

Serbia's labour inspectors tackle the "shadow economy"

As in most Eastern European countries, the economic fabric of Serbia is dominated by small and micro-enterprises. Some are not even declared to the authorities. Under those conditions, undeclared employment flourishes. The Government has set labour inspectors the task of remedying this situation. It is not easy to motivate understaffed teams who are paid a pittance and are poorly regarded by the people in general. Yet some of them try to rise to the challenge.

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A dark blue Ford cruises through the streets of Belgrade, the capital of Serbia. It slows down as the driver and co-driver carefully check the house numbers before driving on. It is 12.30 p.m. on 8 July 2016. They set out from an impressive building in what is known as the "brutalist" style, an architectural movement characteristic of the former communist countries. It once belonged to the Yugoslav Government but now houses several public institutions, including the Ministry of Labour, Employment, Veteran and Social Affairs, which is responsible for the Labour Inspectorate. The Ford finally comes to a halt outside a restaurant. A man and a woman go in; it is early for lunch, and the restaurant is almost empty. The two sit down at a table. A young waiter comes up and asks what they would like, assuming they will order food and drink.

"Your identity card", the man in the white polo shirt calmly replies. He and his colleague – Igor Popović and Olena Todorović – are labour inspectors and, during this week in July, they are turning up unannounced to inspect small businesses in the search for undeclared workers. In 2015, Serbia passed a law on inspection oversight procedures. Under this law, which entered into force in April 2016, the employer must be given advance notice of an inspection. That was not the case before, and it complicates and slows down the inspectors' work. Nonetheless, if there is a suspicion of undeclared work, the inspection may be conducted without notice.

The purpose of the new legislation is to combat the major problem of the shadow economy in Serbia more effectively; this is a priority of the Government and, therefore, of the Labour Inspectorate. Around 30% of GDP "disappears" into the grey economy. Translated into monetary terms, this means that the grey economy "swallows up" an estimated €8 million a day, according to a survey conducted by the National Alliance for Local Economic Development (NALED), an organisation that aims to make the regulatory environment more attractive to investors¹. Many citizens can survive only by selling smuggled goods, while a large number of entrepreneurs, especially the owners of small and medium-sized enterprises, will say that it is the high taxes that drive them into the shadow economy.

At this point, there are three employees in the restaurant: the waiter, the cook who is cooking chicken steaks, and the waitress

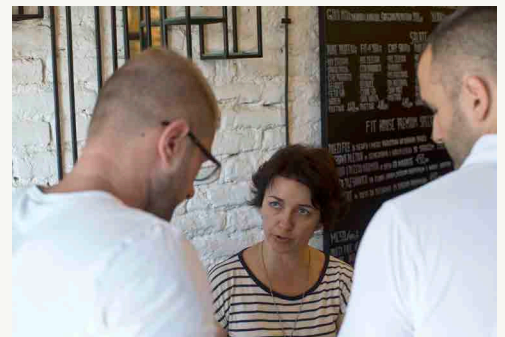


serving at the bar. A strong young man comes up to the inspectors, carrying a thick red file. He is the owner. He ruffles through the many papers but cannot find his three employees' labour contracts. He says that the cook's contract is with the accountant and that the waitress started work only the day before, which is why he has not yet declared her.

In an organic café

Serbian law gives employers three days to declare an employee. That is why many of them exploit this situation: when the inspectors come in, they tell them that the employees have only just started working there; then they simply declare them later. There has even been a case where an undeclared worker was declared as employed after having suffered a fatal accident. The inspectors are therefore calling for the law to be amended so as to ensure that workers are declared from their very first day of work.

Last year's inspections revealed 16 408 undeclared workers, and immediately afterwards 12 250 were finally declared by their boss. Acting in cooperation with other institutions, inspectors can follow up the steps taken by the employer, which gives them an idea of the impact of the oversight. For example,



1. This organisation is supported by the European Union Delegation in Serbia and governmental institutions of Western states (in particular, the United States, Canada, Germany and Switzerland). For more information, see: <http://www.naled-serbia.org/en>.

thanks to the Central Registry of Compulsory Social Insurance, they know whether workers were declared following an inspection.

On the other hand, only 10 or so days later, many employers unsubscribe these same workers from the compulsory social insurance. That is what has happened in this restaurant too. The owner, looking crestfallen, turns to the inspectors and asks what steps he needs to take, and the inspectors patiently explain them to him, although they know he is well aware of the law and how he has breached it. This is the second time it has happened to him this year.

