UNDECLARED WORK IN UKRAINE: 
IDENTIFICATION FEATURES, REGULATION PRIORITIES

The State Labour Service of Ukraine interprets undeclared work as a legal paid activity that is not registered fully or partially in accordance with the law requirements [1]; national and foreign experts use the terms of informal, unofficial, unregistered, shadow, hidden employment as synonyms for such activity [2–4]. According to the State Statistics Service estimates, as of 2021, there were about 3,061,600 informally employed in Ukraine [1]. The share of such workers ranged from 46.3% in agriculture, forestry, fisheries, 17.1% in construction, 15.2% in wholesale, retail trade, vehicle repair to 5.7% in industry, 4.3% in transport, warehousing, postal and courier activities, 2.2% in temporary accommodation, catering activities.

The quality of the State Statistics Service’s obtained results, which summarized the social survey data according to the methodological developments of the EU and ILO [2; 4], raises certain doubts about their reliability in the context of assessing the real scale of the undeclared work spread in Ukraine in a number of service sectors with a predominantly seasonal technological cycles, as well as in branches for producing, collecting and primary processing of plant and animal products. The basis for such conclusion is the role of undeclared work in the practice of businesses management and competitiveness stimulation in the countries with industrial and neo-industrial economies, which has been developed almost since the middle of the 20th century.

A declaration mechanism consolidates the tasks of tracking and maintaining compliance between results of activities, permits and licenses obtained for them, and personnel remuneration. Since the middle of the 20th century at least, in the countries with market and transition economies all over the world the business environment requests for increasing the economic entities’ competitiveness, maximizing the production profitability through, among other measures, reducing expenses for hiring, ensuring the personnel proper qualification and remuneration, providing compliance with applicable production and extra-production standards of working life. This phenomenon has been manifesting in certain trends, such as:
– the spread of non-standard (including informal) employment on the basis of split labour relations, mediated by a range of employment and recruitment agencies, which actually and quite often perform an employer’s formal functions, thus relieving entrepreneurs from a number of responsibilities and expenses for staffing, organizing labour process, providing personnel social protection;

– corporatization and shareholding of enterprises, parts of their production cycles and subdivisions (primarily, relevant logistical, administrative, accounting and auditing, other service components) in networks of technologically connected smaller business entities (in particular, those that are founded as an individual entrepreneurship), which may have national and transnational scales;

– formation, legalization, spread of tariff-free remuneration systems based on corporate professional and qualification standards of compliance with job positions and workload (in particular, duration, periodicity of rewarded work, compensation for downtime and losses due to an employer or employee fault, technological cycle’s features or force majeure);

– social and corporate recognition of informal education and legally paid informal employment, including part-time co-employment.

Taking this trends into account, the undeclared work concept is broader than those one used by the State Labour Service of Ukraine, covering legalized (both official and manipulative), as well as purely shadowy mechanisms of its emergence and functioning. The expediency of distinguishing institutionalized and manipulative mechanisms of undeclared work, their formal and illegal foundations is also confirmed by the classification of the undeclared work main forms, used by the SLS [1].

The study of legislation and business practices in Ukraine and the countries with developed market and transition economies all over the world confirms, for example, the legalized possibility for conducting undeclared activities by members of personal auxiliary peasant farms in the sphere of the range of services of ecologically oriented tourism and, in particular, its rural green subspecies, as well as in collection, primary processing, sales of wild products of forestry and fisheries, traditional medicine, beekeeping, national culture, etc. The permission to provide specialized and related recreational services on the base of the potential of personal peasant farms and their location places without mandatory declaration of the entire amount of work and income according to the spectrum of branches of their obtaining had actually formed the ecologically oriented tourist sphere, which has been popular in the European Union and Ukraine for quite a long time (at least since the mid-90s of the 20th century).

A functional and increasingly widespread formal mechanism of labour non-declaration in the spectrum of economic sectors is tariff-free wage
systems. Such practice is still in a corporate use mostly, basing on: subjective entrepreneurial standards of compliance between education, qualifications and competences, scope of job duties; mechanisms’ unsatisfactory efficiency of their combining and tracking in accordance with the state standards of education and wages; lack of sufficiently legitimate mechanisms for social recognition of informally obtained education and qualifications (including within the vocational training at work).

In the conditions of the problems of the State Labour Service of Ukraine’s functioning, which have been manifesting in non-systematic performance of its inspection powers, on the one hand, as well as the significant spread of the non-standard labour relations practice (with mediation of the employer’s functions, outsourcing contingents of auxiliary, service and part of specialized personnel at various enterprises), on the other hand, tariff-free remuneration systems stimulate numerous manipulations in the field of labour declaration and decent wages.

The source of problems with the spread of wage systems, formed on assessments of the performed work complexity and employees’ qualifications, in the national economy should be recognized as the vagueness of their legislative regulation. Despite the important advantages of the hourly wage system provided by the possibility of setting standardized tasks for employees, justifying differentiation of labour remuneration, increasing a potential and improving a mechanism of bonus fund distribution, a further arise in a popularity of this wages form among employers contains a number of threats to the employed social protection level. First of all, it concerns the requirement to provide minimum state guarantees, for which it is necessary that the hourly tariff rate would not less than the hourly minimum wage approved by the state authorities, since the hourly minimum wage currently is considered as a sufficient guarantee for an employee remuneration. If an employee with an hourly tariff rate has completed the monthly work rate, and the accrued salary amount is less than the minimum monthly salary, then no additional payment would make to him. Therefore, the current fiscal regulations indirectly provoke employers, who are using the hourly wage system, to save the remuneration fund at an employee’s expense.

Among the priorities for preventing undeclared work in Ukraine, raising the level of the population labour income, in particular, it should be noted:

– the promotion of wages share’s consistent growth in the structure of production costs due to: fiscal stimulating and preferences granting to employers and enterprises, which implement such measures, regarding participation in public procurement, projects within the framework of a partnership of the state and the private sector (including on a concession basis), tender procedures for privatization and re-privatization of a range of economic assets; implementing state programs for lobbying the interests of a
socially responsible national producer on foreign markets of goods and services;

− strengthening of a cross-control over the obligations’ fulfilment to pay the minimum wage within the framework of tariff-free and hourly wage systems by the efforts of permanent and temporary commissions of the Cabinet of Ministers, national and regional fiscal structures and labour inspectorates;

− implementation of a well-founded methodology for harmonizing the minimum wage, the subsistence minimum, and the rest of the basic social standards attached to them in the directions of the welfare state’s fundamental principles fulfilling (creating conditions for: ensuring a decent life for workers and their families by the employed themselves; increasing the effectiveness of mechanisms for social inclusion and marginalization prevention; equalizing an individual’s starting conditions for joining the labour market and realizing his own potential), as well as strengthening the competitive potential of the national economy’s diversification.

References:


