; continual review of the incentives and disincentives resulting from the tax and benefit systems, including the management and conditionality of benefits and a significant reduction of high marginal effective tax rates [...and the]; development of new sources of jobs in services for individuals and businesses, notably at local level.¹⁴

¹⁴ http://eur-lex.europa.eu/LexUriServ/site/en/oj/2005/l_205/l_20520050806en00210027.pdf

2. European practices

Encouraged by European-level developments, the governments of EU Member States have devised new policies designed to reduce the extent of undeclared work. These policies have often received the support of both employers' organizations and trade unions, and in some countries have been the subject of tripartite social dialogue. The measures taken included the setting up of new inspection and enforcement agencies, the strengthening of existing authorities, stronger sanctions, targeted actions (against specific groups or sectors) and efforts to improve the coordination of inspection and enforcement activities.

Measures have also been introduced to encourage the transition from undeclared to declared work. Initiatives to this end have included reductions in the burden of administration (Austria, Denmark, the Netherlands, the UK and Spain); tax reductions and reforms (Denmark, Ireland and Portugal); the simplification of rules (Austria, Greece, the Netherlands, France, Portugal and Denmark); the creation of new employment schemes (Belgium and Germany); more support for new businesses (Germany and the UK); tax credits for employed workers (Netherlands and the UK); and public awareness raising campaigns (the UK, France, Sweden) (Renooy et al., 2004: 117-118).

Across the EU, undeclared work is commonly found in relatively few sectors, including construction, hospitality (hotels, restaurants), domestic services (e.g. cleaning) and agriculture. The incidence of undeclared work by sector is also related to the relative size and importance of particular sectors within national economies: for example, undeclared work is found in the shipbuilding sector in the Netherlands, the textiles sector in France, Romania and Spain and the fish-processing sector in the Netherlands (Biletta and Meixner, 2005: 5). The legality of undeclared work also varies across the EU Member States. In Estonia, for example, undeclared work is viewed as a lawful activity while in Austria undeclared work, although unlawful, is not considered a criminal offence and benefit fraud is punishable only by fines. In many other Member States, by contrast, failure to declare work income is treated as a criminal offence, punishable by fine or imprisonment.

2.1 Measures designed to address the issue of undeclared work

2.1.1 *Detection*

Labour inspectorates have an important role to play in detecting instances of undeclared work, although in some countries (e.g. Romania (Stănculescu, 2006)) concerns have been expressed about the resources and capacity of labour inspectorates. For example, until recently the Hungarian Labour Inspectorate was able to inspect only 3-5 per cent of undertakings per year (Tóth and Neumann, 2004). However, in its 2006 National Reform Programme progress report to the EC, the Hungarian government stated that the capacity of its Labour Inspectorate

had recently increased by 15 per cent and that as a result the number of transgressions detected had “increased considerably”.¹⁵

As well, in Slovakia concerns have been expressed about the capacity of the labour inspection authorities, which have no legal entitlement to inspect private non-commercial sites even if undeclared work is suspected (Bednárík, 2004). Nevertheless, the Slovakian authorities have taken steps to widen the powers of labour inspectors. Since 2002 labour inspectors have had the right to request employers to reveal the identity of any individual found within the work premises and provide an explanation for their presence. Labour inspectors also have the right to request that employers provide documents to prove that workers are employed legitimately (op. cit.).

Reforms to labour inspection systems have also been undertaken elsewhere in Europe. The Netherlands, for example, has increased the number of inspectors and focused activities more closely on temporary employment agencies and on the agricultural, construction, hotels and catering, and meat- and fish-processing sectors (van het Kaar, 2004). In some cases the objectives of reforms included more effective prevention as well as improved detection. In Italy, for example, the labour inspection service has been reformed so as to enable inspectors to provide employers, at their own expense, with “preventative consultancy on labour law” (Muratore, 2004).

As well as improving labour inspection, governments have attempted to improve their ability to detect benefit fraud. For example, in 1999, the UK’s Department of Work and Pensions (DWP) implemented a new strategy to tackle benefit fraud, in response to criticisms that activities related to fraud prevention had been neglected. The new strategy included checks on all new benefit claimants and additional checks on “higher risk” unemployment benefit claimants. Approximately one-in-six such checks results in error being identified.¹⁶ Targets are set in an effort to measure performance in respect of benefit fraud detection. The targets specify a percentage by which the level of fraud and error in respect of benefits is expected to decrease in a given time period. However, performance varies significantly across the UK’s regions and in an effort to improve consistency the DWP has developed a Programme Protection Assessment Mechanism tool, which enables regional benefit fraud investigation teams to benchmark their performance against good practices in the organization as a whole.

While the UK government remains committed to using targets in order to facilitate performance measurement in respect of benefit fraud detection, Mateman and Renooy (2001: 79) have warned that the use of such targets can be counter-productive. They argue that setting targets for the number of fraud cases to be identified per annum tends to encourage a focus on cases that are easiest to detect and diverts attention from “the more difficult, and therefore probably more structural, cases”. They also argue that target setting tends to reduce the amount of effort authorities devote to prevention.

¹⁵ http://ec.europa.eu/growthandjobs/pdf/nrp/HU_nrp_en.pdf

¹⁶ <http://www.nao.org.uk/pn/02-03/0203393.htm>

2.1.2 Registration of employment contracts

In an effort to reduce the extent of undeclared work, many countries have introduced new requirements relating to the registration of employees. In Belgium and Denmark all new employment must immediately be declared to the authorities. In Norway all employers are required to register employment relationships on an Employer and Employee Register, which is administered by the National Insurance Administration. Failure to register employees is punishable by a fine. Similarly, in Hungary a Unified Labour Register (EMMA) has been introduced and employers are required to register all employees before they start work and must also provide information on pay and hours of work.

In Italy employers are now required to provide the national insurance authorities with information (including the name and social security number) in respect of each individual worker registered for industrial accidents insurance. Prior to this requirement being introduced, many employers claimed to employ fewer workers than was actually the case so as to save on the costs of insurance (Renooy, 2004: 173). Under the present scheme, information must be provided within 24 hours of each new worker being employed.

In Bulgaria it is a requirement that new employees be provided with a written employment contract which must be signed by both the employer and employee, before the latter can start work. All new contracts must be registered with the National Revenues Agency (NRA) no later than three days after they have been concluded (Petkov, 2006: 11). Employers are also required to notify the NRA of any contracts that are terminated (notification must be given no later than seven days after the date of termination) (ibid.). The requirements, which were introduced in 2002, appear to have had a positive impact. Petkov (2006: 12) notes that the National Insurance Institute reported that revenue increased by over 150 million euros in the first year of operation and cites the Centre for the Study of Democracy's finding that approximately "162 000 labour contracts have been formalized because of the legal obligation established for the employers to register new labour contracts". However, Petkov (ibid.) also finds that "some employers find means to bypass the new regulations by hiring their employees at short-term contracts, hiring staff for piece-meal jobs and other flexible forms of employment".

2.1.3 Actions focused on supply chains

Efforts to address the phenomenon of undeclared work in a number of countries have included a focus on the management and monitoring of supply chains. This issue is often regarded as particularly important in sectors such as construction, where subcontracting is wide-spread. To address the problem, Germany has introduced the principle of "main contractor responsibility" whereby main contractors are held accountable for infringements of the law by subcontractors (Dribbusch, 2004). Temporary employment agencies and labour suppliers have also been subject to increased regulatory activity in some countries. The Netherlands Ministry of Social Affairs and Employment, for example, intends to introduce a licensing system for temporary agencies. Licenses will be granted only to agencies that are able to fulfill certain criteria (van het Kaar, 2004). Similarly, the UK government has created a Gangmasters' Licensing Authority which issues licences to labour suppliers in the agricultural, shellfish and food processing and packaging sectors. It is now an offence for labour suppliers to operate without a licence and

penalties will also be introduced for those who use make use of unlicensed labour suppliers (see Box 1).

Box 1: The Gangmasters Licensing Authority (UK)

It is estimated that there are approximately 2,000 labour providers in the UK, ranging from well-established employment agencies (e.g. Manpower) to individual 'gangmasters'. It is further estimated that 75% of all gangmasters are in the cleaning, construction and hospitality sectors, that 25% are in the shellfish, agriculture and food processing sectors, and that between 500,000 and 700,000 workers are working for labour providers. The government has taken steps to deal with the illegal activities of some 'gangmaster' labour providers. Various government departments undertake enforcement action through their compliance activities (e.g. in respect of tax). Moreover, a Gangmasters Licensing Authority was established in 2006. The impetus was provided by the deaths of 19 Chinese migrant workers who drowned while working illegally as shellfish 'pickers' in 2004.

The GLA, which started operating in October 2006, is a non-departmental government body under the Department for Environment, Food and Rural Affairs (DEFRA). It employs 45 people, including approximately 20 compliance and enforcement staff. The GLA's main role is to issue licenses to labour providers in the agriculture, shellfish and food processing and packing sectors. It will also act as an enforcement body. Initially, all labour providers will be required to apply to the GLA for a license. The GLA will inspect all applicants and, if satisfied, issue a license. Successful applicants have to satisfy a number of licensing standards, examples of which include:

- Systems must be in place for the collection of tax and national insurance;
- Wages should not be less than the national minimum wage;
- There should be an accurate payroll system;
- Benefits (e.g. sick pay) should be paid;
- Wage slips must be provided;
- There should be no 'bonded debt';
- Employment must be freely chosen;
- Statutory health and safety requirements are respected;
- Workers must be legally entitled to work in the UK;

The intention is that once sufficient information has been obtained, inspections will be conducted on the basis of risk assessments.

With the creation of the GLA it has become unlawful for a labour provider to supply labour in the agriculture and food processing industries without having a licence. If a labour provider is found not to have a licence, the penalty may be up to 10 years imprisonment. Furthermore, it is now an offence to use an unlicensed provider in agriculture and processing, so labour users will have an incentive to report unlicensed providers to the GLA. A list of licensed providers will be made available on the Internet. Support is also being provided to workers employed by unlicensed gangmasters. A telephone hotline for individuals working for labour providers has been established and advertised in Polish and Portuguese on local radio stations. A leaflet has also been produced and copies will be distributed at places where workers may congregate (e.g. places of worship and community centres).

2.1.4 *Joining up policy and administration*

Many European countries have attempted to join up the activities of authorities with responsibilities relating to the informal economy. In some cases this has involved greater sharing of information. For example, in 2005 the Portuguese Ministry of Finance and Public Administration and the Social Security Institute

organized a national workshop to facilitate the sharing of databases and information about inspection procedures.¹⁷ In Slovakia in April 2000, inspection bodies including the police, labour offices, taxation offices, trades departments, health and safety inspectors and municipal authorities reached an agreement to cooperate with each other so as to improve the detection of undeclared work at the regional level (Bednárík, 2004). Other countries have gone further by establishing new coordinating bodies. In Belgium, a permanent unit has been established to coordinate actions in respect of undeclared work and greater cooperation has been achieved between those public bodies responsible for social security and labour inspection (Vandenbussche, 2004). In France, improved cooperation has been sought between ministries and their associated agencies, including labour inspectorates, the police and customs and tax authorities (Braud, 2004). An “inter-ministerial delegation for the fight against undeclared work” (DILTI) has been created to coordinate government activities in respect of undeclared work (Mateman and Renooy, 2001). The DILTI, which operates under the auspices of the Ministry of Employment and Solidarity, includes officials and civil servants of the Ministry of Employment and Solidarity, magistrates, military personnel, officials and civil servants of other ministries and bodies concerned with the fight against undeclared work (ibid.: 11). Local level commissions have been established to develop policy proposals that can be adopted by *départments*¹⁸ (ibid.). In addition, operational committees on combating undeclared work have been established (Braud, 2004).

