

## UKRAINIAN UNDECLARED WORK SURVEY: FIRST FINDINGS\*

*This paper presents the first findings of the Ukrainian Undeclared Work Survey (UUDWS) that was conducted in the end of 2017. UUDWS is a direct method that aims to estimate the size and the nature of the undeclared work in Ukraine. This is the first survey of its kind in Ukraine and it takes into account both the demand and the supply side of the undeclared work in Ukraine. Our findings reveal that about 7 % of the respondents admitted having worked undeclared in the past 12 months, whereas about 46 % know someone who works undeclared, and every third respondent estimated that at least 50 % of the population of Ukraine work undeclared. The majority of the undeclared workers are between 35 to 54 years old, live in urban areas, and consider themselves as unemployed, employees, and 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. Among the main reasons for working undeclared are difficulties to find a regular job, seasonal nature of the work, common practice to work undeclared, the fact that the State does not do anything for people, and mutual benefit from undeclared work. The results contend that Ukrainian employees have low protection in terms of their salary, as a significant part is paid in the “envelope”. Finally, informal work generates on average a lower income than the formal one. In our research in progress, we address the perceptions and acceptance of undeclared work in Ukraine, as well as assess its main determinants.*

**Keywords:** undeclared work, informal employment, labour market, Ukraine, Eurobarometer

**JEL classification:** E26, J46

**Introduction and research problem.** Undeclared work (UDW), which considers the declared vs. undeclared status of an economic activity (in contrast to “informal employment”, which considers the formal vs. informal status of a job), is recognized as a challenge for the Ukrainian labour market in as much as it creates additional costs for the economy: less tax revenues, less or no social security contributions for those who are engaged in UDW, and disobeying social justice (EC, 2014). UDW stands for “*any paid activities that are lawful as regards their nature but not declared to the public authorities, taking into account the differences in the regulatory systems of the countries*”. Regarding the operational definition of UDW, it includes (Williams et al., 2017): a) hidden and underground activities where the transactions themselves are not illegal but are unreported to avoid official inspection (e. g. “envelope wages”); and b) “informal” activities, where no business records are kept (e. g. cash in hand transactions provided to households or individuals). UDW, therefore, does not include illegal activities.

In October-November 2017, on demand of the National University of Kyiv-Mohyla Academy

(NaUKMA) and the International Labour Office (ILO), the Kyiv International Institute of Sociology (KIIS) carried out the Ukrainian Undeclared Work Survey (UUDWS). The UUDWS sample of 1000 individuals is representative for the Ukrainian adult population, excluding the Autonomous Republic of Crimea and temporally occupied territories of Donetsk and Luhansk oblasts; the sample is a stratified three-staged random sample, random at each step of selection.

The questionnaire was developed according to the Eurobarometer methodology (EC, 2014). All interviewees were instructed about the definition of UDW as “*activities which avoid partly or entirely declaration of the income to the tax authorities, but which are otherwise legal. This could be people working in certain sectors of activity like home maintenance – including builders, electricians, and plumbers – but also in restaurants and cafes. UDW is also common in a whole range of household services – such as gardening, babysitting and elderly care, personal services – like hairdressing, and repair services for cars, clothes, or computers. Also, this situation often manifests itself in the fact that part or all of the salary is paid to employees in an envelope.*”

\* Partly these findings will be published at the report: ILO. (2018). Undeclared Work in Ukraine : Nature, Scope and Measures to Tackle It (EU-ILO Project “Enhancing the Labour Administration Capacity to Improve Working Conditions and Tackle Undeclared Work”). Kyiv.

**Resent publications analysis.** To the best of our knowledge, there is no survey that addresses the issue of the UDW in Ukraine. The State Statistic Service of Ukraine conducts the Labour Force Survey annually, but it detects informal employment of Ukraine and not the UDW. Hence, this survey is the first of its kind in Ukraine.

**Research goal and questions.** This paper focuses on the main findings of UUDWS that aims to study the UDW in Ukraine in terms of four aspects: 1) describe its nature from the demand side and 2) the supply side, 3) outline the incidence of envelope wages and formal vs. informal work earnings, as well as 4) describe perceptions an acceptance of the UDW in Ukraine. However, the latter is not discussed in this paper due to the restrictions of its size and will be addressed in the future papers.

### Main findings

#### *Demand side of the UDW*

Overall, 12.2 % of respondents report having acquired any *services* undeclared (“had a good reason to assume that they involved UDW” as was stated in the question) and 15.2 % of respondents report having purchased undeclared *goods*.

The socio-demographic groups of those who use undeclared goods or services are presented in Table 1.

As reported in Table 1, both women (16 %) and men (21 %) use UDW. In urban settlements, UDW is used more (22 % to 14 %, respectively). In terms of age, 25–44 years age group is more likely to buy undeclared goods or services. Self-employed have the highest tendency to be on the demand side of UDW (33 %), compared to employees (21 %), unemployed (19 %), retired (11 %), and students (8 %). Those who report to have a poor financial situation use UDW less frequently (15 %) compared to those with very good financial situation (31 %). In terms of sector, in hotels & restaurants UDW is used in the majority of cases (55 %), slightly less in personal services (37 %), followed by construction (24 %), manufacturing (24 %), and retail (24 %).

The most important goods or services coming from UDW acquired in the last 12 months were worth on average UAH 3,869.757 (as of November 2017, this corresponds to USD 144.7). This represents 120,8 % of the minimum wage (UAH 3,200 or USD 119.7) and 51.7 % of average wage (UAH 7,479 or USD 279,7).

**Table 1. Have you acquired any goods or services of which you had a good reason to assume that they involved UDW (the income was not completely reported to tax or social security institutions)?**

	Yes, %	No, %	Refusal, %	Don't know, %
<b>Gender</b>				
Female	16	79	1	4
Male	21	71	2	6
<b>Type of settlement</b>				
Rural	14	82	1	3
Urban	22	70	1	6
<b>Age groups</b>				
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
<b>Employment status</b>				
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
<b>Financial situation</b>				
Poor	15	82	0	3
Average	18	76	1	6
Good	20	73	3	4
Very good	31	65	0	4
<b>Sector</b>				
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

Primarily used undeclared activities are food (43 %), hairdresser and/or beauty treatments (14 %) and home repairs or renovations (11 %) (see Fig. 1).

In most cases, Ukrainians purchase undeclared goods or services from other private persons or households (70 %), much less from friends, colleagues, or acquaintances (11 %), firms or businesses (7 %), neighbours (6 %), and relatives (2 %).

Among the most important reasons for purchasing goods of services that involve UDW are “lower