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- "Are you going to declare the waitress?" Inspector Igor Popović asks him.
- "Yes, I will," he replies.
- "Who else is working here?"
- "Nobody, just those three," he replies unconvincingly.

The situation is clear to everyone. The workers whom the inspectors have not found in the restaurant are also working illegally. As for those who have been caught, the owner will declare them not more than three days later, to avoid having to pay a fine ranging from 6 000 dinars (€50) to 2 million dinars (€16 230) per undeclared worker.

The inspectors move on to an organic café with a rather hipster feel to it. Six workers in black T-shirts emblazoned with "Fit house" are crowded into a small space. A muscular young man comes up very quickly and introduces himself as the owner. A scared-looking young woman with long yellow-painted nails searches through the thick file. She shuffles the papers from start to finish, looks towards the owner as though expecting help and finally says quietly: "I can't seem to find the contracts." The owner rapidly adds: "We took them to the accountant's today."

- "How many workers do you employ?" asks Inspector Popović.
- "I'm not exactly sure."
- "You said you are the owner, and yet you don't know how many employees you have? There are six here right now."
- "I'll tell you; just a minute," he says and goes out to telephone. He comes back quickly: "Two. There are quite a lot of customers just now, which is why others stayed on."

The inspectors tell him too about the legal time limit for declaring workers and the level of fines. The owner looks surprised, as though hearing all this for the first time. In fact, the labour inspectors had already investigated his establishment some months before when they had also found illegal workers there. This day they discovered, from the only contract they could find, that the employee in question was earning €24 a month. In this café, a protein shake costs €3. Inspector Olena Todorović looks at the wage level and asks: "Is this a joke?" The young women say nothing and shrug their shoulders. Olena Todorović and Igor Popović leave.

They make up some of the 242 labour inspectors in Serbia, a country of 7.2 million inhabitants with 337 927 registered trading entities. That means that there are 1 396 trading entities per inspector, plus responsibility for those that are not registered. In Serbia, over the period from the beginning of 2016 to the end of July that year, there were found to be 463 unregistered entities, mainly in the sectors of commerce, the catering industry and services to individuals.

"If each inspector visited a registered company every day, it would take us nearly four years to visit them all. But there are not enough of us, which is why certain priorities have been established. We go to places where it has been reported that something is not right," we are told by Ilija Jović, aged 54, who has been a labour inspector for the past 20 years.

On a building site

On a very hot day in late August 2016, we followed him and Inspector Miloš Čiča on an unannounced inspection of a building site in the Voždovac district of Belgrade. Ilija is an engineer, Miloš a lawyer. Inspectors often join forces because they have complementary skills.



Željko Veselinović,
union leader





The periphery of the site is not completely fenced off, and the barrier is too flimsy, but the inspector concludes that overall this is a "well-secured site".

towards the upper levels of the building in the shovel of the mechanical digger. Ilija takes note of the breach of safety at work standards. Eight workers leave without a word when Miloš asks them for their identity card. That is common practice. When they see the labour inspectors' yellow fluorescent jackets, undeclared workers simply leave the site, and the inspectors have no powers to stop them.

"For them, it is more important to keep their job, even if it is undeclared and pays them a pittance, than to regularise their workers' rights," Miloš explains. Ilija goes up to some middle-aged workers who are on a break. They are sitting and smoking in the shade. The inspectors check their identity and ask them for their work contracts. Three drivers and a digger operator all have their papers in order. The worker on the crane says that he had started work that very day, 29 August. The usual excuse.

210 inspections a year per inspector

There are about 30 workers employed by four companies on the site. They work for a minimum wage of 22 000 dinars (€180); the remainder of the money is paid to them cash

Occasionally, labour inspectors come across unpleasant employers, some of whom will not let them into their company premises, but Ilija and Miloš have not experienced that situation. They both work in the labour inspection department of Pančevo, a town half an hour away from Belgrade. It is quite frequent to find inspectors from one region working in another region, especially when there is less work in their usual region, but also to avoid possible connections between inspectors and employers in local environment.

