



The project is funded by
the European Union



The project is implemented by
the International Labour Organization

EU-ILO Project
ENHANCING THE LABOUR ADMINISTRATION CAPACITY
TO IMPROVE WORKING CONDITIONS AND TACKLE UNDECLARED WORK



Undeclared Work in Ukraine: Nature, Scope and Measures to Tackle It

Working paper



April, 2018

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April 2018

FOREWORD

The present report, entitled “Undeclared work in Ukraine: nature, scope and measures to tackle it”, was prepared within the scope of the technical cooperation project “Enhancing the labour administration capacity to improve working conditions and tackle undeclared work”, funded by the European Union and implemented by the International Labour Organization (ILO). It is aimed at supporting the SLS in developing the multiannual strategy to tackle undeclared work.

It was developed by the national consultant Olexandr Tsymbal on the basis of the update of its previous review, entitled “Undeclared Work in Ukraine: manifestations, scope and labour inspection measures”. The latter was prepared in January, 2017, within the framework of the ILO Project “The effectiveness of the labour inspection system and social dialogue mechanisms is strengthened”.

The present report also benefited from the contribution of Oksana Nezhyvenko, who made an overview of the results of the first Ukrainian Undeclared Work Survey, commissioned by the National University of Kyiv-Mohyla Academy (NaUKMA) and the International Labour Organization (ILO) and conducted during October-November 2017 by the Kyiv International Institute of Sociology. This Undeclared Work Survey was based on the methodology already used in the two Special Eurobarometer studies of the “Undeclared work in the European Union” conducted in 2007 and 2013 by the TNS Opinion & Social at the request of the Directorate-General for Employment, Social Affairs and Inclusion of the European Commission (EC).

April, 2018

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ACRONYMS

EC	European Commission
EU	European Union
GDP	Gross Domestic Product
ICLS	International Conference of Labour Statisticians
ILO	International Labour Organization
KIIS	Kyiv International Institute of Sociology
LFS	Labour Force Survey
MS	Member State
NaUKMA	National University of Kyiv-Mohyla Academy
SLS	State Labour Service of Ukraine
SNA	System of National Accounts
SWTS	School-to-work transition surveys
UDW	Undeclared Work
UUDWS	Ukrainian Undeclared Work Survey

GLOSSARY

Economy that is not directly observed - refers to all productive activities that may not be captured in the basic data sources used for national accounts compilation because they are shadow, informal, illegal, undertaken by households for their own final consumption, and other activities omitted due to deficiencies in the basic data collection programme.

Undeclared work - refers to any paid activity, lawful in nature but not declared to the public authorities, with due regard to the variety of the EU Member States' regulatory systems.

Informal economy - refers to all economic activities by workers and economic units that are not covered or insufficiently covered by formal arrangements, both in legislation and in practice.

Informal employment - refers to all informal activities carried out in the formal sector enterprises, informal sector enterprises, or households. Workers who have informal jobs, are recognized as informally employed population.

Informal sector - refers to all production units of the institutionalized 'household' sector in the System of National Accounts, which produce goods or provide services for profit generation without creating legal entities or getting any other registration required by law.

Formal sector - refers to all enterprises, facilities, organizations and other institutionalized economic entities, which operate under official registration, pay taxes, duties and social contributions, and commit to comply with legal requirements in performing their economic activities and to report to the State as required.

Shadow economy - comprises all lawful activities of the economic entities that conceal such activities from the authorities in order to avoid paying taxes and social contributions, meeting requirements to minimum wages, maximum daily working hours, occupational health and safety, as well as to shun certain administrative procedures, e.g. statistical and other administrative reporting.

Employment that is not in compliance with relevant legal requirements or is not economically distinct from other social relations, or “employment non-compliant with legal requirements” - is a working concept proposed by the author to cover all phenomena and their aspects described with such definitions as *unofficial, informal, non-registered, shadow, undeclared, concealed, underground employment*. This review does not offer a single comprehensive definition but highlights one feature that all mentioned terms have in common: all of them describe activities, which in practice do not comply with pertinent legal requirements. At the same time, they do not include activities, which are not economic in their nature, motives and outputs - those, which are not geared towards generating economic benefit but remain integrated in other types of relations: family, friendly, cultural relations etc. In some countries such activities may not even be viewed as 'employment' (personal services or self-service, friendly services, volunteering, social support etc.), or in the sense of their organizational characteristics they are neither regular nor specialized (odd jobs, occasional incomes from non-economic and economic activities, for example, hobby, etc.) Moreover, this review focuses on labour activity, which in practice does not comply with all pertinent legal requirements, but is not *illegal* as such. It should be noted that this review does not analyse all types of non-compliance with the social or labour law. It focuses on practices whereby certain relations or separate aspects thereof are intentionally and systematically concealed from the authorities for gaining economic or organizational benefits.

INTRODUCTION

The present report “Undeclared Work in Ukraine: nature, scope and measures to tackle it” was prepared in pursuance of the EU-ILO Project “Enhancing the labour administration capacity to improve working conditions and tackle undeclared work”.

It provides the expertise and information support to the State Labour Service of Ukraine to develop, test and implement a systematic and multiannual strategy to tackle undeclared work, in cooperation with other stakeholders, and based in sound preventive and deterrence measures.

The report is based on the analysis of international experience in exploring various forms of employment that are non-compliant with legal requirements, as well as on the study of legal documents available in Ukraine, theoretical approaches, opinions of qualified experts and social partners. It is also based on the findings of Oksana Nezhyvenko, resulting from the first Ukrainian Undeclared Work Survey, carried out by the Kyiv International Institute of Sociology. In addition, statistical and sociological data were used since they help to clarify the forms of undeclared work in Ukraine (as it is defined in the EU), assess its scope and identify gaps in reliable data on it.

Conclusions and recommendations of this report should, among others, contribute to developing a common understanding of undeclared work and the most suitable measures to address it, as well as to promote the necessary collaboration between various state agencies and social partners in order to improve compliance with the labour and employment legislation in Ukraine.

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“Enhancing the labour administration capacity

to improve working conditions and tackle undeclared work”

1. GENERAL OVERVIEW

1.1 Goal and structure

The goal of this report is to provide the key labour market actors with information on the phenomenon of undeclared work, including its definition, main forms, causes and effects, as well as its scope in Ukraine. This should contribute to strengthening the role of the State Labour Service vested with the labour inspection functions in tackling undeclared work. The report consists of four sections.

The *first section* describes the methodology and main conclusions.

The *second section* summarizes relevant international terminology (ILO, OECD) and national terms used to denote employment, which is non-compliant with the legal requirements, as well as looks at them in comparison with the EU definition of undeclared work. This allowed for determining the main forms of undeclared work and sources of data about it in Ukraine.

The *third section* explores the sources of data about undeclared work in Ukraine and the scope of its various forms.

The *fourth section* provides conclusions and recommendations on how to eliminate undeclared work in Ukraine, with a special focus on the particular role of the State Labour Service of Ukraine, which is vested with the labour inspection functions.

1.2 Methodology

This document is the result of the desk review of ILO and EU legal documents, findings of the statistical and sociological surveys of undeclared work, as well as experience gained by the labour inspections in the EU countries in addressing this phenomenon.

In assessing the national context, we analysed the Ukrainian legal terms used to describe various aspects of employment, which is non-compliant with legal requirements; regulations of the state agencies conducting regular research of specific forms of undeclared work in Ukraine; research publications containing statistical and sociological data about the phenomenon that is described as 'undeclared work' in the EU countries, as well as documents of the State Labour Service of Ukraine.

Draft review and developed recommendations were discussed at the thematic tripartite workshop organized by the EU-ILO Project.

1.3 Main findings

Terminology

No consensus has been achieved, so far, on a uniform terminology to describe the employment forms non-compliant with legal requirements. Various countries consider different forms of such employment as most relevant, therefore they use a variety of terms. In various countries the same terms may have different meanings. The uniform terminology development is naturally related to seeking common features in designated phenomena, but those are very few in so many different economies. This is the reason why the internationally recognized terms have very broad meanings. The notion “undeclared work” proposed by the European Commission is the result of a compromise among definitions of this phenomenon across the 28 Member States. It makes a distinction between the work, which complies with the legislation, and the work, which does not. At the same time, the EC definition does not cover illegal activities and the types of

work not requiring legal regulation at the national level (irregular friendly assistance, care and support to family members, etc.).

The notion of 'undeclared work' is known in Ukraine to a narrow circle of experts. There are two concepts officially used in Ukraine for describing various forms of employment, which is non-compliant with the national legal requirements. The concept of 'shadow economy' based on the recommendation of the System of National Accounts (SNA-2008) is used by the Ministry of Economic Development and Trade of Ukraine. The concept of 'informal economy' based on the 15th ICLS recommendations (before 2013) on employment in the informal sector and on the 17th ICLS recommendations (since 2014) on informal employment is used by the State Statistics Service of Ukraine for regular and representative surveys.

Availability of Data on Undeclared Work in Ukraine

There is no official definition of the term 'undeclared work' in Ukraine, which preconditions the lack of research regarding its scope and features. Phenomena similar to those described by the term 'undeclared work', are studied in Ukraine but with the use of different terminology, while the methodology for assessing undeclared labour is not always justified and recognized. The majority of sociological surveys, which use such terms as 'informal' or 'shadow' employment, generally pursue a different goal. They are unsystematic and apply inconsistent methodology of data capturing and processing. Findings of such sociological surveys can be used to get a general understanding of undeclared work, but they are not enough to draw valid conclusions. In practice, findings of the Labour Force Survey of Ukraine regularly conducted by the State Statistics Service of Ukraine, particularly concerning informal employment, as well as the SNA data used by the Ministry of Economic Development and Trade of Ukraine for assessing the scope of shadow economic activities are the only regular and methodologically valid sources of data on specific forms of undeclared work.

Main forms of undeclared work in Ukraine

Basic and most relevant manifestations of undeclared work in Ukraine are as follows:

- 1) informal employment in the formal sector;
- 2) employment in the informal sector;
- 3) underreported actual working hours and wages “in envelopes”;
- 4) disguised employment (substitution of employment contracts with commercial or independent contractor contracts, as well as misuse of distant and outsourcing mechanisms to hide the hired labour);
- 5) unreported secondary employment of persons who are fully and officially employed elsewhere.

Sources of Data on Main Forms and Scope of Undeclared Work in Ukraine

Reliable information on the first two forms broken down by gender, age, region, type of economic activity, employment status, level of education and occupational qualification groups is available from the State Statistics Service of Ukraine. The third form cannot be precisely assessed; however, special data of some sociological surveys conducted in Ukraine, indirect comparisons and calculations based on the State Statistics Service data collected for other purposes, as well as general estimates of shadow wages in the structure of the shadow GDP (without its breakdown by sectors, regions etc.), may be indicative of its scopes. As far as the fourth and the fifth forms are concerned, at present it does not seem possible to assess them even approximately.

According to the latest published data (2016), informally employed population of Ukraine amounts to 3,961,200 people, which is 7.9% less than in 2015, making up 24.3% of the total employed population (cf.: 26.2% in 2015). Most of them are payroll employees – 2,069,200 people, or 52.2% of all informal employees. Gender-wise, males prevail among the informally employed (57.9%); and in terms of the place of residence, more rural residents work informally (52.2% vs. 47.8% of urban residents).

In 2014-2016, young people of the 15-24 age bracket and retired persons (60-70 years of age) were most exposed to informal employment. In 2016, the share of informally employed young people was 35.6%, and that of informally employed retirees was 36.0%, whereas in other age categories it was under 26.0%.

In 2016, unlike in 2015, the share of people informally employed in the formal sector shrank more noticeably than the share of people employed in the informal sector. Thus, in 2016 there were 1,830,200 people of the former category, which is 11.8% less than in 2015, and 2,131,000 people of the latter category, which is 4.4% less than in the previous year. Males prevail over females in both categories of employees. Informal employment in the formal sector is concentrated, predominantly, in the urban areas (73.9%), while employment in the informal sector – in the rural areas (74.7%).

Regional differentiation of the two main forms of undeclared work, in particular, informal employment in the formal sector and employment in the informal sector, is extremely high and has remained fairly constant over time.

In both 2015 and 2016, *the lowest rate of informal employment in the formal sector* was observed in Trans-Carpathian oblast (3.3% in 2016), followed by Ternopil (5.7%) and Khmelnytsky (5.8%) oblasts. At the same time, the regions that belonged to this group in 2015 – Luhansk oblast with 6.4% and Poltava oblast with 8.2% – migrated in 2016 to the group with moderate rates (7.1% and 8.1%, respectively).

In 2016, the *highest rate of informal employment in the formal sector* was registered in Kherson (14.9%) and Ivano-Frankivsk (26.3%) oblasts, which had the poorest indicators in the previous years as well; Lviv oblast, contrary to the general tendency, showed increase in this indicator from 15.1% in 2015 to 16.7% in 2016.

As before, the rate of *employment in the informal sector* was lowest in the most urbanized and industrialized regions, namely in Kyiv City (2.1%), Kharkiv (3.8%), Kyiv (3.3%), Dnipropetrovsk (4.4%), Donetsk (5.2%), Lviv (6.9%), Poltava (7.7%) and Odesa (8.3%) oblasts. Its highest rate was observed in the border regions: Trans-Carpathian oblast (32.6%, which is 9.9% lower than in 2015), Rivne oblast (38.5%, which is 2% lower than in 2015) and Chernivtsi oblast (40.0%, which is 0.5% higher than in 2015).

The situation was particularly worrisome in certain economy sectors of several regions. According to the 2015 data, the rate of two main forms of undeclared work in *agriculture* of eight oblasts equals or exceeds 80%. In the construction sector of Vinnytsia, Volyn, Ivano-Frankivsk, Rivne, Kherson and Chernivtsi oblasts this indicator equals or exceeds 70%. The 2016 data are consistent with this trend.

In 2016, as in the previous years, the unbeatable leaders in terms of informal employment in the formal sector were *construction* (32.0% of all people employed in the sector), *temporary accommodation and catering services* (29.4%), *wholesale and retail trade* (24.7%).

The rate of employment in the informal sector is highest in agriculture (57.6%) and construction (25.2%).

At this juncture, it seems impossible to measure accurately the *third main form of undeclared work* – unreported wages. The most reliable estimates suggest that unreported wages (“in envelopes”) make up 85-90% of the reported wages¹. The share of employees at the formal sector enterprises (hiring 10 and more workers) who, presumably, are paid unreported wages is 12.4% (compared to 16.9% in 2015) of all employees of the mentioned enterprises. According to the Labour Force Survey findings, employed individuals estimate average working hours a week to be 11.3% longer than reported by the formal sector enterprises, which may be viewed as an approximate estimate of the average unreported hours worked weekly.

No one seems able to provide even approximate estimates of the scope of the *fourth* (disguised employment) and *the fifth* (undeclared secondary employment) forms of undeclared work in Ukraine. Their assessment will require special field studies or modifications of the questionnaire used in the Labour Force Survey in Ukraine.

Notwithstanding the above, it is important to highlight, however, the findings of the first Ukrainian Undeclared Work Survey (UUDWS) – a direct method to estimate the size and the nature of the undeclared work -, commissioned by the NaUKMA and the ILO and conducted by the KIIS between October and November of 2017.

In fact, the results of this first UUDWS are likely to contribute to a better understanding of the size and nature of the UDW in Ukraine.

According to them, around 7% of the respondents admitted having worked undeclared in the last 12 months², whereas around 46% knows someone that works undeclared and around 33% estimate that at least 50% of the population of Ukraine works undeclared.

The results also suggest that the majority of the undeclared workers are between 35 to 54 years old, live in urban areas and are unemployed, employed in other occupation or self-employed.

The main undeclared activities provided include home maintenance or home improvement services, selling farm produced food, gardening, car repairs and selling goods/services associated with their hobbies.

Finally, the main reasons pinpointed as a justification for working undeclared were the difficulties on finding a regular job, the seasonal nature of the work, the fact that the undeclared work is the way such activities are usually done, the fact that the State does not do anything for them and the fact that both parties benefit from it.

Response

In order to develop an appropriate national policy and action plan to tackle undeclared work, it is necessary to introduce the concept of 'undeclared work' and to develop a methodology to measure it. This would allow to engage meaningfully in a dialogue with the EU countries and organizations regarding the undeclared work and to harmonize the national efforts with those of the European community. It would promote compliance with labour rights and social guarantees for employees and, at the same time, help to reduce unfair competition practices in the market and to eliminate financial risks for the state budget and social security system.

¹ Metodichniy pidkhid do otsiniuvannya tinovoi zainiatosti v Ukraini / Yu. M. Kharazishvili, N. M. Dmytrenko // *Ekonomika Ukrainy*. – 2010. – No 12. – p. 16–28 [*Methodological approach to assessment of shadow employment in Ukraine*]; Yu. M. Kharazishvili. *Klasychna model funktsii skupnoi propozytzii v konteksti keysianskoi teorii* [*Classical Model of the Aggregate Supply in the Context of the Keynesian theory*] // *Statystyka Ukrainy*. – 2006. – No 1. – p. 42–48

² It is important to note, in this regard, that this value should be viewed as the minimum lower level of the phenomenon size, considering the natural reluctance of respondents to acknowledge their eventual provision of undeclared work, as also noted TNS Opinion & Social (2007:6).

The SLS vested with the labour inspection functions should play a leading role in tackling undeclared work. It should be guided by the principles laid down in the ILO Conventions No 81 and 129, Recommendations No 198 and No 204 etc. In addition to consulting and educating employers and employees on labour and social security legislation, inspection visits, including unannounced ones, taking appropriate measures, imposing sanctions, reinstating employees' rights, etc., the SLS in cooperation with the Ministry of Social Policy and in consultations with the social partners should develop a framework and mechanisms for implementing the national policy to deter undeclared work based on reliable information on general preconditions, specific causes and motives of undeclared work, create a national and territorial system for coordination of efforts of various government authorities and social partners that have at their disposal various tools for detecting, assessing and eliminating undeclared work.

2. INTERNATIONAL AND NATIONAL TERMINOLOGY FOR DENOTING EMPLOYMENT NON-COMPLIANT WITH LEGAL REQUIREMENTS

The International Labour Organization, OECD countries and the EU Member States pay special attention to employment, which is non-compliant with legal requirements, as it poses a threat to full, productive and high-quality employment, sustainable economic development and observance of rights in the labour market.

Such forms of employment are internationally denoted by a range of terms considered in this section and compared with the term 'undeclared work' as adopted in various EU regulations.

2.1 Undeclared work, concealed employment and informal economy

Undeclared work is defined as “any paid activities that are lawful as regards their nature but not declared to public authorities, taking account differences in the regulatory systems of the [EU] member states”.³ This does not include illegal activities and unregulated activities that do not have to be reported to the public authorities (for example, in some countries these are household activities for personal needs).

The Organization for Economic Cooperation and Development uses the term **concealed employment**, which means “the employment that, while not illegal in itself, has not been declared to one or more administrative authorities”.⁴

ILO considers undeclared work in the context of a broader notion of *informal economy* defined in ILO 2015 Recommendation No 204 concerning the transition from informal to formal economy (Article 2 (a))⁵.

Thus, **informal economy** refers to “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements”. Informal economy encompasses the undeclared employees as defined by the European Commission as well as employees outside the scope of the labour legislation.

2.2 Other international terms and their correlation with the term 'undeclared work'

"Undeclared work" is often used in connection with other terms relating to the labour market. It is worth to have a closer look at such terms as *informal sector*, *informal employment*, and – in more detail – *informal economy* (ILO definition) and to find out how they correlate with the term *undeclared work* (EU definition).

³ Communication from the European Commission on undeclared work 98/219 of April 7, 1998, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Ac11710>

⁴ OECD Employment Outlook, 2004, c. 232.

⁵ http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---normes/documents/normativeinstrument/wcms_386779.pdf

2.2.1 Informal sector

Informal sector was defined at the 15th International Conference of Labour Statisticians (ICLS) in 1993 on the basis of “*characteristics of the production units (enterprises)*”^{6;7}.

Informal sector⁸ stands for activities of the production units, which produce goods or provide services for profit generation. They are not legal persons, may not conclude agreements with other economic entities or assume legally protected obligations on their behalf. Their production costs cannot be separated from their household expenses. Labour relations, if any, are mainly based on casual employment, family and personal relations but not on the contractual arrangements with official guarantees.

Informal sector includes:

- unincorporated enterprises or members of various households or individuals who act at their own discretion and risk for profit generation without creation of legal entities (own-account individuals/self-employed are the most common form);
- enterprises of informal employers working for profit generation without creation of legal entities or any state authorization and hiring employees;
- households consuming the results of their economic activities for their own needs.

It is important to mention that activities of the production units in the informal sector are not necessarily aimed at evading taxes or social contributions or non-observance of the labour law or other laws and administrative regulations. Correspondingly, the notion 'informal sector activity' should be distinguished from the notion 'activity in the undeclared or informal economy'.

Use of the term *informal sector* allows dividing the employment sphere into two parts — *formal sector*⁹ - the sphere of activities of the registered and developed production units (enterprises and other legal units) and *informal sector* - the sphere of activities of unregistered and undeveloped production units (informal employers, own-account individuals/self-employed and households).

2.2.2 Informal employment

In 2002, the ILO International Conference of Labour Statisticians proposed to use the concept 'informal employment'¹⁰ instead of the concept 'employment in the informal sector'. The **job-based** criteria were suggested for its definition. Based on these criteria, the entire sphere of employment can be divided into formal employment and informal employment.

In the framework of this concept, **formal employment**¹¹ means that requirements of the law to enterprise registration and formalization of the labour relations are met in full (employment contracts, records in the labour book, proper accounting of worker's schedule and scope of work),

⁶ Hussmans, R. 2004. Defining and measuring informal employment, E/ESCAP/SOS/11 (Geneva, ILO).

⁷ http://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/normativeinstrument/wcms_234473.pdf. (Resolution on Informal Sector Employment Statistics adopted at the 15th ICLS, Geneva, 1993)

⁸ Ibid

⁹ Ibid

¹⁰ <http://www.ilo.org/public/english/standards/relm/gb/docs/gb289/pdf/icls-17.pdf> Report of the Conference; Doc. ICLS/17/2003/R; International Labour Office, Geneva, 2003

¹¹ Ibid

all compulsory contributions to social funds and taxes are paid, occupational safety and health requirements are met and social guarantees of employment are observed, etc.

Informal employment¹², according to the Guidelines concerning the statistical definition of informal employment, encompasses the following categories (Table 2.1):

- own-account workers engaged in the production of goods exclusively for own final consumption by their households;
- own-account individuals who independently or in the group work at their own discretion in informal sector;
- employers employed in their own informal sector enterprises;
- contributing family workers, irrespective of whether they work in formal or informal sector enterprises;
- members of informal producers' cooperatives;
- employees holding informal jobs in formal sector enterprises, informal sector enterprises, or as paid domestic workers employed by household.

Lack of registration of employment relationships with the public authorities or non-observance of legal requirements to employment contracts is the main feature of informal jobs.

Since different countries have different legislative requirements to employment reporting, off-the-books employment may be conditioned by two reasons: (1) if certain labour relations with regard to effective legislation do not, in full or in part, fall within the purview of the national labour law, income taxation, social protection etc.; (2) if labour relations fully fall within the purview of labour law, but in practice requirements of this labour law are ignored in full or in part.

Table 2.1. Matrix of overlapping of informal sector and informal employment elements

		By types of jobs in view of the employment status				
		Informal own-account individuals	Informal employers	Contributing family workers	Informally employed workers	Informal members of the producers' cooperatives
by types of production units	Sector of formal enterprises					
	Sector of informal enterprises				1	
	Sector of households	Own-account individuals engaged in production for their own final consumption				

In the Table:

	Informal employment in the formal sector and in the sector of households (outside informal sector)
	Employment in the informal sector

1 – If for defining informal sector in the country a criterion of production unit (enterprise) size is used separately from the criterion of state registration, a situation may arise when an employee declaring his/her activities to the state would work at an informal enterprise. Such situation is not relevant for Ukraine, since the main criterion distinguishing the informal sector is the registration criterion, so it is impossible for a formal employee to work at an informal enterprise.

¹² Ibid.

In case (1), informally employed workers belong to informal economy, and in case (2) — to informal economy and undeclared work¹³.

Consideration of the terms *informal employment* and *informal sector* in combination allows to present the employment sphere as consisting of the following three sectors:

- formal employment in the formal sector, where both enterprises and jobs are registered as legally required;
- informal employment in the formal sector, where informal jobs exist¹⁴;
- employment in the informal sector with enterprises and individuals acting without the state registration as legally required.¹⁵

2.2.3 Informal economy

The term 'informal economy'¹⁶ encompasses even a larger array of phenomena compared to the term 'informal employment'. It was introduced for the purposes of capturing the maximum set of activities both of workers and production units, which are characterized by severe deficit of decent work and dominance of such problems as poverty and low skills of workers; inadequate and unsafe working conditions; transitory incomes; working hours and labour intensity above the set norms; absence of the right to freedom of association, absence of access to social protection and security.

In a broad sense, the term 'informal economy' comprises all income generating activities of production units and workers who as required by the law, or contrary to its requirements in practice are not or insufficiently covered with formal arrangements¹⁷ disregarding the criminal economic activity. Therefore informal economy covers two situations:

- economic activity outside formal reach of the law;
- economic activity within formal reach of the law, however non-compliant with its requirements, in full or in part, with purpose of additional benefits;

As indicated in the Resolution of the International Labour Conference on Decent Work and Informal Economy (2002), the term 'informal economy' divides the economy into two non-overlapping spheres — formal and informal. The Resolution also describes the nature of labour activities in all sectors and types of economic activities. Since then ILO has been using the term 'informal economy'¹⁸.

¹³ Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.) for reasons such as: non-declaration of the jobs or the employees; casual jobs or jobs of a limited short duration; jobs with hours of work or wages below a specified threshold (e.g. for social security contributions); employment by unincorporated enterprises or by persons in households; jobs where the employee's place of work is outside the premises of the employer's enterprise (e.g. outworkers without employment contract); or jobs, for which labour regulations are not applied, not enforced, or not complied with for any other reason (The definition corresponds to the definition of unregistered employees as specified in paragraph 9 (6) of informal sector resolution adopted by the 15th ICLS. It encompasses the ICSE-93 definitions of non-regular employees, workers in precarious employment (casual workers, short-term workers, seasonal workers, etc.) and contractors.). – Hussmans, R. 2004. Defining and measuring informal employment, E/ESCAP/SOS/11 (Geneva, ILO).

¹⁴ Enterprise, which meets all registration, reporting and tax requirements, allows for an employee working only under verbal arrangements.

¹⁵ *Report of the Working Group on informal employment*, 17th International Conference of Labour Statisticians, Geneva, 2003, Ch. 3, Annex.

¹⁶ http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_218371.pdf

¹⁷ ILO's Resolution concerning decent work and informal economy adopted in the 90th ILC session, 2002

¹⁸ <http://www.ilo.org/public/english/standards/relm/ilc/ilc90/pdf/pr-25res.pdf>. Resolution concerning decent work and informal economy. The General Conference of the International Labour Organization, meeting in its 90th, Session, 2002

Thus, informal economy is broader than informal employment since it covers not only economic activity at informal jobs but also, in full or in part, informal activity at formal jobs.

Alongside this, the term *informal economy* is narrower than the term *shadow economy* that includes criminal activities¹⁹.

2.2.4 Undeclared work

The 1998 Communication of the European Commission defines '**undeclared work**'²⁰ as “**any paid activities that are lawful as regards their nature but not declared to public authorities**”. This definition excludes criminal activities, as well as work not covered by the usual regulatory framework and which does not have to be declared to public authorities (for example, in some countries the activities undertaken within the household for own consumption)²¹.

Undeclared work researchers from the Programme “Tackling undeclared work in Europe”²² believe it is important to distinguish between different types of undeclared work. For example, the Eurobarometer survey of undeclared work in the EU makes a distinction between²³:

- **undeclared work** at formal enterprise, or what could be referred to as undeclared paid employment, where the work could be undeclared in full or in part, and, accordingly, full or a part of wage is paid 'in envelopes';

- **undeclared work** as an own-account worker, or employer in favour of formal enterprise or household including work without pay;

- **undeclared work** as an own-account worker, or collectively with the neighbours, friends or acquaintances (other close social groups) to deliver goods and services to final consumers.

However, the said survey specifies that this classification does not cover the whole variety of undeclared work and economic practices existing in the EU. Therefore, the accurate criteria and content of undeclared work in contrast with informal economy need to be developed by every state with due regard to its legislation.

In effect, the concepts 'informal economy' and 'undeclared work' differ as the former concept is derived from the criteria of formalization and the level of organization, while the latter is based on compliance with the national legislation. However, in practice their meanings in the developed countries are very much alike because the developed countries offer all necessary arrangements for formal activity while their legislation provisions cover almost all practical cases of entrepreneurial and labour activity.

¹⁹ Schneider. F. and Williams, C. The Shadow Economy, 2013, Institute of Economic Affairs (IEA). Wenmister. London.

²⁰ In Ukrainian, the word 'work' normally is synonymous with «labour». However, in the economic context it is not precise. According to the national economic terminology, the term 'labour' describes the labour activity of employees, whereas the economic activity of entrepreneurs, free-lancers, self-employed is named accordingly: entrepreneurial, professional and economic activity. Since the term 'undeclared work' serves not only to describe labour activity of employees but also covers others, in the Ukrainian economic language it would be more preferable to operate with economic activity which is a common characteristic for all employed individuals regardless of their status.