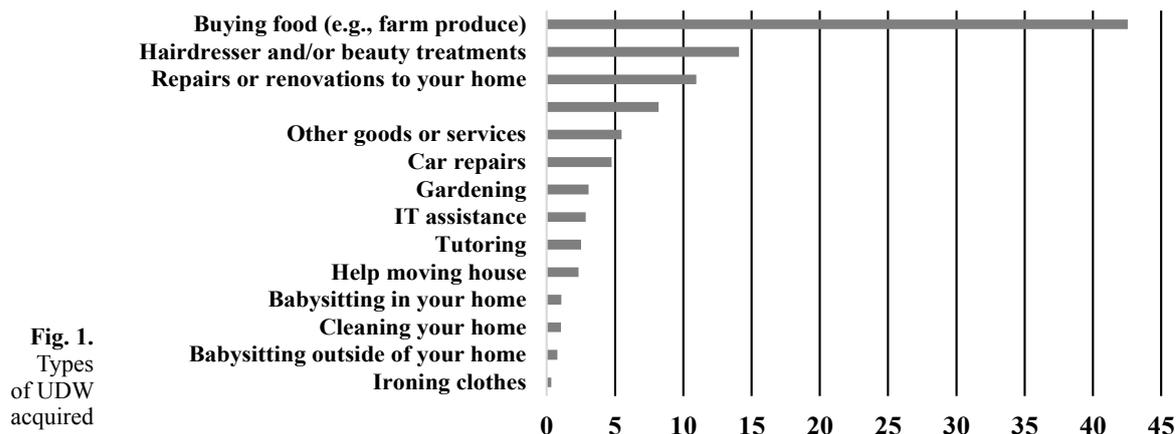


Fig. 1. Types of UDW acquired

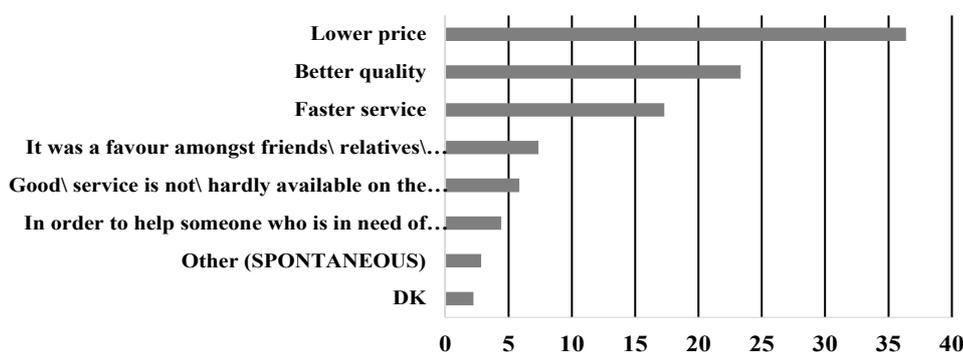


Fig. 2. Reasons for purchasing goods or services involving UDW in Ukraine

price” (36 %), “better quality” (23 %), “faster service” (17 %), “favour amongst friends/relatives/colleagues” (7 %), “good/service is not/hardly available on the regular market” (6 %) and “to help someone who is in need of money” (4 %).

Finally, had the most important good or service for the respondent only been available on the regular market, the majority (65 %) of respondents would have bought it from the regular market, and only 3 % would refuse from purchasing it.

*Supply side of the UDW*

Only 7.1 % of the respondents report having carried out any undeclared paid activity in the last 12 months\*. At the same time, 45.8 % of respondents personally know people who work without declaring their income or part of their income to tax or social security institutions. Finally, 33 % of the respondents estimate that at least half (50 % or more) of the population of Ukraine work undeclared.

Out of those who worked undeclared, 74 % are males and 26 are females. 62 % of undeclared workers live in urban and 38 % live in rural settlements. Most of the “suppliers” of UDW are in the 35–44 years age group (32 %), slightly less in the 45–54

years old group (28 %); 25–34 years old groups represent 23 %, the youngest 15–24 years old are 11 %, and above 55 years old represent 8 %.

As regards the employment status of undeclared workers, most of them report to be unemployed (34 %), slightly less are employees (31 %), self-employed are 18 %, and retired are 11 %, 2 % are students.

Providers of UDW report that their financial situation in most cases is average (47 %) and good (39 %). At the same time, for 8 % the financial condition is poor and for 5 % it is very good.

Among the activities that the respondents admit having carried out undeclared in the last 12 months are “Home maintenance or home improvement services” (26 %), “Selling food (e.g., farm produce)” (14 %), “Gardening” (9 %), “Car repairs” (8 %), and “Selling goods/services associated with my hobby” (7 %).

Most of undeclared workers perform their activities for other private persons or households (34 %), for friends, colleagues, or acquaintances (21 %), relatives (17 %), firms or businesses (14 %), and neighbours (12 %).

As for the regularity of carrying out UDW, one in five (22 %) workers does this just once, one in three (33 %) – a few times, and two in five (41 %) – with certain regularity.

\* Informal employment in 2017 was estimated at the level of 22.9 % of the employed population (SSSU, 2018).

When those who perform undeclared activities are asked how many weeks during the last 12 months they worked in this activity, 28 % report to working fulltime (50–52 weeks). At the same time, the highest number is for those who “do not know” (41 %).

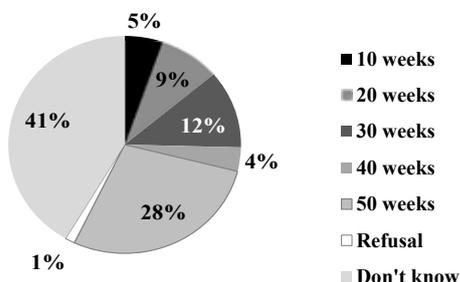


Fig. 3. How many weeks during the last twelve months did you work in this activity?

The average yearly income from the undeclared activities (“Approximately, how much did you get in total from these undeclared activities in the last 12 months?”) was UAH 17,759.93 (or USD 664,2). This means that monthly income from the undeclared activities equals UAH 1,479.99 (USD 55.35). This constitutes 46.2 % of the minimum wage and 19.8 % of the average wage in Ukraine.