In Slovenia a governmental Commission for Discovering and Preventing Undeclared Work and Employment, headed by the Secretary of State for Labour, Family and Social Affairs, was established in the late 1990s to coordinate the activities of agencies with responsibilities relating to undeclared work, including the Labour Inspectorate, the Market Inspectorate, the Traffic Inspectorate, the Tax Administration and the police (Mrčela, 2004). The Commission also provides a means of connecting the Ministry of Finance, the Ministry of Internal Affairs and the Ministry for Labour, Family and Social Affairs. In the UK, similar attempts have been made to coordinate more effectively the activities of different ministries and agencies. Joint Shadow Economy Teams, involving the Department for Work and Pensions and HM Revenue and Customs, have been established to facilitate the sharing of information and joint approaches to detecting and penalizing fraud. Evaluations suggest that the creation of joint teams has met with a positive result.¹⁹

In a similar vein, a section has been established within the Italian Ministry of Labour, charged with responsibility for coordinating the efforts of inspectors in separate but related areas of administration (social security, social insurance, employment) (Muratore, 2004). A Committee for the Exposure of Undeclared Work (*Comitato per l'emersione del lavoro non regolare*) has also been established, under the auspices of the Office of the Prime Minister, to coordinate initiatives and develop proposals (Mateman and Renooy, 2001: 29).

¹⁷ http://ec.europa.eu/growthandjobs/pdf/nrp/PT_nrp_en.pdf

¹⁸ France comprises a number of regions which are in turn divided into 96 *départments* (counties).

¹⁹ http://www.nao.org.uk/publications/nao_reports/02-03/0203393.pdf (p. 27).

2.1.5 Encouraging transition from the informal to the formal economy

Governments in a number of European countries have taken steps to try to encourage a transition from the informal to the formal economy. One approach to this issue has been to offer businesses and workers that have been operating in the informal economy (and thus avoiding tax and social security contributions) an opportunity to “regularize” their situation. This approach was followed in Italy between 2001 and 2003. In 2001 a law was introduced to provide firms and workers found to be in breach of tax and social security regulations with an opportunity to regularize their situation and thus make it lawful.²⁰ Those employers and workers that took advantage of this opportunity were granted relief on taxes and social security contributions for a three-year period to allow them to gradually adjust to their new economic situation (e.g. increased labour costs) (Muratore, 2004). It was a requirement of regularization that irregular workers be issued with a formal contract of employment. However, the results of the policy were disappointing. The government had hoped that the campaign would result in 900,000 newly-regularized workers. Ultimately, however, the campaign resulted in a little over 1,000 declarations and fewer than 4,000 workers acquiring regular status (Renooy et al., 2004: 173). A subsequent initiative offering non-EU workers undertaking work without a permit a chance to regularize their situation has met with more success (Muratore, 2004). A similar initiative has been undertaken in Greece (Kretos, 2004).

A number of countries have adopted measures to bring personal and domestic service work (e.g. cleaning), which is often performed on an undeclared basis, into the formal economy. France introduced a *Chèque Emploi Service* (CES) in 1994 in an effort to simplify the process of hiring domestic workers and paying social security contributions (Renooy et al., 2004: 165). Under the CES scheme, cheques, which can be purchased at French banks, can be used to pay for the services of domestic workers. Half the cost of the cheques can be offset against tax. By 2002, 765,111 employers (individuals or households) and 425,845 workers (representing almost 90,000 FTE jobs) were involved in the scheme (ibid.: 166). A related *Titre Emploi Service* (TES) scheme was introduced in 1996. This scheme differs from CES in that the household does not act as an employer but deals instead with a service providing company. TES is accessed through companies, which provide TES to their employees as part of their reward package. However, it appears that TES scheme has fallen far short of the anticipated 20,000 FTE jobs that would be created as a result: by 2002 only 1,000 FTE jobs had been created. Those organizations that were interested in becoming part of the TES scheme experienced difficulties in finding service providers that were prepared to accept TES in payment for their services. It appears that there are few incentives for users of domestic labour services to opt for provision under TES in preference to their existing arrangements (whether or not these involve declared or undeclared work) (ibid.: 167).

Initiatives similar to those undertaken in France have been pursued in Belgium. In the mid-1990s Belgium established Local Employment Agencies in all its municipalities. These agencies are not-for-profit organizations which meet the

²⁰ This initiative in some ways resembled the ‘offers in compromise’ system in the USA, which offers tax defaulters who cannot pay their tax debt in full an opportunity to enter into an agreement that resolves the debt at less than full payment. The purpose of the initiative is to encourage future voluntary compliance.

demand for domestic workers by providing a supply of long-term unemployed workers (Renooy et al., 2004). Private individuals, government bodies, schools and firms in the agricultural sector are permitted to buy vouchers which can be used to pay the wages of workers who provide domestic services (each voucher costs 7.45 euros and can pay for an hour's labour). Households that require a job done (e.g. odd jobs, childcare, gardening or administrative jobs) can contact the Employment Agency, which searches for a suitable unemployed person to undertake the work. Work can be undertaken for a maximum of 45 hours per month. In exchange for their labour, the workers receive vouchers which they can exchange for money at the Employment Agency.²¹ The additional income received by the unemployed worker does not result in the loss of any social benefit payment they might be receiving. The scheme was intended to reduce the extent of undeclared work and appears to have met with some success in this regard. By June 1999, 120,904 unemployed workers (80 per cent of them women) had joined the programme. An evaluation of its impact suggested that 44 per cent of the jobs undertaken under the auspices of the scheme were previously done on an undeclared basis and that 84 per cent of those who used the scheme were glad that they no longer had to use the black market (ibid.: 160-1). However, the scheme appears to have been less successful in enabling the long-term unemployed to make the transition to ongoing employment. For this reason, the Belgian government introduced an alternative "service vouchers" scheme in 2003 (ibid.).²² As in the Local Employment Agency scheme, households use vouchers to pay for the performance of work which can include cleaning, washing, ironing, sewing, errands and meal preparation. However, rather than giving the vouchers directly to the individual performing the work, households transact with certified companies which hire the unemployed workers and arrange for the work to be carried out (i.e. the formerly unemployed workers become employees of the company). Once a worker has been employed by a company for six months, they must be issued a permanent contract.²³

Denmark has also attempted to regularize personal and domestic service work. The Danish Home Service Scheme enables registered companies to receive a 40 per cent subsidy on labour costs from the government. The scheme was introduced in 1994 and by 1998 3,506 companies (over nine-tenths of them one-person businesses) were registered (ibid.: 160-1). Each household is allowed a maximum of nearly 7,000 euros worth of services from the Home Services Scheme per annum. By 2000, approximately 3,700 FTE jobs had been created as a result of the scheme, although the extent to which the scheme has resulted in undeclared work being transformed into declared work is unclear, as according to an evaluation conducted by the Danish government in 2001 only 10 per cent of the scheme's users claimed to have previously used the black market to meet their requirements for domestic labour (ibid.).²⁴

²¹ Each voucher is worth €4.10. The difference between the price charged to the purchaser of the voucher and the amount for which it can be redeemed represents the insurance and overhead costs.

²² Households no longer participate in the Local Employment Agency scheme. The scheme continues to apply to schools, government bodies and firms in the agricultural sector.

²³ Vouchers cost €6.20 for each hour of labour, although 30 per cent of the cost can be claimed against tax, which means that the real cost to the purchaser is just €4.34 per voucher. However, the full cost price of each voucher is €19.47: the difference between the actual cost and the price charged to the customer is met by the federal government, which pays the difference to the company (Renooy et al., 2004: 161).

²⁴ Schemes also exist for lone parents, older workers and those who are receiving incapacity benefit.

2.1.6 Support for small businesses and the self-employed

In addition to encouraging the transition from the informal to the formal economy, European governments have taken steps to discourage traders from entering the informal economy in the first place. The German federal authorities have introduced initiatives to facilitate entry into self-employment and have reduced the administrative burden on small businesses while improving their access to start-up financing (Dribbusch, 2004). Similarly, in Denmark the bureaucratic burden of rules on small businesses has been reduced alongside the introduction of additional tax relief measures and “business set-up accounts” (Jørgensen, 2004). Slovakia has also taken steps to reduce the tax burden on small business and the self-employed (Bednárík, 2004) while Romania has attempted to encourage job creation in the formal economy through employment subsidies, non-reimbursable loans and reduced social security contributions (Preda, 2004). Employment subsidies are also a key component of Bulgaria’s national “From social assistance to employment” programme, which has received tripartite support (Tomev, 2004).

One of the difficulties associated with efforts to bring small businesses and the self-employed into the formal economy is that they often lack the resources and knowledge to cope adequately with complex legal and administrative procedures. In recognition of this, the Belgian authorities have since the late 1940s facilitated the creation of Social Secretariats, which have been established by employer organizations to help firms meet their obligations in respect of social security payments, to assist with payroll administration and to provide advice concerning employment law. On the basis of information supplied by employers, the social secretariats provide wage calculations for individual employees and ensure that wages and contributions are paid when they are due. By 2005, 92 per cent of all employers (accounting for 60 per cent of all active workers) were affiliated to a social secretariat. A large majority of affiliates (85 per cent) are businesses employing fewer than 10 workers.

Drawing on the Belgian experience of social secretariats and with the assistance of the ILO, Contribution Payment Centres (CPCs) have been established by regional employers’ organizations in Bulgaria to provide support for small businesses employing up to 50 workers and self-insured workers (Handjiev, 2006). CPCs are not-for-profit organizations that are financed via membership fees. The functions of the CPCs include collecting social security contributions from members and ensuring they are paid to the national revenue authority; providing a conduit for payments related to, for example, temporary incapacity and maternity leave from the national social security authority to employers and the self-insured; completing and submitting tax and revenue declarations on behalf of members; issuing insurance cards to self-insured workers and those without an employment contract; compiling and submitting information concerning retirements; providing members with a record of their social security contributions; working out payroll information; and advising members on employment law (*ibid.*: 6, 9-10). It is intended that the CPCs will be brought together in one formal association in order to help promote CPC services (e.g. through a common website), increase their lobbying capacity, ensure that individual CPCs receive good quality advice on employment and legal matters and provide a better means of communicating with national social security authorities (*ibid.*).

A similar initiative has been undertaken in the Italian Municipality of Naples. The CUORE project, established in 1998, has resulted in the creation of a network of support centres for small businesses and those wishing to start a new one. The centres are located in low-income areas and offer information and advice relating to regularization and business start-up and development (Renooy et al., 2004: 174-5). Each centre undertakes fieldwork to identify businesses in both the formal and informal economy operating within the locality for which it is responsible. The centres are able to provide those entrepreneurs who request assistance with individual, tailor-made advice on how to achieve regularization. The process of achieving regularization is monitored in every case (ibid.: 175).