²¹ Communication from the Commission (98) 219 final, 7 April 1998

²² Eurofound (2013), Tackling undeclared work in 27 European Union Member States and Norway: Approaches and measures since 2008, Eurofound, Dublin

²³ http://ec.europa.eu/public_opinion/archives/ebs/ebs_284_en.pdf. “Undeclared work in the European”, Special EUROBAROMETER; http://ec.europa.eu/public_opinion/archives/ebs/ebs_402_en.pdf. Special Eurobarometer 402, Undeclared work in the European Union

Table 2.2 shows how the terms *informal economy* and *undeclared work* may either coincide or diverge in meaning. All highlighted cells (both orange and red) show informal economy. The red cells indicate the part of informal economy that shall be declared according to the law but in fact remains undeclared. Orange cells cover the economic activities that actually are informal but cannot be considered undeclared, as it is not specifically required by the law.

Table 2.2. Matrix of matches and differences between the terms 'informal economy' and 'undeclared work'

			By type of production unit			
			Sector of formal production units	Sector of informal production units		Households
				Informal businesses not covered by laws	Informal businesses infringing laws	
Classification of job positions as per employment status	Formal employment	Formal economic activity		¹ —		
		Informal economic activity not covered by law				
		Informal economic activity not abiding by the law in practice	UDW	UDW	UDW	UDW
	Informal workplaces	Informal economic activity not covered by law				
		Informal economic activity not abiding by the law in practice	UDW	UDW	UDW	UDW

¹ - Economic activity of employees, who register their employment at production units, which are allowed to operate without registration due to their size (according to the legislation)

Thus, informal economy and undeclared work overlap in the part of economic activity (of enterprises and of workers) which shall be declared to comply with the law but is not (with the exception of criminal activity)²⁴.

Differences in the content of these terms are as follows:

a) *in contrast with undeclared work, informal economy* includes the concealed products even though employment due to which it was produced was fully declared (for example, in case of hourly rates a part of services and goods are not documented);

b) *in contrast with undeclared work, informal economy in addition comprises* the activity which, as required by the law, does not need to be declared (predominantly, this is the activity of subjects in the informal sector as well as households) and therefore it does not fall within undeclared work;

c) *in contrast with informal economy, undeclared work in addition comprises* false forms of activity – when from a formal point of view an enterprise or activity falls into a certain classification (own-account worker, sub-contractor, etc.) but in reality they hide the other type of relations. **Such cases are categorized as undeclared work because they constitute an employment relationship, although hidden under the guise of business, outsourcing, subcontracting, family, social and other**

²⁴ "The only difference between undeclared and declared work is that undeclared work is not declared to the authorities for tax, social security and/or labour law purposes... If an activity possesses additional differences to declared work besides the fact that it is not declared to the authorities for tax, social security and/or labour law purposes, it is generally not defined as undeclared work." – Williams, C.C., Horlings, E. and Renooy, P., Eurofound, *Tackling undeclared work in the European Union*, Dublin, Eurofound, 2008, available online at: <http://www.eurofound.europa.eu/publications/htmlfiles/ef0813.htm>.

relationships. This category also includes breaking down enterprises in micro-businesses in the countries with simplified regulatory requirements and procedures for such micro-businesses (labour and social legislation);

d) *in contrast with informal economy, undeclared work in addition comprises cases of concealed wage (wage “in envelopes”), artificial minimization of wages, working hours or the contract duration where employers benefit from it;*

e) *in addition, undeclared work comprises employees' activities outside the employer's enterprise premises, undeclared secondary employment; paid work in somebody else's households if such work needs to be declared to tax and employment registration authorities.*

Undeclared work also differs from informal employment. Informal employment covers all persons whose access to jobs and employment arrangements in the formal sector do not comply with legal requirements. Thus, undeclared work extends to all persons in informal employment operating outside the informal sector, but not all persons employed in the informal sector. In the segment of informal sector where declaration of activity is not statutory required (as is the case in some countries) employment will be informal but it will not be deemed undeclared.

2.3 National terminology

In Ukraine, the concept of undeclared work is not used in a systemic manner, nor is it defined in any official regulations. However, many of the phenomena described in the EU countries as *undeclared work* are common for Ukraine, being most commonly referred to as *shadow economy; economy that is not directly observed; informal employment*. Related terms – *unregistered employment, illegal labour, hidden labour* and so on – are often used by researchers and can even be found in some Ukrainian laws, but they have not yet been properly defined and remain too vague to be applied universally and consistently.

Regulations defining institutionalized terms in this area are as follows:

- "Guidelines for Estimating Shadow Economy" (Order N^o123 of the Ministry of Economy of Ukraine of 18 February 2009)²⁵,
- Order N^o680 of the State Statistics Service of Ukraine of 31 December 2004 "On Statistical Observation of Economy that is not Observed Directly"²⁶,
- "Methodological Guidelines on Defining Informal Employment" approved by Order N^o16 of the State Statistics Service of Ukraine of 23 January 2013²⁷.

²⁵ <http://www.me.gov.ua/LegislativeActs/Detail?lang=uk-UA&id=4bb297a0-c900-404f-8c6f-5f76f18b1503>

²⁶ http://www.ukrstat.gov.ua/metod_polog/old/titul_old.html

²⁷ http://www.ukrstat.gov.ua/metod_polog/metod_doc/2013/16/16_2013.htm

2.3.1 Directly unobservable economy

The broadest category is directly unobservable (i.e. not covered by statistics) economy. According to the State Statistics Service of Ukraine (see Order N°680 of 31 December 2004)²⁸, directly unobservable economy is a part of the national economy, information on which cannot – for various reasons – be directly obtained through statistical observations or used to compile the national SNA 1993 accounts.

Inability to observe this type of economic activity can be put down to the shortcomings of existing statistical and accounting procedures and reasons of economic (deliberate partial or complete refusal to register business, economically motivated understatement and distortion of accounting data), legal (illegal activity) or organizational nature (insufficiently structured business – random economic activity or production for own final consumption).

Depending on the reasons and nature of business activity, directly unobservable economy can be subdivided into:

- (i) shadow economy,
- (ii) informal sector,
- (iii) illegal production and economic activity,
- (iv) non-economic phenomenon (production for own final consumption)
- (v) processes that cannot be recorded statistically due to imperfect data collection system.

(i) Shadow economy, according to the State Statistics Service, is the activity, which is legally allowed but concealed from the public authorities in order to evade taxes, avoid paying social protection contributions and required standards of minimum wage, observing maximum working hours regulations, occupational safety and health standards, as well certain administrative procedures, in particular, filling in statistical and other administrative forms.²⁹

In fact, **so interpreted, the shadow economy conforms to the international definition of informal economy and the European undeclared work in formal sector**. However, similar to the approaches practiced by the Ukrainian Ministry of Economic Development and Trade, this approach focuses only on the economic units and is limited in assessment of the costs associated with the shadow economy. It neither distinguishes between individual employees involved in the shadow economy nor determines how the failure to register business violates the social and labour rights.

(ii) Informal sector, according to the State Statistics Service's approach to assessment of directly unobservable economy, is based on the definition of the 15th ICLS with clarifications adopted during the 17th ICLS but takes into account the national specifics. In Ukraine, informal sector includes:

- non-registered economic units (the Civil Code, Economic Code, Tax Code, Labour Code are not observed);
- other-than-agricultural production for own consumption;
- individual housing construction (including renovation);
- casual economic activity;

²⁸ http://www.ukrstat.gov.ua/metod_polog/metod_doc/nr/nr_05.pdf

²⁹ http://www.ukrstat.gov.ua/metod_polog/s_nac_r/nac_5.htm

- unaccounted activity of second-job holders as well as activities of own-account workers.

This sector falls under most international approaches to:

- informal sector in terms of casual economic activity and unaccounted activity of second-job holders, as well as own-account workers' activity;
- undeclared work since according to the Ukrainian tax legislation, individuals with casual incomes gained outside the activity of institutionalized economic units should disclose them in their annual tax declarations.

(iii) Illegal production and economic activity in Ukraine, according to SNA 1993, include³⁰:

- production of goods and services, which are banned for sale and possession by the law (similar to the international criminal and black activity);
- essentially lawful activity, which, being carried out by persons who are not licensed to engage in it, becomes illegal (similar to the international illegal employment or work);
- illegal exports and imports, trade in bootlegged and contraband goods.

(iv) Other economic activities that are not directly observable³¹:

- agricultural production for own final consumption (partly included in the international definition of informal sector but not included in the national one since this activity is not regarded as economic and engagement in it is not deemed as employment);
- tips, bribes;
- wages paid in kind, etc.

The State Statistics Service of Ukraine applies the above approaches to the assessment of directly unobservable economy in order to additionally assess (adjust) indicators in the SNA obtained through direct observation and administrative accounting. They are not specified by cost indicators and by the number of persons or economic units.

2.3.2 Shadow economy

According to the "Guidelines for Estimating Shadow Economy", the shadow economy is "the economic activity that was not duly registered by an economic entity and is characterized by downsizing the costs associated with production of goods, works and services so as to evade taxes and charges (compulsory duties); avoiding surveys and failing to submit statistical reports, which results in a breach of statutory regulations (on minimum wages, working hours, labour conditions and safety, etc.)".³²

It should be emphasized that the main purpose of this document is to outline the methodology of measuring the shadow economy's share in the official GDP (including by economic activities), therefore the Guidelines are not instrumental in developing any acceptable classification of the actual shadow economy manifestations in Ukraine or applying them as a policy mechanism for overcoming such manifestations.

³⁰ Ibid.

³¹ Ibid.

³² "Methodological Guidelines on Defining Informal Employment" approved by Order No16 of the State Statistics Service of Ukraine of 23 January 2013.

The shadow economy definition offered in the Guidelines is based on the notion of "economic entity", which, in Ukraine's context, encompasses incorporated enterprises; state-owned and communal enterprises; government and public institutions (organizations); private enterprises and individual entrepreneurs (entitled to hire employees).

Unlike relevant international regulations, the Guidelines do not cover the activities of individual employees, self-employed persons working without proper registration, household members etc.

Thus, the shadow economy as defined by the Guidelines corresponds to the international definition of informal economy in terms of production units' activity, the difference being that it does not account for production units in the informal sector.

2.3.3 Informal employment

Today, the only reliable and regular source of information about Ukrainian informal employment is the data collected by the State Statistics Service of Ukraine through the economic activity surveys (equivalent to the Labour Force Surveys (LFS) under the international classification). Informal employment is assessed by random surveys of the population, not businesses, a factor to be kept in mind when using the survey results³³.

According to the decision taken at the 17th International Conference of Labour Statisticians to assess informal employment with enterprise-based approach³⁴ starting from 2014, the statistics on informal employment include data on employment in the informal sector and on informal employment in the formal sector.

Nowadays, the term "informal employment" applies to all kinds of non-standard work and all employed persons who – in law or in practice – are not covered by the national labour, income tax and social security legislation (temporary work, part-time employment, distance working, subcontracts and other flexible varieties of employment).

According to the "Methodological Guidelines on Defining Informal Employment"³⁵, the following population groups are classified as informally employed:

- **Persons working on their own account (self-employed persons) and employers working on their own enterprises in the informal sector.**

It should be kept in mind that the informal sector includes:

- unincorporated enterprises³⁶ and individuals working on their own account that are not registered in accordance with the national (economic, commercial, fiscal, social, etc.) laws;
- enterprises of informal employers (or those in the process of registration) that are not registered as an enterprise (if the company is not registered, its size is neglected);

³³ First, the scale of informal employment may be underestimated because the respondents are not always sincere, especially as to their employment status (a person says that he/she is an entrepreneur or a free-lancer but in reality he/she is an employee) and as to hidden wages and/or working hours. Second, the respondents are not employers and they may be unaware if the enterprise is registered and if the employer pays taxes and duties for their employees in full.

³⁴ http://www.ukrstat.gov.ua/metod_polog/metod_doc/2013/16/16_2013.htm № 16. "Methodological provisions concerning the definition of informal employment" approved by Order No16 of the State Statistics Service of Ukraine of 23 January 2013

³⁵ Idem.

³⁶ Non-incorporated private enterprises are the production units that are not legal entities separate from their owners; fixed and other assets are owned not by production units but by their owners. These production units can not initiate interaction with other production units or engage in transactions or enter into agreements or take any obligations. These are usually small-scale businesses with low level of organization; labour relations there are based mainly on irregular employment, family or personal relationships.

- **employees performing informal work in the formal sector** and reportedly working on the basis of a verbal agreement, not entitled to benefits associated with employment (such as a notice of dismissal, severance pay, paid annual leave or sick leave), and for whom an enterprise does not pay taxes and social contributions;
- **hired domestic workers in households;**
- **members of informal producers' cooperatives;**
- **family members who work for free**, either in the formal or informal sectors.

It should be mentioned that self-employed workers who produce goods exclusively for own consumption inside the household are not considered in Ukraine as working population and, therefore, are not classified as informally employed.

Thus, we can conclude that undeclared work covers all persons who, according to the Ukrainian official terminology, have informal employment and also:

- those whose employment in the formal sector is formalized as an independent entity (individual entrepreneurs) or independent workers (free professions), or those who allege to be employed based on an independent contractor contract but in fact are hired personnel. Such cases constitute a typical example of the so-called "social fraud and counterfeiting"³⁷ that employers use to minimize their social responsibility towards employees and the State;
- employees working in the formal sector on the basis of a written contract of employment or employment record although their activities and the wages are declared partially (minimum required wages are paid officially and the remaining part is paid in "envelopes", only the minimum working hours are declared). This allows employers to reduce their social obligations;
- those who are engaged in undeclared work as a secondary job in parallel with the principal one which is declared.

2.4 Causes and consequences of undeclared work

The key motivation behind undeclared work is the desire of employers, self-employed persons and employees to obtain economic and institutional benefits. The economic benefits of undeclared activities are associated with the potential gains achieved by evading taxes and social contributions, or saving money by circumventing the occupational safety and health requirements or other social obligations. Institutional advantages arise from evasion of stringent regulatory rules and the desire to gain greater flexibility in the labour market³⁸ (Fig. 2.1).

³⁷ Labour inspection and undeclared work in the EU / International Labour Office, Labour Administration and Inspection Programme (LAB/ADMIN). - Geneva: ILO, 2013.

³⁸ Communication of the European Commission on undeclared work 98/219 of 7 April 1998, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Ac11710>

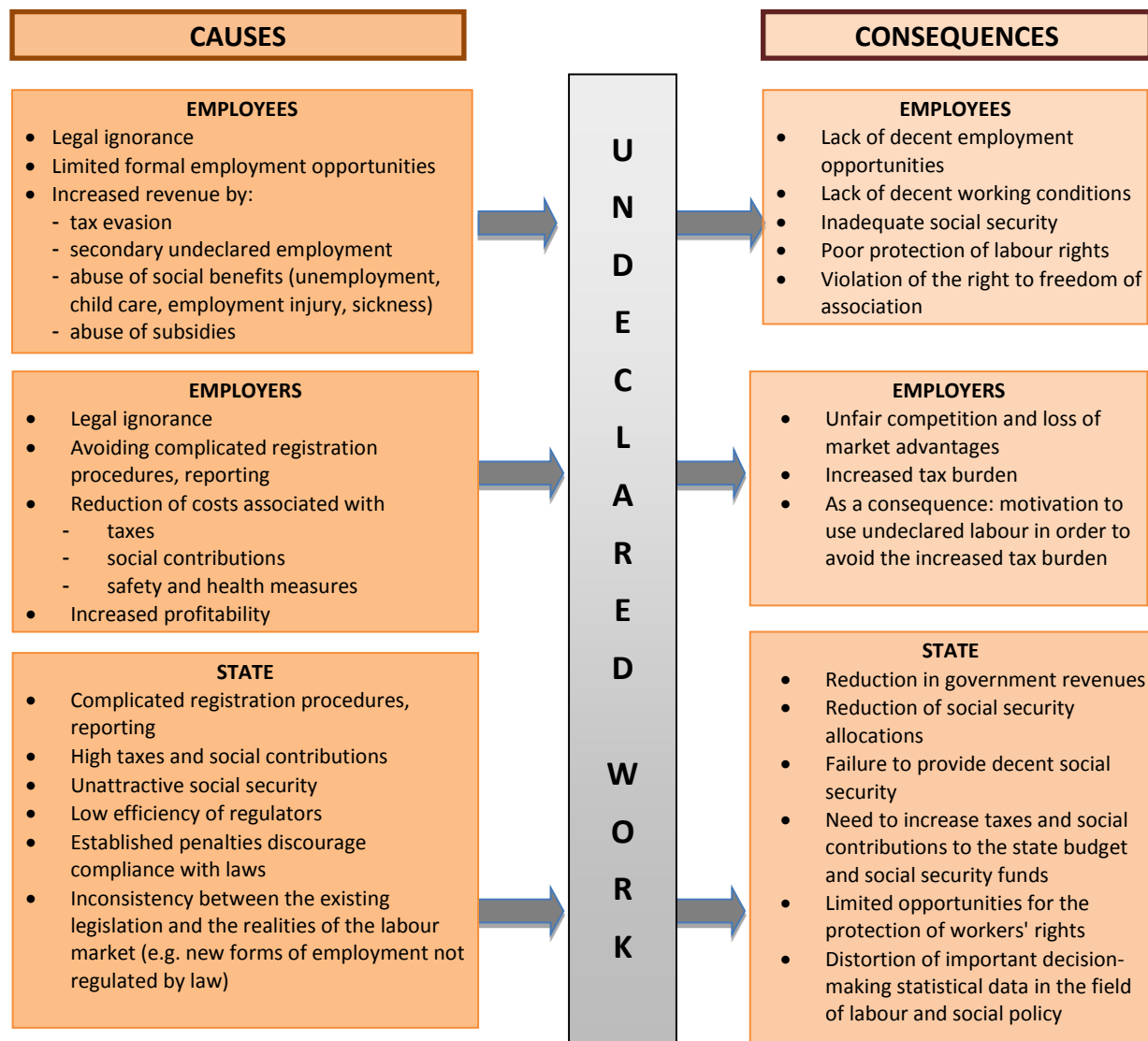


Figure 2.1. Causes and consequences of undeclared work

3. UNDECLARED WORK IN UKRAINE: NATURE, SCOPE AND DATA SOURCES

3.1 Nature of undeclared work in Ukraine

In view of the definitions of informal economy (ILO definition), undeclared work (EU definition) and national terms described above, the main manifestations of undeclared work in Ukraine can be typified as follows (Fig. 3.1):

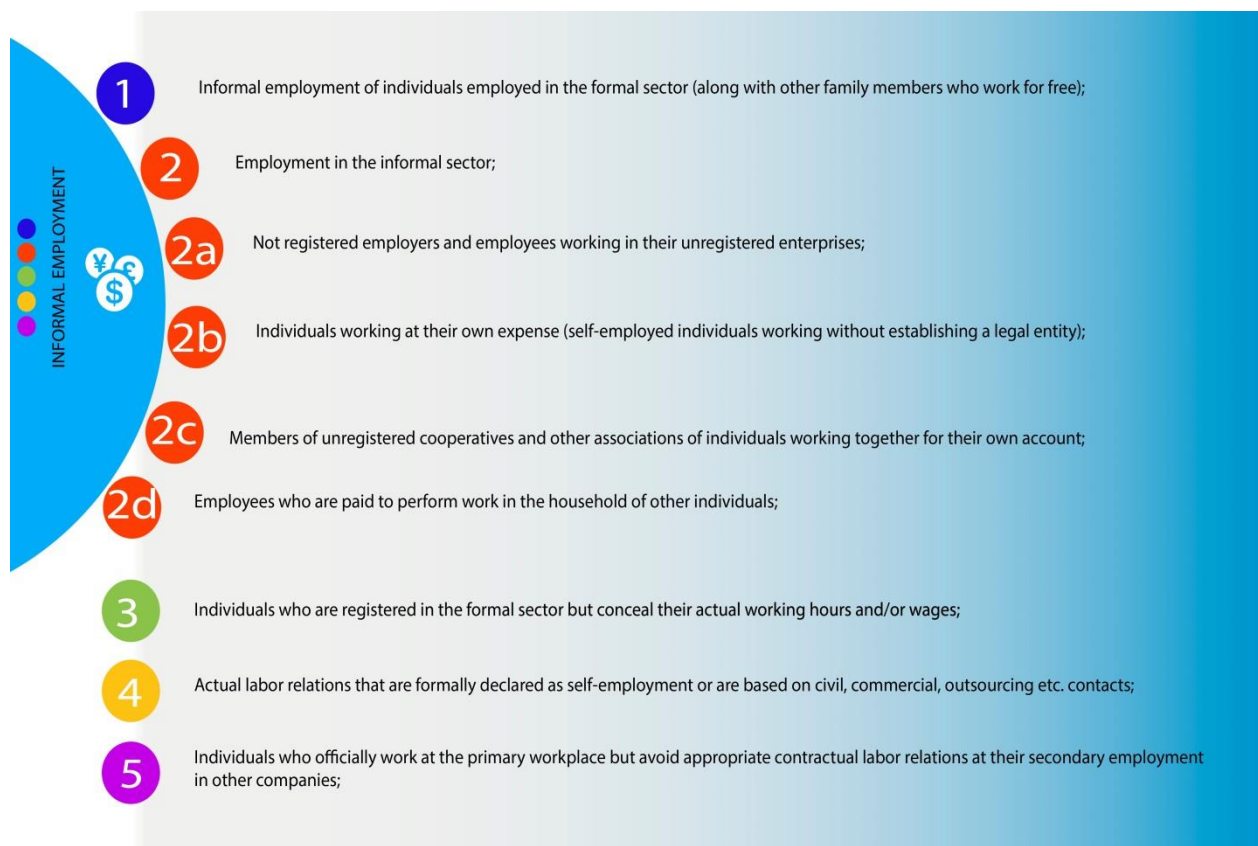


Figure 3.1. Manifestations of undeclared work in Ukraine

3.2 Data sources on undeclared work in Ukraine

Available national and foreign studies of the Ukrainian labour market do not use the term "*undeclared work*". However, this phenomenon is relevant for Ukraine and is analysed, albeit under other names. As a matter of fact, in various data sources different terms are used, along with methodological approaches to assessing their parameters. Some of them describe phenomena that are part of undeclared work, while others refer to phenomena that partially overlap with the undeclared work components and partially go beyond its boundaries; others still study these phenomena in a different perspective that makes them directly incomparable with the elements of undeclared work. Therefore, in order to analyse the diversity of terms and methodological approaches in the context of their suitability for the assessment of certain forms of undeclared work, it seems appropriate to introduce a concept covering all of the phenomena under study. The most general term seems to be "**employment non-compliant with legal requirements**". This

concept covers all types of employment that are labelled as *undeclared work, informal, shadow, hidden, illegal, unregistered, concealed, informal, black etc. employment*.

Ukrainian and foreign studies of employment non-compliant with legal requirements can be grouped in 4 major categories:

- Desk research of individual researchers or research teams;
- Non-recurrent sociological surveys;
- Administrative data;
- Official statistical data.

3.2.1 Desk Research

Desk research can be broken down into five sub-groups. Researchers of the **first sub-group** prefer the official terminology and estimates made by the State Statistics Service of Ukraine (*informal sector, informal employment*), which meet the ICLS (International Conference of Labour Statisticians) guidelines. Representatives of the **second sub-group** coin their own terms or use different terms interchangeably, relying mostly on the State Statistics Service data. The **third sub-group** comprises studies with mixed terminology where random information or unique surveys are used as empirical data. The **fourth sub-group** encompasses individual SNA-based assessments or modifications of shadow economy calculations provided by the Ministry of Economic Development and Trade of Ukraine. And, finally, the **fifth sub-group** is the category of original assessments based on customized approaches both to terminology and data sources.

The first sub-group. K. Bondarchuk (2014)³⁹ examines informal employment in rural areas and attempts to justify regulatory instruments for its categorization. M. Vedernikov (2010)⁴⁰ focuses on ways to address the issue of informal sector in the labour market structure. I. Hnybidenko and A. Rusnak (2010)⁴¹ review the prospects for optimizing informal employment among the rural population. B. Zima (2013)⁴² focuses on structural features of employment in the informal sector of Ukraine's economy. A. Struchenkov (2015)⁴³ discusses quantitative and qualitative dimensions of informal employment. Y. Kashuba (2015)⁴⁴ looks at employment trends in the Ukrainian informal sector. H. Mimindusova, Yu. Kulikova and O. Yolkyna (2015)⁴⁵ investigate the relationship between informal employment and various macroeconomic parameters and social standards, such as GDP,

³⁹ Ukraine: aspects of labour. V.2, 2014. The reasons for the spread of informal employment in rural areas and regulatory instruments of legalization

⁴⁰ Vedernikov M. D. Informal sector in the structure of the national labour market / M. D. Vedernikov // Bulletin of Khmelnytsky National University. – 2010. – № 6, V. 2. – С.189-192. M. Vedernikov, in whose article the ways of overcoming the problem of informal sector in the national labour market structure are discussed/ M.D. Vedernikov Bulletin Herald of Khmelnytsky National University. Economic sciences. - 2010. - № 6, V. 2. - P. 189-192

⁴¹ The transformation of the labour market in rural areas: optimization of informal employment prospects in rural areas. - Economy of Ukraine № 4, 2014 - p.83-93<http://ir.kneu.edu.ua:8080/bitstream/2010/5620/1/Gnibidenko.pdf>

⁴² Zima B.V. Employment issues in Ukraine's informal sector. Electronic archive of Poltava University of Economics and Trade <http://dspace.puet.edu.ua/handle/123456789/5489>

⁴³ Informal employment of Ukrainian population: quantitative and qualitative measurements <http://commons.com.ua/neformalna-zajnyatist-naselennya/>

⁴⁴ Y.M. Kashuba. Trends of employment in Ukraine's informal sector. Electronic edition of "Productive Economy" № 8, 2015 Access at: <http://www.economy.nayka.com.ua/?op=1&z=4233>

⁴⁵ The minimum wage in the methodology of informal employment // Ukraine's Economy. - 2015. - №9, p. 88-92

average wage, living wage and minimum wage. L. Lyubohynets (2016)⁴⁶ examines the correlation between informal employment, national competitiveness and prospects of innovative development. A. Kupets, N. Leshchenko et al (2009)⁴⁷ consider informal economy as part of the shadow economy and informal employment as part of the shadow employment. However, to illustrate their findings, they use the State Statistics Service data on informal employment. Special attention should be paid to the research of Ukraine's informal employment based on the 2009 State Statistics Service microdata (O. Kupets, 2011) that was commissioned by the World Bank's Europe and Central Asia Region, Human Development Sector (ECSDH)⁴⁸. Although this study used the original State Statistics Service microdata for 2009, the assessment and analysis were made in line with the 17th ICLS recommendations for the measurement of informal employment based on jobs rather than on production units. Given that the State Statistics Service of Ukraine did not adopt the 17th ICLS recommendations on informal employment until 2013 and the questionnaire did not include the necessary clarifications, O. Kupets introduced her own criterion to evaluate informal labour, i.e., "work based on verbal agreements, irrespective of the employers' legal status." For this reason, the author's assessment – although of great interest – can hardly be unconditionally compared with the relevant informal employment estimates made by the State Statistics Service of Ukraine prior to 2014.

The **second sub-group** is much less numerous. N. Kraus⁴⁹ and E. Samoilenko (2014)⁵⁰, L. Emelianenko (2016),⁵¹ O. Makarenko (2010)⁵² seem to prefer to use the term *shadow employment* in their studies. However, having provided their own interpretation of the term *shadow employment*, they still use other terms (*unofficial, unregistered, informal employment* etc.) as if they were synonyms of *shadow employment*. At the same time, representatives of this sub-group quote the State Statistics Service data on informal employment to support their reasoning and conclusions. This gap between claiming to have an individual conceptual vision and making estimates based on official ILO statistics methodology of *informal economy and employment* compel to treat terminological innovations offered by this group with care.

Thus, it can be concluded that in terms of methodology of assessing various forms of undeclared work *desk research of the first and second sub-groups* does not add any value to the available data of the State Statistics Service of Ukraine. The only benefit for the reader is getting updated on original interpretations of terms and phenomena in the economy of Ukraine as well as on proposed policies and recommendations.

The **third sub-group** is composed of studies whose authors seemed undecided as to what terms to use. More often than not such terms as *informal, illegal, shadow, unregistered employment, informal segment of the labour market* etc. are used indiscriminately in most of these studies. Their authors believe that the meaning of terms could be grasped intuitively or explained with synonyms,

⁴⁶ Status and prospects of informal employment in the labour market of foreign countries and Ukraine // Global and national economic problems. Issue 14. 2016. p.p. 716-721

⁴⁷ [http://www.etf.europa.eu/webatt.nsf/0/C12578310056925BC125755F00460682/\\$file/NOTE7PBGXZ.pdf](http://www.etf.europa.eu/webatt.nsf/0/C12578310056925BC125755F00460682/$file/NOTE7PBGXZ.pdf)

⁴⁸ <http://siteresources.worldbank.org/UKRAINE/INUKRAINIANEXTN/Resources/455680-1310372404373/InformalEmploymentinUkraineUA.pdf>

⁴⁹ N.M. Kraus. The shadow and official sectors of economy: antagonistic coexistence and interaction: Monograph / N.M. Kraus. - Poltava: RVV PUSKU, 2008. - p. 178. Kraus N. M.

⁵⁰ Research Bulletin of Poltava Economics and Trade University. 2014. № 1 (63). Shadow employment and official unemployment rate in the labour market: international experience and Ukrainian realities.

⁵¹ Emelianenko L.M. State policy of overcoming the shadow employment in the context of minimizing social and economic risks. http://stvua.com/?wpfb_dl=25. Labour Relations: Theory and Practice: Coll. Science. pr. / [redkol head. A. Kolot]. 2016. № 2 (12). Str.99 -109.

⁵² Evaluation of the labour market's shadow component in Ukraine // Bulletin of the National University №1 (5), 2010. p. 159-164

such as "informal employment, i.e., part of illegal, shadow, grey employment". This category of researchers would use random studies, expert opinions (M. Vinichuk, 2013) as empirical data or try to calculate the scope of informal employment by indirect methods based on data from various sources (V. Sabadash, M. Malyuga (2015)⁵³, V. Blyznyuk (2014)⁵⁴. Such studies can hardly be used to get even a most general idea of the Ukrainian employment non-compliant with legal requirements. The very boundaries and subject-matter of this research remain unclear and the lack of information on assessment methodology precludes any substantiated conclusions.