When those who admit having worked without declaration are asked about the reasons for doing the activities undeclared, the most common reasons were “Could not find a regular job” (20 %), “It was just a seasonal work and so it is not worth to declare it” (15 %), “This is the normal way how this is done among friends, neighbours or relatives” (13 %), “The state does not do anything for you, so why should I pay taxes” (11 %), and “Both parties benefited from it” (10 %).

*Envelope wages and income*

Almost every tenth (9 %) dependent employee reports to have been paid envelope (cash-in-hand) wages, without declaring wages to tax or social security authorities within the past year. At the same time, a majority of employees (81 %) say they have not received any part of their salary as envelope wages in the last 12 months.

More than a half (55 %) of dependent employees who had received income in the last year as cash, without it being declared, say that they received this envelope income as both regular and overtime work; one third (29 %) receive it as part of the payment for regular work; for every seventh (14 %) it was a payment for overtime or extra work.

In most cases (71 %), paying the undeclared salary was initiated by the employer.

In significantly fewer cases (16 %) it was a joint idea of an employer and an employee. Interestingly, no one replied, “It was on my initiative.”

The employees who received income in envelope in the last year were asked if they were happy getting part of their salary without having it declared to the tax or social security authorities or would they have preferred to have had their total gross salary declared. Just over two fifths (41 %) mention that “it depends”, slightly less (36 %) are happy with this, every sixth (16 %) would prefer full declaration.

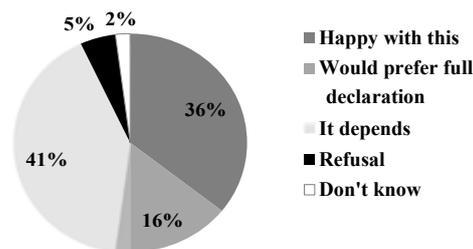


Fig. 4. Were you happy getting part of your salary without having it declared to the tax or social security authorities or would you have preferred to have it declared?

Recipients of envelope wages were also asked if they had verbally agreed with the employer about any of the conditions in return for receiving the additional cash-in-hand payment. Three out of four (77 %) say that no additional conditions were agreed, “agreed to work longer working hours than is in the formal contract” applies to 11 %, “agreed to do different tasks than indicated in the formal contract” – to 7 %, and “agreed not to take full statutory holiday allowance” – to 3 % of respondents.

Around one in three employees who had received income in envelope in the last year (29 %), received 50 % of their net monthly income this way. Only one in ten (9 %) reports that the cash payments accounted for 25–49 % of their net monthly income. The equal number of 18 % correspond to the lower bound of 1–24 % and the upper bound of 75–100 %. Around one in eight (12 %) refused to provide an answer. Around one in seven (15 %) said that they “don’t know.”

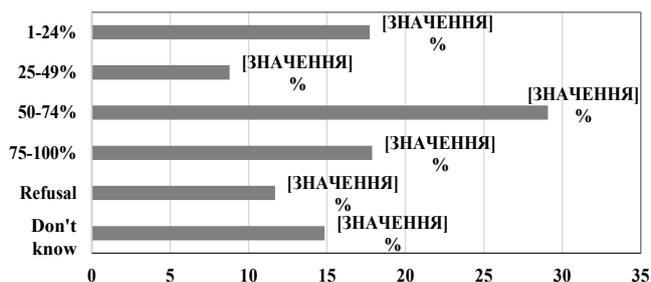


Fig. 5. Approximately what percentage share of your net monthly income from this job did you get this way?

We also asked dependent employees about their official net monthly salary for the job. For most of them (56 %) the salary equals the minimum wage. For every fifth (21 %), the salary is above the minimum wage; for every seventh (15 %), the salary is below the minimum wage.

A high percentage of the net monthly income received in the envelope (Fig. 5) and a low level of officially declared monthly salary of dependent employees (Fig. 6) serve as an evidence of the low protection level of Ukrainian employees.