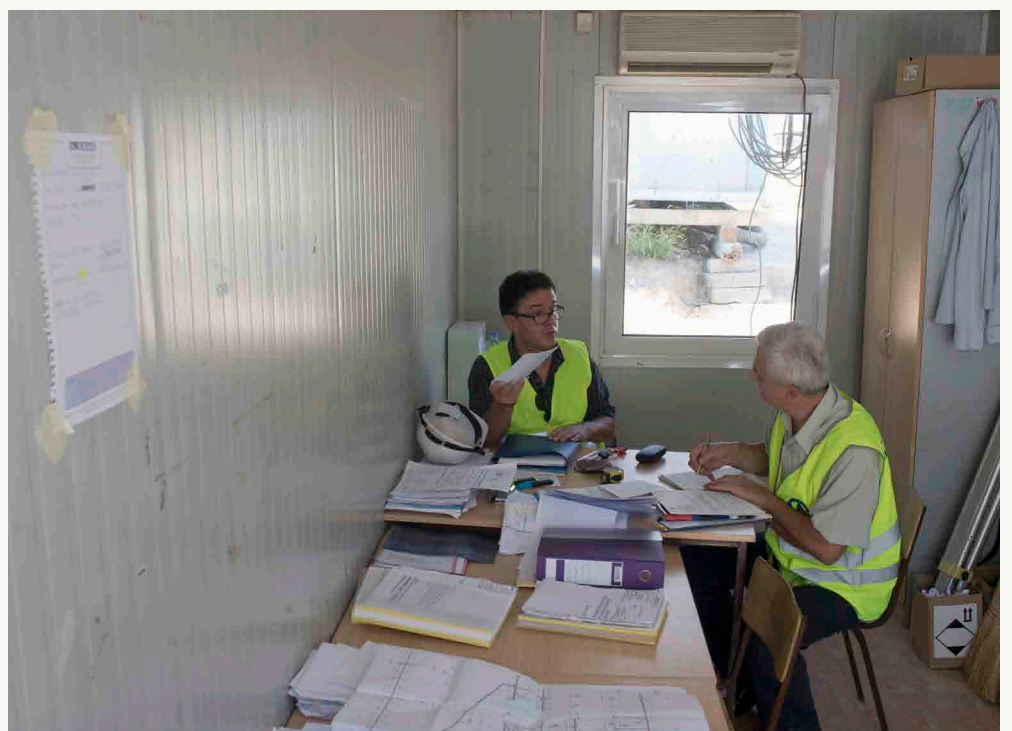
Like the other inspectors, Ilija and Miloš carry out 15 to 20 oversight inspections a month. In summer, the season of construction work, staff numbers are increased, and since 2014 they work in two shifts.

Building sites are a major "source" of undeclared employment. Today's site is one of the largest currently operating in Belgrade. Here they are building a block of offices and flats covering 17 000 square metres. The flats will be sold at a price of €1 700 per square metre. The labour inspectors could not afford flats at half that price, even with loans. On average, they earn 52 000 dinars (€422) a month, only slightly above the minimum wage in Serbia (€373). This income is even less than the average monthly shopping basket (€544), according to data from the Confederation of Independent Trade Unions.

One trade union source told us that the inspectors' low earnings encourage corruption. Ilija and Miloš deny this and explain that there are too many witnesses to the inspections, which means that there is little chance of bribing inspectors, although they do not deny that some cases exist. Serbian

civil servants are all on low wages, and the inspectors are no exception. Yet they have never organised any strikes to improve working conditions and wages. "We are aware of the situation in the country, and we are patient," Miloš tells us, in a conciliatory tone, while we walk around the humid site.

Sweat is dripping under the workers' hard hats, the trucks are droning away, a worker is being lifted from the base of the site



in hand. The workers include some pensioners who cannot survive on their pension and therefore continue to do manual labour. Ilija tells the foreman that the periphery of the site is not completely fenced off, and that, in some places, the barrier is too flimsy, but he concludes that overall it is "a well-secured site".

"What we have just seen is above average, both from the point of view of safety and in terms of undeclared work, even though we realise that some of the workers have fled. Sometimes we find that the site empties almost entirely," Miloš explains. At this site, there is only one worker without an employment contract.

The employer will have to pay a 100 000 dinars (€812) fine. If he pays within 8 days, he will be charged only half the amount. This is a new measure and one that is showing results, for the employers are paying up. The inspectors would prefer it if the fines were not so high but imposed and collected more efficiently. The legislator believed that the fines would have a preventive effect, but in practice companies sometimes hire good lawyers who slow down the procedures. "If the fines were smaller, they would pay them," the inspectors believe.