The **fourth sub-group**. The issues of shadow economy still attract considerable attention on the part of expert community in Ukraine. The research by N. Sheludko (2002)⁵⁵ can be viewed as a typical example of a paper that calls for thorough understanding of the shadow economy in Ukraine and development of necessary terminology. S. Barsukova (2003)⁵⁶ analyzed different methods of critical evaluation of the shadow economy and investigated the feasibility of applying international experience in Ukraine, with taking national specifics into consideration. V. Bazylevych and I. Mazur (2004)⁵⁷ developed methodological tools for assessing the scope of shadow economy in Ukraine based on the SNA-98 recommendations, some of which were taken into account by the Ministry of Economic Development and Trade when preparing the methodology of shadow economy assessment. A. Cherevko (2004)⁵⁸ and S. Varnaliy (2006)⁵⁹ insisted on having the shadow economy legalized rather than suppressed, and provided rationale for potential policies. V. Gumenyuk (2006)⁶⁰ brought up the issue of how to legitimize incomes for both employees and employers, as well as create the necessary state regulation. Another supporter of legitimization is I. Mazur (2006)⁶¹, who, along with researching theoretical background behind these processes, studied relevant economic and regulatory practices. V. Mandybura (2006)⁶² proposed arguments in favour of legitimization and substantiated the need for a strategy to curb the shadow economy through developing the national economy and law. The most recent studies tend to justify an integrated approach: preventing the growth of shadow economy together with legitimizing relevant processes. For example, S. Baranov (2015)⁶³ focused on the nature of shadow economy, its causes and socio-economic effects, ways to address it in Ukraine.

⁵³ V.V. Sabadash, M.S. Malyuga. Research of the conflict potential in shadow economy. Mechanism of economic regulation, 2015, № 3
http://mer.fem.sumdu.edu.ua/content/articles/issue_26/VIKTOR_V_SABADASH_MARIIA_S_MALIUHAResearch_Conflict_Potential_Shadow_Economy.pdf

⁵⁴ SI "Institute of Economics and Forecasting of NAS of Ukraine" Shadow segment of the labour market in Ukraine
http://www.rusnauka.com/12_KPSN_2014/Economics/5_166521.doc.htm

⁵⁵ Sheludko N.M. The shadow economy in Ukraine / N.M. Sheludko // Finance of Ukraine. - 2002. - №9. - p. 80-87

⁵⁶ S. Yu. Barsukova. Shadow economy assessment methods: critical analysis / S. Yu. Barsukova // Questions of Statistics. - 2003. - № 5. - p. 14-24.

⁵⁷ Bazylevych V.D., Mazur I.I. Methodological aspects of the shadow economy / Bazylevych V.D., Mazur I.I // Economy of Ukraine. - 2004. - №8. - p. 36-44.

⁵⁸ Cherevko O.V. Legalization of economy (analysis, evaluation and mechanism for reducing the shadow economy) / O. Cherevko. - K. Publishing House "Corporation", 2004. - 94 p.

⁵⁹ Varnaliy Z.S. Shadow economy: nature, characteristics and ways of legalization / Z.S. Varnaliy, A. Ya. Goncharuk, Ya. A. Zhalilo et al. (ed. by Z.S. Varnaliy) - The National Institute of Strategic Studies. - K.: NISS, 2006. - 576 p.

⁶⁰ Gumenyuk V.V. State regulation and legalization of incomes for employees and employers / V.V. Gumenyuk // Socio-Economic aspects of industrial policy. - Donetsk, 2006. - Vol 1. - p. 259-265.

⁶¹ Mazur I.I. Legalization of Ukraine's economy: theory and practice / I.I. Mazur / Kyiv National Shevchenko University -K.: VHTs of Kyiv University, 2006. - 239 p

⁶² Mandybura V.O. Shadow economy in Ukraine and legislative strategies for limiting shadow economy /V.O. Mandybura - K: Parliamentary publishing house, 2006. - 135 p.

⁶³ Baranov S.A. Shadow economy: nature, causes, social and economic consequences and remedies in Ukraine [electronic resource] / S.A. Baranov // Bulletin of the National Academy of Public Administration under the President of Ukraine - 2015. - № 3. - p. 47-55. - Access: http://nbuv.gov.ua/UJRN/Vnadu_2015_3_9

The findings of this sub-group provide a basic idea of theoretical and methodological aspects of the national and international measurement techniques that are used to evaluate shadow economy but do not offer specific indicators of shadow employment (e.g. number of affected people). Furthermore, their statistical data are based on SNA statistics routinely collected by the State Statistics Service or estimated by the Ministry of Economic Development and Trade of Ukraine.

The **fifth sub-group** is characterized by original approaches based on the use of secondary information. For example, Y. M. Kharazishvili (2010)⁶⁴ uses the term *shadow employment* but argues that the evaluation of its scope by way of interviews and expert assessment cannot provide satisfactory accuracy. Instead, he offers his own macroeconomic mathematical model to estimate the scope of shadow employment through the prism of shadow wage rates, share of labour in production output, and capital and workload factors. These estimates correlate closely with estimates made by Schneider (2011)⁶⁵ who used DYMIMIC approach and monetary method excluding illegal (criminal) economic activities and informal sector households. I. Novak and B. Overkovskyy (2011)⁶⁶ studied social risks of non-standard employment in Ukraine by focusing on the Ukrainian reasons for embracing hidden employment under the guise of different independent contractor or commercial contracts.

3.2.2 Non-recurrent sociological surveys

Non-recurrent surveys of certain forms of undeclared work in Ukraine are conducted by a variety of governmental agencies and non-governmental organizations. The Kyiv International Institute of Sociology studied shadow economy upon request of the Centre for Social Perspectives of the Charitable Foundation "Intellectual Perspective" (Project "Shadow economy: social issues of unofficial business" 1999⁶⁷ and 2000⁶⁸) and scrutinized the social security issues faced by individuals employed without proper registration (project "Sounding public opinion for public awareness of the social security system in Ukraine", 2010⁶⁹; project "Current status and dynamics of the labour market and labour resources in Khmelnytsky region" 2016⁷⁰).

Some of the surveys conducted by the Institute for Economic Research and Policy Consulting addressed the fiscal and regulatory causes of the shadow economy and the share of informal employment in the Ukrainian labour market (project "Fiscal and regulatory causes of Ukraine's shadow economy" 2001⁷¹; similar issues were tackled in the project "Black Sea and Central Asia – promotion of work and welfare", "Overview of the labour market in Ukraine", 2007⁷²; "Review of the

⁶⁴ Y. M. Kharazishvili . Methodical approach to the assessment of shadow employment in Ukraine / M. Kharazishvili, N.M. Dmytrenko // Economy of Ukraine. - 2010. - № 12. - p. 16-28

⁶⁵ Schneider, F. The Shadow Economy in Europe / F. Schneider. — Chicago, Illinois : A.T. Kearney, 2011.

⁶⁶ <http://www.fes.kiev.ua/new/wb/media/publikationen/2-finalnij%20maket%20Nestandardna%20zanyatist.pdf>

⁶⁷ <http://csep.org.ua/index.php/uk/1999/211-proekt-tinova-ekonomika-sotsialni-problemi-neofitsijnoji-ekonomichnoji-diyalnosti> - 45% of all respondents reported to work in informal economy. All social groups of the economically active population: employees of both public and private companies, employers, officials, unemployed persons, students, housewives and pensioners – are represented in informal sector. These are predominantly employees and workers of different age, with vocational, graduate and incomplete graduate degrees.

⁶⁸ <http://csep.org.ua/index.php/uk/2000/208-proekt-tinova-ekonomika-sotsialno-ekonomichni-problemi-neofitsijnoji-ekonomichnoji-diyalnosti-v-ukrajini>

⁶⁹ <http://csep.org.ua/index.php/uk/2010/55-proekt-provedennya-doslidzen-gromadskoj-dumki-z-pitan-poinformovanosti-naseleennya-pro-sistemu-sotsialnogo-zakhistu-ukrajini-na-zamovlennya-ministerstva-pratsi-ta-sotsialnoji-politiki-ukrajini>

⁷⁰ <http://csep.org.ua/index.php/uk/2016/288-provedennya-situatsijnogo-analizu-stanu-ta-dinamiki-rinku-pratsi-ta-trudovikh-resursiv-u-khmelnytskij-oblasti>

⁷¹ http://www.ier.com.ua/ua/publications/consultancy_work?pid=1569

⁷² http://www.ier.com.ua/ua/projects/projects_archive_2007?pid=2225

Ukrainian Economy"⁷³; and "Prosperity through sustainable wages" 2010⁷⁴). The Institute of Sociology (NAS of Ukraine) conducted 5 sociological surveys (from the second survey in 2004 to the sixth one in 2012) in the framework of the "European Social Survey" (ESS)⁷⁵. Although these Ukrainian surveys did not include estimates of informal employment, their questionnaire can be used to calculate the proportion of individuals who worked without written clearance based on micro-data available on the official website of the ESS⁷⁶. The NGO "Social Monitoring Centre" tried to assess the income of households engaged in the informal economy (project "Dynamics of the financial situation and socio-economic expectations among the population", 2013 -2014⁷⁷). The Ukrainian Yaremenko Institute of Social Studies focused on households' self-assessment of informal and shadow income within the public opinion surveys (project "The All-Ukrainian public opinion polls in Ukraine", 2010-2013.⁷⁸). The Razumkov Centre carried out a survey of shadow wages in Ukraine (project "Issues of wages and employment as assessed by Ukrainian citizens and experts", 2010⁷⁹).

A. Biloskursky (2001)⁸⁰ in his studies of the so-called informal economic activity used the data of the Kiev International Institute of Sociology (KIIS) survey "Development of small business in Ukraine" commissioned by the US Agency for International Development in 1999. O. Nezhyvenko (2016)⁸¹ performed his own assessment of informal employment in line with the ILO methodology based for research of informal economy approved by the 17th International Conference of Labour Statisticians in 2003 is the study of employment in the informal economy conducted by the ILO Department of Statistics (2012)⁸². The study provides for international comparisons of employment (including in Ukraine) in the non-agricultural sector of informal economy. The paper is unique in that it clearly demonstrates a correlation between informal economy and informal employment through the concept of employment in the informal economy. It notes, in particular, that the delta between employment in the informal economy and informal employment is equal to the number of individuals formally employed in the informal sector. Authors of the study used actual examples to demonstrate that formal jobs can be found even in the informal sector⁸³.

The "Rating" sociological group dedicated a research paper to examining attitudes of the Ukrainians working abroad (2016).⁸⁴ The nationwide survey of young Ukrainians conducted by the company GfK

⁷³ http://www.ier.com.ua/ua/projects/projects_archive_2007?pid=2231

⁷⁴ <http://www.ier.com.ua/ua/projects?pid=2190>

⁷⁵ Golovakha E. Gorbachyk A. Trends of social change in Ukraine and Europe: the results of the "European Social Survey" 2005-2007- 2009-2011. - K .: Institute of Sociology of NAS of Ukraine, 2012. - 119 p

⁷⁶ <http://www.europeansocialsurvey.org/data/country.html?c=ukraine>

⁷⁷ <http://www.smc.org.ua/Stock/Press-release.pdf> - 19% (23.5% of the economically active population) reported having shadow income. 38% reported that their friends or relatives receive income "in envelope."

⁷⁸ <http://www.uisr.org.ua/monitoring>

⁷⁹ http://old.razumkov.org.ua/ukr/files/category_journal/NSD118_ukr_3.pdf. According to 47.1% of respondents and 55.7% of experts, over 40% of the population's income is "in the shadow" nationwide.

⁸⁰ http://ekmair.ukma.edu.ua/bitstream/handle/123456789/9565/Biloskurs%27kyy_Neformal%27na_ekonomichna_akyvnyist%27.pdf?sequ

⁸¹ Nezhyvenko Oksana. Informal Employment in Ukraine: 2007 Survey Application // Scientific Papers NaUKMA. Economics. - 2016. - Vol. 1, N. 1. - P. 132-137. <http://journals.ukma.edu.ua/spne/article/view/103/95>

⁸² http://laboursta.ilo.org/applv8/data/INFORMAL_ECONOMY/2012-06-Statistical%20update%20-%20v2.pdf

⁸³ Due to the possible existence of some formal wage employment in informal sector, total informal employment may be slightly lower than the sum of informal sector employment and informal employment outside informal sector

⁸⁴ http://ratinggroup.ua/files/ratinggroup/reg_files/rg_work_abroad_122016.pdf

Ukraine (2015)⁸⁵ assessed the basic needs and problems faced by today's youth and how the youth policy in Ukraine meets the young people's needs.

E. Libanova, G. Gerasimenko et al (2012)⁸⁶ elaborated a gender typology of informal employment in Ukraine. The research was based primarily on the data of a sociological survey "Research on women's participation in the labour force in Ukraine." In 2013-2015, the Ukrainian Centre for Social Reforms and the Ptukha Institute of Demography and Social Studies (NAS of Ukraine) in cooperation with the "Social Monitoring Centre" (E. Libanova, O. Tsymbal et al) carried out a school-to-work transition survey (SWTS)⁸⁷ to explore the challenges faced by young Ukrainians in the process of transition onto the labour market. The authors enjoyed technical support from the ILO experts and strictly observed the ILO methodology for measuring informal employment.

L. Harman et al conducted several studies of various aspects of employment among Ukrainian households using the finding of the Ukrainian Longitudinal Monitoring Survey⁸⁸ within a joint project of the Institute of Labour Economics IZA and the World Bank. The study of informal employment across various segments of the Ukrainian labour market (2007)⁸⁹ was undertaken to evaluate the scale, structure and probability of informally hired individuals' transiting to other labour market segments and status. The 2010 research estimated the risks and the scope of informal employment in Ukraine compared with other countries in transition⁹⁰.

Among non-periodic surveys conducted by individual authors, the ones worth mentioning include that by I. Miroshnichenko (2013), who studied informal employment in two Ukrainian cities: Donetsk and Sumy in 2009. Miroshnichenko used a synthetic methodology, i.e. he explored both primary and secondary informal employment in terms of the proportion of households with income originating from informal employment. Although these data can hardly be considered representative for the entire country, they have the benefit of revealing aspects that are left untouched by the State Statistics Service of Ukraine. O. Zubenko explored informal employment through public opinion polls in the city of Zaporizhzhia (2013⁹¹).

I. Angeliko examined the sources of household income in Lviv, Ternopil and Rivne oblasts (2008).⁹² Y. Bogoyavlenska, A. Melnik estimated the "black" labour market (the author's terminology) of young people in Zhytomyr (2012)⁹³. K. Williams and J. Round (2008),⁹⁴ along with the production units-based statistics on employment in the informal sector collected by the State Statistics Service of Ukraine, also used the results of a survey encompassing 600 households in two Kyiv districts, in

⁸⁵ http://www.gfk.com/fileadmin/user_upload/dyna_content/UA/Molod_Ukraine_2015_UA.pdf

⁸⁶ Analytical study of women's participation in Ukraine's labour force. Final report. Ukrainian Centre for Social Reforms. // Site of the UN Office in Ukraine <http://www.un.org.ua/ua/publikatsii-ta-zvityi/un-in-ukraine-publications/3695-analitychne-doslidzhennia-uchasti-zhinok-u-skladi-robochoi-syly-ukrainy>

⁸⁷ http://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_519747.pdf

⁸⁸ <https://datasets.iza.org/dataset/56/ukrainian-longitudinal-monitoring-survey>

⁸⁹ <https://www.econstor.eu/handle/10419/34879>

⁹⁰ http://www.diw.de/documents/publikationen/73/diw_01.c.353288.de/diw_escirru0022.pdf

⁹¹ Empirical studies of social aspects and causes of informal employment (for example, Zaporizhzhia) / O.O. Zubenko. Social technologies: actual problems of theory and practice. - 2013 - Issue 57. - P. 203-210. - Access: http://nbuv.gov.ua/UJRN/staptp_2013_57_29

⁹² Informal employment of Ukrainian population in the contemporary economy // Ukrainian society. - 2010 - №3. - p. 124 - 132. Access: http://www.ukr-socium.org.ua/Arhiv/Stati/3_2010/124-132_3'10.pdf

⁹³ Bogoyavlenska Y., Melnik A. Youth segment of the labour market: state, trends and prospects in the context of developing socially oriented economy in Ukraine // Bulletin of Lviv University. Economic Series. 2012. Issue 47. p. 132-141. - Access: <http://www1.lnu.edu.ua/publications/bulletins/index.php/economics/article/viewFile/6800/6808>

⁹⁴ Williams, C. C. – Round, J. (2008): Retheorizing the Nature of Informal Employment: Some Lessons from Ukraine. *International Sociology*, 23(3) 367-388.

Vasilkov and in Uzhgorod, applying the new methodology of estimating informal employment based on the enterprise criteria (2005 data).

Summarizing the analysis of Ukrainian and foreign non-periodic surveys dealing with different estimates of employment non-compliant with legal requirements, it should be noted that almost all primary data sources were not meant to be studied and evaluated. Some aspects of employment non-compliant with legal requirements were considered alongside other research tasks, and very few survey questions covered this topic. Even when authors used such survey data specifically to study the shadow economy or informal employment, they used terminology inconsistently and did not seem to pay due attention to the data collection and processing methodology (informal labour market). The term "shadow economy" was used rather as a general metaphor to describe various aspects of illegal economy and employment. That is why they cannot be compared, integrated or used for reliable and systematic assessment of undeclared labour in Ukraine, even though, as the aggregate, they could be conducive to a better understanding of employment non-compliant with legal requirements in Ukraine.

3.2.3 Administrative data

The State Labour Service of Ukraine is the central executive authority vested with the functions of labour inspection in Ukraine. It conducts inspection visits as part of its supervision and control over compliance with labour law, employment and compulsory state social insurance legislation (concerning calculation and payment of benefits and compensations), provision of social services and other types of allowances to protect and promote the insured individuals' rights and guarantees.

To achieve these goals, the SLS collects data on the number of complaints, scheduled and unscheduled inspection visits to production units to identify violations of the national law as well as to record types and scales of such violations.

This information cannot be used to assess the scope and nature of undeclared work in Ukraine. The data on inspection results are not representative of the situation at all entities subject to inspection (form 3-ND)⁹⁵. The inspection data records do not differentiate among various forms of undeclared work. It's safe to say that inspection reports characterize the SLS performance rather than the real scope of undeclared work.

⁹⁵ <http://vn.dsp.gov.ua/zviti/>

3.2.4 Official statistics

The State Statistics Service of Ukraine is the source of official data on informal employment in Ukraine. It regularly surveys the economic activity of Ukrainians aged between 15 and 70 (since 2014, on a monthly basis). The Service surveys include a permanent module that from 1999 to 2013 was fully in line with all requirements of the 15th ICLS decisions on measuring employment in the informal sector, and from 2014 onwards, it has been in accord with the requirements of the 17th ICLS on measuring informal employment. Since the methodology of informal employment surveys correlates with other indicators of economic activity in Ukraine, data on informal employment can be disaggregated by main socio-demographic groups, economic activities and by regions. The surveys are regularly monitored for representativeness of basic parameters describing the Ukrainian population aged 15-70 and for reliability of assessments so much so that they can be defined as being fully compliant with all the international labour statistics standards.

The unit of measurement used in Ukraine's economic activity surveys to gauge informal employment is an individual, defined by their principal employment status. This means that these data say nothing about the scope of secondary informal employment, or the scope of false employment relations disguised as those with individual entrepreneurs or freelancers, or shadow wages paid to legally employed persons in the formal sector.

A rough estimate of the shadow wages can be made on the basis of statistics on wages paid at enterprises with more than 10 employees. This information can be found in mandatory reports filed by Ukrainian enterprises on a monthly basis.

The State Statistics Service's methodology of measuring informal employment seems sufficient to measure as much as 75-85% of the employment, which can be categorized as undeclared work according to the EU definition. The balance of 15-25% are:

- individuals who are engaged in partially declared work, i.e. work in the formal sector, and are registered but whose working hours and wages are not fully declared;
- individuals who are registered in the formal sector as entrepreneurs, subcontractors or other types of persons employed on non-standard terms but who in fact are employed by an enterprise;
- individuals working outside the enterprise boundaries under the guise of subcontractors, outsourcers and other non-formally employed persons whose actual employment statistics appear unreliable and distorted.

Another official source of information about employment non-compliant with legal requirements, is the Ukrainian Ministry of Economic Development and Trade (MEDT) that publishes its estimates of the shadow economy⁹⁶. The national accounts data collected by the State Statistics Service of Ukraine according to the SNA 2008 standards are used as input data for these calculations. The calculation results are expressed both in monetary terms (local currency or US dollars) and as a percentage of the national GDP. The shadow economy measurements made by the MEDT characterize the key economic activities but not individual regions; neither do they provide a possibility to define the number or describe individuals involved in the shadow economy. The Ministry of Economic Development and Trade estimates represent a different perspective of the

⁹⁶ <http://www.me.gov.ua/Documents/List?lang=uk-UA&id=e384c5a7-6533-4ab6-b56f-50e5243eb15a&tag=TendentsiiTinovoiEkonomiki>

processes related to undeclared work; they do not interconnect with the State Statistics Service data on the scope of informal employment. However, if combined, they can show trends that should be handled cautiously keeping in mind the difference in methodology of collecting and processing data.

The analysis of Ukrainian and foreign sources on various forms of undeclared work in Ukraine is presented in Table 3.1 with the break-down by information sources, nature and value they represent for acquiring an adequate understanding of national policies and improving labour practices.

Table 3.1. Sources of data on undeclared work in Ukraine

Form of undeclared work	Data sources	Nature and value of data
(1) Informal employment of individuals in the formal sector and family members who work for free ⁹⁷	Surveys of economic activity among Ukrainian population, State Statistics Service of Ukraine	Quantitative input data. Fully suitable for reliable assessments and drafting the national policy
(2) Employment in the informal sector: (2a) Non-registered employers and employees working in their non-registered enterprises; (2b) Individuals working for their own account without establishing legal entity (2c) Members of unregistered cooperatives and other associations; (2d) Workers who are paid to work in households of others	Desk research	Secondary data. If based on data from the State Statistics Service of Ukraine, can be used to work out national policy recommendations
	Non-recurrent sociological surveys	Contain original information. Reveal aspects and links different from those in the analysis by the State Statistics Service of Ukraine. Fragmentary. Can be partially used to outline the national policy
(3) Individuals who are registered in formal sector but their working hours and wages are not fully declared	No official data are available	
	Desk research	Secondary data. Unreliable estimates of general nature based on the State Statistics Service's modelling data. Can be partially used to outline the national policy tasks and issues
	Non-recurrent sociological surveys	Primary data. Fragmentary. Not representative. Irregular. Useful for individual projects within a national policy
(4) Actual labour relations that formally declared as self-employment, or are based on civil, commercial, outsourcing etc. contracts	No official data are available	–
	Desk research	Theoretical in nature. Estimates are not available.
	Non-recurrent sociological surveys are not available	–
(5) Unreported secondary employment of persons who have declared primary employment	No official data are available	–
	Desk research	Theoretical in nature. Estimates are not available.
	Non-recurrent sociological surveys are not available	–

⁹⁷ This and another form are numbered according to Figure 3.1. of this report.

3.3 The scope of undeclared work in Ukraine

3.3.1 Estimates of the informal sector and informal employment in Ukraine based on results of non-recurrent sociological surveys

According to A. Biloskursky (2001)⁹⁸, the scope of informal sector in 1999 amounted to 38% of all enterprises or – if translated into the number of employees considering the size of enterprises – to 27% of employees in the informal sector enterprises relative to all employees in the national economy.

L. Harman et al used the data of the Ukrainian Longitudinal Monitoring Survey⁹⁹ to calculate the scope of informal employment and came up with 9.6% of the employed population in 2003, 13.5% in 2004 and 9.8 % in 2007.

I. Miroshnichenko¹⁰⁰ combined his own primary data and the results of the Williams and Round (2007) survey, and estimated that about 23% of Ukrainian families rely on the informal sector as the main source of livelihood. One in six (15%) interviewees indicated a dependence on other forms of informal employment as a daily source of revenue. About 38.1% of all Ukrainian families were found to be involved in informal economic activities that constituted their principal or secondary source of income.

K. Williams and J. Round (2008)¹⁰¹ surveyed 600 households in two Kyiv districts, in Vasilkov and in Uzhgorod and estimated the share of households with incomes from primary or secondary informal employment at 40%, including 16.4% households, for which income from informal employment was primary.

The survey of income sources in households in Lviv, Ternopil and Rivne oblasts (2008)¹⁰² revealed that the informal sector was the principal place of employment and the main source of income for 39.0%, 44.0% and 40.3% households, respectively, and for the rest of households – the secondary one. However, among the latter a significant percentage of individuals reported income below the official subsistence level.

In the Razumkov Centre opinion poll of April 2010, 29.8% of respondents admitted that the practice of receiving wages "in envelopes" was very widespread in the region of their residence; another 36.2% of respondents said that this practice was quite common and only 14.6% said that these were isolated cases or that they were unaware of such cases. A significant proportion of respondents (45% of the surveyed population and 43.4% of the experts) did not believe that Ukrainians would give up wages "in envelopes" for the sake of greater benefits. The detailed results of the study can be found in the Razumkov Centre survey (2010)¹⁰³.

⁹⁸ http://ekmair.ukma.edu.ua/bitstream/handle/123456789/9565/Biloskurs%27kyy_Neformal%27na_ekonomichna_aktivnist%27.pdf?sequ

⁹⁹ <https://datasets.iza.org/dataset/56/ukrainian-longitudinal-monitoring-survey>

¹⁰⁰ Miroshnichenko, I. (2013) The Nature and Extent of Informal Economy in Post-Crisis Ukraine. In: Doctoral Workshop Studies 2013, Gyor, Hungary 16-20 July 2012. Gyor: SZE Postgraduate School of Law and Political Sciences, pp. 229-244.

¹⁰¹ Williams, C. C. – Round, J. (2008): Retheorizing the Nature of Informal Employment: Some Lessons from Ukraine. *International Sociology*, 23(3) 367-388.

¹⁰² Informal employment of the Ukrainian population in the contemporary economy // Ukrainian society. - 2010 - №3. - p. 124 - 132. Access: http://www.ukr-socium.org.ua/Arhiv/Stati/3_2010/124-132_3'10.pdf

¹⁰³ Ukrainian Olexander Razumkov Centre for Economic and Policy Research (Razumkov Centre). 2010. Issues of labour remuneration and employment raised by Ukrainian citizens and experts (polls) National Security and Defence, № 7 (118), p. 90-114, electronic access: <http://www.uceps.org/ukr/journal.php?y=2010&cat=154>.

According to the "European Social Survey" (ESS)¹⁰⁴, the proportion of individuals working without written clearance in 2011 was approximately 32% of the population with a paid job. However, these data cannot be unconditionally categorized as representing informal or shadow employment or undeclared work since the questionnaire methodology did not meet the measurement guidelines.

Based on the 2007 Ukrainian longitudinal monitoring, O. Nezhyvenko (2016)¹⁰⁵ conducted an independent assessment of informal employment using the ILO methodology (14.1% of all employees).

The investigation of non-agricultural employment in the informal sector conducted by the ILO Department of Statistics (2012)¹⁰⁶ assessed this index at 9.4%.

Y. Bogoyavlenska, A. Melnik estimated the "black" labour market (the author's terminology) of youth in Zhytomyr (2012)¹⁰⁷ at 38%.

E. Libanova, G. Gerasimenko et al (2012)¹⁰⁸ estimated the proportion of women employed in the informal sector at 22.2% of all those employed.

According to O. Zubenko's study conducted in Zaporizhzhia (2013)¹⁰⁹, the share of people who do not have formal jobs in the overall employment structure is 23.4%, including individuals who work without official registration (11.0%), those who work at home, i.e. freelancers (2.2%), the self-employed persons (6.6%), and individuals without a permanent job and working part time outside of home (3.6%). The share of formally employed was 44.9%. These data are not very different from the official statistics. According to the Zaporizhzhia Oblast Central Statistics Office, the number of officially employed population was 46% in 2011 and 52.4% in 2012.

In the national survey of Ukrainian youth (2015)¹¹⁰ that was conducted to identify the young people's basic needs and problems and responsiveness of the state youth policy to the young Ukrainians' actual needs, it was established that one of the reasons for the young people deciding to change jobs (47%) was informal employment (11%).

According to the School-to-work transition survey (SWTS) that focused on the Ukrainian youth transition onto the labour market (E. Libanova, O. Tsymbal et al)¹¹¹, in 2015 the share of informally employed individuals among young people (aged between 15 and 29) amounted to 58.3%.

The survey of Ukrainians working abroad (2016)¹¹² conducted by the "Rating" sociological group revealed that 35% of respondents were employed officially, 61% unofficially, and 4% refused to answer this question.

