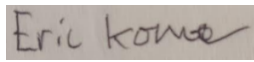




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# **Bachelor Thesis**

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## 1 Abstract

Finland Sweden and Norway lose out on a lot of potential tax money due to the shadow economy in the construction industry. Workers employed within companies such as these work with bad working conditions and lose the right to pension and sick leave. This leads to negative consequences within the society and is not sustainable since a welfare state relies on taxes to function. To combat tax evasion and work-related crime in public procurements in Finland, Sweden and Norway laws, regulations and strategies have been put in place. The objective of this thesis is to compare what each country has done with the perspective of economic efficiency, effectiveness in combating the shadow economy and reducing work-related crime.

## 2 Introduction

The construction industry in Finland, Sweden and Norway faces many serious challenges, such as human exploitation, economic crime, illegal labour, discrimination, health and safety violations and other abuses. This has many consequences throughout the industry and the society. The more shadow economy there is the less taxes are paid. Governments rely on taxes to offer basic services such as health care, education, and upholding infrastructure in good order. The burden of paying taxes is transferred to others and as a result, others end up having to contribute more to taxes. Contractors that pay taxes and fulfil their legal obligations are pushed out in favour of illegal contractors who take advantage of workers and cheat on taxes. The competition for business becomes tougher when illegal actors can provide the same service cheaper since they are not paying taxes and fees.

This bachelor thesis looks at what Finland Sweden and Norway are doing to solve these problems within the construction industry. Solving these problems through legislation, developing automated solutions to ensure correct data, and easing the burden of management are all important steps in the right direction. Having a common procurement strategy based on shared goals and objectives and implementing it across all public entities is to ensure sustainable procurements.

Workers employed in the shadow economy receive no benefits, no pension, and no financial support in case of work-related injuries. Organized crime organizations are usually behind this, and generated income is often used in illegal activities, such as drugs and human trafficking. Human trafficking occurs in the construction industry and especially foreigners in vulnerable positions are targeted and taken advantage of. Salaries are typically paid in cash, which is far below local collective agreements. The workers in these positions receive no written work contract and may even be left without pay after working long hours [1-3].

Public procurements make up approximately 20 percent of these countries gross domestic product (GDP) [4-6]. Effective use of taxpayer money is therefore important and making sure it's spent in a way that is beneficial for society as a whole [5, 7]. In Finland alone it is estimated that around 500 million euros from the construction industry is lost in tax revenue each year due to the shadow economy [8]. In Sweden approximately one billion euros is lost each year from the construction industry [9]. In Norway around 2,8 billion euros in total from all industries where the construction industry plays a major role [10].

### 3 Generally about public procurements

Public procurements in Finland, Norway and Sweden are all based on the European Union's (hereafter EU) general rules for public procurements [5, 11, 12]. These procedures are used when goods, services and construction projects are procured that cost more than the EU's specified thresholds. Only procurements that exceed the thresholds are considered in this chapter and therefore national regulations will not be considered. The thresholds for services and supplies are approximately the same for each country, 139 000 euro for Finland, 1,4 million Norwegian krone (NOK) for Norway and 1 456 476 Swedish krona (SEK) for

Sweden. For construction procurements the thresholds are 5 350 000 euro for Finland, 56 000 000 NOK for Norway and 55 991 099 SEK for Sweden [13-15]. If a governmental agency or private company has received 50 percent or more of its procurement funding from the authorities, it must also follow the EU's general rules [16]. The public procurement laws are similar in each country since the fundamental principles are all based on EU's rules. The main principles and rules that are relevant for public procurements are described in sections 3.1-3.4.

### 3.1 Fundamental principles

#### Equality of treatment

- Each contract should be drawn up in a way that does not put any tenderer in an unequal position. Suppliers must be treated equally, and each supplier must receive the same information about the procurement process and at the same time.

#### Transparency

- All information about the procurement shall be available to all participants and the procurement is to be announced publicly. The result of the bidding competition is to be shared to all participants.

#### Non-discrimination

- Public procurements should be fair for all parties regardless of nationality of candidates or bidders. Local firms should not be treated any different than bidders from different locations.

#### Proportionality

- The demands set are to be proportional to the value of the procurement. The higher the value of the procurement, the higher the demands can be [17-19].

### 3.2 Types of public tendering procedures

There are many different processes for public procurements such as design contest and innovation partnership. The most common ones used in the construction industry are open procedure and restricted procedure. Negotiated procedure and competitive negotiated procedure are also used in special instances [20, 21].

### Open procedure

- The procurement is available to the public for bidding, but it can also be sent to individual bidders. Every offer is to be considered and the number of parties offering is not limited.