Most accidents at work, including those with the most serious consequences, are concentrated in the construction industry. Between 1 January and 31 July this year, the tally was 13 fatal accidents. The technologies used are often obsolete and the workers less and less well-trained. Sometimes workers are found operating machinery they have never used before.

Yet it has been found that, since 2014, the number of accidents has fallen, partly because industrial production has declined, with fewer building sites following the financial crisis, but also because preventive measures are being taken and more inspections being conducted.

On 31 July, it was found that 32 695 inspections had taken place since the beginning of 2016, of which 8 818 related to health and safety at work. A total of 553 inspections were carried out following injuries at work, of which 17 because of fatal injuries and 11 because of serious injuries leading to death. "In accordance with the annual standard, each labour inspector must conduct 170 routine labour legislation inspections and 40 that also cover health and safety at work. So the minimum is 210 annual visits per inspector, and on top of that we carry out exceptional



checks," Ilija explains. "We manage that, but it is a very tough requirement. Anything more than 10 inspections a month is too much if we are to do a good job. In larger undertakings, it actually takes 2 days to conduct an in-depth inspection, but we have only a few hours in which to do so," he adds.

In the 1990s, when Ilija started working as an inspector, most firms were still public undertakings. That means that they were also better regulated. The inspectors carried out only five or six inspections a month and could therefore investigate in more depth. Then, in the late 1990s, during the transition from a socialist to a market economy, a number of private undertakings were set up. The inspectors' workload rose significantly, and working conditions declined.

Donations of cars

Ilija and Miloš leave the site in their official car, a Škoda Fabia dating from 2006, one of the best of the 77 vehicles provided for the 242 labour inspectors in Serbia. In fact, the situation improved few years ago when the Inspectorate received gifts of cars. Until then, not only were there few cars but the inspectors were driving cars manufactured in 1990.

One of them was the Yugo, a small, cheap Yugoslav car which was voted the worst car of all time in many surveys.

Some regard this practice of donating cars as proof that the Inspectorate is corrupt. For example, in 2013, the Labour Inspectorate was given two KIA cars, at a total value of €30 000, by the South Korean Yura Corporation, a company that employs 5 000 workers in its Serbian factories. The Yura company caused a great public scandal when its serious infringements of workers' rights came to light. As the investigation showed, the Labour Inspectorate itself asked for car donation.

"Our union has no trust in the labour inspections or their objectivity, and we feel that they have sold out the workers for these €30 000. The inspectors carried out around 20 inspections in the Yura company and never found any irregularities, whereas we have received a number of reports and complaints from workers on the grounds of illegal sacking, inhumane treatment of employees and a ban on forming unions. The inspections were carried out under controlled conditions and, in addition, the Inspectorate asked for a donation from Yura, which is quite evidently a conflict of interests," says Željko Veselinović, President of the SLOGA trade union, which was accused by the Serbian Prime Minister

of driving away foreign investors and putting jobs at risk.

"A campaign is being waged against an investor that employs thousands of people in Serbia. If there were problems, they should have been resolved with the management of Yura," declared Serbian Prime Minister Aleksandar Vučić following the scandal surrounding Yura.