¹⁰⁴ Golovakha E., Gorbachyk A. Trends of social change in Ukraine and Europe: the results of the "European Social Survey" 2005-2007- 2009-2011. - K.: Institute of Sociology of NAS of Ukraine, 2012. - 119 p

¹⁰⁵ Nezhyvenko Oksana. Informal Employment in Ukraine: 2007 Survey Application // Scientific Papers NaUKMA. Economics. - 2016. - Vol. 1, N. 1. - P. 132-137. <http://journals.ukma.edu.ua/spne/article/view/103/95>

¹⁰⁶ http://laborsta.ilo.org/applv8/data/INFORMAL_ECONOMY/2012-06-Statistical%20update%20-%20v2.pdf

¹⁰⁷ Bogoyavlenska Y., Melnik A. Youth segment of the labour market: state, trends and prospects in the context of developing socially oriented economy in Ukraine // Bulletin of Lviv University. Economic Series. 2012. Issue 47. P. 132-141. - Access: <http://www1.lnu.edu.ua/publications/bulletins/index.php/economics/article/viewFile/6800/6808>

¹⁰⁸ Analytical study of women's participation in Ukraine's labour force. Final report. Ukrainian Centre for Social Reforms. // Site of the UN Office in Ukraine <http://www.un.org.ua/ua/publikatsii-ta-zvityi/un-in-ukraine-publications/3695-analitychne-doslidzhennia-uchasti-zhinok-u-skladi-robocchoi-syly-ukrainy>

¹⁰⁹ Empirical studies of social aspects and causes of informal employment (for example, Zaporizhzhia) / O.O. Zubenko // Social technologies: actual problems of theory and practice. - 2013 - Issue 57. - p. 203-210. - Access: http://nbuv.gov.ua/UJRN/staptp_2013_57_29

¹¹⁰ http://www.gfk.com/fileadmin/user_upload/dyna_content/UA/Molod_Ukraine_2015_UA.pdf

¹¹¹ http://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_519747.pdf

3.3.2 Estimates of the shadow economy in Ukraine

According to the estimates made by Y. M. Kharazishvili (Kharazishvili 2010)¹¹³, who developed his own macroeconomic mathematical model based on the SNA data to assess shadow employment, the share of the shadow economy in 2010 and 2011 ranged between 30 and 40% of GDP, the size of the shadow wages amounted to 85-90% of declared ones and the share of shadow employment equalled 20.1% and 20.5%, respectively (the majority of the population being employed in the formal sector). These estimates correlate to some extent with Schneider's (Schneider, 2011), based on the DYMIMIC approach and monetary method that excludes illegal (criminal) economic activities and informal sector of households (whose share in the shadow economy in Ukraine was estimated at 45.0% of the official GDP in 2010 and 44.1% in 2011).

3.3.3 Administrative data

The forms of undeclared work revealed by the State Labour Service

During inspection visits, the SLS collects the following data:

- Undeclared (unregistered) workers in the formal sector
- Cases of substituting employment contracts with commercial or independent contractor ones
- Cases of official payment of minimum wages with additional payments "in envelopes".

Undeclared (unregistered) workers in the formal sector

It is quite difficult for the SLS to identify undeclared workers at the formal sector enterprises. In 2015 it managed to identify only 664 undeclared workers in the formal sector and 923 in 2016.

The substitution of employment contracts with commercial ones

The State Labour Service is now more experienced in revealing cases where employment contracts are substituted with independent contractor or commercial contracts. 3,000 such cases were identified during inspection visits in 2015 and 975 in 2016.

¹¹² http://ratinggroup.ua/files/ratinggroup/reg_files/rg_work_abroad_122016.pdf

¹¹³ Y. M. Kharazishvili . Methodical approach to the assessment of shadow employment in Ukraine / Y. M. Kharazishvili, N.M. Dmytrenko // Economy of Ukraine. - 2010. - № 12. - p. 16-28. The classical model of aggregate supply function in the context of Keynesian theory / Y. M. Kharazishvili// Statistics of Ukraine. - 2006. - №1. - p. 42-48

The official minimum wage with additional payment "in envelope"

According to the joint memo on data sharing among the Pension Fund, State Fiscal Service and SLS, the latter obtains information about the payment of single social contributions and minimum wages. Upon analysing these data, the SLS takes measures to reveal cases where some part of the wages is paid "in envelope." However, the SLS neither has the tools to assure 100% accuracy of this analysis, nor does it have tools to prove the use of undeclared work or part-time employment, which in fact disguises the full time employment.

3.3.4 Statistical data

Prior to 2014, the State Statistics Service of Ukraine published data on employment in the informal sector on a regular basis (see Table 3.2). Since 2014, the Service has been using a special methodology of informal employment surveys.

Table 3.2. Ukraine's population aged 15-70 years that was employed in the informal sector in 2004-2013, % of total employed population

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total population	19.4	21.5	22.3	22.3	21.8	22.1	22.9	23.1	22.9	23.6
Women	18.6	21.7	22.4	22.3	21.3	21.1	21.7	22.2	21.6	22.1
Men	20.2	21.2	22.2	22.3	22.2	23.1	24.1	24.1	24.0	24.9
Urban population	9.6	9.3	9.3	9.2	9.9	10.6	11.3	11.5	11.6	12.0
Rural population	42.0	47.5	50.5	50.7	47.9	46.4	47.7	48.3	47.5	48.7
Employees	6.8	7.5	7.8	7.9	8.9	9.2	9.7	9.7	9.7	10.0
Self-employed persons	83.5	84.3	84.0	82.3	80.2	79.4	79.6	79.6	79.8	80.9

Source: Calculations were made on the basis of data provided by the State Statistics Service of Ukraine

In Ukraine, the scope of employment in the informal sector is all but unrelated to the dynamics of the shadow economy. Even in decline it did not affect the rate of informal employment, which grew steadily in 2009-2015 (Fig. 3.2).



Figure 3.2. The rate of shadow economy and share of population employed in the informal sector in 2009 - 2016.

Source: Calculations were made on the basis of data provided by the State Statistics Service of Ukraine

3.3.5 Undeclared wages and working hours

The undeclared wages and working hours at the formal sector enterprises with 10 or more employees can be assessed indirectly by using the following indicators:

- “share of workers who were paid for less than 50% of the work hours”;
- “share of workers receiving wages below the minimum level.”

This method does not provide for absolute certainty that these workers actually work more than 50% of the standard hours and receive part of their wages “in envelopes”. However, we believe that the labour inspectors should pay more attention to this group of individuals as the odds that their work is undeclared are very high.

As obvious from Table 3.3, the top ten types of economic activities with the highest risk that working hours and wages would be only partially declared include almost all sectors of the national economy (except for industry) with the highest rate of informal employment.

Table 3.3. The share of full-time employees with high probability of partially declaring their working hours and wages, as of 1 December 2015 and 2016 (%)

	Share of workers who were paid for less than 50% of working hours, 2015	Share of workers who were paid for less than 50% of working hours, 2016	Share of workers who were paid less than the minimum wage, 2015	Share of workers who were paid less than the minimum wage, 2016	Share of workers who were paid close to the minimum wage, 2015	Share of workers who were paid close to the minimum wage, 2016	Share of workers who allegedly fail to declare part of their wages, 2015	Share of workers who allegedly fail to declare part of their wages, 2016
Total	8.2	3.7	2.5	2.8	6.2	5.9	16.8	12.4
Agriculture, forestry and fishing	4.0	4.3	4.9	4.2	11.8	9.4	20.7	17.9
Industry	8.9	4.9	1.7	1.7	4.2	3.7	14.8	10.3
Construction	6.9	5.4	2.2	2.9	10.8	8.6	19.9	16.9
Wholesale and retail trade	8.9	3.7	3.5	3.9	11.8	10.8	24.2	18.4
Transport, storage, postal and courier services	7.9	4.3	3.3	2.8	6.5	5.3	17.8	12.4
Temporary accommodation and catering	11.3	5.5	3.7	6.7	17.0	11.6	32.1	23.8
Information and telecommunications	7.4	2.9	1.7	1.5	5.5	4.8	14.5	9.2
Financial and insurance activities	17.3	4.3	1.2	2.5	3.1	2.7	21.6	9.5
Real estate	5.7	2.9	2.5	3.7	11.8	10.8	20.0	17.4
Professional, scientific and technical activities	9.0	6.0	1.9	2.1	4.0	4.3	14.9	12.4
Administrative and support services	4.7	3.0	3.3	4.2	16.2	12.5	24.2	19.7
Public administration and defence; compulsory social insurance	9.4	2.4	1.2	1	1.6	1.7	12.2	5.1
Education	6.8	2.0	2.3	2.9	5.0	6.2	14.2	11.1
Health care and social assistance	9.1	3.4	2.5	3.1	4.5	5.3	16.1	11.8
Arts, sports, entertainment and recreation	6.0	2.7	5.1	5.6	5.5	5.5	16.5	13.8
Providing other services	7.5	3.7	5.8	9	17.0	12.5	30.4	25.2

Source: Calculations were made on the basis of data provided by the State Statistics Service of Ukraine

For instance, there are reasons to believe that 23.8% of employees of the **temporary accommodation and catering** sector (hereinafter – temporary accommodation) did not declare part of their wages in 2016. This indicator for **wholesale and retail trade** (hereinafter – trade) was 18.4%, for **agriculture, forestry and fishing** (hereinafter – agriculture and others) – 17.9%, for **construction** – 16.9%, for **transportation, storage, postal and courier services** (hereinafter – transportation and warehousing) – 12.4%.

It is noteworthy that the share of workers supposedly engaged in undeclared work reduced from 16.9% in 2015 to 12.4% in 2016.

3.3.6 Informal employment in 2014-2016

In 2014, the State Statistics Service of Ukraine amended its methodology of informal employment measurement to meet the requirements of the 17th International Conference of Labour Statisticians, according to which informal employment is to be assessed based on the enterprise criterion. This is the reason why any research associated with a direct comparison of employment in the informal sector in 2000-2013 and informal employment statistics for 2014-2015 should be treated with a grain of salt. In particular, comparison between the rate of employment in the informal sector and rate of informal employment or assessment of dynamics within a certain period should be made with caution. It would be statistically unwarranted to compare individual sub-categories of informal employment in 2000-2013 and individual sub-categories of informal employment in 2014-2015.

The new methodology of informal employment research in Ukraine makes it possible to achieve a great degree of detail in assessing two main varieties of undeclared work: (1) informal employment in the formal sector and (2) employment in the informal sector. Therefore, in this section we intend to apply three research parameters: informal employment as such, combination of the above forms of undeclared work and, finally, each of them taken separately.

In 2016, the rate of informal employment was 24.3% of the total employed population (Fig. 3.3), which is lower than in 2014 (25.1%) and 2015 (26.2%).

In these years, the rate of informal employment among men was significantly higher than among women and the rate of informal employment in rural areas significantly exceeded that in urban areas. In 2014-2015, informal employment among Ukrainians living in urban areas increased from 17.5 to 18.7%, whereas in the countryside it fell from 43.4% in 2014 to 42.6% in 2015.

Given that in 2016 both the total informal employment and its individual components decreased against the backdrop of the overall reduction in Ukraine's shadow economy, this year could become a turning point in the lingering negative trend of employment de-formalization.

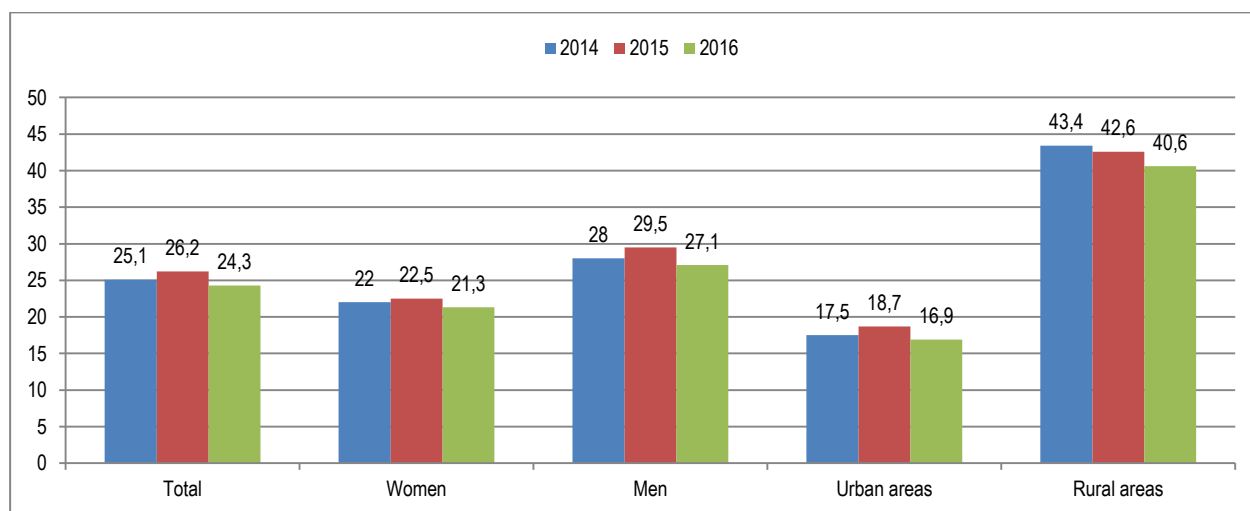


Figure 3.3. The 2014-2016 dynamics of informal employment, as % of the total employed population by respective groups

Source: based on the data provided by the State Statistics Service of Ukraine

Informal employment by gender and place of residence

Over the three years under analysis, the rate of informal employment among men was higher than among women. The rate of informal employment in rural areas was considerably higher than in urban areas. Between 2015 and 2016, the rate of informal employment in urban areas reduced from 18.7% to 16.9%, and in rural areas – from 42.6% to 40.6%. Notably, in urban areas this rate started falling in 2016, while in rural areas this trend sustained and accelerated in 2014-2016.

Alongside the overall reduction in informal employment, that in the formal sector declined as well: from 12.6% in 2015 to 11.2% in 2016. Employment in the informal sector also decreased, albeit less noticeably – from 13.6% in 2015 to 13.1% in 2016 (see Figure 3.4). Similar changes were observed in the rates of informal employment in the formal sector and employment in the informal sector among men and women, as well as in urban areas. In rural areas, however, employment in the informal sector demonstrated a different pattern of changes, falling consistently in 2014-2016.

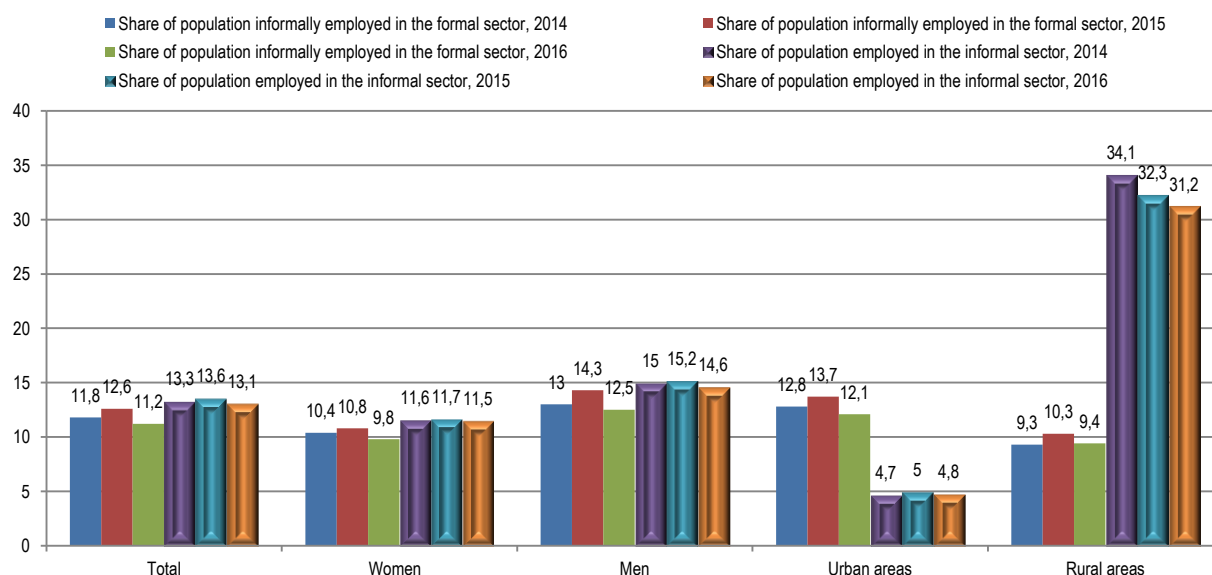


Figure 3.4. The 2014-2016 dynamics in the share of population informally employed in the formal sector and in the share of population employed in the informal sector by gender and place of residence, as % of total employed population in respective groups

Source: based on the data provided by the State Statistics Service of Ukraine

Whereas traditionally more men than women are informally employed in the formal sector and employed in the informal sector, the difference between these two types of undeclared work in terms of the workers' place of residence is more pronounced. In 2016, in **urban areas the rate of informal employment in the formal sector** is much higher than employment in the informal sector (12.1% vs. 4.8%, respectively). In **rural areas**, on the contrary, **the rate of employment in the informal sector** exceeded by far that of informal employment in the formal sector in 2016 (31.2% vs. 9.4%, respectively).

In 2014-2016, hired workers made up more than 99.0% of all informally employed persons in the formal sector (see Figure 3.5). Only 0.6% of persons in this sector did not work for hire. Those were, for the most part, family members providing free services to the company. In 2015 as few as 1% of working men belonged to this category; among urban residents, this indicator was even lower – 0.9% in 2015 and 0.8% in 2016.

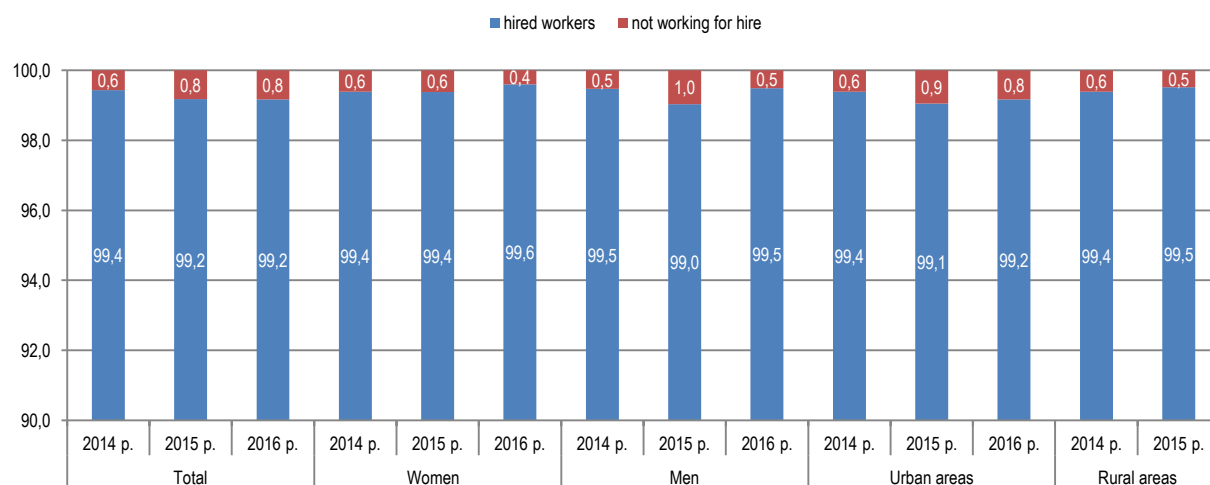


Figure 3.5. Distribution of informal employment in the formal sector by employment status in 2014-2016, as % of the corresponding groups of employed population

Source: based on the data provided by the State Statistics Service of Ukraine

In 2016, **most workers in the informal sector**, i.e. 88.1%, did not work for hire (see Figure 3.6). Coupled with 2014 and 2015 data, it demonstrates a trend towards reduction in hired labour in the informal sector. This trend is more obvious as far as male employment is concerned – the reduction in hired labour among men was steady and substantial: from 18.2% in 2014 to 17.7% in 2015 and further to 13.5% in 2016. Similar trend was observed in urban areas, with reduction from 28.3% to 22.8% between 2014 and 2016; in rural areas, however, it was less noticeable.

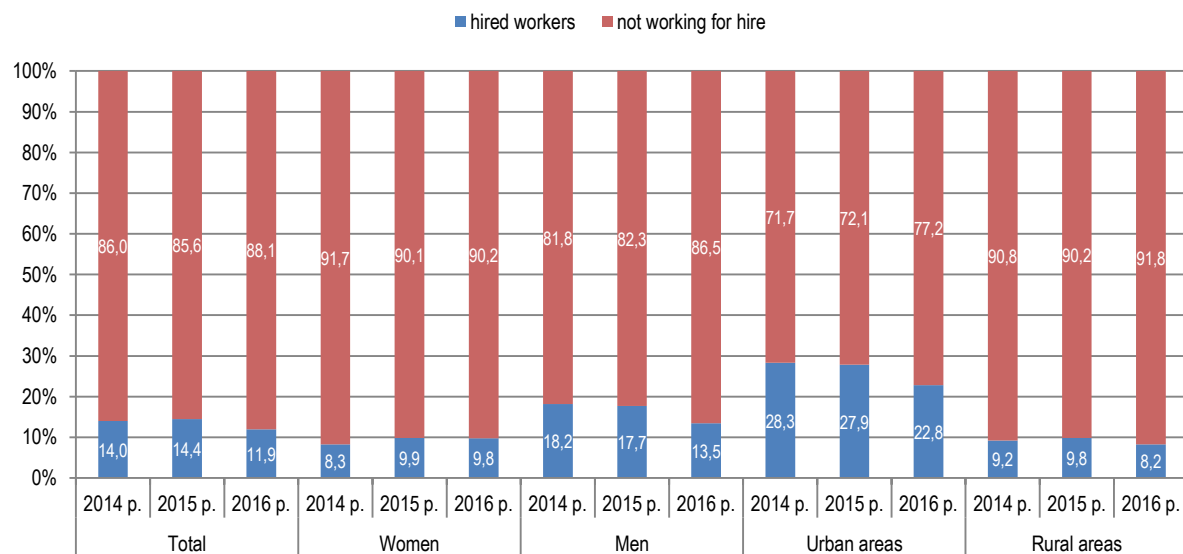


Figure 3.6. Distribution of population employed in the informal sector by employment status in 2014-2016, as % of the corresponding groups of employed population

Source: based on the data provided by the State Statistics Service of Ukraine

Informal employment by regions

The rates of informal employment and its major components across regions of Ukraine differ significantly. In 2016, all regions could be divided by the rate of informal employment into the following five groups (see Figure 3.7):

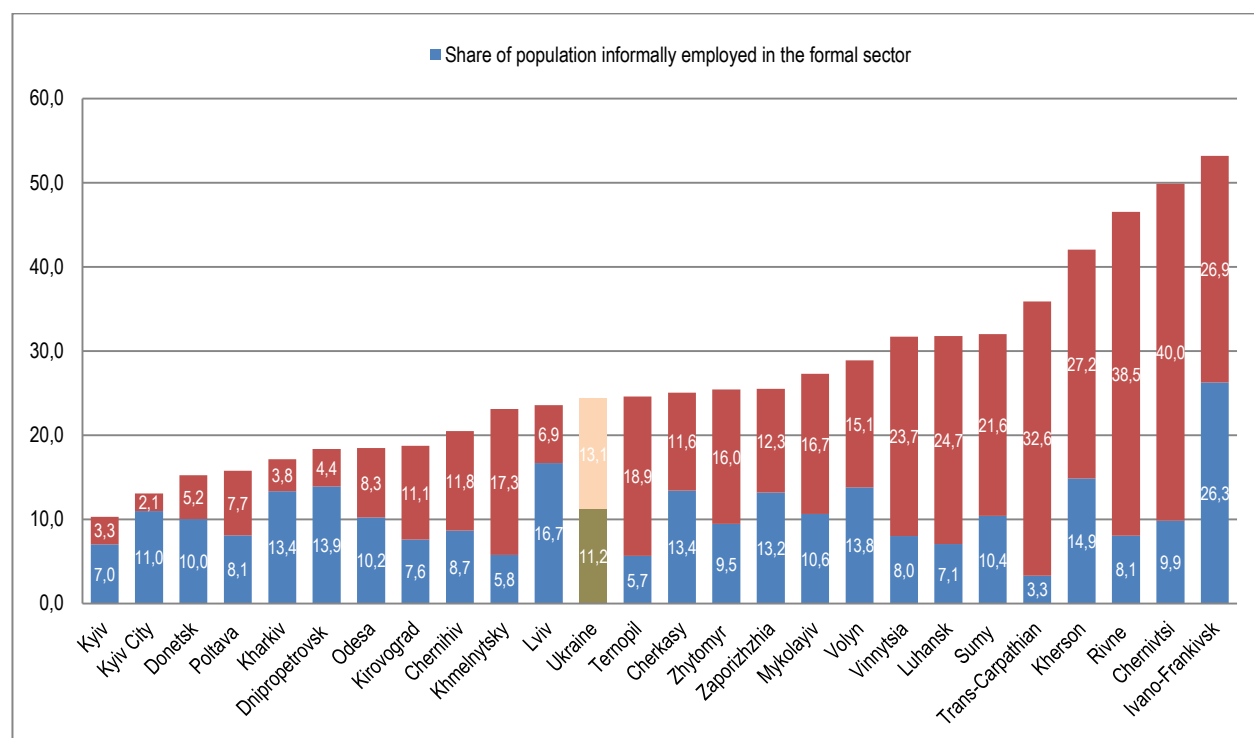


Figure 3.7. The 2015 and 2016 rate of informally employed population by regions, as % of employed population in respective regions

Source: based on the data provided by the State Statistics Service of Ukraine

The **first group** consists of oblasts where **informal employment is at a minimum rate**. In 2016 and 2015, these were *Kyiv City and Kyiv oblast (with the biggest year-of-year reduction in informal employment throughout the group – 4.9 percentage points)* and *Donetsk oblast*. In 2016 Poltava oblast got to this group against the backdrop of overall decrease in informal employment.

The **second group** includes oblasts where **informal employment is below the average rate in Ukraine**. In 2016, these were Kharkiv, Dnipropetrovsk, Odesa (*with the biggest year-of-year reduction in informal employment throughout the group – 12.3 percentage points*) and Kirovograd oblasts. These oblasts have a pronounced industrial and infrastructural specialization or mixed industrial and agricultural features with a well-developed commercial services sector. The rate of informal employment in these oblasts fell considerably, while in Khmelnytsky, Mykolayiv and Zaporizhzhia oblasts that belonged to this group in 2014-2015 the situation has not changed or changed but slightly.

The **third group** covers oblasts with **medium rates of informal employment** (close to the average in Ukraine). In 2016, the group included Chernihiv, Khmelnytsky, Lviv, Ternopil, Cherkasy (*with the biggest year-of-year reduction in informal employment throughout the group – 4.3 percentage points*), Zhytomyr, Zaporizhzhia, Mykolayiv and Volyn oblasts. Volyn, Ternopil and Cherkasy oblasts managed to migrate to this group from that with high rates of informal employment where they belonged in 2014-2015.

The **fourth group** consists of oblasts where **informal employment rates are high** – Vinnytsia, Luhansk, Sumy and Trans-Carpathian oblasts. With the only exception of Trans-Carpathian oblast, all of them belonged to this group in 2014-2015. In Luhansk and Sumy oblasts the rate of informal employment grew by 0.3 and 3.3 percentage points, respectively. In Vinnytsia oblast it fell by 4.0 percentage points. Trans-Carpathian oblast migrated to this group from that with the highest informal employment rates (in 2014-2015) thanks to a substantial reduction in this indicator by 11.4 percentage points. It should be noted that all these oblasts, but Vinnytsia, have a pronounced agricultural orientation.

The **fifth group** is represented by oblasts with the maximum rate of informal employment. In 2016, it comprised Kherson, Rivne, Chernivtsi and Ivano-Frankivsk oblasts that belonged to it in the previous years. Although in Kherson and Rivne oblasts the rate of informal employment reduced in 2016 by 3.0 and 2.9 percentage points compared to 2015, it was not enough for them to get their group upgraded, given the traditionally high rate of informal employment in these regions.

In 2014-2016, regional labour markets underwent significant transformation. The results could be put down to the reduction of informal employment in the formal sector, rather than to decreased informal employment (see Table 3.4). At a time when the overall informal employment in the country decreased by 1.9 percentage points, 8 regions showed an increase in this indicator¹¹⁴.

Table 3.4. The 2015-2016 trends in regional dynamics of formal and informal employment.

Structural changes	Regions
↓ Informal employment in the formal sector	Kyiv oblast, Kyiv City, Poltava, Dnipropetrovsk, Odesa, Chernihiv, Cherkasy, Vinnytsia, Trans-Carpathian, Kherson, Rivne oblasts
↓ Employment in the informal sector	
↓ Informal employment in the formal sector	Donetsk, Kharkiv, Kirovograd, Khmelnytsky, Ternopil, Zhytomyr, Zaporizhzhia, Sumy, Chernivtsi, Ivano-Frankivsk
↑ Employment in the informal sector	
↑ Informal employment in the formal sector	Mykolayiv, Luhansk
↓ Employment in the informal sector	
↑ Informal employment in the formal sector	Lviv, Volyn
↑ Employment in the informal sector	

Source: Calculated on the basis of data provided by the State Statistics Service of Ukraine

¹¹⁴ Khmelnytsky, Lviv, Zhytomyr, Mykolayiv, Volyn, Luhansk, Sumy, Chernivtsi.

Informal employment in the formal sector by regions in 2015-2016

In order to demonstrate the rate of informal employment in the formal sector, all regions can be divided into five main groups (see Figure 3.8).

The **first group** includes regions with the **minimum rate** of informal employment in the formal sector (below 6.0%) – Trans-Carpathian, Ternopil and Khmelnytskyi oblasts. In 2015, only Trans-Carpathian oblast belonged to this group, together with Luhansk oblast where this indicator grew from 6.4% to 7.1% in 2016.

The **second group** is made up of the **low rate** regions (6.1%-8.5%) – Kyiv, Luhansk, Kirovograd, Vinnytsia, Rivne and Poltava oblasts. Two of these oblasts – Vinnytsia and Poltava – belonged to this group in 2015, while Mykolayiv oblast whose indicator increased from 8.3 in 2015 to 10.6 in 2016 got to the third group, and Ternopil oblast with a decreased indicator got to the first group.

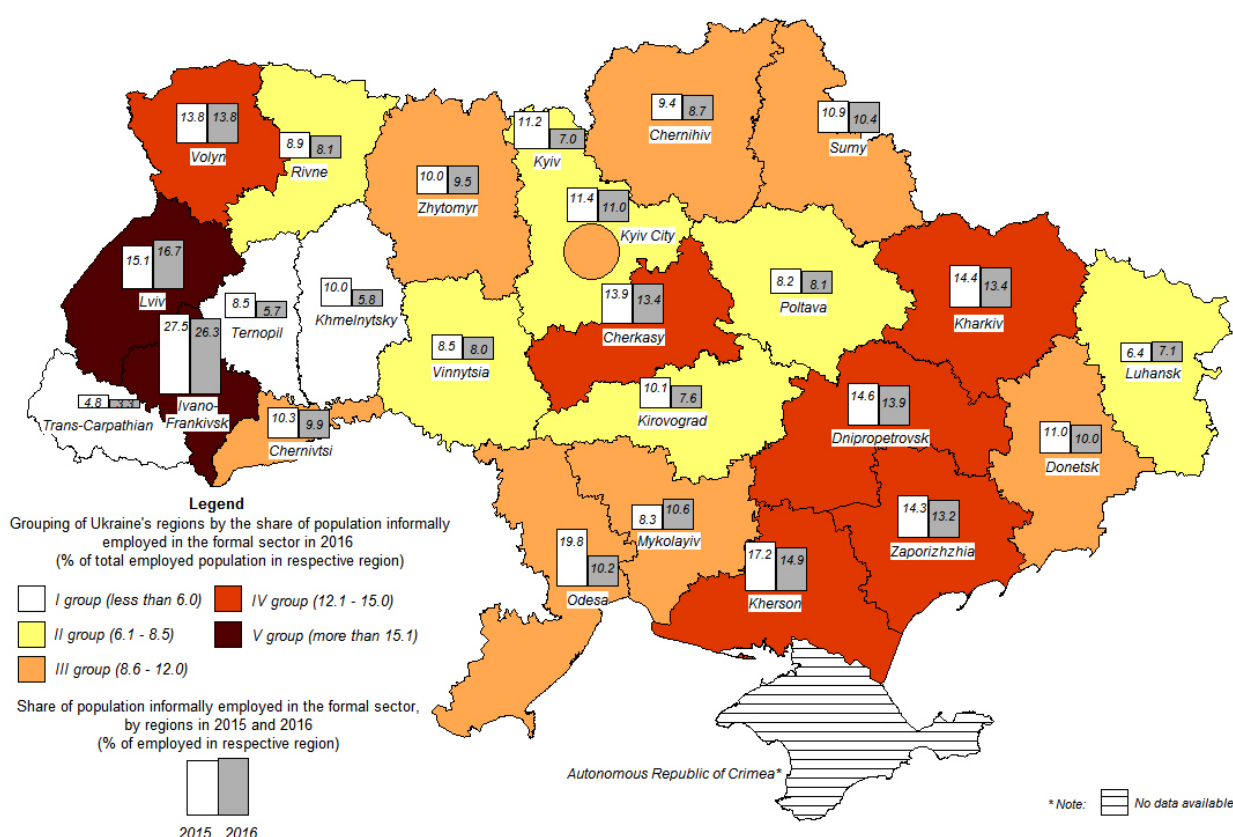


Figure 3.8. Break-down of regions by informal employment in the formal sector in 2015-2016, as % of all employed population in the corresponding region

Source: based on the data provided by the State Statistics Service of Ukraine

The **third group** comprises oblasts featuring **close-to-average rates (8.6%-12.0%)** – Chernihiv, Zhytomyr, Chernivtsi, Donetsk, Odesa, Sumy, Mykolayiv oblasts and Kyiv City. This group is the most numerous one, it brings together oblasts whose rates of informal employment in the formal sector vary from year to year. In all regions of this group, save for Mykolayiv oblast, the situation in 2016 improved as compared to that of 2015; however, only in Odesa oblast the rate of reduction was bigger than the country average.

The **fourth group** comprises the **high rate oblasts (12.1%-15.0%)** – Zaporizhzhia, Kharkiv, Cherkasy, Volyn, Dnipropetrovsk and Kherson oblasts. In 2015, Zaporizhzhia, Cherkasy, Volyn and Dnipropetrovsk oblasts belonged to the group with high rate of informal employment in the formal sector, although the upper limit for this group was established at 16% versus 15% in 2016. The situation with informal employment in the formal sector in those oblasts is much worse than the average for Ukraine. In all of them, but Kherson oblast, the trend towards decreasing informal employment in the formal sector was less evident than in the country at large.

The **fifth group** covers **oblasts with the maximum rate (over 15.0%)** – Lviv and Ivano-Frankivsk. Whereas the latter belonged to this group in 2015 due to a very slow reduction in this indicator, the former got to this group because the situation in Lviv oblast deteriorated. The rate of informal employment in the formal sector there increased from 15.1% in 2015 to 16.7% in 2016.

Review of the regional differences in the rate of informal employment in the formal sector allows to conclude that the high rates are not always associated with poor social and economic development of the region. The dependence between specific level of socio-economic development and the rate of informal employment in formal sector is more complex. Regions with the lowest socio-economic development may show both the minimum (Trans-Carpathian, Ternopil and Khmelnytsky oblasts) and maximum rates (Ivano-Frankivsk oblast). Regions with significant and sector-balanced socio-economic development consistently demonstrate medium and high rates of informal employment in the formal sector (Kyiv city, Zaporizhzhia, Kharkiv, Dnipropetrovsk, Poltava (to a certain extent), Lviv and Odesa oblasts). Here the core of powerful industrial sector and industrially oriented services with high concentration of high-tech companies create a favourable environment for small service-oriented businesses. Such small businesses that provide services to the population use unsophisticated technologies and – although generating significantly less added value than the large ones – they absorb most of the labour force in the sector.

The low and above-average rates of informal employment in the formal sector can be found in two types of regions. The first one is most numerous and includes agricultural regions (Kherson, Kirovograd, Volyn, Rivne oblasts). The second one comprises highly urbanized regions with narrow industrial specialization and one-sided development of the services sector (Mykolaiv, Luhansk and Donetsk oblasts).

Thus, it is with regard to informal employment in the formal sector across Ukraine's regions that the global trend manifests itself most vividly – the trend whereby developed economies suffer most from this form of undeclared work while developing economies struggle with employment in the informal sector. Extrapolating this global tendency to Ukraine's regions, one should specify that proliferation of informal employment in the formal sector characterises a balanced and sustainable development, rather than any kind thereof.

Employment in informal sector by regions in 2015-2016

Regional differentiation of employment in the informal sector also corroborates this conclusion (see Figure 3.9). The group with **low and medium employment rate in the informal sector** (less than the country average, i.e. 12.0%) includes almost all relatively developed regions: Kyiv City (2.1%), Kharkiv (3.8%), Kyiv (3.0%), Dnipropetrovsk (4.4%), Donetsk (5.2%), Lviv (6.9%), Poltava (7.7%), Odesa (8.3%), and Zaporizhzhia oblasts (12.3%).

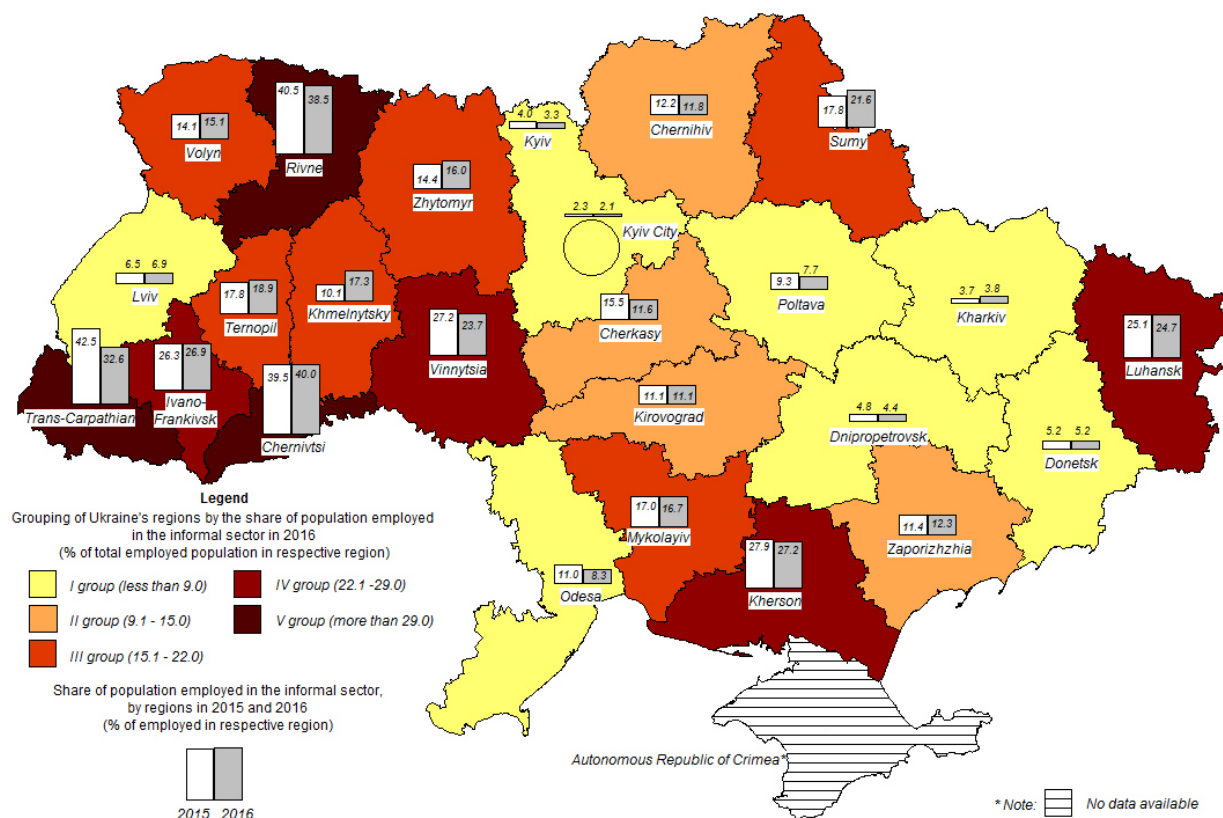


Figure 3.9. Break-down of regions by employment in the informal sector, in 2015-2016, as % of employed population in the corresponding region

Source: based on the data provided by the State Statistics Service of Ukraine

The highest rate of employment in the informal sector was recorded in the least economically developed regions: Vinnytsia (23.7%), Luhansk (24.7%), Ivano-Frankivsk (26.9%), Kherson (27.2%), Trans-Carpathian (32.6%), Rivne (38.5%), Chernivtsi oblasts (40.0%). The exception is the high rate of employment in the informal sector of Vinnytsia oblast that has demonstrated a fairly balanced economic development in the recent years, the reasons meriting a separate study.

Summarizing the results of the regional differentiation between various forms of undeclared work in Ukraine, one should pay particular attention to the critical state of the formal sector in some regions. According to the 2016 data of the State Statistics Service of Ukraine, 35.6% of workers employed by companies and organizations with more than 10 employees received their wages from the state budget. Having subtracted this number from that of workers employed in the formal sector, one can estimate the number of individuals declaring their work at the formal sector enterprises and generating the product that is subsequently re-distributed through the state budget. Calculations show that in some regions the share of declared work performed by formally employed persons in private sector has dropped to a critical level (see Figure 3.10). In Chernivtsi, Ternopil, Trans-Carpathian and Ivano-Frankivsk oblasts it is well under half of the full-time employees of enterprises with more than 10 workers.

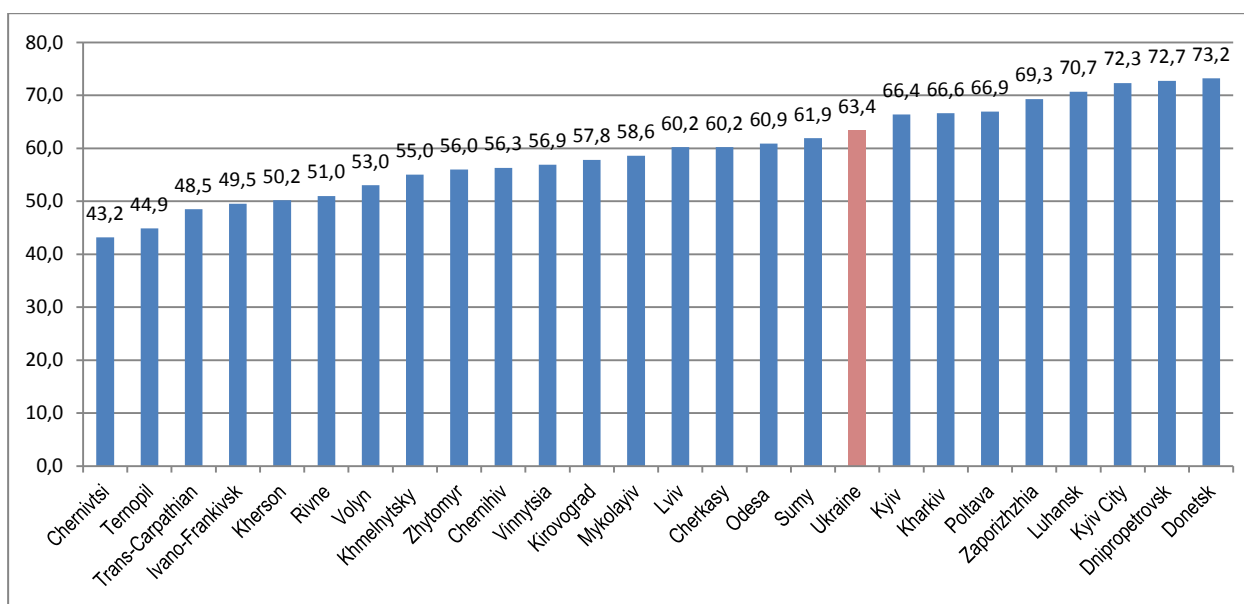


Figure 3.10. The share of persons formally employed in the private sector, by regions, as % of employed population in the corresponding region

Source: based on the data provided by the State Statistics Service of Ukraine

The situation with economic activities across regions is particularly dire. Analysis of the 2015 statistics identified areas with the critical rate of informal employment. These are the following sectors of economic activities: **agriculture; construction; wholesale and retail trade and temporary accommodation and catering; transportation, storage, postal and courier activities and industry** (see Table 3.5). The Table lists informal employment thresholds across the regions that were calculated based on the average rate of informal employment in the country in general and its inter-regional variation coefficient. The table includes oblasts where the rate of informal employment exceeds a certain critical threshold.

As the table shows, in some oblasts the rate of informal employment became critical in one or two economic activities, however among 12 regions with the worst statistics **Ivano-Frankivsk** and **Kherson** oblasts reached threshold for all economic activities, and **Volyn, Trans-Carpathian** and **Chernivtsi** oblasts in four out of five economic activities. It appears that the State has to focus most of its efforts to rectify the situation in these particular regions.

Table 3.5. The 2015 distribution across regions by the informal employment threshold, for certain types of economic activities

Type of economic activity (TEA)	Threshold	Oblast	Number of oblasts with critical TEA values
Agriculture, forestry and fishing	Equal to or exceeding 80%	Vinnytsia, Volyn, Trans-Carpathian, Ivano-Frankivsk, Rivne, Ternopil Kherson Chernivtsi	8
Construction	Equal to or exceeding 70%	Vinnytsia, Volyn Trans-Carpathian	7

Type of economic activity (TEA)	Threshold	Oblast	Number of oblasts with critical TEA values
		Ivano-Frankivsk Rivne Kherson Chernivtsi	
Wholesale and retail trade, etc., temporary accommodation and catering	Equal to or exceeding 40%	Trans-Carpathian Ivano-Frankivsk Odesa, Sumy, Kherson	5
Transport, storage, postal and courier services	Equal to or exceeding 20%	Volyn Dnipropetrovsk Ivano-Frankivsk Odesa Ternopil Kherson Chernivtsi	7
Industry	Equal to or exceeding 13%	Volyn, Trans-Carpathian Ivano-Frankivsk Odesa Rivne Ternopil Kherson Khmelnitsky Chernivtsi	9

Source: based on the data provided by the State Statistics Service of Ukraine

Informal employment by types of economic activity

In 2016, the previously top ranking economy sector in terms of **informal employment in the formal sector – temporary accommodation** (35.1% of all employed in this sector in 2015) – was replaced by **construction** (32.0%), which ranked second in 2014 and 2015. Second in 2016, as in the previous years, was **trade** with 24.7%, which is a much lower indicator than in 2015 (28.6%) (see Figure 3.11). Other sectors, whose indicators are lower still, follow far behind. All economy sectors under analysis demonstrated decreased share of informal employment in the formal sector in 2016.

In 2016, informal employment in the formal sector by types of economic activities decreased simultaneously among men and women, with the only exception of women's informal employment in the formal sector of agriculture, where it grew from 3.6% in 2015 to 4.2% in 2016.

In 2016, the biggest shares of women employed informally in the formal sector were registered in trade, temporary accommodation and catering (26.9% and 30.2%, respectively); for men this indicator was highest in trade, temporary accommodation and catering, as well as in construction (22.1%; 26.0% and 33.8%, respectively). As far as gender differences of informal employment in the formal sector are concerned, its share among women working in trade, temporary accommodation and catering is always higher than among men engaged in those types of economic activity. At the same time, the share of men informally employed in the formal sectors of agriculture and construction is consistently and substantially bigger than that of women.

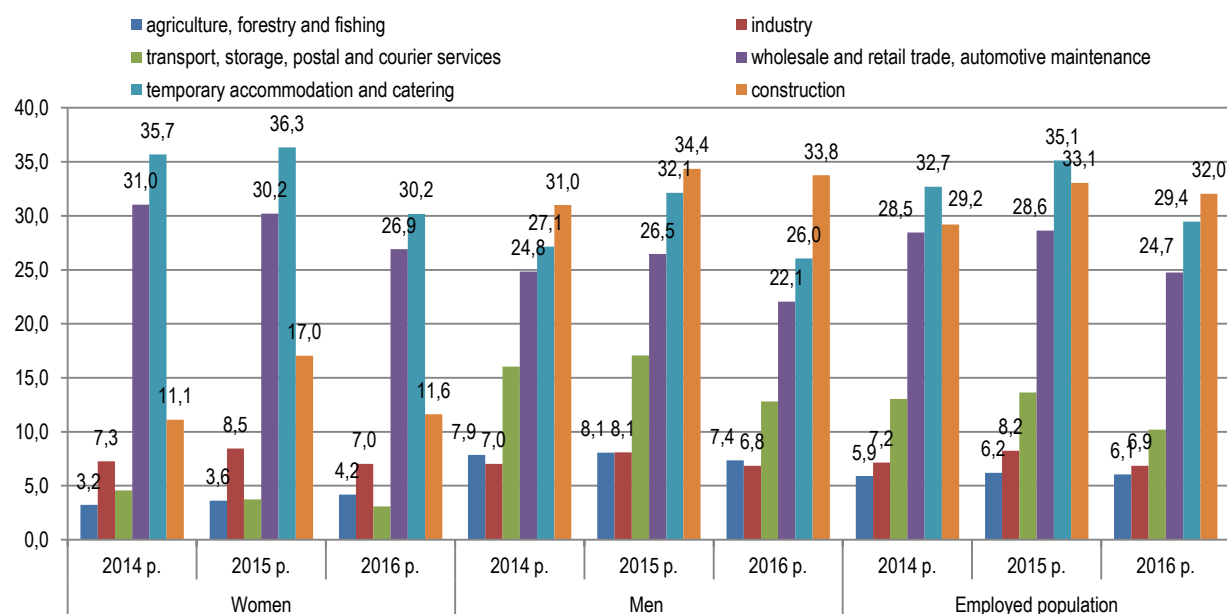


Figure 3.11. The 2014-2016 rate of informal employment in the formal sector, by economic activity and by gender, as % of population engaged in the corresponding type of economic activity

Source: based on the data provided by the State Statistics Service of Ukraine

In 2016, the highest rates of informal employment in the formal sectors of rural economy were observed in construction (38.3% of all people employed in the sector) (see Figure 3.12). Moreover, construction was the only formal sector where informal employment increased (to 38.3% in 2016 from 33.9% in 2015), diverging from the general trend towards reduction in informal employment.

In 2014 and 2015, in rural areas temporary accommodation and catering (37.2% in 2015) and trade (32.6% in 2015) ranked second and third, respectively, in terms of informal employment rates in the formal sector. In 2016 they remained among the sectors with highest rates of the analysed undeclared work forms. These rates almost levelled off, with the share of informally employed population in the formal sector of temporary accommodation falling to 27.5% and in trade – to 27.4%.

In urban areas, the ranking of economic activities by this indicator was very similar, the rates reaching 33.9%; 32.7% and 27.8%, respectively (see Figure 3.12). It should be noted that informal employment in the formal sector of agriculture in urban areas is higher than in the rural ones (14.4% and 4.4%, respectively), while informal employment in the formal sector of industry is higher in rural areas than in urban ones (10.9% and 6.1%, respectively).

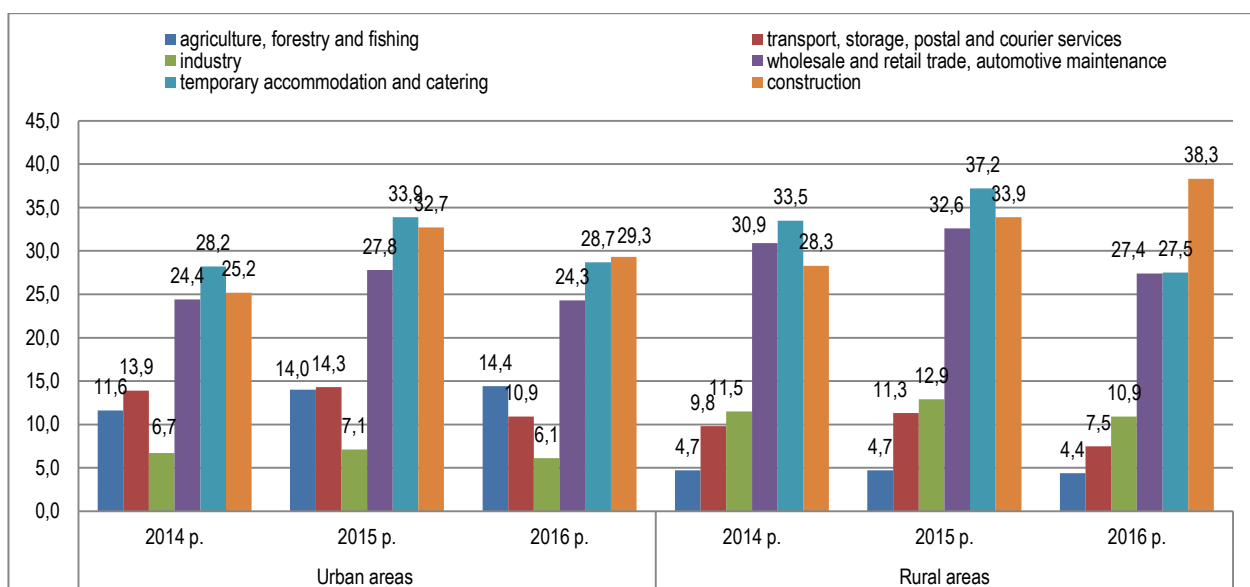


Figure 3.12. The 2014-2016 rate of informal employment in the formal sector by types of economic activity and by place of residence, as % of population engaged in the corresponding type of economic activity

Source: based on the data provided by the State Statistics Service of Ukraine

In general, temporary accommodation and catering, as well as trade had distinctly “feminine” features in 2014-2016, whereas construction, transportation and warehousing were dominated by men. For example, in 2016 the share of men among informally employed construction workers in the formal sector was as big as 97.1% (see Figure 3.13), and the share of informally employed women in the formal sector of temporary accommodation and catering was 70.4%.

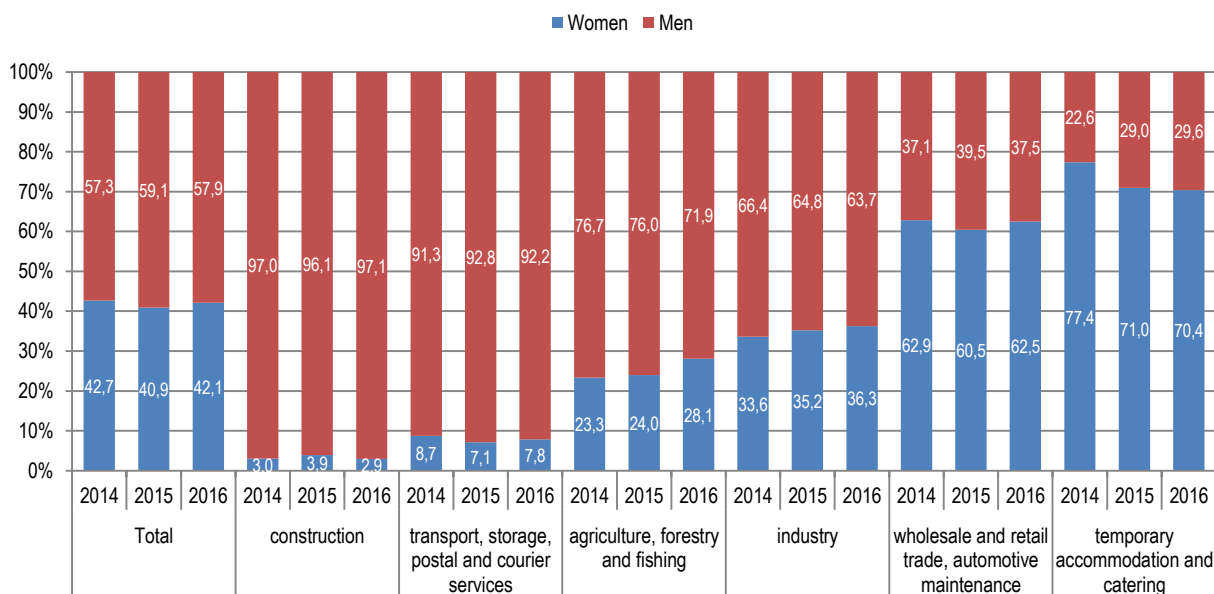


Figure 3.13. The 2014-2016 rates of informal employment in the formal sector by gender and by types of economic activity, as % of population engaged in the corresponding type of economic activity

Source: based on the data provided by the State Statistics Service of Ukraine

In 2014-2016 the majority of people informally employed in the formal sector were urban residents (73.9% in 2016). As illustrated by Figure 3.14, agriculture was the only formal sector of economic activity where the share of urban residents among informally employed workers was much smaller: 32.3% in 2014, 35.6% in 2015 and 38.7% in 2016.

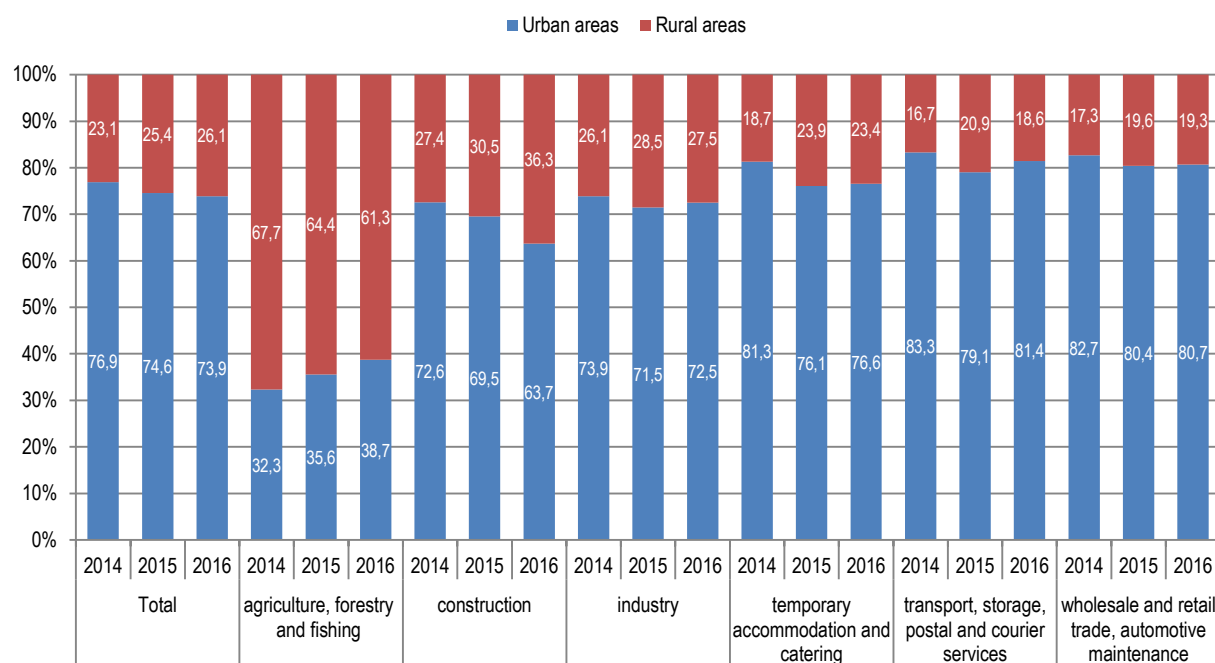


Figure 3.14. The 2014-2016 distribution of population informally employed in the formal sector by place of residence across various economic activities, as % of population engaged in corresponding types of economic activities

Source: based on the data provided by the State Statistics Service of Ukraine

The rate of **employment in the informal sector** was highest in agriculture and construction (see Figure 3.15). In 2016, as in 2014-2015, employment rate in the informal sector of agriculture among women was much higher than among men (71.3% vs. 47.9%), but it was much lower in the informal sector of construction (7.8% vs. 26.8%). In other economy sectors, the gender difference was insignificant.

