



European Platform
tackling undeclared work

Tackling undeclared work in the HORECA sector

***Background Paper for the European
Platform tackling undeclared work
Seminar***

Prof Colin C. Williams

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1. Introduction

This background paper briefly sets out the prevalence of undeclared work in the HORECA sector in the European Union and the approaches and tools available for tackling such work. The intention is to stimulate the thoughts of participants attending the European Platform Tackling Undeclared Work seminar on "Tackling undeclared work in the HORECA sector" (to be held in Brussels on XXXX 2020) on potential policy which could be adopted to transform undeclared work into declared work in the HORECA sector.

2. Prevalence of undeclared work in the HORECA sector

The 'HORECA' sector (sometimes referred to as the 'hospitality sector') covers two subsectors, namely hotels and accommodation (NACE code 55) and food and beverage service activities (NACE code 56) in bars and restaurants. In 2016, the HORECA sector employed 10.6 million people, representing around 7.5 % of total employment in the EU non-financial business economy. Food and beverage service activities is the biggest sector, accounting for 75 % of total HORECA employment.

Table 1. Key economic indicators for HORECA sector (EU, 2016)

	NACE Rev.2	Number of enterprises	Turnover (million EUR)	Value added at factor cost (million EUR)	Number of persons employed
Total non-financial business economy (1)		24,425,954	27,346,551	7,183,983	142,243,831
Accommodation (scope of Reg 692/2011)		323,462	181,677	87,633	2,673,197
<i>Hotels and similar accommodation</i>	15510	154,627	150,930	74,159	2,195,939
<i>Holiday and other short-stay accommodation</i>	15520	152,438	20,930	8,783	371,440
<i>Camping grounds, recreational vehicle parks and trailer parks</i>	15530	16,397	9,817	4,692	105,818
Food and beverage (total)		1,565,410	362,446	148,702	7,971,489
<i>Restaurants and mobile food service activities</i>	15610	961,094	272,292	113,628	5,763,614
<i>Beverage serving activities</i>	15630	604,316	90,154	35,074	2,207,875

Source: Eurostat (2019a) – Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism_industries_-_economic_analysis

These, however, are the official figures. They do not include undeclared work. As Table 1 displays, some forms of undeclared work are more prevalent in the HORECA sector than in the wider economy. Unregistered employment is more prevalent, under-declared employment slightly more prevalent but bogus self-employment under-represented in the HORECA sector.

Table 1 Challenges faced by the HORECA sector

Issue	EU average	HORECA Sector
No written contract of employment	5% for the workforce	14 % of employees in the accommodation and food services sector are in unregistered employment 12% of all employees with no written contract in the EU are in the accommodation and food services sector
Dependent self-employment	4.3% of all employment	2 % of all employment in accommodation and food service activities is bogus self-employment
Receive envelope wages	5% is the EU average	6 % (1 in 17) of employees in the hotels and restaurants sector receive envelope wages