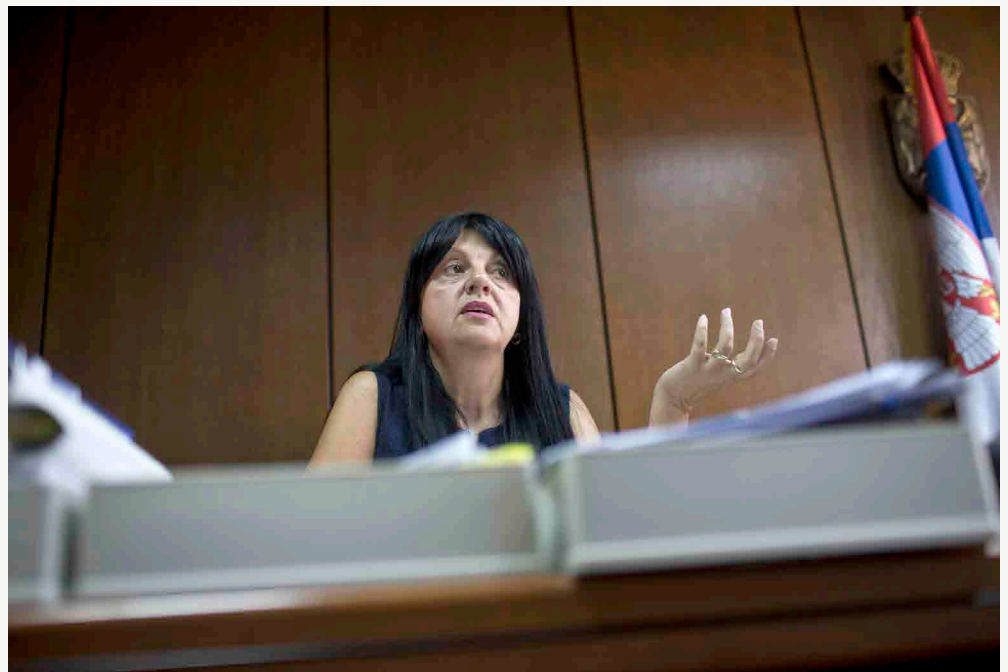
Željko Veselinović believes that the Labour Inspectorate does not have enough powers, which is why it cannot do its job properly. "In small communities, people do not want to or cannot accuse the big employers of collusion between politicians and employers who blackmail them in terms of jobs. That is why the inspections punish small employers like bakers and restaurant owners but don't touch the big capitalists," Mr Veselinović objects. He also raises the problem that the Labour Inspectorate includes people "hired for political reasons who do not act in the workers' interests". "How is an inspector supposed to punish an undertaking whose director belongs to the same political party as the director of the Inspectorate, and maybe to the same party as the actual inspector? Impossible. Inspectors, especially in small communities, are hired according to their membership of a political party. The only case where this does not apply is for the 'elders' of the Inspectorate," the trade union leader assures us.

Lack of trust among citizens

The data on inspectors' affiliation to political parties is obviously not public. Nonetheless, we take all these open questions to the Department of Research and Analyses. It is department at the "heart of the Labour Inspectorate", Vesna Jovanović, coordinator for the analysis and improvement of inspection oversight, tells us. She receives us at 4.30 p.m. in an empty building, since the Inspectorate's eight-hour working day ended an hour ago.

Vesna Jovanović is very willing to talk, but says she has no data at all on the corruption of inspectors and suspicious gifts offered to the Inspectorate by private companies. So we ask her about the problems encountered by the inspectors.

The Inspectorate wants the new law on inspections to be amended in view of the principle of giving employers advance notice of visits (see beginning of article). Furthermore, many applications to the courts are decided



Vesna Jovanović,
coordinator

Inspectors earn €422 a month, only slightly above the minimum wage in Serbia.

within the limitation period. "A few years ago, the courts tried only 12% of our applications. The judges deal with about 100 cases a month – they are overloaded. Moreover, they often impose penalties on employers that are below the legal minimum," Vesna Jovanović acknowledges. And, of course, the Inspectorate is short of human resources.

Even if the number of trading entities changes, as does the amount of work and the number of regulations to be applied, the number of inspectors remains the same. In fact, it is falling. In 2008, there were 346 labour inspectors; today, there are 104 fewer. According to the list of jobs, there should be 264, but Mrs Jovanović thinks the optimum number would be another hundred or so.

"From the point of view of the number of inspectors, we are close to the European standards, but there is more work to be done in countries in transition because of their unstable economy," she says. Yet she is pleased with the results of inspection oversight, especially in terms of tackling illegal work, where the number of declared jobs has risen. She believes that this is thanks to the inspections.

This optimism is not necessarily shared by all. The report on Inspections in the Republic of Serbia drafted by the National Alliance for Local Economic Development (NALED) and published by the United States Agency for International Development (USAID) in September 2014 states that the large number of regulations, frequent changes not only to the regulations but also to the inspectors' area of competence, poorly equipped inspections, inadequate human resources and lack of transparency create a poor image of the inspectors' work and are another reason why citizens do not trust the country's inspection system and regulatory framework; this results in regrettably large numbers of people working in what is known as the shadow economy. If you ask the trade unionists their opinion, they will agree. If you ask the Labour Inspectorate, obviously not. ●