2.1.7 Active employment programmes

Some European governments (particular those in Northern Europe) have to different degrees implemented “active” employment policies in an effort to encourage the unemployed and economically inactive to participate formally in the labour market. Clasen and Clegg (2003: 362) note that the term “activation” has been transposed from a Scandinavian context, where it traditionally refers to policies designed to improve the education and skills of the unemployed, and is now used to indicate policies that “are aimed uniquely at switching emphasis from ‘passive’ benefit payment to ‘active’ programmes of labour market integration”. According to the OECD, active labour market measures have two underlying principles: “First, they make receipt of benefits conditional on the benefit recipient demonstrating active job search and/or a willingness to take steps to improve employability. Second, they provide a range of pre-employment services and advice to help the individuals in question find work or get ready for work.” (OECD, 2002: 9, cited in Daguerre, 2004: 42).

Active labour market programmes may include a range of services and activities including wage and employment subsidies, tax credits, training and retraining, help with job search, provision of labour market information and integrated employment services (one-stop shop). Belgium, Denmark, Finland, France, Germany, Ireland, the Netherlands, and Sweden spend at least 1 percent of their GDP on such programmes (OECD, 2004, cited in World Bank, 2006: 96).

The introduction of active employment programmes can involve a refashioning of the relationship between paid work and welfare, in which entitlements to benefits are made conditional on participation in the labour market. This has been the case in the UK, which in 1998 launched the first of several “New Deal” programmes. The two principal New Deal schemes, which are targeted at people aged between 18 and 24 who have been unemployed for over six months, and people aged 25 and over who have been unemployed for more than two years, offer intensive counselling followed by a number of options for those who remain unemployed (the number of options depends on the programme). Both programmes offer the option of employment with a private sector firm, which is subsidized by the government for a period of six months. Unemployed workers who refuse to take one of the specified options lose their entitlement to benefit. Alongside the New Deal, in-work benefits have been altered in the hope of encouraging a belief that “work pays”. This has involved raising the income point at which National Insurance is paid, the introduction of a national minimum wage and the use of tax credits. The objectives have been to improve the ability of workers to meet the costs of childcare, to guarantee a minimum income, and reduce the number of

households facing high effective marginal tax rates (i.e. where employment leads to benefit withdrawal coupled with tax increases as a result of a rise in income). In seeking to move individuals from welfare to work, the government has also integrated employment services and the benefits system via the introduction of Jobcentres Plus throughout the UK. Jobcentres Plus provide a single point of access for benefit claimants, offer help with job searching and advice on training and childcare, advertise job vacancies for employers and identify potential recruits (i.e. Jobcentres Plus attempts to connect the supply and demand sides of the labour market).

2.1.8 Information campaigns

Information campaigns have featured in government efforts to discourage work in the informal economy. In Denmark and Latvia, for example, public awareness campaigns have been introduced to provide information on labour laws and alter public perceptions of the legitimacy of undeclared work (Jørgensen, 2004; Karnite, 2004). In a similar vein, Norway has launched a campaign to warn new immigrants of the perils of working in the informal economy (Biletta and Meixner, 2005: 10). Sweden has launched publicity campaigns that emphasise to existing and would-be tax evaders the risks they run in respect of detection and punishment (the Swedish authorities also publicize cases of tax evasion). In 2002 the Swedish authorities launched a publicity campaign directed specifically at young people, with the objective of discouraging the view that undeclared work is socially acceptable; there is evidence that the campaign has had some success (Renooy et al. 2004: 163). However, Mateman and Renooy (2001: 79) suggest that there is a risk that some information might encourage the very actions that governments hope to prevent. For example, they advise against publicizing the proportion of people engaging in undeclared work, as stressing this fact could have an adverse effect. People might think “if everybody is doing undeclared work, why should I not do it too?” Mateman and Renooy emphasize that the messages communicated via information campaigns should therefore be carefully considered.

2.1.9. Cross-border initiatives

Member States have also entered into cross-border agreements to address the issue of undeclared work and its connection with economic migration. Bulgaria, has signed bilateral agreements on labour migration with Germany, the Czech Republic, Portugal and Spain (Tomev 2004). The purpose of the agreements is to limit undeclared work by Bulgarians abroad. Other countries have signed agreements concerning both emigration and immigration. Romania, for example, has signed agreements with Moldova, Hungary, Bulgaria, Germany, Spain, Portugal, Italy, France and Switzerland (Preda, 2004).

2.2. Action by social partners, collective bargaining and social dialogue

2.2.1. Employer initiatives

A number of employers’ organizations and trade unions have developed initiatives to combat undeclared work both unilaterally and on a joint basis. Some employers’

organizations have attempted to promote good practice through support, information and training. Two Latvian food retail organizations (Kesko Food and RIMI Latvia), for example, have taken steps to tackle the problem of “under the table” wages (Karnite, 2004), while the Finnish Hotel and Restaurant Association put in place a training and information programme for its member organizations (Kauhanen, 2004). Also, the Swedish Hotel and Restaurant Employers’ Association has developed an “ethics programme” which promotes the principle that there should be no undeclared work or tax evasion in the sector (Berg, 2004). The social secretariats of Belgium and the Contribution Payment Centres system of Bulgaria (both described in Section 2.1.6) are further examples of the initiatives some employers organizations have taken to support small and medium-sized enterprises.

2.2.2 Trade union initiatives

Trade unions have been particularly active in addressing problems associated with illegal employment and undeclared work. The General Confederation of Italian Workers has launched information campaigns and suggested ways in which public authorities could address the issues (Muratore, 2004). The Confederation of Independent Trade Unions in Bulgaria similarly spearheaded a national campaign to improve the protection of fundamental employment rights and publicized cases where employers were found to be employing workers without contracts or were using child labour (Tomev, 2004). The German construction union, IG BAU, has gone further still by establishing telephone and e-mail hotlines to facilitate the reporting of undeclared work in construction sites. The union then passes the information to the prosecuting authorities (although it should be mentioned that this activity has been a contentious issue among German trade unions) (Dribbusch, 2004). In Latvia, trade unions notify the State Employment Agency of any undeclared work they or their members detect (Karnite, 2004).

2.2.3 Collective bargaining and joint initiatives

Undeclared work is a relatively uncommon subject for collective bargaining between European employers and trade unions, although in certain countries where sectoral bargaining or social dialogue are well-established, there have been sector-level initiatives directed at the informal economy. A number of initiatives have been launched in the construction sectors of various European economies. In Norway in 2002, the Federation of Norwegian Construction Industries instigated a “Veracity in the Building Sector” programme which brought unions, employers and regulatory authorities together to address illegal employment practices (Lismoen, 2004). In the Finnish construction sector, employers and unions have agreed on procedures to address undeclared work, including: the requirement for companies to have evidence from prospective contractors of payment of tax and pension contributions; the delivery of information about contracts to the tax administration on a quarterly basis; and the use of electronic pass systems for workers in construction sites (Kauhanen, 2004). In Denmark the construction sector unions and employers have agreed to monitor workplaces in an effort to ensure that only “regular” workers are employed and that employers who employ “irregular” workers are reported (Jørgensen 2004).

In Bulgaria, minimum and maximum social security payments are determined on a sector-by-sector basis through a process of negotiation involving the social partners (Petkov, 2006: 8). The government provides the social partners

with macroeconomic forecasts and the National Insurance Institute and the National Revenue Agency provide information on the “distribution of active labour contracts [...] revenues from social security contributions, negotiated minimal insurance levels by economic sectors and so on” (Petkov, 2006: 9). Should the social partners be unable to reach an agreement, the government is able to intervene and impose new minimum insurance thresholds.

Many of the sectoral agreements that have been reached across Europe have been intended to spread and enforce good practices and the maintenance of standards. In the Netherlands, agreements requiring employers to use only genuine temporary employment agencies have been concluded in the horticulture sector, the glass sector, the mortar and mortar transport industry and the agricultural tools sector (Van het Kaar, 2004). In Italy employers’ and union organizations have concluded “joint undertaking” agreements intended to encourage the regularization of undeclared work and which contain proposals for the government to subsequently introduce through legislation (Muratore, 2004). Joint undertakings have been agreed in the construction and agricultural sectors and both agreements include provisions on the monitoring of activities and health and safety compliance.

Some initiatives to encourage good practice have involved voluntary certification. In Austria the social partners developed a scheme to award firms that provided fair working conditions with a “seal of approval”, although the initiative has yet to be implemented (Adam, 2004). A similar initiative was launched in the Norwegian cleaning and renovation sector, where the employers’ and union organizations developed a certification scheme entitled “clean development”, under which companies who wished to be certified “clean” had to provide evidence of compliance with tax and social security requirements (Lismoen, 2004). While apparently a success, the scheme ended in 2002.

In Sweden, a voluntary certification initiative was piloted in 2001 in the hairdressing sector in Malmö (Berg, 2004). The initiative was directed by the National Economic Crimes Bureau (EBM), which was created in 1998 to address tax offences, dishonesty towards creditors and other finance-related criminal acts. The pilot project in the hairdressing sector involved the relevant employers’ and union organizations as well as the tax authorities. In addition to voluntary certification, the project, which was designed to address undeclared work, income and wages, launched information campaigns (op. cit.).

In Norway, a Cooperative Forum against the Black Economy was established in 1997 with the support and involvement of the Norwegian Confederation of Trade Unions, the Confederation of Norwegian Business and Industry, the Norwegian Association of Local and Regional Authorities and the Norwegian Tax Administration (Lismoen, 2004). The forum works to raise awareness of issues related to undeclared work and can propose alterations to the legal framework.

In the UK, the Ethical Trade Initiative (ETI) was established in 1998, with a membership comprising companies, unions and NGOs. Its purpose was to campaign for minimum labour standards to be respected by supplier organizations and to promote a code of good practice including provisions relating to, for example, wages, working hours and health and safety. The ETI subsequently convened a Temporary Labour Working Group (TLWG) composed of major retailers, growers, suppliers, labour providers and trade unions. The TLWG established a voluntary audit scheme designed to ensure that supplier organizations

were adhering to a set of standards in respect of their employment practices and complying with legal requirements.

2.2.4 National-level social dialogue

In some countries the social partners have been involved in national-level discussions concerning policies in respect of the informal economy. In Estonia, trade union and employers' representatives, together with civil servants from the labour inspection and tax and customs authorities, met in 2003 to explore ways of reducing the payment of "envelope wages" (cash and non-cash payments to workers that are not reported to the tax authorities), and ways of strengthening enforcement (Eamets and Philips, 2004). In some countries national-level tripartite institutions provide an ongoing forum for discussing issues and agreeing on measures relating to undeclared work. In Hungary, the national-level trade union confederation and employers' associations have pressed for policy initiatives through their involvement in the tripartite National Interest Reconciliation Council (Tóth and Neumann, 2004). Similarly, in Ireland undeclared work is addressed in national-level tri-partite structures. Ireland also has a Hidden Economy Monitoring Group, which includes representatives of the tax authorities, the Department of Social and Family Affairs and the social partners. The group evaluates the effectiveness of policy measures relating to tax avoidance and social security fraud (Dobbins, 2004).

While tripartite social dialogue is less extensive in the UK than in many other European countries, national-level dialogue on the informal economy nevertheless occurs. The social partners are represented on the government's Illegal Working Stakeholding Group, which is chaired by the Minister of State for Citizenship, Immigration and Nationality (Home Office). The group, which has met five times a year since 2002, includes representatives from the British Chamber of Commerce, the Confederation of British Industry, the Trades Union Congress, the Association of Labour Providers, the Health and Safety Executive, the Commission for Racial Equality, the National Farmers' Union and the retailer J. Sainsbury's. It acts as a forum for consultation rather than as a forum for policy development.