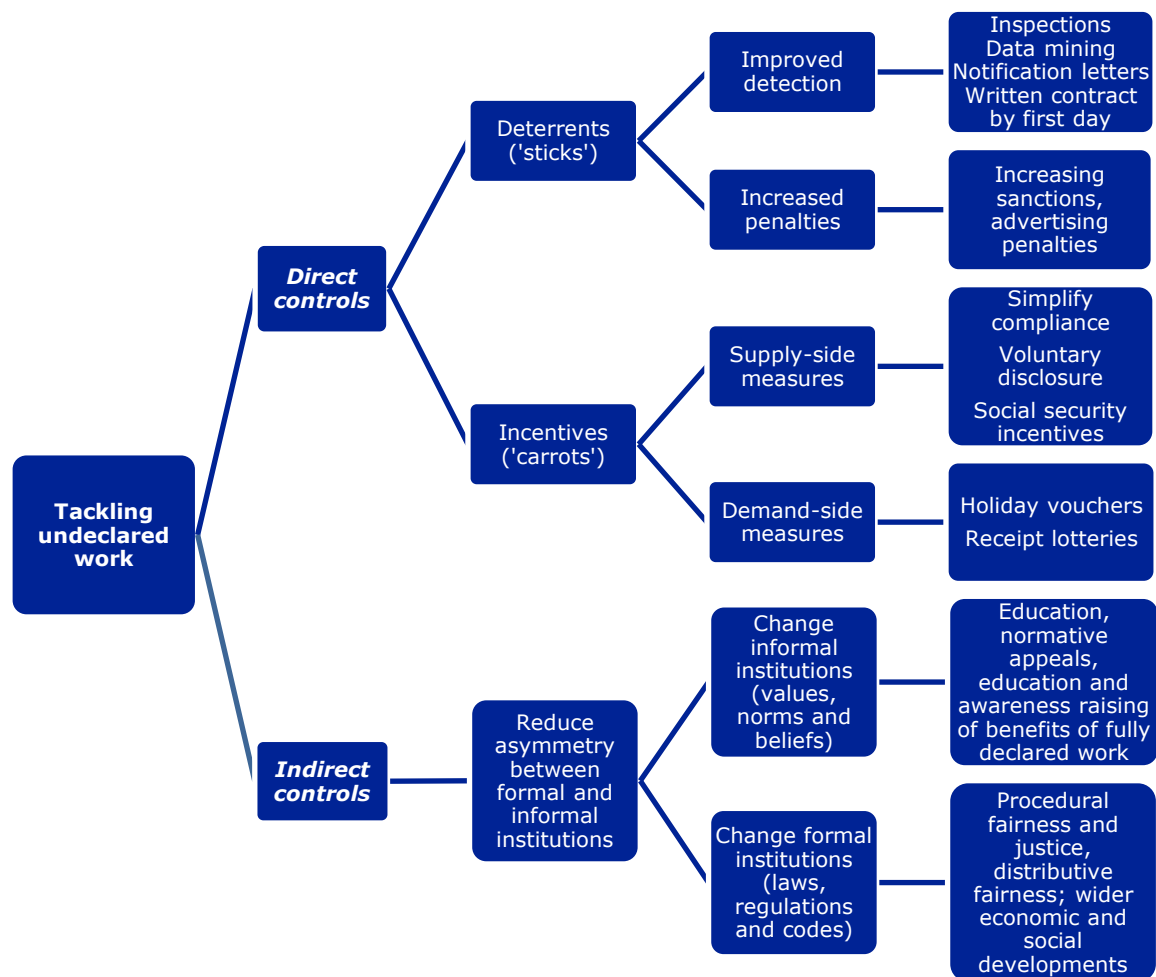
Sources: European Working Conditions Survey (EWCS) 2015 and Eurobarometer 2007

3. Policy approaches available for tackling undeclared work in the HORECA sector

Undeclared work is a complex problem that needs to be tackled using a holistic approach¹. This involves national governments joining up the policy fields of labour, tax and social security law at both a strategic and operational level, and cooperation with social partners and other stakeholders. It also means using the full range of policy measures available to enhance the power of, and trust in, authorities.

As Figure 1 displays, on the one hand, there are 'direct' tools that ensure that the benefits of declared work outweigh the benefits of undeclared work either by using deterrence measures to increase the costs of undeclared work ('sticks') and/or by making declared work more beneficial and easier using incentives ('carrots'). On the other hand, there are 'indirect' tools that repair the social contract between the state and its citizens to foster a high trust high commitment culture. These seek either to change the norms, values and beliefs regarding the acceptability of undeclared work, so that these align with the laws and regulations (e.g. using awareness raising campaigns and educational initiatives), and/or to change the formal institutional failings. The emergent recognition is that tackling undeclared work is most effective when direct and indirect policy approaches are combined.

Figure 1. Policy approaches for tackling undeclared work



Source: derived from Williams (2017: Figure 1)

¹ Williams, C.C. (2017) *Developing a Holistic Approach for Tackling Undeclared Work: a learning resource*, European Commission, Brussels.

4. Policy initiatives

A **sector-specific approach** is an approach where the direct and indirect policy measures used to tackle undeclared work are specifically designed and targeted at one sector whose characteristics in terms of undeclared work are different from other sectors and whose problems and risk factors require a specific approach.

In previous Platform seminars, participants have explored how the full range of direct and indirect policy measures can be tailored to address the specific problems witnessed in the construction, agricultural, road and air transport sectors. In this seminar, the intention is to do the same in relation to the HORECA sector whose characteristics, problems and risk factors also demand a tailored approach.

A starting point to achieve this is for participants to learn from each other on what works and what does not in relation to tackling undeclared work in the HORECA sector. Therefore, and to enable mutual learning, Member States and social partners are asked to consider interesting policy practices being used which they can report to participants in the seminar.

To help participants think about possible policy initiatives that could be reported at the seminar, the full range of types of direct and indirect policy measure are here briefly reviewed.

4.1 Direct controls: deterrents

4.1.1 Penalties

Are sanctions proportionate in your Member State? Do you differentiate between intentional and unintentional non-compliance? Have you examples that you can provide of **effective and/or proportionate sanction systems** (or innovative sanctions such as 'black lists' or reclassification of employment relationships)?

4.1.2 Improving the probability of detection

Labour inspections are one way of increasing the risk of detection of undeclared work in the HORECA sector. Given that undeclared work is prevalent in the HORECA sector, how many Member States prioritise this sector? And are there examples of potentially good practice in your Member State?