In rural areas employment rate is much higher than in urban areas in the informal sectors of agriculture (62.1% and 33.6%, respectively) and construction (36.6% and 20.2%, respectively). This difference between rural and urban areas is less pronounced for other types of economic activities, except for temporary accommodation and catering, where no informal sector has been identified.

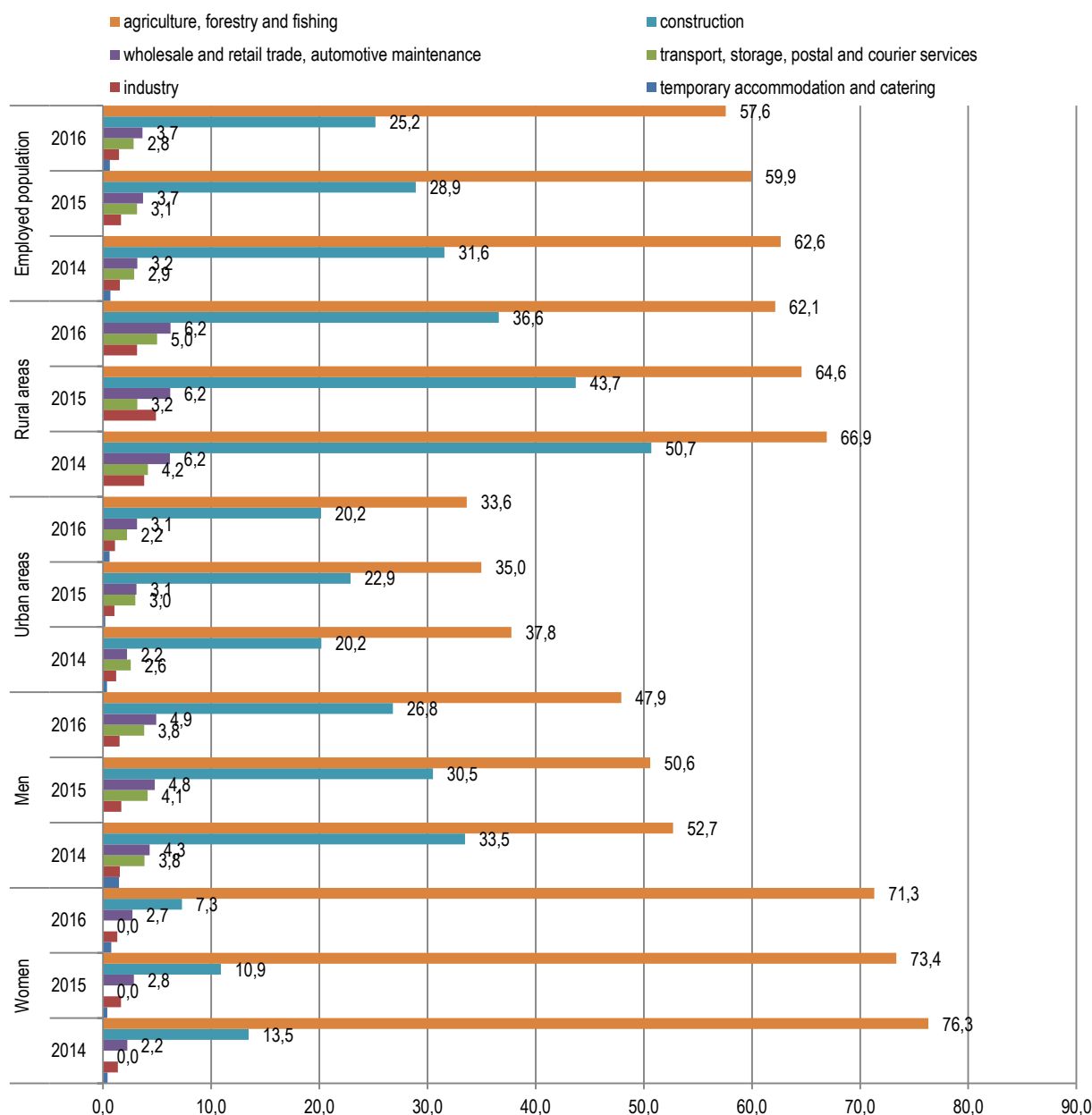


Figure 3.15. The 2014-2016 rates of employment in the informal sector, by types of economic activity, gender and place of residence, as % of population engaged in the corresponding types of economic activities

Source: based on the data provided by the State Statistics Service of Ukraine

In terms of gender differences, men constituted the majority of persons employed in the informal sector (57.8% in 2016) (see Figure 3.16); in 2016, the share of women employed in the informal sector was significant only in industry (31.6%), trade (43.0%) and agriculture (50.4%). In this case, even the informal sector of temporary accommodation and catering cannot be characterized as essentially "feminine", since in each of the analysed years (2014-2016) gender ratios varied dramatically. In 2015, the share of people employed in the informal sector of temporary accommodation and catering was so small that it was deemed statistically negligible.

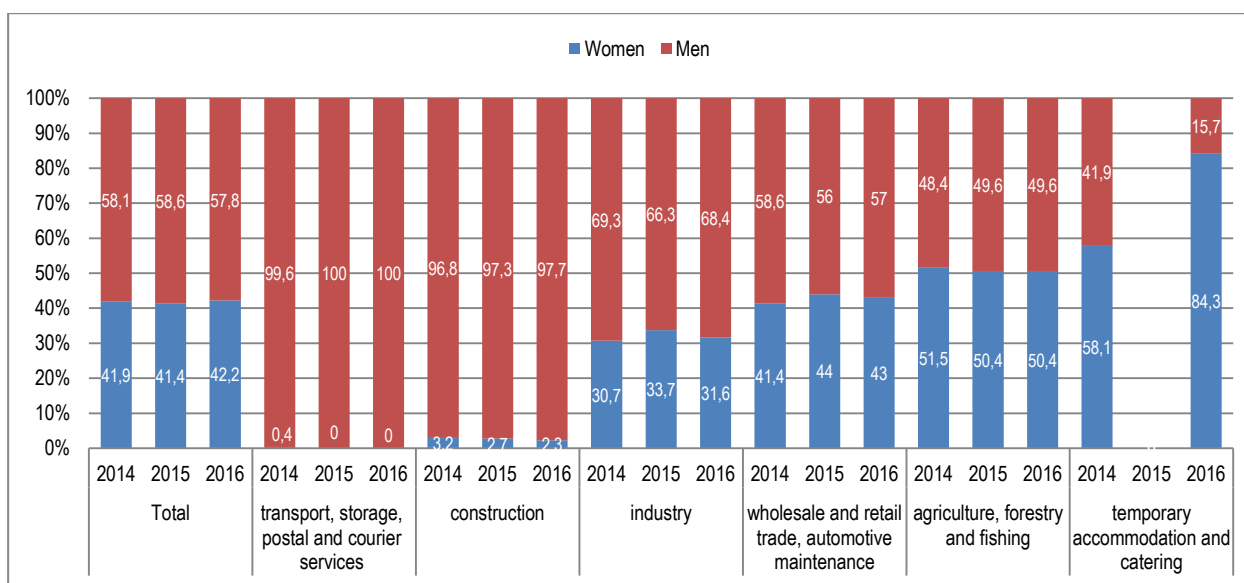


Figure 3.16. The 2014-2015 distribution of population employed in the informal sector by gender in different types of economic activity, as % of population engaged in the corresponding type of economic activity

Source: based on the data provided by the State Statistics Service of Ukraine

In terms of the place of residence, most people employed in the informal sector were rural residents (74.7% in 2016) (see Figure 3.17). Rural residents continuously prevail among persons employed in the informal sector of agriculture (90.5% in 2016), whereas the majority of informal workers engaged in other types of economic activity were urban residents. In 2015 the informal sector of industry stood out as an exception, with a temporary parity achieved between urban (49.2%) and rural (50.8%) residents employed in it.

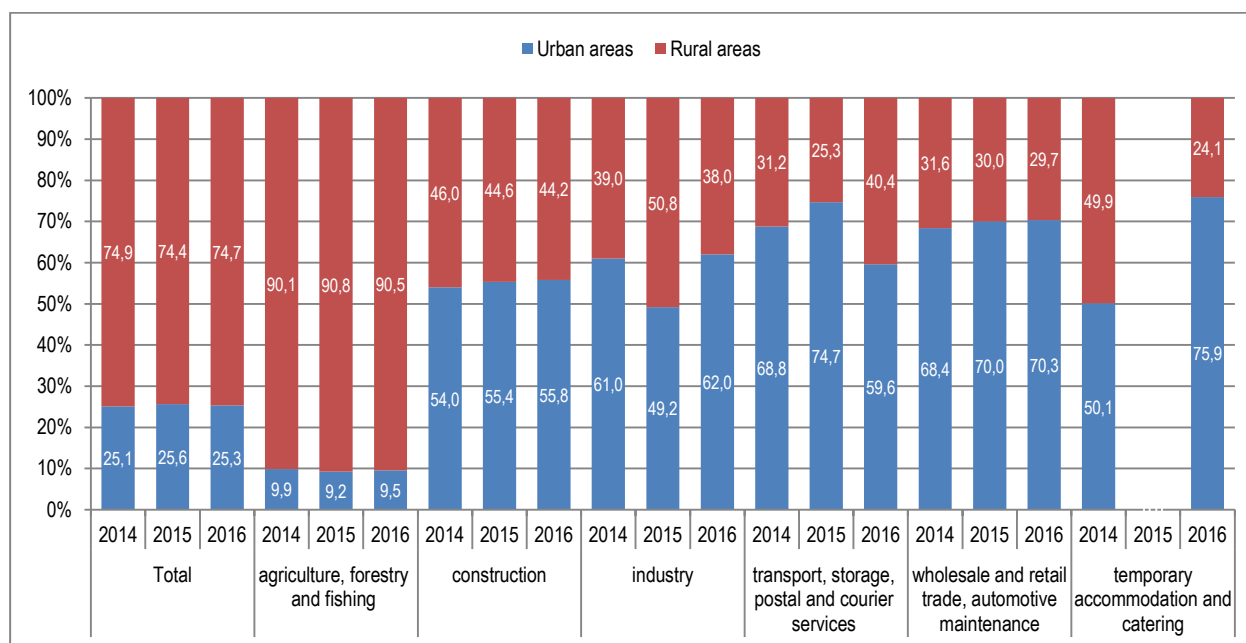


Figure 3.17. The 2014-2016 distribution of population employed in the informal sector by place of residence and types of economic activity, as % of population engaged in the corresponding type of economic activity

Source: based on the data provided by the State Statistics Service of Ukraine

Informal employment by age

In 2014-2016, most of those involved in informal employment were young people and persons of retirement age (see Figure 3.18). For example, in 2016 the **highest rates of informal employment** were observed **among young people aged 15-24 (35.6%)** and **persons of 60-70 years of age (36.0%)**. Noteworthy, in all age groups except for the latter (60-70 years) informal employment was **significantly higher among men than among women**. In the age group of 15-49 this difference averaged 8.4 percentage points, and was by far less in the age group of 50-59: below 3.8 percentage points. As for the age group of 60-70, the rate of informal employment among women was by 5.0 percentage points higher than among men. It means that by the time of retirement men gradually become less actively engaged in informal employment, whereas in the case of women, changes in this indicator throughout their working life (from 20 years of age till retirement) are not linked to their age.

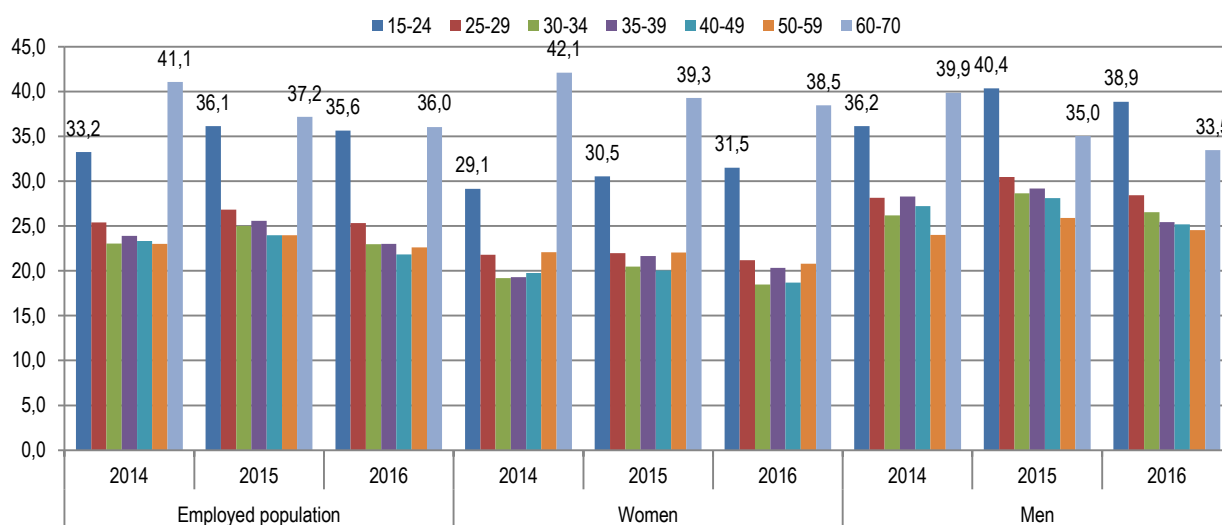


Figure 3.18. The 2014-2016 rates of informal employment, by gender and age, as % of employed population belonging to the corresponding age group

Source: based on the data provided by the State Statistics Service of Ukraine

Distribution of age groups in urban informal employment is principally different from that in rural informal employment. Where the pattern of age group distribution in urban areas is such that the share of informally employed people in corresponding age groups gradually diminishes as people grow older, and is the lowest for the age group of 60-70 (see Figure 3.19), in rural areas this pattern is similar to the age group distribution of informally employed population in general.

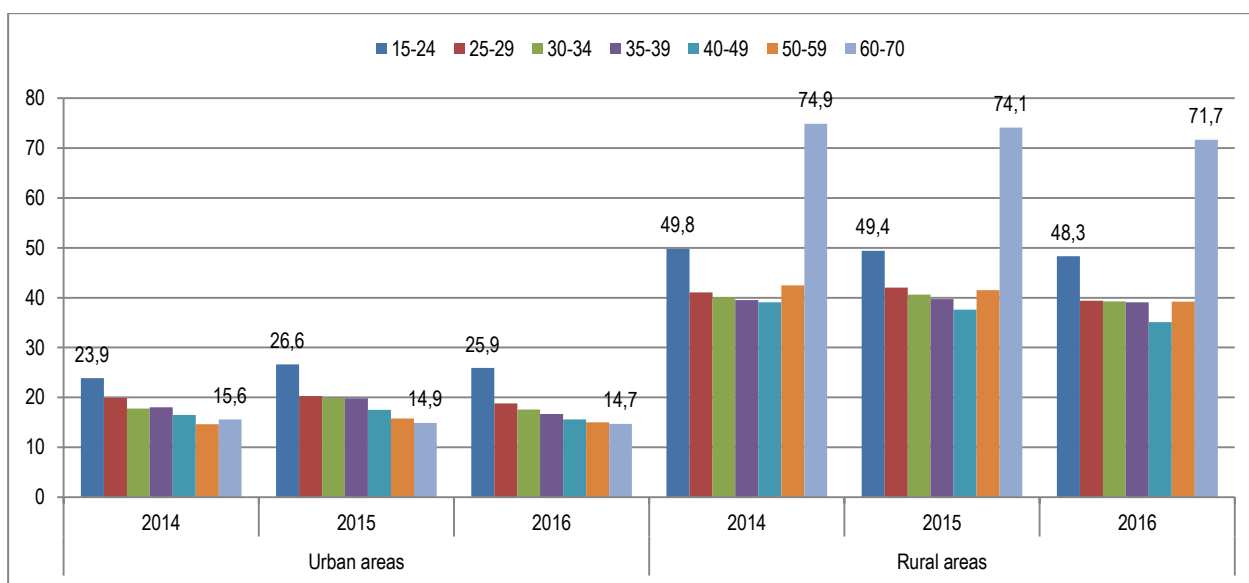


Figure 3.19. The 2014-2016 rates of informal employment, by place of residence and age, as % of employed population belonging to the corresponding age group

Source: based on the data provided by the State Statistics Service of Ukraine

The distribution of informal employment rates by age groups did not change much over time.

According to the 2016 statistics, the highest rates of informal employment in the formal sector were among young people aged 15-24 (17.0%) and young people aged 25-29 (14.2%). It means that the youngest age groups were least affected by the trend towards reduction in informal employment. Older age groups showed the following trend: the older the age group, the lower the rate of their informal employment in the formal sector. This pattern was observed for both women and men in 2014-2016 (see Figure 3.20).

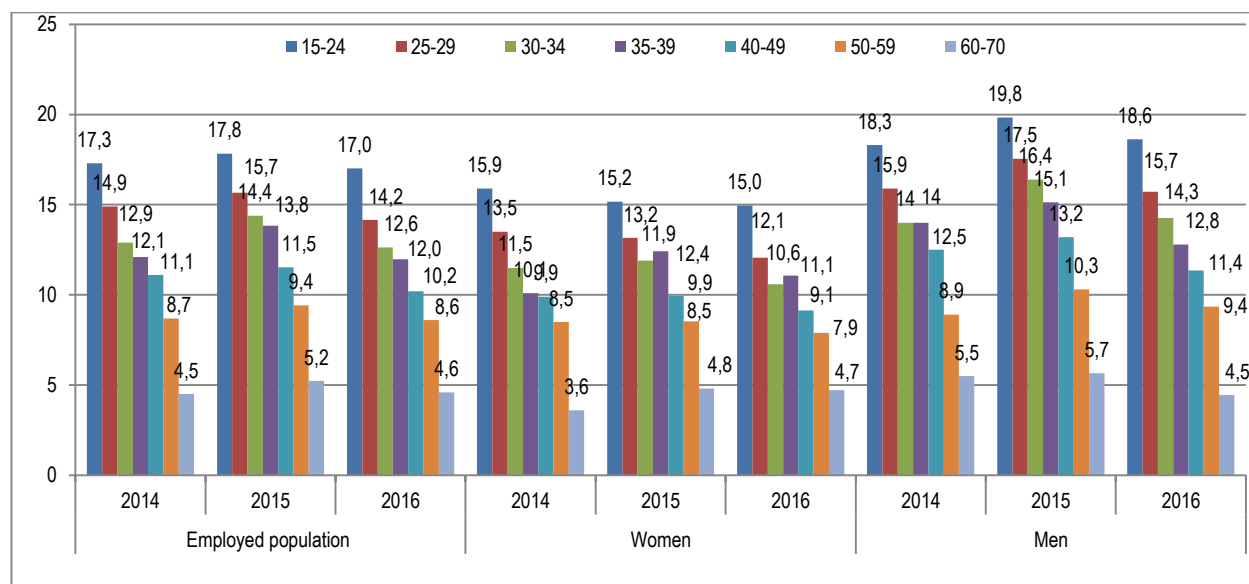


Figure 3.20. The 2014-2016 rates of informal employment in the formal sector, by gender and age, as % of employed population belonging to the corresponding age group

Source: based on the data provided by the State Statistics Service of Ukraine

The trend towards lower rates of informal employment in the formal sector for older age groups was valid for both rural and urban areas (see Figure 3.21). However, the difference in this indicator among different age groups in rural areas was much less pronounced than in the cities.

In general, one can conclude that the rate of informal employment in the formal sector drops sharply for the population aged 50+.

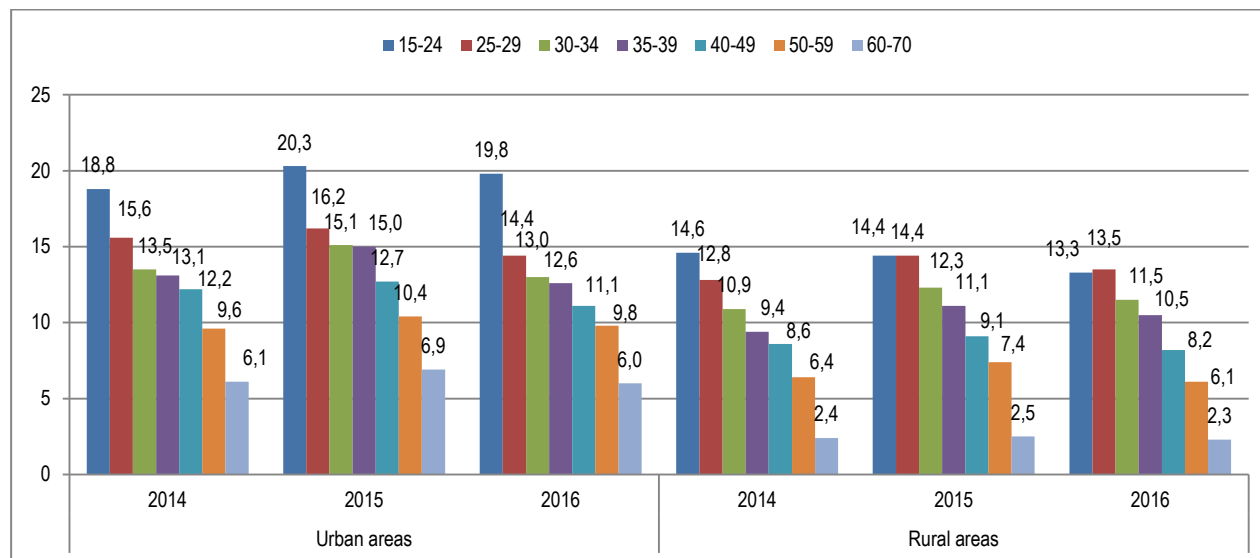


Figure 3.21. The 2014-2016 rates of informal employment in the formal sector, by place of residence and age groups, as % of the employed population belonging to the relevant age group

Source: based on the data provided by the State Statistics Service of Ukraine

The age group distribution of shares of people employed in the informal sector is, for the most part, similar to the overall distribution of such shares in the informal sector, and is very different from the distribution of shares of people informally employed in the formal sector. In particular, the highest rates of employment in the informal sector are among the youngest and the oldest age groups; however, unlike the rate of total informal employment, they decrease up till the age of 29, after which they increase, slowly but steadily, as people grow older (cf. distribution patterns in Figures 3.18 and 3.22). In 2016, the share of people aged 30-34 was smallest (10,3%) among workers employed in the informal sector (see Figure 3.22); each of the older age groups showed a steady growth in the share of people employed in the informal sector, with a spike in the age group of 60+ to 31.5%.

From the gender perspective, the rate of employment in the informal sector is generally higher among men than among women, although the age differences remain the same. One of the most important differences is that the share of men aged 15-24 and employed in the informal sector was significantly bigger than that of women of the same age and markedly smaller among persons aged 60 years or older.

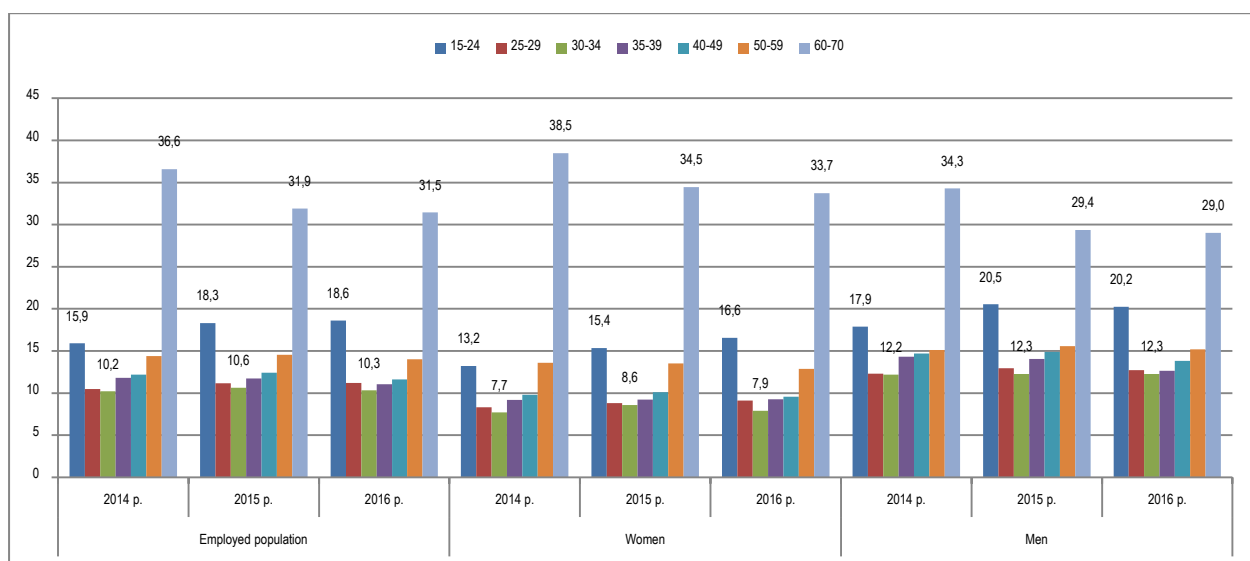


Figure 3.22. The 2014-2016 rates of employment in the informal sector, by gender and age, as % of employed population belonging to the corresponding age group

Source: based on the data provided by the State Statistics Service of Ukraine

Compared to rural areas, the rate of employment in the informal sector in urban areas was significantly lower among all age groups (see Figure 3.23), the pattern of its distribution being similar to the age group distribution of this indicator in the informal sector employment in general.

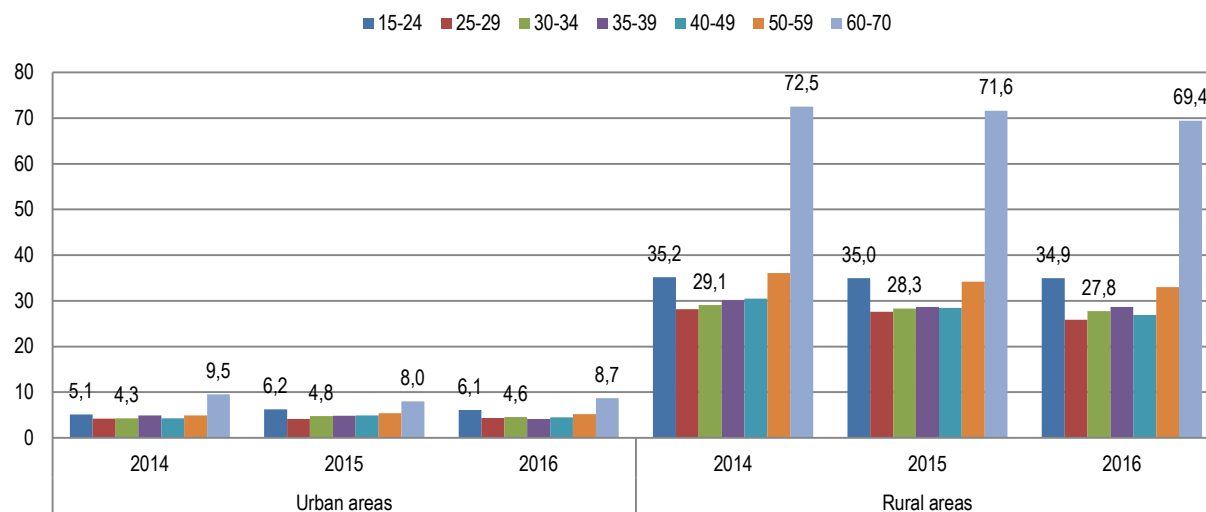


Figure 3.23. The 2014-2016 rates of employment in the informal sector, by place of residence and age, as % of employed population belonging to the corresponding age group

Source: based on the data provided by the State Statistics Service of Ukraine

Certain age characteristics of informal employment are described in greater detail in the 2013 and 2015 ILO “School-to-work Transition Surveys” (SWTS) conducted in Ukraine. The share of informally employed young people (15-29 years old), according to the SWTS data, was greater than the share

of the same age group of young people employed informally in the formal sector, according to the economic activity survey data¹¹⁵ (58.3% vs. 30.1%).

Such difference between the SWTS and the *State Statistics Service* data is stipulated by greater focus of the former methodology on the hidden forms of undeclared work. ILO applied the standard international approach¹¹⁶ to assess the rate of informal employment among youth but used more stringent criteria to the definition of informality. Along with the criterion of availability of registered employment contract, additional criteria were applied, such as payment of single social contribution by the employer as well as the employer's compliance with basic social guarantees (guaranteed payments in case of sick leave and annual leave).

According to the SWTS data, among young people working in the formal sector only 84.6% said that their employers paid single social contribution from the total amount of their wages. However, it should be noted that in Ukraine a significant number of employers who do not register employment relationships with their workers still provide them with paid annual leave and sick leave (see Figure 3.23).

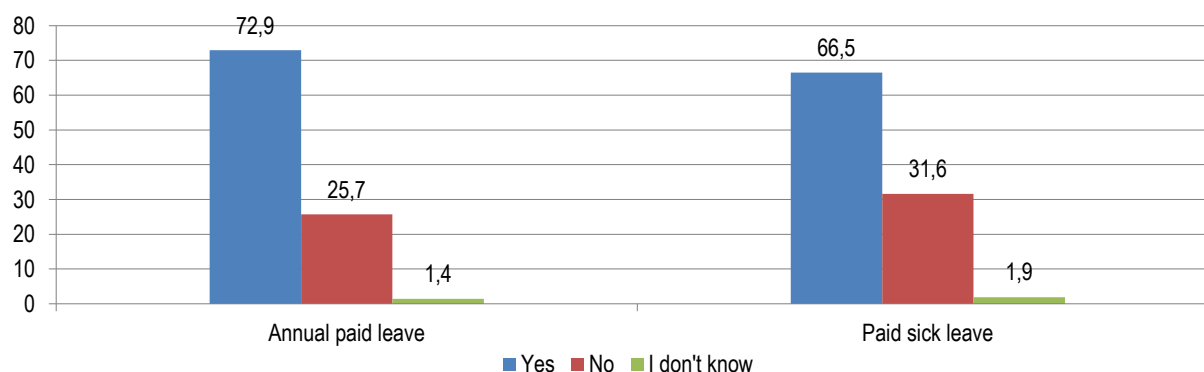


Figure 3.24. Distribution of employed youth by access to basic social guarantees in the workplace (the criterion of informal employment used in SWTS), %

Source: calculated by using the 2015 SWTS research.