### Restricted procedure

- The procurement is available to the public, but a request must be submitted to join the bidding process. When the procurement is published, a minimum number of bidders must be declared, and enough bidders must participate for the procurement to be fair. Necessary requirements are set and only bidders that have requested to join and meet the requirements will be given the procurement details and can make an offer [22, 23].

### Competitive negotiated procedure and negotiated procedure

- The procurement is open to the public, and anyone can request to join the bidding process. The key difference is that accepted bidders enter negotiations with the goal of achieving the procurement's objectives in the best way possible. This process always requires a reasoning as to why it's used and can be used in complex construction projects where for example engineering and design is required. This is used in collaborative contracts forms like "allianssimalli" in Finland [24] "partnering" in Sweden [25] and "samspill" in Norway [26] where it can be difficult to estimate costs and particularly qualified consults might be needed [27].

## 3.3 Exclusion grounds for public procurements

Exclusion grounds in public procurements give the client the ability to refuse contractors and they are based on EU directives in Finland, Sweden, and Norway. The laws are there to prevent fraudulent activity and to ensure bidders are honest and have the ability to deliver what is ordered. There are certain grounds where the client has a legal obligation to exclude bidders that have committed serious offences specified in law. There are also optional exclusion grounds for less serious offences or other grounds for excluding a bidder from the procurement procedure that the client may assess if necessary [28]. In Finland 80 § and 81 § in the Act on Public Procurement and Concession Contracts (Hankintalaki). In Sweden chapter 13 in the law (2016:1145) about public procurements (SFS 2016:1145). In Norway

chapter 24 in the regulation on public procurements (Hereafter *anskaffelsesforskriften*) [29-31].

### 3.4 European single procurement document (ESPD) and eCertis

To reduce the administrative burden of procurements standardized common forms have been developed. European single procurement document (ESPD) is a form used in EU and European Economic Area (EEA) countries where the bidding company ensures that there are no exclusion grounds, and that they satisfy all qualification requirements. ESPD is mandatory in all EU procurements that exceed the EU thresholds mentioned in chapter 3 [32-35]. It can be difficult for each company operating in different countries to know which certificates and documents correspond to the required document in another country. The EU commission has created a database called eCertis to solve this problem by giving an overview of which document corresponds to which document in each membering country [36].

## 4 Finland Sweden and Norway

This chapter presents the legislative measures taken by Finland Sweden and Norway to combat shadow economy and work-related crime. The different procurement strategies used by the countries and recommendations and guidelines on combating shadow economy and work-related crime. Each country is mentioned one by one and presented individually.

### 4.1 Finland

Finland spends approximately 35 billion euro a year on public procurements and has created a joint strategy called “Hankinta-Suomi” to further develop public procurements. The Hankinta-Suomi model plans to utilize their buying power, define common goals and have a common strategy. The goals are going to be reached by utilizing data efficiently, educating the people who work with procurements and exercising strategic leadership.

Finland has many goals they want to achieve through public procurements, such as developing innovative solutions to better Finland’s competitiveness in the global markets.

Combating climate change by reducing carbon footprint and improving the circular economy. Maximizing social impact, improving the economic sustainability, ensuring good working conditions and promoting the employment of people at a disadvantage in the labour market [37, 38]

#### 4.1.1 Employment strategy

Through the “Hankinta-Suomi” strategy public entities are including employment clauses in procurement contracts. The employment clause requires the contractor to employ individuals who are in a vulnerable employment situation. Long term unemployment, individuals with disabilities or young individuals are examples of who meet the employment clause requirements. This requirement must be embedded in the strategies and work processes so it can become the norm for public procurements. Helsinki city has successfully implemented employing people through their procurements and include how many people they wish to see employed in their procurement contracts. Helsinki city includes contractual clauses with financial sanctions that allow them to deduct the amount from the contractor’s invoice in order to guarantee that the requirements are being met [39-41].

#### 4.1.2 VAT reverse charge in the construction industry

In 2011, the Value-added tax (VAT) was reversed for the construction industry. Now buyers of construction projects and services are responsible for paying the whole tax, rather than individual sellers. This was introduced to combat shadow economy since the contractor chains can be quite long in the construction industry. The seller is responsible for ensuring that the buyer satisfies the requirements for the VAT reverse charge. The VAT reverse charge applies when a company offers construction services or rents workers for the construction industry. This policy does not apply to private individuals or construction materials [42, 43].

#### 4.1.3 Visible tax number and public tax number register

Everyone working on a construction site in Finland is required to have a visible identification card and it was made mandatory in 2006 on all construction sites. In 2012 it was updated to include the tax number [44]. Everyone must have an identification card that includes their



name, picture, company they work for and personal tax number as described in 52 a § in the Occupational Safety and Health Act (Työturvallisuuslaki – hereafter ttl.) [45]. Vastuu Group has developed a card for this called Valtticard and over 495 000 has been ordered [46].