In the end of the questionnaire, the respondents were asked to describe their net income generated from *formal work* in the last month. The majority of respondents (40 %) fall into the category of UAH 3,200–5,000 (UAH 3,200 is the minimum wage at the time of interviews), which equals USD 119–187 per month. Seventeen percent of respondents earn less than UAH 3,200 (or USD 119). Sixteen percent of respondents earn in the range of UAH 5,001–7,500, which equals USD 187–280. Significantly less (5 %) indicate their income of UAH 7,501–10,000 (or USD 280–374). Finally, around 1 % earn in the range of UAH 10,001–15,000 (or USD 374–561) per month, and less than 1 % (0.6 %) have an income above UAH 15,000 (or USD 561). Fourteen percent of respondents refused to reply to this question.

The formal income distribution by age, gender, and type of settlement is presented in Table 2.

Those who were engaged in carrying out undeclared activities were asked to describe their net income generated from *informal work* in the last month. The majority of respondents (24 %) report to earn UAH 1,001–3,000, which equals USD 37–112 per month. Every seventh undeclared worker (15 %) earns less than UAH 1,000 (or USD 37). Every tenth undeclared worker (10 %) earns between UAH 3,001–5,000, which equals USD 112–187. Significantly less (4 %) indicate their income of UAH 5,001–7,500 (or USD 187–280) per month. Almost 2 % (1.7 % in both cases) earn

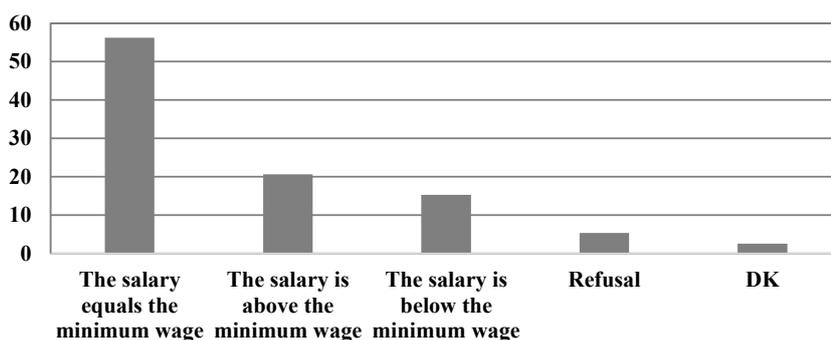


Fig. 6. Which of the following best describes your officially declared monthly salary for this job?

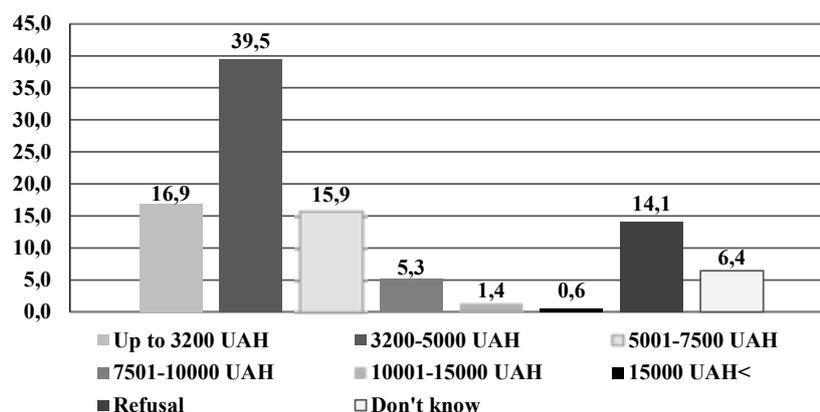


Fig. 7. Income from the formal work

UAH 7,501–10,000 (or USD 280–374) and UAH 10,001–15,000 (or USD 374–561). Interestingly, one in twelve (8 %) of those who carry out UDW earn more than UAH 15,000 (or USD 561) per month. The refusal to reply was 26 %.

Table 2. Income from the formal work (in UAH, USD and as % of average wage) by age groups (15-25, 25-55, 55+), gender, and by settlement

	Income, in UAH	In USD	As % of average wage
<b>Age groups</b>			
15-25	4470.72	167.19	59.78
26-55	4624.54	172.94	61.83
56+	4084.78	152.76	54.62
Average	4544.23	169.94	60.76
<b>Gender</b>			
Female	3918.12	146.33	52.39
Male	5090.76	190.38	68.07
<b>Type of settlement</b>			
Urban	4925.30	184.19	65.86
Rural	3598.18	134.56	48.11