A further example of national-level social dialogue in respect of the informal economy is provided by France, which in the late 1990s established a National Committee on Combating Undeclared Work. However, it was not until 2004 that the Committee became active, having been given the task of helping to develop a plan to tackle undeclared work that could be included in France's National Action Plan in respect of the European Employment Strategy (Braud, 2004). For 2004-05 the initiative targeted four sectors for action: entertainment; agriculture; construction and civil engineering; and hospitality. In each case the government sought the support and involvement of trade unions and employers' organizations. The programme objectives included the provision of information on the "rules governing the provision of services, compulsory legal precautions and the risks involved in using undeclared work" (ibid.). Follow-up work is the responsibility of the Ministry of Labour and the National Committee on Combating Undeclared Work. The latter is supposed to meet every six months.

In Denmark the social partners have used their resources beyond discussion and agreement of policy initiatives. Trade union branches play a key role in identifying illegal workers at workplaces, while employers' organizations also assist in the detection of those who organize the supply of illegal workers and those

who employ them (Jørgensen, 2004). Similarly, in Slovenia the social partners report instances of undeclared work to the inspection authorities and to a governmental “Commission for discovering and preventing undeclared work and employment” (Mrčela, 2004). The latter submits an annual report on its activities to the government and to a tripartite consultative Economic and Social Committee, which includes representatives of the social partner organizations.

2.3. Some reflections on practices in European countries

1. Social partner support and involvement is regarded as crucial in a number of EU Member States. In Bulgaria, for example, the fact that the social partners were consulted and supported government proposals relating to the compulsory registration of labour contracts and the introduction of minimum social security thresholds was vital in ensuring the effectiveness of these regulations (Petkov, 2006: 9). The Bulgarian government also took steps to win wider support from Bulgarian society by conducting a nationwide representative survey of public opinion concerning the proposals (ibid.)

2. The capacity to detect infringements is clearly important. To this end, it is essential that Labour Inspectorates and other relevant authorities are adequately resourced. In some European countries, however, the social partners also play a role in monitoring the employment practices of employers and notify the authorities about employers who are found to be using unregistered workers.

3. Improving the monitoring capabilities of agencies does little, however, to address the root causes of undeclared work. Many countries have also introduced positive measures that are intended to make it easier for workers and establishments to join the formal economy. These measures have included active employment programmes (e.g. employment subsidies), the provision of better guidance and advice, changes to the tax structure (e.g. lower marginal taxes) and financial support for new businesses.

4. Information and awareness-raising campaigns are relatively low-cost means which national governments can use to discourage work in the informal economy. The social partners can also play an important role in this regard, either by participating in campaigns initiated by national governments or by developing campaigns of their own.

5. The informal economy is an area of concern which must be jointly tackled by various public bodies, including those with responsibility for labour inspection, social security, policing, immigration, tax, and customs and excise. A number of national governments have taken steps to improve the coordination of the activities of these bodies. One key aspect of improved coordination is ensuring that public bodies and the ministries that they report to share information. In some countries, special coordination units have been created to ensure that activities are “joined up”.

6. As Renooy et al. (2004: 113) argue, “a successful policy should be tailor-made, as there are no standard recipes that can be applied”. The appropriateness of different policies and policy mixes will vary according to national, regional and local contexts. Nevertheless, it appears that there is scope for countries to learn valuable lessons from the experiences of other countries and to apply these lessons in a policy context. The Bulgarian approach to tackling undeclared work, for

example, has been modeled on approaches developed in Spain (Petkov, 2006: 10) and it is reasonable to suggest that other countries might benefit from policy learning and, potentially, policy transfer.

7. The phenomenon of undeclared work has multiple causes and thus, as Mateman and Renooy (2001) argue, a one-sided approach to addressing the issues is unlikely to be effective. Mateman and Renooy also emphasize the importance of conducting proper evaluations of policy measures.

3. The Turkish experience and the EU-ILO Project

3.1 The macroeconomic and labour market context

For the past two-and-a-half decades the Turkish state has pursued a policy of economic liberalization in the belief that this will result in improved competitiveness and improve Turkey's position in the global economy. Throughout the 1980s and 1990s Turkey experienced relatively strong, but highly volatile, economic growth, punctuated by a number of financial crises. In the wake of the 2000-01 economic crisis, which was one of the most severe in the country's history, Turkey has, with the support of the IMF, continued to implement programmes aimed at ensuring macroeconomic stability, strong growth and improved governance. However, although GDP growth recovered well following the 2000-01 crisis and inflation fell to one-digit level for the first time in many years, Turkey has experienced "jobless growth". Over the fifteen quarters between the first quarter of 2002 (when the recovery began) and the third quarter of 2005, GDP grew at an average rate of 7.5 per cent, yet the average rate of growth in employment was minus 0.1 per cent.²⁵ Moreover, although economic growth in the post-2001 period was accompanied by decreasing inflation, real interest rates remained persistently high. The consequences have been an increase in the burden of debt, a lack of real investment and speculative short-term capital inflows, which in turn have contributed to the appreciation of the currency. This has had the effect of increasing the trade and current account deficits and eroding the international competitiveness of traditional Turkish exports such as textiles. Although new industries producing exportable commodities such as automotive parts and consumer durables have emerged, they have not as yet grown sufficiently to eliminate the trade deficit.

The diagnosis of jobless growth is supported by a number of labour market indicators. Between 1980 and 2004 the working age population grew by 23 million, yet only 6 million jobs were created (World Bank, 2006: ii). The rate of unemployment increased from 6.5 per cent in 2000 to 10.3 per cent by 2002. Despite surges in GDP and exports, the unemployment rate remained more or less at the same level until the second half of 2005, when a slight decline was observed. The decline appears to have continued: the latest statistics from the Turkish Statistical Institute (TURKSTAT)²⁶ indicate that comparable unemployment rates were 9.4 per cent and 9.1 per cent in 2005 and 2006, respectively. Underemployment is also relatively high in Turkey, having reached a level of 6 per cent in 2001 before falling to 4.1 per cent in 2006. If both unemployment and underemployment are taken into consideration, excess labour supply amounts to 13.2 per cent of the total labour force. The situation is especially severe among urban youth: combined unemployment and underemployment for this group was 26 per cent in 2005.

²⁵ Telli, C.; Voyvoda, E.; Yeldan, E. 2006. *Modelling general equilibrium for socially responsible macroeconomics: Seeking for the alternatives to fight jobless growth in Turkey*, unpublished manuscript.

²⁶ <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=384>

The labour force participation rate, which is already well below the European and OECD averages, is also falling (World Bank, 2006: ii).²⁷ The participation rate of women is particularly low. In August 2006 the aggregate labour force participation rate was 49.5 per cent. The rate for men was almost three times that for women (72.9 per cent compared to 23.7 per cent). In urban areas, the male participation rate is more than three times that for women (70.8 per cent compared to 18.3 per cent in 2004) (ibid.: 9). The aggregate employment rate, which was only 45 per cent in 2006,²⁸ also disguises significant gender-related differences. The World Bank's (ibid.: ii) analysis suggests that the rate of employment for Turkish women of prime working age (25-54 years of age) is less than half the average rate across the EU-15. The employment rate for prime working age men is much closer to the EU-15 average.²⁹

Enterprise growth in low value-added export industries has produced mainly low-skill, low-wage jobs, reinforcing an already limited commitment to human resource development and improved skills and qualifications levels. Rural to urban migration has resulted in an influx of job seekers with very low levels of education and training, further increasing the competition for jobs. These factors have contributed to an expansion of unregistered employment, which currently represents well over 50 per cent of total employment (of which around 23 per cent is in wage employment).

Extensive unregistered employment is a barrier to Turkey's accession to the EU, making it impossible to govern the labour market so as to achieve the objectives of the European Employment Strategy. Employers of unregistered workers in Turkey tend to be small-scale producers of labour-intensive, low-quality goods and services, making poor use of available technologies and modern management practices and attempting to remain competitive on the basis of low labour costs and tax evasion. While low productivity can compel enterprises to enter or remain in the unregistered economy, unregistered employment and the informal economy are believed to have a significant negative impact on overall national productivity growth as well as on the social and economic stability of the country.³⁰ Furthermore, the informal economy is associated with unfair competition and downward pressure on wage levels, which may serve to decrease domestic consumption and reduce economic growth.

While saving on the (in some cases considerable) costs of taxes, social security and unemployment premiums and other related expenses, many unregistered enterprises are also effectively trapped in the informal economy. They are often unable to access credit to upgrade technologies and are unable to take advantage of formal mechanisms for management development and increased market access. They face the further disadvantage of finding it hard to achieve

²⁷ In 2004 the overall participation rate was 48.7 percent - the lowest participation rate in the OECD 'and 21.4 percentage points below the OECD average' (World Bank, 2006: 9).

²⁸ Turkey's employment rate has consistently been below the EU-15 average. In 2004, for example, it was 43.7 per cent, compared to an EU-15 average of 65 per cent (World Bank, 2006: ii).

²⁹ The World Bank notes that the relatively low employment rate in Turkey represent a particular challenge as far as EU accession is concerned. It estimates that 'Turkey will have to generate about 10 million jobs in six years to reach the current EU average employment rate in 2010, and will have to generate about 14 million jobs to reach the Lisbon target employment rate', which is 70 per cent by 2010. (2006: 12)

³⁰ OECD's recent Economic Survey of Turkey (2006) also refers to the productivity differentials between the formal and the informal sectors and highlights the issue of informality as one of the biggest and most urgent challenges facing the country.

economies of scale. Workers in the informal sector also face significant risks, including low wages (often below mandated minimum wages), exposure to workplace hazards, a lack of insurance against accidents or disability and a lack of entitlement to unemployment benefits, health insurance and pensions. Women who work in the informal economy are particularly vulnerable in the face of such risks.

Many of the problems associated with the informal economy take the form of vicious cycles and nowhere is this more obvious than in the financing and provision of social services. Unregistered workers and enterprises make no contribution to the financing of social protection schemes, and a growing informal economy, to the extent that it represents a reduction in the number of potential contributors, may therefore make financing social protection schemes an increasingly hard task for the government. In order to maintain the system the government may be tempted to increase the level of contributions, yet as the contributions cost incurred by businesses and workers increases, so does the incentive to join the informal economy. It is worth noting that according to the World Bank (2006: 71), the “costs of complying with social security and labor laws are high in Turkey [and] Turkey’s employment protection rules, such as severance pay requirements, are among the strictest in the OECD”. Combined employer-employee social security contributions range from 35.5 to 41.0 percent of payrolls.³¹ One study of 150 countries in eight regions found that only Central and Eastern European (CEE) countries had a higher average contribution rate (46.5 percent) and that Turkey’s rate was considerably higher than the 25 per cent average contribution rate for middle-income countries (Vroman and Brusentsev, 2005, cited in World Bank, 2006: 71).

3.2 EU-ILO project methodology

The EU-ILO project brought together representatives of trade unions, employers’ organizations and government agencies who jointly agreed to address the priority issue of “Employment promotion and addressing unregistered employment” through social dialogue. Activities commenced in 2005, under the auspices of an ILO pilot programme launched in 2004, and targeted the provinces of Gaziantep and Çorum. The EU-ILO project continued to support the tripartite partners in these two provinces and expanded its activities to include the province of Bursa. In doing so, the project drew upon lessons learned in Gaziantep and Çorum in order to refine its methodologies and training tools.