In addition, are there other ways of **improving the probability of the detection** of undeclared work in the HORECA sector? For example,

- Is a **written contract** by the first day of commencing work a pre-requisite for effective detection? Have there been examples of other forms of worker registration, such as registration of service providers in the accommodation sector or home restaurant/meal sharing sector on online platforms?
- Do any Member States have experience with **data mining** in the HORECA sector? If so, what indicators do they use to assess 'risky HORECA businesses' in relation to undeclared work?
- Have any Member States used **notification letters** targeted at the HORECA sector?

Inspecting businesses for instances of undeclared work does not have to be solely a government responsibility. **Social partners can also take responsibility and a lead** on monitoring the HORECA sector and the supply-chain for undeclared work.

- Do social partners or Member States have examples of **supply-chain due diligence** being used to reduce undeclared work, such as a voluntary supply-chain initiative in the HORECA sector?

4.2 Direct controls: incentives

4.2.1 Supply side incentives

Undeclared work is not only intentional but also unintentional, especially where regulations are complex. Developing this,

- Do Member States have interesting examples of the **simplification of compliance** relevant to the HORECA sector (i.e., better regulation)? For example, initiatives to simplify regulation for smaller and seasonal jobs; introducing threshold amounts for workers to earn from own-account activities (e.g., to address home restaurants), or tax and social security incentives in the HORECA sector?
- Are there any potential **social partner initiatives** that could provide social security incentives to operate on a declared basis in the HORECA sector? Are there ways social partners could provide incentives to operate declared in the HORECA sector (e.g., free marketing)?
- Are there any examples of **voluntary disclosure** schemes offering the opportunity to disclose previous non-compliance without penalty so long as formalisation occurs?

4.2.2 Demand-side incentives

Besides making it easier and/or beneficial for suppliers to operate in the declared economy, it can also be made easier and/or beneficial for those purchasing on an undeclared basis to use the declared economy. For example,

- Are there interesting examples of using **vouchers** in the HORECA sector to encourage purchasers to operate in the declared economy (e.g., holiday voucher schemes)?
- Are there examples of initiatives to increase the **issue of receipts** to HORECA sector clients (e.g., statutory statements on restaurant menus that it is compulsory to receive a receipt and one does not have to pay if not)?

4.3 Awareness raising

Until now, all the policy measures discussed seek to deter undeclared work in the agricultural sector or to make it easier to engage in, and increase the benefits of, declared work. However, participation in undeclared work is not always solely a rational economic decision. Non-compliance often results from a lack trust in the state and/or a lack of understanding of the benefits of compliance.

Education and awareness raising campaigns can therefore play a key role in tackling undeclared work in the agricultural sector. Indeed, this is a realm in which social partners have a key role to play in leading such awareness raising campaigns.

- Are there interesting practices in Member States or by social partners on **education or awareness raising campaigns** to elicit behaviour change among either employers, workers or clients of the HORECA sector?
- Are there good practice examples of **social labelling initiatives** to allow consumers to know that the HORECA business respects fair working conditions?

5. Issues for Discussion

Various policy initiatives are available for tackling undeclared work in the HORECA sector. The aim of this seminar is to answer a series of questions:

**Overall Workshop question:
'How can we tackle undeclared work in the HORECA sector?'**

Case studies by selected Member States and Social Partners

- Do Member States and Social Partners have interesting examples to share of policy initiatives to tackle undeclared work in the HORECA sector?
- Are there examples or ways of encouraging cooperation between enforcement authorities and/or social partners across Member States to tackle undeclared work in the HORECA sector?

Working Group 1. Deterrence approaches and coordinated cross-agency operations targeted at the HORECA sector

- Are there interesting examples of successful deterrence approaches, including sanctions and approaches to detect undeclared work and assess risk in the HORECA sector?
- Are there examples of cooperation between enforcement agencies and/or social partners both within and across countries?
- What deterrence policy measures, applied in other sectors, could be applied to the HORECA sector?

Working Group 2. Preventative approaches targeted at the HORECA sector

- Are there examples of successful preventative practices to tackle undeclared work in the HORECA sector?
- Are there examples of social partner initiatives that have been successful in promoting the declaration of undeclared workers in the HORECA sector? (e.g., customer, employer or worker education and awareness raising campaigns, free marketing)
- What preventative policy measures, applied in other sectors, could be applied to the HORECA sector?

6. Further Reading

HOTREC and EFFAT (2015). *For a level playing field and fair competition in hospitality and tourism*. HOTREC and EFFAT.

Horodnic, I.A., Williams, C.C. and Horodnic, A. (2016). *Are practices of competitors in the informal sector a major threat for hotels and restaurants? Annals of the "Gh. Zane" Institute of Economic Research*, 25(1), 49-60.

Williams, C.C. and Horodnic, I. (2020) *Tackling undeclared work in the tourism sector*, European Platform Tackling Undeclared Work, Brussels.