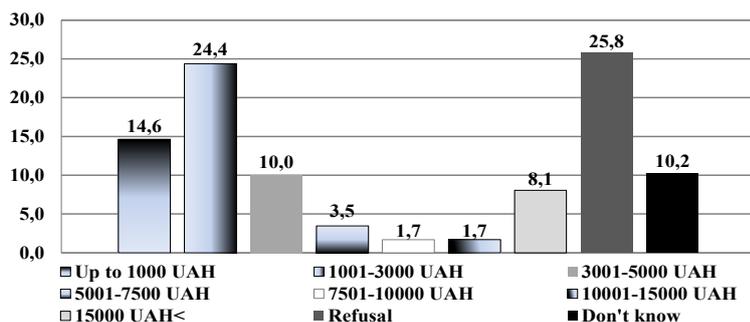


Fig. 8. Income from the informal work

Table 3. Income from the informal work (in UAH, USD and as % of average wage) by age groups (15-25, 25-55, 55+), gender, and by settlement

	Income, in UAH	In USD	As % of average wage
<b>Age groups</b>			
15-25	7504.13	280.63	100.34
26-55	4089.79	152.95	54.68
56+	1755.99	65.67	23.48
Average	4487.93	167.84	60.01
<b>Gender</b>			
Female	1751.71	65.51	23.42
Male	5791.30	216.58	77.43
<b>Type of settlement</b>			
Urban	3469.75	129.76	46.39
Rural	6835.12	255.61	91.39

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## НЕЗАДЕКЛАРОВАНА ПРАЦЯ В УКРАЇНІ: ПЕРШІ РЕЗУЛЬТАТИ

У цій статті подано перші результати опитування «Незадекларована праця в Україні» (Ukrainian Undeclared Work Survey, або UUDWS), яке було проведено наприкінці 2017 р. UUDWS – це прямий метод дослідження ринку праці й виявлення незадекларованої зайнятості, зокрема у формі проведення опитування, що має на меті оцінити розмір та характер незадекларованої праці в Україні. Опитування такого роду вперше проведено в Україні і має на меті вивчити як попит, так і пропозицію незадекларованої праці у нашій державі. Висновки опитування свідчать, що близько 7 % респондентів визнають, що упродовж останніх 12 місяців працювали без декларування, водночас близько 46 % респондентів знають когось, хто працює без декларування, а кожен третій респондент вважає, що не менш ніж 50 % населення України працює незадекларовано. Вік більшої частини осіб, які працювали без декларування, становить від 35 до 54 років, вони проживають у містах і вважають себе безробітними, найманими працівниками або самозайнятими. Основними видами наданих послуг, які містили у собі незадекларовану діяльність, були послуги з ремонту або благоустрою житла, продаж сільськогосподарської продукції, садівництво, ремонт автомобілів і продаж товарів чи послуг, пов'язаних із хобі респондентів. Серед основних причин працювати без декларування в Україні є труднощі в пошуку регулярної роботи, сезонність роботи, загальноприйнята практика такої роботи, недовіра до державних органів, а також взаємна вигода від продажу чи надання послуг, або купівлі чи отримання послуг без декларування. Результати опитування також свідчать, що українські працівники мають низький рівень захисту, а саме щодо відносин, що регулюють отримання заробітної плати, оскільки значну її частину виплачують «у конверті». Зрештою, неофіційна праця в середньому генерує нижчий дохід, ніж офіційна праця. У наступних дослідженнях ми розглянемо сприйняття та прийняття незадекларованої праці в Україні, а також оцінимо основні детермінанти незадекларованої праці в Україні.

**Ключові слова:** незадекларована праця, неформальна зайнятість, ринок праці, Україна, Євробарометр.

Матеріал надійшов 30.04.2018

The informal income distribution by age, gender, and type of settlement is presented in Table 3.

**Conclusions and further research proposals.** The UUDWS results also suggest that the majority of Ukrainian 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. The reasons that justified the UDW were the difficulties on finding a regular job, the seasonal nature of the work, the fact that the UDW 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. The UUDWS also serves as an evidence of the low protection level of Ukrainian employees in terms of their salary. Finally, the income from informal work is lower than from the formal one. In our research in progress, we address the perceptions and acceptance of UDW in Ukraine, as well as assess the main determinants of UDW with the help of econometric modelling.