The project was launched at a high-level conference, which took place in Ankara, Turkey in March 2006. Mr. Vladimír Špidla, European Commissioner for Employment, Social Affairs and Equal Opportunities planned his first official state visit to Turkey to coincide with the Conference and this helped to raise the profile of the project and also helped to focus attention on the associated subjects of social dialogue and the informal economy. A representative of the European Trade Union Confederation provided comparative information on trade union approaches to the unregistered economy throughout Europe. The Minister of Labour and Social Security, the Minister of Industry and the presidents of all of the main private sector workers’ and employers’ organizations came together to demonstrate their commitment to the adoption of an integrated policy to promote employment and reduce the incidence of unregistered work throughout the country. A tripartite declaration reiterating this pledge was presented to the media.

³¹ The range reflects variation in the industry-specific contributions for injury at work.

The project was developed by a National Steering Committee (NSC)³² which in October 2004 created a National Plan of Action that set out the main strategic axes around which the project would operate. From the earliest stages, the tripartite partners adopted a provincial approach so as to ensure that measures to address unregistered employment were sensitive to labour market contexts. Drawing on the knowledge and experience of local actors helped to ensure that the comparative advantages of the provinces were taken into account while also making it possible to take advantage of local-level networks and relationships. National constituents worked closely with their counterparts in the provinces to communicate the approach of the project and to ensure active participation and strong local commitment to the projects' goals. Working groups were established within existing Provincial Employment Boards³³ to ensure that decisions would take into account local socio-economic conditions.

In each province the first step was to analyse the structure of the labour market, with particular attention paid to the phenomena of registered and unregistered employment. This served as the basis of discussion and debate among workers, employers and government members of the Provincial Employment Board. Through activities targeting individual constituents and tripartite workshops, constituents developed their knowledge and understanding of the informal economy and worked together to identify the major problems and develop solutions for reducing the prevalence of unregistered work. This preliminary work led to the development and implementation of tripartite work plans that set out clear steps and concrete proposals for addressing the issue at the local level.

Project participants were made aware of the importance of a balanced, integrated approach, encompassing legal and administrative reforms as well as measures targeting unregistered workers and employers and the public at large. Measures were designed to complement enforcement and regulation with targeted action, including the promotion of active labour market policies, the identification and reduction of barriers to formalization, and the raising of public awareness. The latter issue became particularly important as information materials were developed and strategies adopted to disseminate those materials in the hope of changing attitudes and behaviours with respect to the informal economy. This awareness-raising strategy, which appears to have met with some success in a number of other countries, drew considerable interest and support from the Turkish constituents. Thanks to close collaboration with the national and local media, the project managed to substantially increase the visibility of the issue, especially in the province of Bursa.

Sharing relevant international experience was also critical to this project. Representatives of social partner organizations and academia from the EU-15³⁴ and EU-25³⁵ Member States as well as from EU candidate countries³⁶ were involved at

³² The National Steering Committee is made up of representatives from government (Ministry of Labour and Social Security, Turkish Employment Organization, State Institute of Statistics), the three trade union confederations active in the private sector (TÜRK-İŞ, HAK-İŞ, DİSK), and the main employers' confederation (TİSK).

³³ Provincial Employment Boards exist in all 81 provinces in Turkey. These tripartite bodies are established by national law (İŞKUR Law No. 4904) and are presided over by the provincial Governor. PEBs are tasked with monitoring and addressing labour market issues at the local level, and show great potential for promoting employment and developing strategies for reducing the incidence of unregistered work.

³⁴ Belgium, United Kingdom.

³⁵ Lithuania and comparative experiences from others.

various stages. This exposed the tripartite actors in Turkey to approaches to the informal economy in other countries in Europe, and provided an opportunity to exchange ideas on policies, tools and approaches that could possibly work in Turkey.

3.3 Social dialogue framework

The project adopted social dialogue as a tool to address the problem of unregistered work in Turkey for three principal reasons. First, the three key social agencies (the state, employers and trade unions) are interested in transforming unregistered jobs into jobs in the formal economy. Second, any policy addressing more than one-half of the working population (i.e. the proportion that is involved in informal activities) can be effective only if it is actively supported by a large cross-section of society and is widely publicized. Third, the Turkish industrial relations system provides a reasonable foundation for a social dialogue approach, given that the social partners are relatively well organized, wish to address the issue of the informal economy and have the capability to develop their own initiatives. Most importantly, at both the national and provincial levels, there are institutions of a tripartite nature which are able to provide support to the Project.

While the key social agencies have a common interest in tackling the informal economy, their motives for doing so differ. The trade unions wish to bring about improvements in working conditions and job security while employer organizations are interested in reducing the extent of unfair competition. The state, for its part, is concerned with increasing tax revenues, enforcing the law and improving the country's image in view of its application for EU membership. Nevertheless, the tripartite approach proved to be one of the project's principal assets. The social partners demonstrated a high and sustained level of commitment and interest and the tripartite discussions were smooth, consensual and very constructive. In the Declaration adopted on 5 March 2006, the tripartite actors declared "their common will to use social dialogue as an instrument in finding consensus on policies aiming to transform unregistered employment into formal jobs through joint initiatives as well as appropriate measures within the competencies of the Government, employers' associations and trade unions." According to the Declaration, the social partners should also be involved in formulating strategies and policies at the national and regional level.³⁷ At the provincial level, the Provincial Employment Board, an advisory body of the Turkish Employment Organization (IS-KUR), proved to be an invaluable partner and also provided a forum for tripartite meetings.

In all three provinces, the social partners and the local governments agreed on a series of policy recommendations and measures to be taken at the national and provincial levels. Some of these proposals concerned the functioning of social dialogue itself. The participants suggested the following measures, which chime with the recommendations of the European Commission.:

- strengthening the capacity of employers' and workers' organizations and promoting their democratization and independence from political parties;

³⁶ Romania, Bulgaria.

³⁷ Declaration of the National Tripartite Conference on Social Dialogue and Unregistered Employment, Ankara, 5 March 2006. See Appendix 2 of this report.

-
- removing legal obstacles to the full development of the freedom of association and the right to bargain collectively;³⁸
 - reforming existing tripartite institutions both at the national and local levels (more specifically the Economic and Social Council and the Provincial Employment Boards).

The fact that the Government has involved the social partners in discussions on reforms concerning the two major laws regulating freedom of association and collective bargaining – the Trade Union Act (No.2821) and the Collective Bargaining Act (No. 2822) (which have also been under the scrutiny of the ILO supervisory machinery for many years) – is also a positive sign. The amendment to the Act on the Economic and Social Council and a new Regulation concerning the composition and functioning of the Provincial Employment Boards (PEBs) have also been considered by the ILO, which has sent comments and suggestions on these items to the Turkish authorities. The draft Regulation on PEBs, which sets out measures to strengthen the tripartite character of these bodies and enhance their role, was commended by the ILO experts during the course of the project.

Finally, in order to address the informal economy effectively, dialogue cannot remain limited to traditional social partners, especially since the rate of unionization in Turkey is low and unregistered work occurs in sectors where both employers' and workers' organizations are weakly represented. It is a very positive sign that the social partners in Turkey understand this challenge very well. Communication and collaboration with other partners, such as chambers of commerce, associations of small businesses, universities and the local media represent important components of their joint action plans.

3.4 Mapping the three provinces

In order to understand the nature of informal employment in the three provinces, it is necessary to examine the industrialization process and the macroeconomic policies pursued by the government. After 1980 Turkey adopted an export-oriented growth strategy, which had the effect of forcing enterprises to lower their labour costs in order to improve international competitiveness. One way in which they reduced costs is by employing unregistered workers. Export-oriented industrialization in Turkey has mainly taken place in the textile, garment and automotive industries. In each of these industries large firms frequently outsource service provision and stages of the production process to small and medium-sized enterprises. While this practice enables the larger enterprises to reduce their costs, including labour costs, it is also contributing to the expansion of informal economic activities and informal employment, both of which are already widespread in the Turkish manufacturing and services sectors.

3.4.1 Socio-economic features of the provinces

The extent of industrial development differs markedly between the three provinces. While Bursa is one of the most highly industrialized provinces of Turkey, the industrialization of Gaziantep and Çorum is more recent and less well advanced.

³⁸ The World Bank (2006: 67) has argued that the low incidence of collective bargaining in Turkey reflect the 'restrictive rules regarding the authorization of bargaining agents under the 1983 Collective Labor Agreements, Strikes, and Lockouts Act (Act 2822)'.

The level of industrialization and its social and economic impacts are reflected in the ranking of the provinces derived from the State Planning Organisation's socio-economic development indicators.³⁹ On the basis of these indicators Bursa, Gaziantep and Çorum were placed 5th, 20th and 46th place, respectively, in the 2003 rankings.

Textiles, clothing and food production are important industries in the three provinces. Textiles and clothing (particularly yarn production, machine-made carpets and knitwear) is the dominant manufacturing industry in Gaziantep, while in Çorum the quarry and brick tile and machinery industries are the most significant branches of manufacturing, followed by food products and textiles. The automotive industry is the most significant industry in Bursa, followed by textiles, clothing and food products (prior to 2000, textiles and garments were the most significant industries). Recent information⁴⁰ concerning 250 economically significant companies in the province reveals that the automotive industry occupies first place in terms of annual turnover, rates of profit and export performance. However the textiles, clothing and leather industries continue to account for the largest share of employment.

The employment opportunities created by industrialization and related service sector activities offer domestic migrants the chance of a better standard of living and, as a result, Bursa and Gaziantep (which is the most developed province in eastern Turkey) have become popular destinations for unskilled economic migrants. On the other hand, the province of Çorum, which is located in middle Anatolia, has experienced a loss of workers as a result of migration from rural to urban areas, including Çorum's provincial centre.

3.4.2 Local labour market and employment structures⁴¹

Labour force participation rates in the provinces of Çorum and Gaziantep are low, particularly for women. In 2000 the aggregate labour force participation rate in the province of Çorum was 57.2 per cent. Disaggregating this figure reveals significant gender-related differences: the rate for men was 70.3 per cent, but only 45.2 per cent for women. Gender differences were even more pronounced in the province's centre where the participation rate for men was 62 per cent for men compared to 11 per cent for women. Gender differences are also apparent in industries in which men and women are employed. In total, 247,176 workers, 42.3 per cent of whom are women, are employed in the province of Çorum. Agriculture accounts for almost 68 per cent of overall employment, 50 per cent of all male employment and almost 92 per cent of all female employment. The next largest sector in terms of employment is the service sector, which accounts for almost 21 per cent of total employment, 31 per cent of male employment and 3 per cent of female

³⁹ Since 1996 the State Planning Organisation has prepared a socio-economic development index to show the relative development of provinces in Turkey with respect to demographic, employment, industry, education, health and fiscal indicators. The latest index, which is from 2003, can be found at: www.dpt.gov.tr/bgyu/seg/iller2003.html. The 2000 indicators for Bursa are provided in Appendix 3.

⁴⁰ The information is derived from the annual '250 Big Firms in Bursa' survey, conducted by the Bursa Chamber of Commerce and Industry.