On the other hand, the research revealed significant problems of compliance with current social security regulations even on the side of official employers who take advantage of the Ukrainian young people's carelessness regarding participation in the social security system.

Alternatively to the State Statistics Service surveys, the SWTS showed that **informal employment in the formal sector** among young people is **more common than employment in the informal sector** (see Figure 3.24). The only exception is the young people of 15-19 who are frequently turned down by the formal sector enterprises and work mainly in households or as unpaid family members.

¹¹⁵ Data provided by the State Statistics Service of Ukraine

¹¹⁶ Informal employment is measured according to the 17th ICLS (2003) guidelines

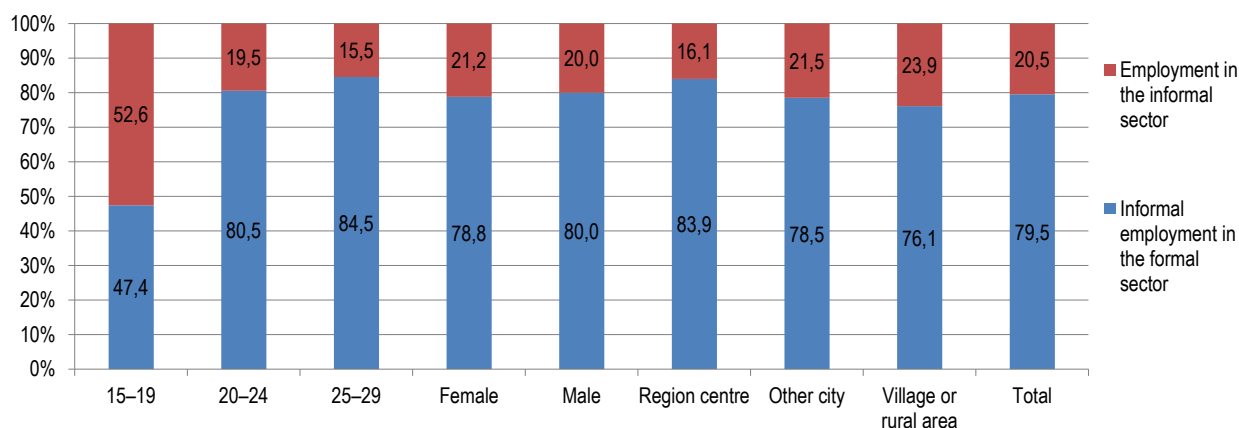


Figure 3.25. Informal youth employment, by sectors, 2015

Source: calculated by using the 2015 SWTS research.

In addition, the SWTS survey makes it possible to identify two sub-categories of young people informally employed in the formal sector: “young people whose employment relationships have never been registered” and “young people whose employment relationships were registered but they were not fully protected as required by law.” According to the SWTS data, most (53.4%) of young people informally employed in the formal sector could not fully benefit from social guarantees (Fig. 3.25).

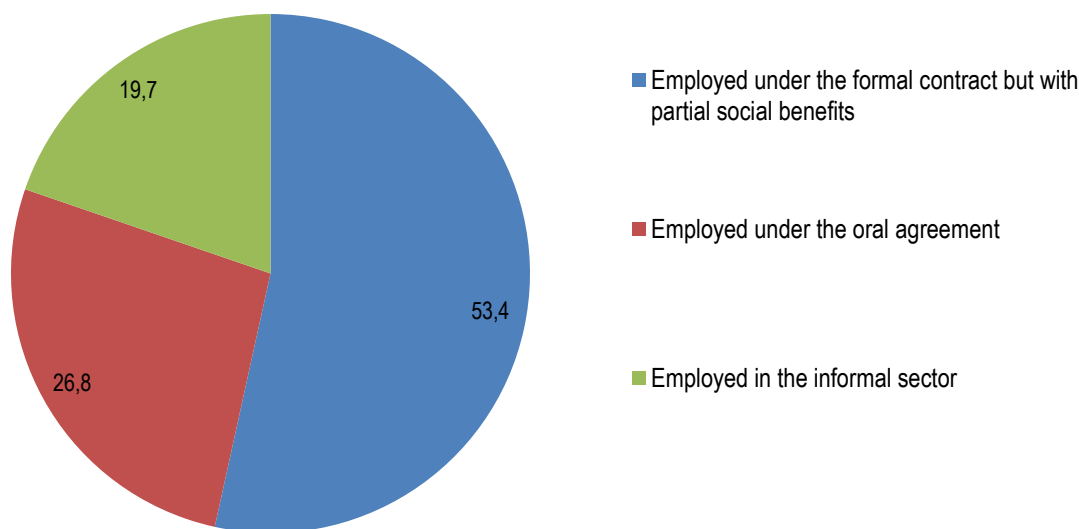


Figure 3.26. Informally employed young people, by informal employment criteria

Source: calculated by using the 2015 SWTS research.

It seems that the proportions between full and partial failure to declare work among adults might be different. But it would be logical to assume that the partial failure to declare activity in the formal sector is also high among older population.

3.3.7 Ukrainian Undeclared Work Survey (UUDWS)

This section is focused on the presentation of the main findings of the first UUDWS, a direct method of estimating the size and nature of the undeclared work, commissioned by the NaUKMA and the ILO and conducted, between October and November of 2017, by the KIIS.

Methodology of the survey

The methodology adopted in UUDWS was based on the methodology already used in the two Special Eurobarometer studies “Undeclared work in the European Union”, conducted in 2007 and 2013 by the TNS Opinion & Social and commissioned by the EC.

The sample used in this study is representative for the Ukrainian adult population, excluding the temporary occupied Autonomous Republic of Crimea and the non-government controlled areas of Donetsk and Luhansk (15+ years).

The electoral statistical data of the extraordinary parliamentary elections of 2014 was used for sample design, to select a certain number of voting precincts. The survey was carried out in 100 PSU (urban settlements and rural districts) in all regions of Ukraine (except in the temporary occupied Autonomous Republic of Crimea and in the non-government controlled areas of Donetsk and Luhansk). The sample is a stratified three-staged random sample, random at each step of selection.

1,000 interviews were carried out during the field work stage. 20% of interviews were controlled at the control field work stage.

To take into account the multi-stage sample design and correct gender-age structure (in order to meet the data from the State Statistical Service of Ukraine), the weighting technique was applied. For weighting, it was used the most recent statistical information on the «Distribution of resident population of Ukraine by gender and age on 1 January 2017» from the State Statistical Service of Ukraine, which provides the data on the number and gender-age distribution of the permanent population of Ukraine by regions, type of area and cities with a population over 100,000.

The questionnaire was developed according to the Eurobarometer methodology with the aim to allow the later comparison of these results with the EU28 results.

Supply side of the undeclared work

Regarding the size of the supply side of the undeclared work (i.e., in the perspective of the undeclared workers themselves), 7.10% of the respondents admitted having carried out any undeclared paid activity in the last 12 months¹¹⁷. Moreover, around 45.8% of the respondents personally know any people who work without declaring their income of part of their income to tax or social security institutions. On the other hand, about 33% of the respondents estimate that at least half (50% or more) of the population of the Ukraine works undeclared.

Furthermore, and out of those who worked undeclared, 73.8% are males and 26.2% females. About 62% of the undeclared workers live in urban areas and around 38% live in rural settlements. Most of these “suppliers” of undeclared work are in the 35-44 years old age group (about 32%), followed by the age groups of 45-54 years old (about 28%), 25-34 years old (23%), 15-24 years old (11%) and above 55 years old (around 8%).

¹¹⁷ Taking into account, however, the natural reluctance of respondents to acknowledge their eventual provision of undeclared work (for fear of possible legal consequences), this value must be considered as the minimum lower level of the phenomenon size, as also supported by TNS Opinion & Social (2007:6).

In what concerns the nature of the undeclared work performed, and as illustrated in the following figure, the respondents that admitted having carried out undeclared work in the last 12 months highlighted the following: “Home maintenance or home improvement services” (25.7%), “Selling food (e.g., farm produce)” (14.1%), “Gardening” (8.9%), “Car repairs” (8.1%) and “Selling goods/services associated with my hobby” (7.4%).

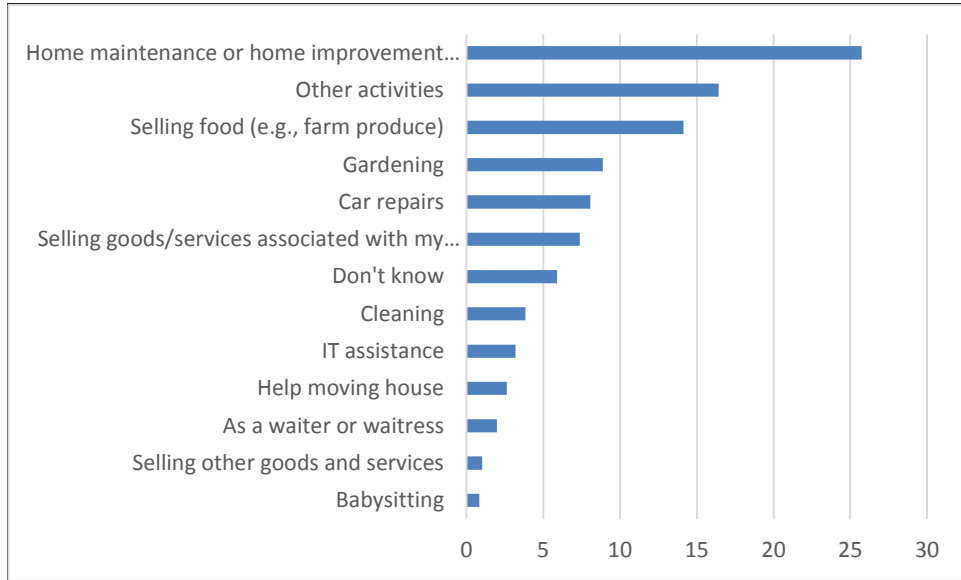


Figure 3.27. Nature of undeclared work provided (%)

Source: UUDWS.

As for the clients (or beneficiaries) of the undeclared workers, and as portrayed on the next figure, they include mostly other private persons or households (33.9%), friends, colleagues or acquaintances (20.8%), relatives (16.5%), firms or businesses (13.8%) and neighbours (12.3%).

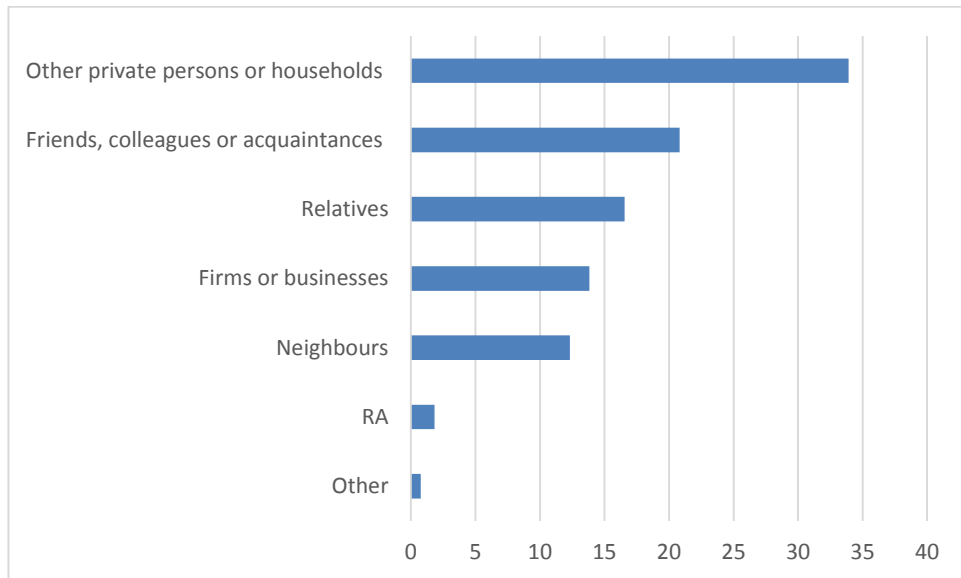


Figure 3.28. Clients of the undeclared workers (%)

Source: UUDWS.

When those who admitted having worked without declaration were asked about the reasons for doing so, the most common reasons were “Could not find a regular job” (19.7%), “It was just a seasonal work and so it is not worth to declare it” (15.4%), “This is the normal way how this is done among friends, neighbours or relatives” (12.9%), “The State does not do anything for you, so why should I pay taxes” (10.8%) and “Both parties benefited from it” (10.2%).



Figure 3.29. Reasons for working undeclared (%)

Source: UUDWS.

However, when respondents were asked about the two major reasons for engaging in undeclared work in Ukraine (assumed reasons for doing undeclared work), the most cited reasons were: “Lack of regular jobs on the labour market” (20%), “The State does not do anything for the people, so why should they pay taxes” (19%), “Insufficient income from regular job” (16%) and “Taxes and/or social security contributions are too high” (13%)

As for the employment status of the undeclared workers, most of them reported to be unemployed (33.5%), slightly less employees (31.2%), self-employed (18.4%), retired (10.5%) and students (1.9%).

Finally, and concerning the undeclared workers’ financial situation, most of them reported to have an average (47.1%) and good (39.4%) financial situation. At the same time, 7.6% reported a poor financial condition, whereas a good one was reported by around 4.5%.

Demand side of the undeclared work

As for the demand side of the undeclared work (i.e., in the perspective of those who use undeclared work or undeclared services or goods), 12.2% of the respondents reported having acquired *services* which they had a good reason to assume that they involved undeclared work, while around 15.2% recognized having purchased undeclared *goods*.

The socio-demographic groups of those who have used undeclared goods or services are presented in the following table.

Table 3.6. Distribution of the UDW beneficiaries by socio-demographic group (%)

Description	Yes	No	Refusal	Don't know
Gender				
Female	16%	79%	1%	4%
Male	21%	71%	2%	6%
Type of settlement				
Rural	14%	82%	1%	3%
Urban	22%	70%	1%	6%
Age groups				
15 - 24 years	16%	76%	3%	5%
25 - 34 years	26%	71%	1%	3%
35 - 44 years	23%	71%	0%	6%
45 - 54 years	21%	71%	4%	5%
55 - 64 years	11%	82%	1%	5%
65 years+	12%	82%	1%	6%
Employment status				
Employee	21%	71%	2%	6%
Self-employed	33%	54%	8%	5%
Unemployed	19%	77%	1%	4%
Retired	11%	83%	1%	5%
Student	8%	86%	0%	6%
Other, refusal, DK	26%	73%	0%	1%
Financial situation				
Poor	15%	82%	0%	3%
Average	18%	76%	1%	6%
Good	20%	73%	3%	4%
Very good	31%	65%	0%	4%
Sector				
Construction	24%	47%	12%	17%
Industry	24%	72%	0%	4%
Household services	23%	69%	8%	0%
Transport	15%	81%	0%	4%
Personal services	37%	63%	0%	0%
Retail	24%	60%	4%	12%
Repair services	15%	67%	7%	11%
Hotel, restaurant	55%	45%	0%	0%
Agriculture	16%	78%	0%	6%
Other	19%	78%	1%	2%

Source: UUDWS.

As regards gender, both women (16%) and men (21%) use undeclared work. In urban settlements, the undeclared work is more used (22% to 14%, respectively).

In terms of age, the 25-44 years age group is more likely to buy the undeclared work. Self-employed have the highest tendency to purchase the undeclared work (33%), compared with employees (21%), unemployed (19%), retired (11%) and students (8%).

Those who report to have poor financial situation used undeclared work less frequently (15%), when compared to those with very good financial situation (31%).

In terms of sector of activity, in hotel & restaurants the undeclared work is used in the majority of cases (55%) and slightly less in personal services (37%), followed by construction (24%), industry (24%) and retail (24%).

As for the nature of the undeclared work used, the next figure illustrates the main activities it involved.

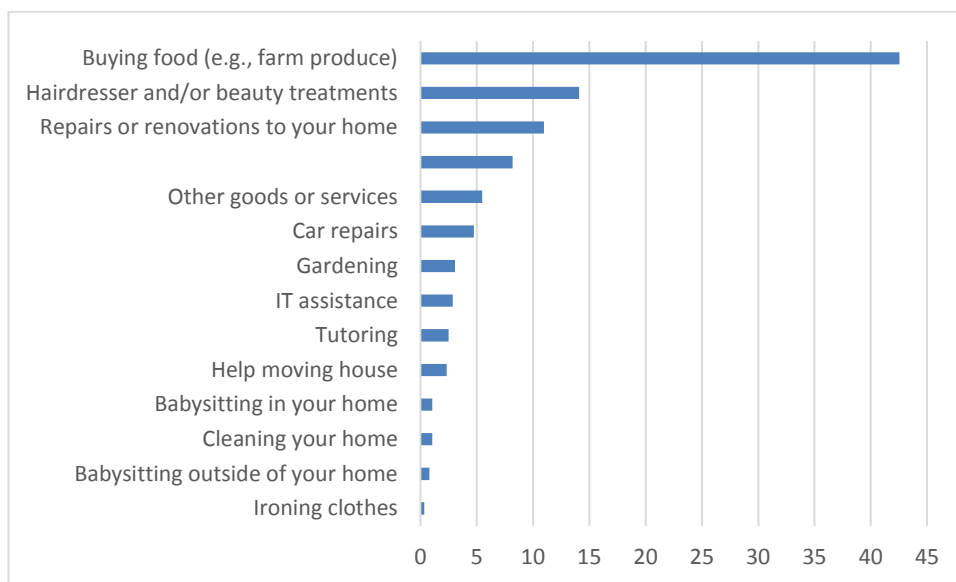


Figure 3.31. Nature of the UDW used by its beneficiaries (%)

Source: UUDWS.

Undeclared activities primarily used in the last 12 months were mostly food (42.5%), hairdresser and/or beauty services (14.1%) and home repairs or renovations (11%).

The following graph illustrates the main sources from which the beneficiaries received the UDW.

It allows seeing that Ukrainians, in most cases, purchase undeclared goods or services from other private persons or households (69.5%) and, in a much lesser degree, from friends, colleagues or acquaintances (11.4%), firms or businesses (6.9%), neighbours (5.7%) and relatives (2.1%).

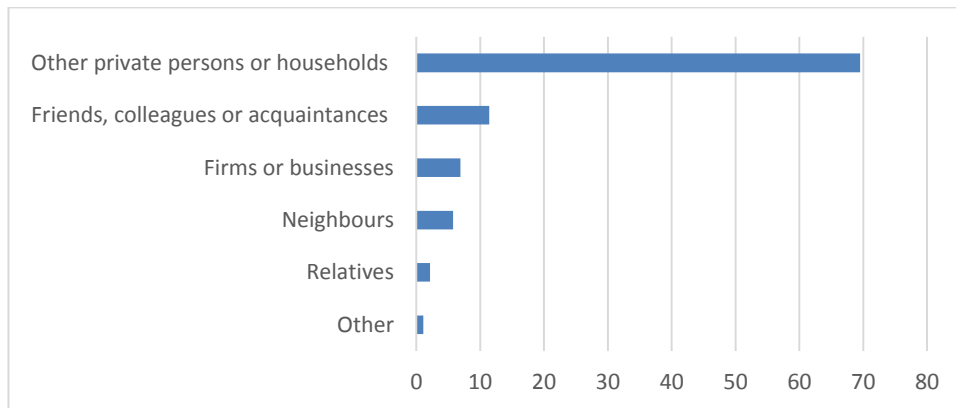


Figure 3.32. Sources of the undeclared work used (%)

Source: UUDWS.

The next figure illustrates the most important reasons underlying the use of UDW by its beneficiaries.

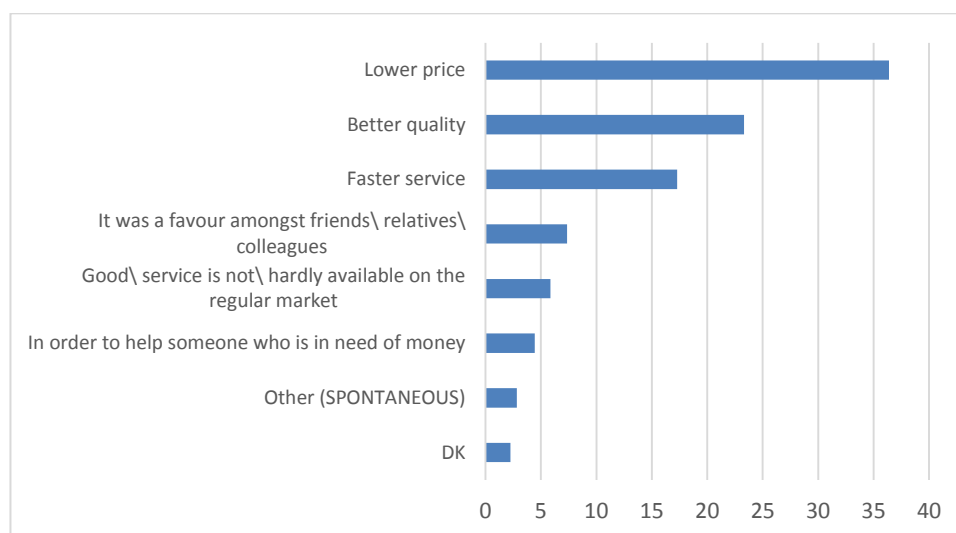


Figure 3.33. Main reasons to use undeclared work (%)

Source: UUDWS.

According to the above figure, the main reasons pinpointed by the respondents who admitted using undeclared work for using it were the following: “lower price” (36.4%), “better quality” (23.3%), “faster service” (17.3%), “it was a favour amongst friends\relatives\colleagues” (7.4%), “good\service is not\hardly available on the regular market” (5.9%) and “in order to help someone who is in need of money” (4.4%).

Envelope wages

Concerning envelope wages, around 9.14% of employees reported to have been paid envelope (cash-in-hand) wages, without declaring wages to tax and/or to social security authorities in the last 12 months. More than half (54.7%) of them received envelope income as both regular and overtime work and one third (29.4%) received it as part of the payment for regular work. In most cases (70.9%) it was initiated by the employer. Around one in three respondents (29%) received 50% of their net monthly income by this way.

Perception of the risk of detection and sanctions

As for the risk of detection, almost half of respondents (48%) think that people who carry out undeclared work have a rather small risk of being detected by the tax or social security institutions and just around one third (28%) think that the risk of being detected is high; around one fifth (22%) admits not knowing the level of risk of being detected.

Concerning the risk of being sanctioned, the majority of the respondents (41%) think that in case someone is detected receiving an income from work which was not declared to the relevant authorities, the applicable sanction would be the normal tax and social security contributions, plus a fine. Moreover, around one third (34%) of the respondents think that the punishment would be to pay the normal tax and the social security contributions. Furthermore, just a small minority (2%) imagine that the person would be sent to prison. Finally, about one sixth of the respondents (18%) admitted not knowing what sanction would be imposed.

4. CONCLUSIONS

The International Labour Organization and the European Union prioritize the issue of informal economy and undeclared work, which constitutes today one of the largest obstacles to ensuring decent work conditions and higher growth rates in the country.

The main causes for undeclared work in Ukraine

In Ukraine, as in other countries, the main causes of undeclared work can be divided into three major types: causes pertaining to workers, to employers and to the State. Workers can be ignorant of procedures normally applied to formalize the labour relations or they could attempt to increase personal income by evading taxes, take up undeclared (secondary) job while remaining eligible to social benefits, subsidies. Moreover, the difficulties in accessing the regular labour market, the unemployment and the social dumping also induce the workers to work undeclared. The employers can also be ignorant of their legal rights and obligations or attempt to reduce labour costs so as to decrease production costs and thus gain a competitive market advantage. The causes related to the State also lie mainly in the legislative field (legal requirements irrelevant to changing labour market conditions, imperfect and inconsistent laws and regulations, unpredictable and incoherent legislative initiatives); administrative obstacles (excessive bureaucracy of administering economic and labour relations, oppressive accounting and reporting requirements etc.); unattractive social protection when social security benefits are too small to encourage payment of social contributions, etc.); inefficiency of regulatory authorities and insufficiently stringent sanctions to discourage any failure to comply with legislative requirements.

There are also some factors unique for Ukraine that drive up the growth of undeclared work, such as excessively slow transition to a balanced innovation economy as well as extremely high insecurity of private businesses caused by rife corruption, abuse of office by public officials, unfair competition and high risks of corporate raiding. The former factor entails erosion of economic conditions for creating high-quality jobs and their supply in the formal sector. The latter explains why employers, employees and household members try to keep away from the public authorities, avoiding possible unlawful interference with their business activities.

The main consequences of undeclared work in Ukraine

Lack of proper respect of Ukrainians' legitimate labour and economic rights has also its consequences: substandard employment and labour conditions, unsafe working environments, low or delayed wages, wage arrears and illegal fines; impeded professional development of employees and official recognition of their knowledge and skills; illegal or improper dismissals; obstacles to workers' participation in the collective defence of labour rights; obstructed legal protection of property rights and contracts for undeclared self-employed persons and other unincorporated production units; lack of long-term and sustainable prospects for investments, corporate and human development; unfair competition where law-abiding enterprises and self-employed persons lose competitive market advantage; reduction of the tax revenues, which may lead to the incapacity of the State to provide public services (e.g., health, education, justice, defence, security, etc.) and, eventually, to the necessary raise of the tax rates for the law-abiding economic agents; higher burdens for the social security system along with lower revenues, which might put at risk its availability to continue to provide social protection services to citizens. In fact, the infringements on the legitimate labour and economic rights limit capacity of the State to fulfil its obligations in the

field of state supervision over compliance with labour law, employment and pension legislation, also preventing it from ensuring decent unemployment benefits, disability benefits and so on.

The main forms of undeclared work in Ukraine

In Ukraine, undeclared work can be most often observed in the following forms:

1. Informal employment in the formal sector (hired labour without formalized labour relations in registered enterprises);
2. Employment in the informal sector (economic activities performed by unregistered enterprises or by persons without registration/declaration with competent authorities);
3. Underreporting of actual working hours and wages, through its payment as "envelope wages";
4. Disguised employment (substitution of employment contracts by bogus self-employed workers, bogus service provision contracts, bogus civil or commercial contracts, as well as misuse of distant and outsourcing mechanisms for hiding the hired labour¹¹⁸);
5. Unreported secondary employment of persons who have declared primary employment ("moonlighting").

Data on undeclared work in Ukraine

The data on undeclared work in Ukraine are incomplete. The data on the scope of the shadow economy and informal employment that are collected on a regular basis can be used only to evaluate some of the main forms of undeclared work.

According to the Ministry of Economic Development and Trade of Ukraine, in 2016 the shadow economy amounted to 35% of the official GDP¹¹⁹. These data could be interpreted to mean that the shadow economy in Ukraine was shrinking for three years in a row, and that a positive trend could be in the making.

The share of hidden wages in the shadow economy was estimated at 30-34%, however the methodology of estimating the shadow economy does not allow to align the scope of shadow added value in the country or a particular economy sector with revenues of a specific enterprise or a typical group of enterprises, or else with incomes of a specific individual. This, in turn, precludes the use of these data in a format adopted for assessment of this form of undeclared work.

The State Statistics Service of Ukraine measures informal employment in Ukraine on a regular basis by conducting nation-wide surveys of economic activity (labour force survey).

The category of informally employed persons in Ukraine includes those whose work is undeclared. The informally employed individuals completely cover two of the above mentioned four main forms of undeclared work in Ukraine:

(1) Informal employment in the formal sector, and

¹¹⁸ Both Ukrainian and EU practice illustrate ongoing transformation and variability of institutional and legal methods that are used to mask actual employment in order to avoid relevant social requirements.

¹¹⁹ The shadow economy means unregistered economic activity of an economic entity that attempts to minimize production costs, and expenditures for works and services, evades taxes and duties (mandatory payments), avoids statistical surveys and fails to submit statistical reports, which results in violation of statutory regulations (minimum wages, working hours, working and safety conditions, etc.); - Order of the Ministry of Economy N°123 dated 18.02.2009 "On approval of guidance for calculation of the shadow economy parameters." Source <http://www.me.gov.ua/LegislativeActs/Detail?lang=uk-UA&id=4bb297a0-c900-404f-8c6f-5f76f18b1503>

(2) Employment in the informal sector.

In both cases of informal employment, the activities are legitimate but social contributions, and/or annual leave and/or sick leaves are not paid. Labour relations between employers and workers and between entrepreneurs and self-employed persons are built only on verbal agreements as opposed to documented employment and commercial contracts.

The *State Statistics Service* data on informal employment are the most exhaustive and reliable source of information about the two main forms of undeclared work in Ukraine that are collected on a regular basis. They reflect informal employment by employment status, economic activity, region, place of residence, gender, age, level of education and occupation/professional qualification.

Today, there are no exhaustive and regular data on two other forms of undeclared work, in particular (3) *underreported actual working hours and wages "in envelopes"* and (4) *disguised employment*.

Some information about these forms of undeclared work can be found in the *SLS* inspection reports. It is limited, however, to cases detected by labour inspectors and cannot reflect the actual extent of these forms of undeclared work. Of certain interest are the statistics of the State Fiscal Service and of the Pension Fund that contain information about financial transactions performed by individuals and enterprises as well as their taxes and social contributions, their financial counterparts and number of persons insured with social funds. If the concerned institutions manage to agree on providing access to those data for labour inspectors, the effectiveness of detecting undeclared work can increase significantly.

The scope of some forms of undeclared work in Ukraine

Informal employment

According to the State Statistics Service of Ukraine, in 2016 informal employment reached 24.3% of the entire working population, or more than 3.9 million people¹²⁰.