⁴¹ As the project has been implemented in the provincial centres in Bursa and Gaziantep, the data on labour market and employment structures related to the centres. However in Çorum the data is not differentiated among province and district centres and therefore the statistics presented relate to the province.

employment. Total employment in manufacturing is small (7.3 per cent in total), accounting for little over 11 per cent of all employed men and 2 per cent of employed women. No women are employed in construction, which accounts for 4.4 percent of all employment and 7.6 per cent of male employment. Education levels across the province's workforce are relatively low on average: only half of men and one quarter of women have completed their schooling and a majority have obtained only a primary school diploma. Only 15 percent of men and 2.6 percent of women have been educated beyond primary school level. However, the educational level can be assumed to be higher in the centre.

Gender-associated differences in labour force participation rates are also apparent in the other provinces included in the project. In 2003 the labour force participation rate in Gaziantep's provincial centre was 72.4 percent for men and only 6.7 percent for women. Moreover, while the average unemployment rate was 20.3 per cent, the unemployment rate for 20-24 year-old women was 40 per cent. Once again the extremely low level of participation by women in the labour force, combined with a relatively high level of unemployment, suggests that women's employment opportunities are extremely limited. A total of 182,133 workers are employed in the province, 41.3 per cent of whom are employed in the manufacturing sector. The next largest proportions are found in the retail trade, restaurants and hotels sector, which accounts for 28.6 percent of employment, and the community, social and personal services sector, which accounts for 14.6 per cent. Within the manufacturing sector, the textiles industry accounts for the largest share of jobs (approximately 78 per cent), followed by the food products and beverages industry, with a share of 8.6 per cent. The average educational level of the labour force in Gaziantep's provincial centre is lower than the average level for Turkey as a whole: 55.7 per cent of the labour force are primary school graduates and only 31.8 percent of males have been educated beyond primary school. The proportion of women who have been educated beyond primary school level is substantially larger (69.5 per cent).

The labour force participation rate for Bursa's provincial centre is above the average for city centres in Turkey. In 2003 the participation rate was 71.6 percent for men and 27.9 percent for women of the total employment of 401,576. The unemployment rate was 14.5 per cent (19.1 per cent for women and 12.5 per cent for men), somewhat above the average rate for Turkey as a whole (13.8 per cent).⁴² The manufacturing sector had the largest proportion of total employment (44.9 per cent), followed by the wholesale and retail trade, the restaurants and hotels sector (23.6 per cent), and the community, social and personal services sector (12 per cent). Women comprised 28.1 per cent of all employed, more than half of whom were in the manufacturing sector; of these, three-quarters worked in the textiles, clothing and fur industries. The textiles industry was responsible for employing 32 per cent of working men. The second and third largest shares were found in the automotive (19 per cent) and machinery and equipment manufacturing (9 per cent) industries. With regard to the educational attainment of employed people, individuals without a school diploma account for a very small proportion, whereas primary school graduates comprise almost half. Moreover, 35.3 per cent of all employed people are high school graduates (only in Bursa is the average educational level higher than the Turkish average).

⁴² There are many qualified workers among the ranks of the unemployed (unlike Çorum and Gaziantep, Bursa does not suffer from shortages of skilled workers).

3.4.3 Informal employment

Levels of urban informal employment in the three provinces – which accounts for approximately 30-35 per cent of total urban employment – are above the average for Turkey as a whole. Informal work is quite common among the self-employed, daily-paid workers in casual jobs and unpaid family workers. Around one-half of self-employed persons and almost all daily-paid workers and unpaid family workers are not covered by any social protection scheme. Furthermore, unregistered employment is relatively widespread among regular monthly wage-salary earners: Of the workers in this category earning regular monthly salaries, approximately 20 per cent are unregistered. The scarcity of jobs in the formal sector and high rates of unemployment are the main factors encouraging people to take informal jobs.

It has been estimated that 59 percent of all employment in the province of Çorum is unregistered, and that 68 per cent of employed men and 65 per cent of employed women are unregistered. Unregistered employment is widespread in the quarry, brick and tile, construction and grain mill industries because of the seasonal characteristics of production, the unsophisticated technology and the demand for low-skilled labour. In Gaziantep almost 51 per cent of the 182,133 workers employed in the province are unregistered. Of the 112,220 regular employees, almost 45 per cent are unregistered, more than double the Turkish average of 19 per cent. Unregistered work is mainly found in small enterprises in the manufacturing and services sectors. However, in the carpet production industry the introduction of new technologies has created a demand for skilled workers who are not only registered but are also paid relatively high wages. This has resulted in an increase of registered work in the industry, which is now estimated to account for more than 50 per cent of the total. In knitwear production, by contrast, product quality is mostly low and unregistered employment accounts for 80 per cent of total employment in the industry. Only through a development similar to that in the carpet production industry can a reduction in the rate of unregistered work be expected. This could be achieved via measures to improve quality and branding, although this would intensify the existing skilled labour shortage. Vocational training to create the skills needed for the effective implementation of new technologies would be of utmost importance.

In 2003, 154,413 of the 401,506 workers employed in Bursa were working on an unregistered basis (a total informal employment rate of 38.5 per cent). Approximately 35 per cent of men and 46 per cent of women were working informally. The rate of informal employment was 62.8 per cent in construction, 47.2 per cent in trade, restaurants and hotels, 45.3 per cent in transportation, 30.5 per cent in manufacturing and 25.3 per cent in community, social and personal services. One-fifth of men and almost half of the females employed in the manufacturing sector were working on an unregistered basis. The disparity in the proportions reflects the fact that women are more likely than men to be employed in small and medium-sized enterprises whereas men are more likely to be employed in larger enterprises, which are characterized by informality to a much lesser extent. Approximately one-fifth of employed wage earners are unregistered, although the proportion in the case of the self-employed is as large as 65.3 per cent, suggesting that most of those who are not covered by a social protection scheme are self-employed or working in micro-enterprises.

3.4.4 Causes of unregistered work

The social partners agree that the prevalence of unregistered work in the three provinces is brought about by a number of factors, including:

- the high cost of registration for new enterprises, tax burdens and high social security premiums, which create particular difficulties for small and medium-sized firms;
- the frequency of exemptions for tax and contributions debts, which encourages employers and the self-employed to evade their obligations;:
- inadequate auditing of workplaces, due to the under-resourcing of inspection authorities;
- high unemployment, which creates pressure for workers to accept jobs that pay less than the minimum wage and which offer no social protection;
- high interest rates, energy prices and imported raw material costs, which prompt employers to try to reduce labour costs so as to maintain their competitiveness.⁴³

Some employers also cite the cost of severance pay, which is necessary when laying off a registered worker. Trade unionists, on the other hand, see the difficulties in attempting to organize workers as one of the main causes for unregistered work. They argue that unionization at enterprise level is the most effective way of combating informal employment.

3.4.5 Measures for reducing unregistered work

A number of recommended policy measures emerged in the process of social dialogue initiated by this project: The social partners agreed that:

- as the rate of unemployment falls, employers will find it increasingly difficult to find workers who are willing to work on an informal basis, pointing to the need for macro-level policies designed to promote employment creation;
- the level of contributions and taxes on employment should be reduced;
- a strict and rigorously implemented labour inspection policy is required to discourage employers and workers from informal activities. In order to achieve this objective the relevant public bodies will require additional personnel;
- none of the social partners are satisfied with the returns and benefits offered by the state in return for their contributions. Health care services are deemed inaccessible and inadequate, and pensions too low. Thus, increasing the accessibility and quality of the health services would help to demonstrate to workers and businesses that these services are valuable and worth contributing to;

⁴³ At the end of 2006 workers received net 380.46 YTL as a monthly minimum wage, which cost employers 645.17 YTL, with a rate of deduction of 41 per cent. Social security contributions represented 30 per cent of the total cost to employers of hiring a registered worker. Hiring an unregistered worker would have offered a labour cost reduction of up to 50 per cent.

-
- supporting SMEs (where most cases of informal work are found) through loans and training could improve their revenue-earning capacities and enable them to finance their own and their employees' social security contributions;
 - in order to support unionization at all levels, the implementation of measures deemed to be necessary for enterprises, such as lowering social security or tax contributions should be accompanied by measures to facilitate the organization of trade unions.⁴⁴

The above suggestions place an emphasis on macro-level solutions. However, in the selected provinces more concrete measures at city level could be developed and implemented with the participation and close cooperation of all social partners: employers' organizations, trade unions, local employment agencies and other relevant public institutions in the Provincial Employment Boards. To facilitate this process, tripartite working groups on informal employment could be convened under the auspices of the Provincial Employment Boards.

Ensuring that the abovementioned actors work with accessible target groups is as important as cooperation between the social parties in combating informal employment. For example, employers' organizations could contact and persuade other employers' organizations to join the campaign against unregistered work. They could visit work sites where there is a high probability of informal employment to inform the employers of the necessity and advantages of registered work and social protection. Given the prevalence of informal employment among supplier and subcontracting firms in the manufacturing sector, it would be beneficial for the main employers to check the employment practices of their suppliers and subcontractors. Such an obligation is already enshrined in legislation but not observed in practice. In all three provinces the involvement of large enterprises that already fulfill their obligations in this regard can create a social pressure on other enterprises to do the same.

It is said that competitive success at both national and international levels requires quality associated with specific trade marks. Although formal employment means a rise in costs, these can be offset by steady increase in labour productivity and by the positive image created by production sites which observe fundamental rights. Ethically sensitive consumers and clients are likely to favour goods and services originating from the formal sector.

Trade unions can support the campaign by encouraging union representatives and members at plant level to communicate with unregistered workers, to inform them of the disadvantages of informal employment and raise their awareness about the importance of social protection and the legal rights and benefits that accrue from formal employment. Different communication techniques and methods of disseminating information could be utilized for his purpose.

Public institutions can coordinate their activities so as to transfer information about unregistered work and expand their auditing activities. Increasing the supply of skilled labour through vocational training programmes, and enhancing the capacity of local employment agencies to offer job matching and training services can be set as priority targets. Vocational training courses and courses on job search methods could inform participants of the disadvantages of unregistered work.

Finally, the local media can be encouraged to support campaigns.

3.5 Lessons learned

There was broad consensus among the project participants concerning the problems related to the informal economy and the inherent risks and disadvantages for workers, employers and the public administration. Many of these problems are linked in vicious cycles. For example, although unregistered enterprises save on labour costs by avoiding the payment of taxes and social security contributions, by operating outside the formal system they limit their access to credit, management development opportunities, investment in human resources or technology and new markets. Weak property rights and corruption further exacerbate the problem. Without access to the benefits and opportunities available in the formal sector, informal business owners thus continue to operate in low-cost, low value-added sectors, unable to move up the value chain.

Governments face similar problems in respect of the provision of social services. Informal employers and workers who are either unaware of the services provided by the government, or distrust their quality, continue to operate informally. The growth of informality impacts significantly on the financing of social protection and other government schemes, leading to a weakening in the government's ability to provide quality services, and increased costs for those in the formal economy as the government strives to keep the system afloat. High costs, relative to the value of the available services, represent a significant disincentive to formal participation.

Poverty and the high levels of unemployment in Turkey lead workers to the informal sector where jobs are characterized by low wages, exposure to workplace hazards and the lack of health, disability or unemployment insurance. Low wages make it very difficult for workers to meet even basic subsistence needs and workplace hazards often result in illness or injury, which can lead to job loss, plunging them deeper in poverty.

The project participants were aware of the links between unemployment, poverty, exclusion and informality; some maintained the view that informal actors are "cheating the system". However, they agreed that many who participate in the informal economy not necessarily by choice: for workers, turning down an unregistered job often means no job at all. Also, many small and medium (and often family-owned) enterprises operate within such narrow margins that to force them into the formal economy overnight would result in them becoming insolvent.