- ***The share of persons informally employed in the formal sector*** in 2016 was 46.2% of informally employed individuals;
- ***The share of persons employed in the informal sector*** accounted for 53.8% of all informally employed persons¹²¹;

In recent years, the share of informal employment in the formal sector as part of informal employment has tended to increase gradually.

Informal employment in the formal sector

Informal employment in the formal sector is more common for men and urban areas.

By economic activity, the leading sectors are:

- *Construction (32.0%);*
- *Temporary accommodation and catering (29.4%);*
- *Wholesale and retail trade, automotive maintenance (24.7%).*

¹²⁰ Economic activity of population in Ukraine, Statistical Digest 2015 / State Statistics Service of Ukraine, <http://www.ukrstat.gov.ua/>

¹²¹ Ibid.

By regions, the maximum rate of informal employment in the formal sector (% of employed persons in the region) was recorded in the following oblasts:

- Ivano-Frankivsk (26.3%);
- Lviv (16.7%);
- Kherson (14.9%).

By place of residence, the majority of persons informally employed in the formal sector resided in cities (73.9%); however, the figures vary depending on the type of economic activity (e.g. in the formal sector, the share of informally employed persons residing in urban areas and engaged in agriculture, forestry and fishing was bigger than in rural areas: 14.4% vs. 4.4%).

By age, persons informally employed in the formal sector are represented mostly by young people under 24.

Employment in the informal sector

Employment in the informal sector is more characteristic for men and residents of rural areas.

By economic activity, the leading sectors are:

- Agriculture, forestry and fishing (57.6%);
- Construction (25.2%).

By region, employment in the informal sector is most common in the following oblasts (% of persons employed in the relevant field):

- Chernivtsi (40.0%);
- Rivne (38.5%);
- Trans-Carpathian (32.6%);
- Kherson (27.2%);
- Ivano-Frankivsk (26.9%).

By place of residence, the vast majority were residents of rural areas (74.7%); however, most people informally employed in manufacturing, construction, wholesale and retail trade, and transport resided in urban areas.

By age, those were young people of 15-24 years and people over 60.

Some regions of Ukraine have an acute problem of informal employment, moreover, an entire sector of parallel, unregulated economy seems to be evolving there. The worst situation is observed in *Kherson, Trans-Carpathian, Rivne, Chernivtsi and Ivano-Frankivsk oblasts*. In Kherson and Ivano-Frankivsk oblasts both the scope of informal employment in the formal sector and employment in the informal sector are critical. In Vinnytsia, Volyn, Ivano-Frankivsk, Rivne, Kherson and Chernivtsi oblasts, the rate of informal employment exceeds 80% in agriculture and 70% in construction. Strictly speaking, the scale of informal economical activities in these sectors is approaching critical levels in these oblasts.

Moreover, the findings of the first UUDWS also revealed some important insights, which can bring some light on a better understanding of the phenomenon.

According to its results, around 7% of the respondents admitted having worked undeclared in the last 12months, whereas around 46% knows someone that works undeclared and around 33% estimate that at least 50% of the population of Ukraine works undeclared. The majority of the

undeclared workers has between 35 and 54 years old, live in urban areas and are unemployed, employed in other occupation or self-employed.

The undeclared work was mainly related to the performance of activities such as home maintenance or home improvement services, selling farm produced food, gardening, car repairs and selling goods/services associated with their hobbies.

As for the reasons of working undeclared, the majority of the respondents that have already worked undeclared put forward the difficulties of finding a regular job, the seasonal nature of the work, the fact that is the usually way to do it, the fact that the State does not do anything for them and the fact that both parties (the worker and the employer) benefit from it.

Notwithstanding the above, according to the Ukrainian labour inspection activity data, in the period 2009-2011, labour inspectors identified an average of 8,500 undeclared workers per year. In subsequent years, this figure dropped sharply due to the transition period of reforms aiming to establish the State Labour Service of Ukraine. That process coincided in time with a moratorium on inspections. Therefore in 2015, labour inspectors detected only 664 undeclared workers.

Compared with the State Statistics Service data on informally employed workers in the formal sector, the share of detected undeclared workers is very small.

In 2015, 3,000 cases of employment contract substitution with independent contractor or commercial contracts were detected.

Thus, as noted above, any estimates of this form of undeclared work based on findings of the SLS inspection visits would be inaccurate.

Undeclared work and activities of the State Labour Service of Ukraine

One of State Labour Service's tasks is to supervise and monitor compliance with labour law, employment and compulsory social insurance legislation. In fact, this relates to the labour inspection function.

In this context, the SLS has prioritized its objectives as follows:

- Registration of labour relations,
- Enforcing minimum guarantees on labour remuneration; and
- Measures against wage arrears.

So detection of undeclared work is one of the SLS priorities.

However, there are some legislative restrictions reducing the effectiveness of measures against undeclared work:

- According to the current legislation, the SLS is authorized to carry out inspections only in the formal sector (inspecting legal entities and registered individual entrepreneurs who use hired labour).

As employment in the informal sector (affecting at least 2 million people) remains outside the SLS scope of responsibilities, the effectiveness of measures to combat undeclared work seems limited.

Today, the SLS can contribute to measures against 4 out of 5 main forms of undeclared work:

1. Informal employment in the formal sector;

2. Underreported actual working hours and wages "in envelopes";
3. Disguised employment (substitution of employment contracts with independent contractor or commercial contracts as well as misuse of distant and outsourcing mechanisms for hiding the hired labour).
4. Unreported secondary employment of persons who have declared primary employment.

Currently, labour inspectors have not got all the powers and rights provided for by ILO Labour Inspection Conventions N°81 and N°129; the SLS lacks the necessary financial, technical/IT and human resources; its collaboration and coordination of efforts with other stakeholders should be enhanced.

5. RECOMMENDATIONS

In order to improve the efficiency and effectiveness of the fight against undeclared work, it is of paramount importance to focus the scarce resources where its effect is maximized.

In particular, they should be concentrated on the adoption of a strategic management model likely to ensure the proper planning, organization, direction and control of the fight against this phenomenon.

In addition, they should also be focused on the implementation of a wide range of dissuasive and facilitation of compliance measures, which should be foreseen in the strategic plan that should be formulated.

The implementation of such measures, in turn, is expected to improve the prevention of the undeclared work, to strengthen the capacity of the competent public authorities to ensure its proper detection and sanctioning, to support the transition from the undeclared work to regular jobs and to promote the economic agents' commitment to "fiscal morality".

5.1 Strategic management of the fight against UDW

Within the framework of the a desired strategic management approach to the fight against undeclared work, it is considered a key priority the upstream development of a system of evaluation, characterization and regular and systematic monitoring of the phenomenon of undeclared work, its evolution and the results of measures taken to combat it.

It is fundamental that this system of evaluation and monitoring of the UDW allows to know, *inter alia*, the following:

1. The size and evolution of the phenomenon (as a percentage of GDP and as a percentage of total employment, as a percentage of the total number of hours worked, etc.);
2. The effects of the measures taken to counteract it;
3. The reasons, motivations and underlying causes of the use of and participation in undeclared work; and
4. Its distribution:
 - a. With regard to employers:
 - i. By sector of economic activity;
 - ii. By regions of the country;
 - iii. By size (turnover, number of employees, personnel costs, etc.);
 - iv. For situation as regards tax and social security authorities.
 - b. With regard to workers:
 - i. By age and gender;
 - ii. By place of residence and work;
 - iii. By level of education and professional qualifications;
 - iv. By professional categories;

- v. By nationality and place of birth;
 - vi. By regularity or irregularity of the immigration situation (in the case of foreign nationals);
 - vii. For professional or occupational situation (worker, unemployed, sick, retired, student, etc.);
 - viii. By situation with regard to social security (contributor or not contributor, recipient of social benefits or not, etc.); and
 - ix. By type of bond that exists between the beneficiary and the provider of the activity (indefinite employment contract, fixed-term employment contract, fixed-term employment contract, part-time contract, self-employed, service contract, service contract trainee, intern, etc.).
- c. Regarding the typology of non-declaration:
- i. Per concrete type of undeclared work in presence: totally undeclared work (e.g., provided by minors, irregular migrants, beneficiaries of social benefits, retired people, students, etc.); underreporting of remunerations (assignment of fringe benefits not taxed; envelope wages, payment of remuneration "disguised" as per diems; false rendering of services; false rendering of services; bogus self-employment; bogus professional internship or training); etc.;
 - ii. By public authority to which it has not been declared the exercise and/or activity income; and
 - iii. By the extent to which the income and/or the occupation were not declared.

In fact, the collection of reliable data and its analysis on a regular basis make it possible to design the most appropriate strategy to overcome undeclared work, prioritizing the targets and allocating the efforts and the resources accordingly: types of economic activities, forms of undeclared work, areas, targeted groups of workers, employers, etc.

The methodology for assessing the scope and nature of the undeclared work should be developed by combining direct and indirect assessment methods, ideally with data from different sources (statistics, results of sociological surveys, information provided by the social security authorities, labour inspection, etc.)¹²².

By allowing the knowledge of the size, nature and specific features of the UDW, its evolution and the results of the measures taken to combat it, such a system of evaluation and monitoring becomes an important instrument to support the formulation, the selection, the implementation and the monitoring of the strategies most appropriate to fight it. Moreover, it is also a relevant tool for ensuring the timely adoption of the corrective measures that are necessary and appropriate to any deviations detected. In addition, this evaluation and monitoring system can also be an important tool to support the mechanisms for the performance assessment of the public authorities involved in this fight (and their employees) and to ensure their alignment with the strategy and the objectives formulated.

¹²² More detailed information on the undeclared work assessment can be found in Communication from the Commission to the European Parliament, the Economic and Social Committee and the Committee of the Regions COM (2007) № 628 dated 24.10.2007, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52007DC0628>

Once properly characterized and known the phenomenon of UDW in Ukraine, it is essential to define a national coherent, transversal, consistent and determined policy to fight against undeclared work.

This policy, in turn, should be consubstantiated in the formulation and implementation of a clear, well-defined and comprehensive strategy¹²³ to tackle the phenomenon, through the joint efforts and resources of the main national stakeholders (e.g., public authorities with legal competencies in the fight against UDW, social partners, research and education institutions, non-governmental organizations, civil society, mass media, etc.).

This strategy should be guided by the achievement of concrete objectives and targets, able to guide and coordinate the efforts of all public authorities involved in this fight (labour inspection, tax authorities, social security authorities, foreign services authorities, etc.) and, in addition, subject to a rigorous and systematic process of evaluation, monitoring and control of its implementation, likely to allow the timely adjustment and correction of possible deviations.

The formulated strategy should be translated into a tactical plan (and subsequent operational programmes), properly aligned with each other and with that.

The tactical plan defines how resources (material, human, financial, technological, skills, qualifications, knowledge, etc.) must be assigned and organized in order to ensure the successful implementation of the strategy. In addition, the tactic plan clarifies how the necessary coordination should be provided between the main bodies with competence in this area, in such a way as to ensure an effective, coherent and aligned action. Moreover, they define the objectives, indicators and targets to be pursued, resulting from the coherent and consistent disaggregation, in cascade, of the strategic objectives.

Operational programmes (resulting from the coherent and consistent disaggregation, in cascade, of the objectives, indicators and targets of the tactical plan), for their part, should also set objectives, indicators and operational goals to be achieved, its timing, as well as the processes, procedures and means necessary to ensure their achievement.

In order to be effective, such strategy to tackle UDW should be sufficiently holistic and comprehensive¹²⁴, combining deterrent focused measures, that seek to engender compliance by detecting and punishing non-compliance, with more enabling compliance approach measures, which are aimed at encouraging compliance by either preventing businesses or people from engaging in undeclared work from the outset, enabling the transfer of undeclared work into the declared realm, or by fostering commitment to the 'tax morality' (Williams and Renooy, 2008:14).

¹²³ Examples of such strategies and the role of labour inspectorate are described in further detail in "Labour inspection and undeclared work in the EU, the International Labour Office, Labour Administration and Inspection Programme (LAB/ADMIN). - Geneva: ILO, 2013 Working Paper, № 29, http://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---lab_admin/documents/publication/wcms_536742.pdf

¹²⁴ More detailed information about this approach can be found in the Communication from the Commission to the European Parliament, the Economic and Social Committee and the Committee of the Regions COM (2007) № 628 dated 24.10.2007, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52007DC0628>

5.2 Deterrence approach measures

This type of strategic approach do tackle UDW include the measures which are intended either to improve detection or to reinforce sanctions.

5.2.1 Measures to improve detection

In what concerns the measures aimed at improving the detection of UDW, Ukraine should implement the following:

1. Improve the effectiveness of the inspection activity, mainly through:
 - a. Refrain from imposing *moratoriums* to the inspection activity;
 - b. Ensure that the Ukrainian labour inspectors are legally entrusted with all the necessary powers to discharge their duties, foreseen in the ILO Convention Nos. 81 and 129, and, in particular, with the power to:
 - i. To enter freely and perform inspections visits to any workplace without prior notice;
 - ii. Conduct inspections visits at any time of day or night;
 - iii. Carry out inspections visits even when the employer (or the employer representative) is not present in the workplace;
 - iv. Perform inspection visits within all the scope of their legal competences and to adapt its scope, extension and deepness do the circumstances found at the workplace;
 - v. Make inspection visits as often and as thoroughly as is necessary to ensure the effective application of the relevant legal provisions;
 - vi. To interrogate, alone or in the presence of witnesses, the employer or the staff of the undertaking on any matters concerning the application of the legal provisions;
 - vii. On the occasion of an inspection visit, inspectors shall notify the employer or his representative of their presence, unless they consider that such a notification may be prejudicial to the performance of their duties;
 - viii. Impose fines, regarding detected infractions foreseen in law, whenever they feel that this is the most adequate procedure to ensure compliance and deter non-compliance;
 - ix. Monitor, promote and enforce compliance of employers who are not registered, as well as regarding employers and workers which, in spite of having an employment relationship, does not have a formal or written labour contract.
2. Intensification of the number of the first and follow-up inspection visits;

3. Carrying out unannounced inspections visits on the days and times more likely to allow the detection of undeclared work (e.g., out of usual business hours; nights; holidays; weekends);
4. Conduct frequent inspections jointly with other competent authorities (tax authorities, social security authorities, foreign and border authorities, police, etc.);
5. Focus the inspection visits on sectors especially permeable to UDW (e.g., construction; agricultural and forestry activities; fishing; wholesale and retail trade; automotive maintenance; hospitality, hotels and restaurants; catering; entertainment - especially in bathing seasons and areas; transport, courier and taxi services; hairdressers; gardening; IT assistance and support; nursing homes; and sectors of intensive manpower, such as cleaning services, maintenance and private security);
6. To develop and make available to the labour inspectors and the labour inspectorate managers of a special designed and web-based information system (computer application) to support the inspection activity, helping labour inspectors to register and to monitor their inspection activity, to issue the adequate inspection procedures and to ensure their permanent, remote and real time access to relevant information, legislation and data on employers and workers.
7. To ensure the access of the labour inspectors to the relevant databases and information on employers and workers of other public or private institutions and authorities (tax authorities, social security, public employment services, insurance companies or funds, civil register, commercial register, banks, financial institutions, etc.), with possibility of remote and real time data crossing and data interchange;
8. Selection of the targets for inspection on the basis of the adoption of statistical and indicial methods, essentially based on:
 - a. The risk profile of the economic agents (in particular on the basis of characteristics such as age, gender, occupation or professional category, type of activity and its sector, professional link type, employment status, type of framework in the field of taxation and social contributions, income level, nationality, regularity of the situation in terms of immigration, nationality and region of residence);
 - b. In risk factors associated with an increased probability of inducing failure to comply (e.g., complaints, earlier suspicions, previous sanctions, sector of activity, business partners, etc.); and
 - c. Indicators which may provide evidences of a greater severity or greater economic and social impact of the phenomenon (number of employees, turnover, personnel costs, sector of activity, purchase volume, volume of stocks, value of property, plant and equipment, etc.).
9. Make available to workers and employers communication channels and systems for receiving, treating and following complaints on UDW (e.g., electronic form available at SLS website; single national phone number; face-to-face diary answering service in at SLS local branches; postal and e-mail addresses of the various central and local branches of the SLS);
10. In conjunction with sectoral social partners, calculation of the minimum prices that ensure compliance with labour and social security laws in specific sectors (private security, cleaning services, etc.) and its transmission to market operators, with the indication that the practice

of coefficients or prices lower than the minimum values calculated, shall be subject to inspection;

11. In order to inform, sensitize, exemplify the disastrous consequences of the phenomenon in the «field» and, most especially, to potentiate the multiply effect of deterrence, ensure the follow-up of inspections visits by the media (television, radio, newspapers), being the respective reports disseminated through them and, subsequently, made available through the labour inspectorate's *Website* or *YouTube* channels.

5.2.2 Measures to improve sanctions

As for the deterrence approach measures, aimed at penalizing the non-compliance, Ukraine should consider the implementation of the following:

1. Revision of the current system of monetary sanctions to penalize the non-compliance, especially in the case of undeclared work, in particular through:
 - a. Revision of the form used to calculate the amount of the foreseen fines, which should take into account, *inter alia*, the following:
 - i. The business turnover, gross income or budget of the employer (depending on its private or public juridical nature);
 - ii. The type of undeclared work in presence (total undeclared work, underreporting of remunerations, disguised employment relation, etc.);
 - iii. The number of workers specifically affected;
 - iv. The nature of the affected workers¹²⁵;
 - v. Recidivism;
 - vi. The economic gain of the employer resulting from the non-compliance; and
 - vii. The non-compliance with the instructions or determinations of the labour inspectors.
 - b. The legal provision of an alternative way (rather the “average wage fund”) to calculate the amount of the fine to be imposed to non-registered or undeclared companies that fail to comply with the law because, as a rule, they do not have organized accountancy or registers that enables the determination of their “average wage fund”.
2. Establishment of a more appropriate and sufficient accessory penalties to sanction the non-compliance, more directed link to the vital interests of the employers, in order to avoid them from benefiting economically from the offenses (even when they pay the fines), namely:
 - a. Loss to the State of objects and assets belonging to the agent;
 - b. Prohibition of the exercise of professions or activities whose exercise depends on a title or public authorization or approval of a public authority;
 - c. Deprivation of the right to a grant or benefit granted by entities or public services;

¹²⁵ Especially in the case of the most vulnerable workers: minor worker; women who are pregnant, have recently given birth or are breastfeeding; worker with disability; irregular immigrant worker; etc.

- d. Denial of the right to participate in trade fairs or markets;
 - e. Removal of the right to participate in public tenders relating to the contract or the award of public works, supply of goods and services to the State, the provision of public services, and the allocation of licenses or permits;
 - f. Disallowing their access to other benefits of operations in public and transparent space (e.g., participation in government programmes, soft bank loans, international assistance programmes, infrastructure support, etc.);
 - g. Closure of an establishment whose operation is subject to authorization or license of administrative authority;
 - h. Suspension of permits, licenses and permits;
 - i. Advertising on the SLS website the condemnatory decisions (convictions extracts) with the characterization of the infraction, norm violated, identification of the offender, sector of activity, and place of offence, and the penalty imposed; and
 - j. Individual registration of the subject responsible for the infringements.
3. Legally provide that the payment of the fine does not relieve the wrongdoer of the fulfilment of omitted obligations, if this is still possible;
 4. Legally provide that the decision to apply the fine must contain the order of payment of the amount of the remuneration owed to workers, social security and tax authorities, when applicable, to be carried out within the prescribed time limit for payment of the fine and that this decision serves as a basis for the execution procedure for the payment of a known amount;
 5. Implementation of the legal regimen of joint liability of the owners, administrators, legal representatives and directors of the employers as well as to the whole chain of hiring (including the organizations that are in a group or societal relation with the employer; the organizations, farms and construction owners that subcontracted the employer; and the owner of the premises where the infraction was committed) for both the commitment of the infraction and for the payment of the corresponding fines.
 6. Provision of a legal inspection procedure, immediately enforceable, to enable labour inspectors to determine to employer the immediate integration of workers within the organization, on the basis of an employment contract without term, without trial period and with *ab initio* recognition of all working conditions, in the case of verification of the provision of fully undeclared work, or in the case of the provision of work in an apparently autonomous way or apparently under the form of a service provision, self-employment, own-account work, internship, training course or volunteering, but in conditions similar to those of employment contract, without prejudice to the possibility afforded to the employer and the worker to contest the decision of the administrative authority in court;
 7. Establishment of a legal “repentant status” repentant status to offenders who collaborate with the authorities in the elimination of the most serious situations of undeclared work and related phenomena.

5.3 Enabling compliance approach measures

This strategic approach do tackle UDW include, generally, three types of distinct measures, although complementary, focused on prevention, legitimation or correction of the phenomenon, and in measures to induce the commitment with "fiscal morality" (Williams and Renooy, 2008).

5.3.1 Preventive measures

With regard, specifically, to preventive measures (which comprise, in essence, the measures to avoid, in origin, the use or provision of undeclared work), Ukraine should implement the following:

1. Simplify, synthesize and better systematize the labour legislation, reducing the number of legal acts, in order to facilitate its understanding and its compliance;
2. Simplification, reduction of bureaucracy and dematerialization of the fulfilment of legal obligations and administrative formalities by citizens and companies and, in particular, simplification and reduction of the context costs regarding the relationship of enterprises and citizens with social security, tax authorities and labour administration, through the provision in their respective web sites of online transactional services and electronic forms;
3. Simplification of the legal framework for the access and exercise of economic activities, particularly through the removal and replacement of unnecessary, useless and clearly expendable procedures, requirements, authorizations and licenses, by simplified procedures, based on a prior declaration procedure, complemented by a system of subsequent monitoring, *a posteriori*;
4. Adjustment of administrative and bureaucratic burdens, inherent to the fulfilment of legal obligations and formalities, to the nature and size of the economic agents;
5. Creation of special legal regimes, more adapted to the nature of employment relationships emerging from the exercise of certain activities, which tends to occur, abusively, not declared or through the concealment of their working relationship (e.g., self-employment, volunteering, professional internships, domestic service, work at home, port work, entertainment professionals, work on board of fishing vessels and sports practitioner or trainee);
6. Introduction and development of more flexible instruments for managing the duration and organization of working time (e.g., adaptability scheme, bank of hours scheme, concentrated hours scheme, etc.);
7. Introduction of new contractual arrangements, better adapted to the needs of the market, businesses and workers (contract of employment of too short duration to seasonal activities, such as agricultural activities, touristic events; part-time contract; intermittent employment contract; contract for provision of teleworking; temporary work contracts; employment contract of indefinite period for temporary work assignments; etc.);
8. Extension of legal guarantees to several rights (personality rights, equality and non-discrimination, and health and safety at work) to persons who, although without juridical subordination to the beneficiary of the activity, provide work in conditions of economic dependence and that, to this end, should be legally «assimilated» as «workers»;

9. Extension of the scheme of accidents at work and occupational diseases to practitioners, apprentices, trainees, graduates, administrators, directors, managers and service providers (in the latter case, even without juridical subordination, if they provide work in conditions of economic dependence);
10. Enlargement of the legal regimen of social protection in the event of unemployment to self-employed workers providing services mainly to a contractor;
11. Define legally the concept of undeclared work and its different typologies (total undeclared work, underreporting of remunerations, disguised employment relation, etc.) and:
 - a. Qualify the total undeclared work as a crime attributable to the employer;
 - b. Qualify the other types of the undeclared as very serious administrative offenses.
12. In order to combat the covert (masked or disguised) employment relationships (e.g., bogus self-employment, bogus own-account workers, bogus services provision, bogus civil contracts, bogus trainees, bogus internships, bogus volunteers, etc.) and ensure adequate protection to all worker, it is recommended to include in the labour code or other labour relations legislation, in line with the ILO Recommendation No. 198, a legal presumption of the existence of an employment relationship whenever several evidences (characteristics or indicators) of the existence of an employment relationship are present (regardless of the form of that relationship), such as, but not restricted to, the following:
 - a. The activity provider has to obey to the orders of the respective beneficiary;
 - b. The activity provider is subject to the disciplinary authority of the beneficiary of the activity;
 - c. The activity is held in the place of its beneficiary or in a place determined by him;
 - d. The work equipment and instruments used belong to the beneficiary of the activity;
 - e. The activity provider has to comply with the start and end hours of the activity provision determined by the activity beneficiary;
 - f. Is paid to the activity provider, with determined periodicity, a right amount, in return for its provision;
 - g. The activity provider performs management or leadership roles in the organizational structure of the beneficiary of the activity;
 - h. The activity provider depends economically on the beneficiary of the activity;
 - i. The activity provider develops his activities exclusively to the beneficiary of the activity;
 - j. The activity provider enjoys paid holidays and its subsidy and receives the Christmas bonus,
 - k. The activity provider is subject to the absences' regime of the beneficiary of the activity;
 - l. The activity provider may not substitute himself in the execution of the activity;
 - m. The activity provider does not assume the risks of the execution of the activity;

- n. The activity provider does not have the power to determine the price of the activity provided.
13. The Ukrainian legislator should also legally foresee that, in the situations where one or more of the conditions mentioned in the previous point are met:
- a. The burden of proof should be placed on the employer;
 - b. The rights of the concerned workers, as well as the obligations of the employers with them, should be the same as the ones legally applied to any other worker with a formal or written labour contract, and should be applied with reference to the day the concerned worker started its activity for that employer.
14. In order to discourage the use of bogus self-employed, establishment of a new legal regimen where the contractor who benefits from at least 75% of the total value of the activity of self-employed should act, for all legal effects, as its employer, having therefore to fulfil all the typical employer obligations regarding such type of workers (e.g., regarding labour relations legislation, safety and health regulations, social security obligations and tax obligations);
15. The legal provision that the payments and receivables between economic agents and between the latter and their customers, whenever above a predetermined amount, should all be done through a traceable way (e.g., by check, bank transfer or deposit in a bank account);
16. The legal provision that the salaries and other work compensation for should be paid by the employers to the workers through a traceable way (e.g., by check, bank transfer or deposit in a bank account);
17. Provision of a wide range of information and technical advice services to workers, employers, their representative associations, and the civil society in general, regarding the best ways to comply with the legislation, through multi-channels: internet website; face-to-face local branches information services; single national telephone number; by letter or e-mail, through postal or electronic addresses of headquarters or any one of SLS local branches; online, by filling in an electronic form; through best practices and educational and informative videos to be available at the SLS *YouTube* channel; through questions and answers on the SLS *Facebook* page, etc.
18. To promote active employment measures, in order to facilitate the transition between unemployment and employment, or between inactivity and employment, in particular:
- a. Allow for the anticipation of the unemployment allowance for investment in creation of own business/employment;
 - b. Allow temporary and partial accumulation of unemployment benefit with the salary;
 - c. Stimulate the hiring of unemployed workers, through the employers temporary exemptions from social security contributions;
 - d. Support the creation of new businesses and entrepreneurship to create jobs, through temporary exemption from social security contributions.

5.3.2 Curative measures

With regard to measures to encourage economic agents already involved in undeclared work to legitimize their activities and to transfer them to the structured economy, the adoption of the following measures is recommended:

1. To set up specialized offices to support the formalization, intended to help the undeclared employers and workers that wish to resolve their situation and join the structured economy, through the provision of services such as:
 - a. Development of regularization paths designed to meet the specific needs of workers and employers.
 - b. Technical advice to employers on how best to settle their situations of non-compliance.
 - c. Provision of written information, guidelines and training on the duties of employers concerning required statements and records.
2. Introduction of the widely used and recognized system of “service vouchers scheme”¹²⁶, in order to regulate the labour market, especially in activities and sectors that present a particular incidence of undeclared work (e.g., home maintenance and repairs; agriculture; gardening; healthcare; domestic services, such as ironing, cleaning and washing; babysitting; car repairs; hairdressers). It is an especially suitable tool to encourage undeclared workers to move to regular jobs, especially workers particularly more vulnerable to undeclared work (low-skilled workers, women, immigrants and the unemployed).

5.3.3 Fostering commitment measures

This enabling compliance strategic approach to tackle the UDW also includes a set of measures focused on changing the economic agent’s behaviour and attitude of non-compliance, by inducing their commitment to fiscal morality.

Among this kind of measures to combat undeclared work, it is recommended to implement the following:

1. Organization and regular, systematic launch, with the social and institutional partners, of national and sectoral information and awareness-raising campaigns to inform and sensitize citizens and economic agents on undeclared work (in particular, regarding the types of UDW, associated risks and negative consequences, relevant responsibilities of workers and employers, sanctions imposed in case of failure to declare work and/or pay taxes and social contributions, positive effects of taxes and social contributions, registration procedures for workers, employment contracts and their contents, etc.);
2. Joint and regular organization, by the competent authorities in partnership with the representatives of workers and employers and other stakeholders (professional associations, non-government organizations, civil society organizations, etc.) of seminars, conferences and workshops on undeclared work and related phenomena;

¹²⁶ This system is being used for years in countries like France, Belgium and Italy with relative success.

3. Regular release of news about labour inspection activities (seminars, workshops, conferences and information actions and awareness-raising campaigns) and, especially, on the main results of the inspections carried out, particularly in relation to combating undeclared work (number and nature of infringements detected, sector and region, number, nationality and nature of the labour link of the affected workers and inspection procedures adopted), either by sending press releases to the media, either by placing them on the SLS website;
4. To promote the inclusion of subjects on undeclared work (advantages of declaration of activities and incomes, consequences and risks of undeclared work, etc.), in the curricula of all degrees of regular education and vocational training, in order to induce the development of a culture of compliance;
5. Development of specific awareness-raising and information activities on UDW, specifically targeting the secondary and high schools, and the universities;
6. Establishment, in collaboration with the social partners, with organizations in the area of certification and, eventually, with other competent public authorities in the fight against undeclared work, of a process of "labour certification" of the law-abiding organizations in respect to the declaration of activities and income.

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