It is for this reason, that a broad and inclusive dialogue was seen as necessary to bring together all actors – representing workers and employers in both the formal and informal parts of the economy, as well as local and national government agencies – to discuss policies to promote formal employment, to facilitate the transition of workers and employers from the informal to the formal economy, and to reduce the prevalence of unregistered work in Gaziantep, Çorum and Bursa. In the course of this project, the social partners discussed their roles in expanding representation to those operating in the informal economy. Limitations on the freedom of association and collective bargaining in both the formal and informal economies were seen as issues requiring immediate attention.

informal workers and employers voice and representation was recognized as necessary in the development of a strategy designed to target unregistered work.

Without such representation, any policy would be difficult to implement. Established workers' and employers' organizations have the local knowledge and capacities to build partnerships with existing community groups and other associations which count among their members those in the informal economy. Furthermore, the social partners are well placed to organize or extend some level of services to unregistered workers and small, informal enterprises.⁴⁵ They can also use their advocacy skills to represent unregistered workers and employers in the Provincial Employment Board.

By engaging in dialogue, local actors came up with broad, integrated solutions to address informal employment at the national and local levels. Their recommendations include national policies on employment, investment, small enterprise development, taxation, labour legislation, vocational training, enforcement mechanisms and institutional strengthening. Local measures ranged from information and awareness-raising campaigns, workplace visits, seminars, and the promotion of codes of ethics related to unregistered work. Given the considerable degree of tolerance for unregistered employment, strategic communications aimed at changing behaviour were regarded as a high priority.

Even as social dialogue allowed the tripartite partners to discuss issues and develop recommendations, the process of reducing informality in the three provinces has only just begun. A long-term commitment to implementing these strategies, plus strong local ownership of the initiatives, are essential for positive results. These efforts will need to be complemented by political will at the national level, to ensure that policies are complementary and targeted, and that strong leadership is provided to drive through a very difficult reform process. The Tripartite Declaration on Social Dialogue and Unregistered Employment of March 2006 is a solid foundation for this process. It affirms that social dialogue will be used to reach consensus on policies to reduce unregistered employment, with the full partnership of the social partners and in consultation with other representatives of civil society according to their competencies. The declaration will hopefully serve as the basis for future actions to carry forward strategies and recommendations in respect of the informal economy.

A national-level project, entitled "Combat against Informal Employment" (KADIM), led by the Ministry of Labour and Social Security in coordination with high-level representatives from the social partners and other key government and non-governmental agencies, will target those factors that promote informal employment and the illegal use of foreign workers. Actions aimed at improving labour inspection services, raising public awareness and commitment, enhancing the legislative and regulatory framework and removing bureaucratic formalities will be undertaken at both the national and provincial levels. The implementation of this new initiative, which was given full support by the Prime Minister in an official Communiqué on Informal Employment,⁴⁶ represents an important step by the government and the social partners to extend their partnership on this subject of critical national importance. Lessons learned from the existing project should help the national partners to extend the scope of activities to all provinces in Turkey.

⁴⁵ They have a further incentive to do so since these individuals and enterprises represent potential new members for the respective organizations.

⁴⁶ Prime Ministerial Communiqué on Informal Employment, 4 Oct. 2006.

4. Conclusions and recommendations

4.1 Social dialogue as a method

1. The legal framework concerning the freedom of association and the right to bargain collectively in Turkey should be aligned with ILO standards and with current European practice. Laws on trade unions and on collective bargaining should be amended in order to remove obstacles to trade union membership and to the implementation of the right to bargain collectively both at the enterprise and the sectoral levels. In addition, enforcement mechanisms should be strengthened in this area.
2. The institutional framework of social dialogue should be updated and modernized. National and local tripartite institutions, such as the Economic and Social Council, the Tripartite Advisory Board and the Provincial Employment Boards should be further strengthened and their role in formulating national and local employment and social policies enhanced.
3. The political will of all involved is a key precondition for effective social dialogue. To bolster the exchange of information between the government and the social partners, a system of regular consultations and negotiations should be set up.
4. The government should take appropriate measures to facilitate sectoral social dialogue and collective bargaining. Sectoral social dialogue should be utilized to address unregistered work in the textiles, manufacturing and construction industries.
5. While dialogue between the government and employers' and workers' organizations remains the basis of industrial relations, in the informal economy other actors should be included in this process, such as chambers of commerce and industry, associations of craftsmen, municipalities, universities and vocational training schools, women's associations, etc. The tripartite partners should agree on how to involve the stakeholders.
6. As stated in the Tripartite Declaration of 5 March 2006, the social partners should be involved in formulating and implementing government strategies and policies addressing unregistered work, as well as implement their own appropriate measures.
7. In particular, the social partners should design strategies to address the informal economy, including the means to gain better understanding of the needs of informal economy actors, representing their interests vis-à-vis the government and other institutions, as well as developing relevant services for them.
8. Employers' organizations, in cooperation with other institutions, should develop specific services for informal economy employers to help them make the transition from the informal to the formal economy, such as: training on productivity improvement, facilitating access to finance, market information, technology and social security, advice on good practices in occupational health and safety; assistance in establishing links with formal economy enterprises, promoting women's entrepreneurship; lobbying for a better

regulatory environment for small businesses; and assisting small businesses in complying with existing regulations and procedures.

9. Trade unions can set up programs to sensitize both formal and informal workers on the risks and disadvantages of unregistered work for workers and the economy. They should develop policy proposals aimed at mainstreaming the informal into the formal economy; develop internal trade union reforms and policies aiming at representing the interests of unprotected workers; devise policies for organizing informal workers; consider the possibility of extending collective bargaining to all categories of workers; pay special attention to youth and women's workers representation; provide legal information and services to informal workers; combat all forms of discrimination at the workplace.

4.2 Creating decent job opportunities

10. 1. Creating decent job opportunities is a key economic pre-condition for combating informal and unregistered employment. In compliance with ILO Employment Policy Convention, (No. 122), ratified by Turkey, it is essential to declare and pursue, as a major goal, an active policy to promote full, productive and freely chosen employment. This policy should be developed through a process of consultation with representatives of those who will be affected by the measures to be taken, and in particular representatives of employers and workers. The objective should be to take fully into account their experience and views, securing their full cooperation in formulating the policy, and enlisting their support for the policy once it has been implemented. To this purpose, national and local tripartite institutions should be revitalized, as suggested above.
11. Local governments, the social partners and other players at the local (provincial) level should cooperate in elaborating and implementing local economic and social development plans. The Provincial Employment Boards (PEBs) should be used as an institutional framework for this. To this end, the ISKUR law could be amended to increase the PEBs' competency, to strengthen their tripartite structure and to make their work more efficient. The government should also revise its regional development policy in order to promote employment in underdeveloped areas. Government incentive programmes and policies should be targeted, with the objective of encouraging registration and reducing unregistered employment.
12. As stated in the ILO Recommendation Concerning General Conditions to Stimulate Job Creation in Small and Medium-Sized Enterprises, (No. 189), the Government – in consultation with the social partners – should systematically build an environment conducive to the growth and development of small and medium-sized enterprises. This would include adopting and pursuing appropriate fiscal and monetary policies, establishing appropriate legal provisions and improving the attractiveness of entrepreneurship.
13. To assist highly educated young people who have difficulty in finding employment in Turkey, the Government, together with social partners, should review the education and vocational training systems in order to better match the needs of the labour market with education provided. Active labour market

policies can play a significant role in enhancing the job-placement and job-matching capacities of public employment services. However, job-matching will have little impact without the creation of jobs appropriate for the level of workers' education and skills. Programmes promoting improvements in small enterprise development and management should be considered, so that businesses can take advantage of state of the art management, production and marketing techniques, moving themselves up the value chain and generating demand for a better-skilled workforce.

4.3 Improving governance

14. The Government should endeavour to gain the trust of its target clients for its policies, specifically as regards the quality and reliability of services provided by the labour administration system. This concerns the Ministry of Labour and Social Security and its affiliated institutions, as well as the finance, industry, and education ministries and others whose policies have a significant bearing on the labour market and the way it functions. In this context, it is important to link and harmonize economic policies, both macro and micro, with labour and employment policies and wider social development strategies. Policy coherence and coordination between the different ministries and other public agencies both at the national and local levels is essential for success in effectively mainstreaming the informal into the formal economy.
15. The Turkish Employment Organisation (ISKUR) should be given sufficient resources to effectively implement active and passive employment policies and to provide advisory services to both employers and workers. The administrative capacity of labour inspection services should be strengthened.
16. Labour legislation should be reviewed in consultation with the social partners.
17. Attention should be given to private employment agencies and informal job-brokering activities to ensure that they are governed by appropriate and enforceable rules.

4.4 Promoting entrepreneurship and fair competition

18. Non-wage labour costs should be progressively reduced and tax reforms implemented.
19. Registration and licensing procedures for new enterprises should be simplified and facilitated by appropriate administrative measures, including the creation of one-stop shops for new entrepreneurs. Awareness-raising and educational activities should target small informal entrepreneurs, so that they fully understand how to register a business, and the benefits of doing so.
20. Corporate social responsibility should be promoted throughout the production chain. Formal employers should act to promote decent working conditions in their sub-contracting enterprises.

4.5 Combating poverty

21. Social protection should be extended to employees in the informal sector.
22. Specific policies should be developed to address vulnerable groups (migrants, youth, women, the disabled and children).
23. An efficient policy on immigration and internal migration, accompanied by integration measures, should be elaborated and implemented.

4.6. Raising awareness and understanding

24. As in many Mediterranean countries, undeclared work in Turkey is widespread and generally accepted as part of social practice and culture. It is therefore vital to ensure the broadest possible dissemination of information about its risks and disadvantages. Awareness should be raised among both formal and informal workers and employers.
25. The national and local media should be regularly informed about the causes and consequences of unregistered work, new research and data, and national and local policies. The government and the social partners should share new research findings with the media so as to gain their understanding and support.
26. Research on the economic and social aspects of unregistered work should be promoted and partnership with research and educational institutions established. The research should include issues related to quality, productivity and the competitiveness of enterprises.
27. Brochures, posters and other public relations materials should be developed and made available to local governments, social partners, NGOs and other stakeholders in the informal economy. These materials should provide practical information on the importance of formalization of employment and businesses.
28. Good policies, practices and approaches to unregistered work (both Turkish and international) should be identified and disseminated. Cooperation with countries in South-Eastern Europe, as well as with EU Member States and candidate countries should be encouraged.
29. Given that the size of the informal economy cannot be reduced without changing the behaviour of a large section of the population, the government and social partners should work systematically with individuals and groups that have moral authority in Turkish society, including politicians, academics, teachers and imams, to raise awareness of the risks and disadvantages of operating informally.

References

- Adam, G. 2004. "Industrial relations and undeclared work in Austria", available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/at0406204t.html>
- Arrowsmith, J. 2004. "Industrial relations and undeclared work in the United Kingdom", available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/uk0406104t.html>
- Bednárík, R. 2004. "Industrial relations and undeclared work in Slovakia", available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/sk0406105t.html>
- Berg, A. 2004. "Industrial relations and undeclared work in Sweden", available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/se0406101t.html>
- Biletta, I.; Meixner, M. 2005. "Industrial relations and undeclared work" (European Foundation for the Improvement of Living and Working Conditions), available at: <http://www.eurofound.eu.int/pubdocs/2005/135/en/1/ef05135en.pdf>
- Braud, M. 2004. "Industrial relations and undeclared work in France", available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/fr0406108t.html>
- Chen, M.; Jhabvala, R.; Lund, F. 2002. *Supporting workers in the informal economy: A policy framework*, Working Paper on the Informal Economy, No. 2 (Geneva, ILO, Employment Sector).
- Clasen, J.; Clegg, D. 2003. "Unemployment protection and labour market reform in France and Great Britain in the 1990s: Solidarity versus activation?", *Journal of Social Policy*, Vol. 32, No. 3, pp. 361-81.
- Daguerre, A. 2004. *Importing workfare: Policy transfer of social and labour market policies from the USA to Britain under New Labour*, *Social Policy and Administration*, Vol. 38, No. 1, pp. 41-56.
- Dobbins, T. 2004. "Industrial relations and undeclared work in Ireland", available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/ie0406204t.html>
- Dribbusch, H. 2004. "Industrial relations and undeclared work in Germany", available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/de0406201t.html>
- Eamets, R.; Philips, K. 2004. "Industrial relations and undeclared work in Estonia" available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/ee0406103t.html>.
- European Commission. 1998. *Communication of the Commission on undeclared work*, Com (98) – 219 (Brussels).
- Handjiev, B. 2006. *Contribution Payment Centre and other measures for reducing the informal economy in Bulgaria* (Bulgarian Industrial Association).

-
- Hussmanns, R. 2004. *Measuring the informal economy: From employment in the informal sector to informal employment*, Working Paper No. 53 (Geneva, ILO, Policy Integration Department, Bureau of Statistics).
- ILO. 2002a. *Women and men in the informal economy: A statistical picture* (Geneva, ILO).
- . 2002b. *Decent work and the informal economy*, Report VI, International Labour Conference, 90th Session, Geneva, 1970.
- Jørgensen, C. 2004. “Industrial relations and undeclared work in Denmark”, available at:
<http://www.eiro.eurofound.ie/2004/06/tfeature/dk0406102t.html>
- Karnite, R. 2004. “Industrial relations and undeclared work in Latvia”, available at:
<http://www.eiro.eurofound.ie/2004/06/tfeature/lv0406103t.html>
- Kauhanen, M. 2004. “Industrial relations and undeclared work in Finland”, available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/fi0406204t.html>
- Kretos, L. 2004. “Industrial relations and undeclared work in Greece”, available at:
<http://www.eiro.eurofound.ie/2004/06/tfeature/gr0406104t.html>
- Lismoen, H. 2004. “Industrial relations and undeclared work in Norway”, available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/no0406103t.html>
- Mateman, S.; Renooy, P. 2001 *Undeclared labour in Europe: Towards an integrated approach of combating undeclared labour in Europe – Final Report* (Amsterdam, Regioplan Research Advice and Information).
- Mrčela, A. 2004. “Industrial relations and undeclared work in Slovenia”, available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/si0406205t.html>
- Muratore, L. 2004. “Industrial relations and undeclared work in Italy”, available at:
<http://www.eiro.eurofound.ie/2004/06/tfeature/it0406107t.html>
- National Audit Office (UK). 2003. *Department for Work and Pensions: Tackling benefit fraud*. Report by the Comptroller and Auditor General, HC 393 Session 2002-2003, Feb. 2003 (London, The Stationery Office), p. 13.
- Organisation for Economic Co-operation and Development (OECD). 2004. *OECD Employment Outlook* (Paris).
- Petkov, K. 2006. *Informal economy and social dialogue: The experience of Bulgaria*, report for the International Labor Organization.
- Preda, D. 2004. “Industrial relations and undeclared work in Romania”, available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/ro0406103t.html>
- Renooy, P. et al. 2004. *Undeclared work in an enlarged Union: An analysis of undeclared work – An in-depth study of specific items*, Final Report

(Brussels, European Commission, Directorate-General for Employment and Social Affairs).

Soumeli, E. 2004. “Industrial relations and undeclared work in Cyprus”, available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/cy0406104t.html>

Stănculescu, M. 2006. *Informal economy and unregistered work in Romania*.

Tomev, L. 2004. “Industrial Relations and undeclared work in Bulgaria”, available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/bg0406202t.html>

Tóth, A.; Neumann, L. 2004. “Industrial relations and undeclared work in Hungary”, available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/hu0406103t.html>

Vandenbussche, I. 2004. “Industrial relations and undeclared work in Belgium”, available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/be0406303t.html>

Van het Kaar, R. 2004. “Industrial relations and undeclared work in the Netherlands”, available at: <http://www.eiro.eurofound.ie/2004/06/tfeature/nl0406104t.html>

World Bank. 2006. *Turkey labor market study*, Report No. 33254-TR (Europe and Central Asia Region, Poverty Reduction and Economic Management Unit).

Appendix 1. Estimated size of undeclared work in Europe as a percentage of GDP

Country	Estimated size	Year	Source
Austria	10%	2003	University of Linz
Belgium	20%	2004	Government
Bulgaria	22%/30%	2003	National Statistical Institute/Institute for Market Economy
Cyprus	4.2%	2003	Greek Cypriot Administration
Denmark	5.5%	2001	Rockwool Foundation
Estonia	8-9%	2001	Eurostat
France	10-20%	2003	Agence Centrale des Organisations de Sécurité Sociale
Germany	17%	2004	Government
Greece	>20%	1998	Unconfirmed figures in a press release
Hungary	25-35%	2004	Eurostat
Ireland	5-10%	1998	Unknown
Italy	16-17%	2001	Eurostat
Latvia	18%	2000	Latvian Bureau of Statistics
Netherlands	13.8%	2002	EU
Poland	14%	2003	Central Statistical Office
Romania	20%	2003	Alliance for Economic Development
Slovakia	18%	2003	Freidrich-Ebert-Stiftung
Slovenia	17%	2003	Government
Sweden	4.6%	1998	National Audit Office
UK	1.5%	2003	UK National Action Plan

Note: the information in the above table has been taken from Renooy et al. 2004: 106, and Biletta and Meixner 2005: 7. The table provides the most recent information available for each country.

Appendix 2.

Declaration of the National Tripartite Conference on Social Dialogue and Unregistered Employment (Ankara, March 5, 2006)

The representatives of the Government and of the employers' and workers' organizations, having met in Ankara on 5 March 2006, at the occasion of the National Tripartite Conference on Social Dialogue and Unregistered Employment, adopt the following Declaration:

Unregistered employment in Turkey affects a substantial portion of the workforce, and has negative consequences for workers, as well as for businesses and the functioning of the State. While it diminishes the competitiveness of the Turkish economy, it also affects working and employment conditions, the implementation of law and the effective functioning of social security and tax systems.

The participants of the Conference declare their common will to use social dialogue as an instrument in finding consensus over policies aiming to transform unregistered employment into formal jobs through joint initiatives as well as appropriate measures within the competencies of the Government, employers' associations and trade unions.

The causes of the high extent of unregistered employment will be identified and addressed through coordinated Government strategies and policies at the national and regional level. The social partners will be involved in formulating these strategies and policies and will cooperate as full partners in their implementation. In addition, other representatives of civil society will be consulted according to their specific competencies.

The participants of the Conference appreciate the technical assistance provided within the joint ILO-EU project and declare their readiness to contribute to its success.

Appendix 3. Socio-economic development indicators for Bursa (2000)

Variables	Bursa	Marmara region	Turkey	Rank (among 81 provinces)
<i>Demographic indicators</i>				
Total population	2,125,140	17,365,027	67,803,927	5
Urbanization rate (%)	76.75	79.07	64.90	6
Average annual population growth rate (%)	28.62	26.69	18.28	7
Fertility rate	1.98	1.91	2.53	66
Average household size	3.91	3.85	4.50	65
<i>Employment indicators</i>				
Share of employment in agriculture to total employment (%)	33.56	25.33	46.38	78
Share of employment in industry to total employment (%)	28.17	25.67	13.35	2
Share of employment in trade to total employment (%)	11.82	14.28	9.67	7
Share of employees in total employment	55.60	62.23	43.52	5
Share of female employees in total employment	13.71	14.68	8.81	4
<i>Industry indicators</i>				
Average number of employment in manufacturing	103,334	585,679	1,130,488	2
Per capita value added in manufacturing (million TL)	822	756	350	7
Per capita manufacturing industry electricity consumption (Kwh)	1,439	872	550	9
<i>Education indicators</i>				
Share of literate population (%)	91.72	92.40	87.30	12
Share of literate female population to total female population (%)	87.27	88.14	80.62	10
Enrolment rate in primary education (%)	107.38	115.65	98.01	14
Enrolment rate in secondary school (%)	37.58	41.05	36.92	32
Enrolment rate in vocational high school (%)	34.56	29.39	20.49	7
Share of university graduates to school graduates	7.72	9.95	8.42	14

Variables	Bursa	Marmara region	Turkey	Rank (among 81 provinces)
<i>Health indicators</i>				
Infant mortality rate (%)	39.00	39.36	43.00	51
Physician per population of ten thousand	12	16	13	13
Hospital beds per population of ten thousand	20	28	23	30
<i>Fiscal indicators</i>				
Share in total GDP (%)	3.68	37.04	100.00	5
GDP per capita (million TL)	2,155	2,657	1,837	13
Share in total bank deposits (%)	2.33	52.26	100.0	4
Per capita industry, trade and tourism credits (million TL)	338	859	392	8
Per capita income and business tax (million TL)	151	366	165	5
Per capita export (US dollars)	3,950	5,342	2,249	6
Per capita import (US dollars)	7,011	10,476	3,967	8
Number of privately owned automobiles per population of ten thousand	822	876	652	11

Appendix 4. Together against unregistered work

Risks	Actors	Causes	Tools	Objectives
<p><u>For the State</u></p> <ul style="list-style-type: none"> • Public finance undermined • Less investment • Poor governance • Obstacle to EU membership <p><u>For enterprises</u></p> <ul style="list-style-type: none"> • Unfair competition • Low productivity • Poor quality products/services • No access to credit • Legal insecurity <p><u>For employees</u></p> <ul style="list-style-type: none"> • Job insecurity • No social protection (illness, accident, old age, unemployment) • Adverse working conditions • No protection against accidents • No investment in skills = no career prospects 	<p>National and local government</p> <p>Tripartite bodies</p> <p>Employers</p> <p>Workers</p> <p>Others</p>	<p><u>Structural</u></p> <ul style="list-style-type: none"> • High proportion of employment in agriculture, textile, construction, etc. • Many SMEs • Demographic growth • Internal/external migration • Poverty – unemployment <p><u>Social and economic system</u></p> <ul style="list-style-type: none"> • High taxes and social security contributions • Inappropriate labour laws • Bureaucracy <p><u>Functioning of the system</u></p> <ul style="list-style-type: none"> • Culture or policy of tolerance • Weak labour administration and labour inspection • Obstacles to freedom of association and collective bargaining • Poor social dialogue 	<p>Laws</p> <p>Social/economic policies</p> <p>Corporate social responsibility</p> <p>Social dialogue</p> <p>Improved services of E/W's organizations</p> <p>Increased control and sanctions</p> <p>Information dissemination, awareness-raising, press</p>	<ul style="list-style-type: none"> • Efficient employment policy • Fair tax system • Social security reform • Improved social protection • Balanced labour legislation • SME-friendly business environment • Cultural change, less tolerance • Efficient labour administration • Regulated migration flow