All workers working on a construction site are required to have their tax number linked to the public tax number register. This is required for foreigners as well and it's illegal to work on a construction site without it. The public tax number register is public, but personal tax info is not. With a person's full name and tax number one can check against the register and it will inform whether the person is in the register or not. A person can request to be included in the tax number register himself or the employer or general contractor can do it. This system was put in place so it can easily be checked if someone really works in the construction industry and to ensure the authorities have their tax information before starting work [47, 48]. Between 2011 and 2014 with the introduced VAT reverse charge, tax number register and the obligation to inform authorities about new construction sites the tax revenue from the construction industry grew with 100 million euros in 2015 with these actions [44].

#### 4.1.4 Access control and list of people working at the construction site

Before starting construction works the authorities must always be informed if construction works are anticipated to last over a month or where a minimum of 10 people are working. The main contractor is responsible for the notice defined in 48 § Act on Occupational Safety and Health Enforcement and Cooperation on Occupational Safety and Health at Workplaces [49, 50]. Each month, the general contractor must send the tax authorities a list of all employees who are currently on the job site. The list must have the following info defined in ttl. 52 b §

*“1) the person's forename and surname, date of birth and individual tax number;*

*2) the start and end date of working on the site;*

*3) the name and business identity code of the employee's employer or a corresponding foreign identifier;*

*4) the name and contact information of the representative referred to in section 8 of the Act on Posting Workers (447/2016). (453/2016)” [51]*

The Valtticard provided by Vastuu Group has a chip which enables it to be used for access control. Since work sites are enclosed, there is usually a gate where the Valtticard can be used as a key to enter while logging you in electronically to the site. When the person leaves the site, it's used as a key again to pass the gate and they are logged out of the site.

#### 4.1.5 Contractor's Liability Act

This law was introduced in 2008 and was made to combat the shadow economy and prevent going into contract with subcontractors who do not fulfil their lawful obligations. Before entering into a contract with a contractor, the following must be required. Referred to in section 5 in the Act on the Contractor's Obligations and Liability when Work is Contracted Out.

*"1) documentation showing whether the enterprise is entered in the Prepayment Register and in*

*the Employer Register in accordance with the Act on Prepayment of Tax (1118/1996), and*

*registered as VAT-liable in the Value Added Tax Register in compliance with the Value Added*

*Tax Act (1501/1993);*

*2) an extract from the trade register or equivalent information otherwise obtained from the trade register;*

*3) documentation showing that the enterprise does not have tax debts referred to in section 20b,*

*subsection 1, paragraph 2 of the Act on the Public Disclosure and Confidentiality of Tax*

*Information (1346/1999), or a certificate provided by an authority showing the amount of the tax debt;*

*4) certificates of employee's pension insurances taken out and of pension insurance premiums*

*paid, or documentation showing that a payment agreement on outstanding pension insurance premiums has been made;*

*5) documentation showing the collective agreement or the principal terms of employment applicable to the work;*

*6) documentation showing that occupational health care services are provided“*  
[52]

If these requirements are not in order you cannot enter into contract with the contractor. The documents and certificates must be no older than three months and the provided requirements must be saved for two years after the contract is completed. If the requirements for contracting are not met, you may have to pay a fine between 2,000 and 65, 000 euros, depending on the severity of the negligence [53, 54]. The markets have developed an easy solution for this administrative burden. Vastuu Group provides a “Reliable companion” (In Finnish Luotettava Kumppani) report where all required information from companies is collected. The reports are free, but they also provide a service where they store the information for you and make it easy to find all reports in one place [55]. RALA also provides a similar report and service [56].

## 4.2 Sweden

The Swedish government spends approximately 73 billion euros on public procurements each year [57]. The goal is to ensure that public procurement is effective, legally secure and capitalizes on market competition. Legally secure by ensuring fair competition, preventing corruption, and following up on contracts to make sure what is paid for is delivered. A well-functioning market is fundamental for a good deal and therefore small and middle-sized companies must be taken into consideration by for example dividing procurements into smaller parts. Additionally, procurements need to promote innovation and encourage being environmentally friendly. Using public procurements strategically to achieve these goals while having a number of positive social consequences. Contributing to a socially sustainable society by equality, employing people outside the labour market and good working conditions. By settings different requirements in public procurements the government ensures the taxpayer’s funds are used efficiently [58, 59].

#### 4.2.1 Employment strategy and ensuring good working conditions

The European employment strategy, from 1997 states that public procurements should contribute to employment and promote sustainable economic growth. Public procurement integration can be improved by placing employment requirements in public procurements. To ensure this, contractual clauses are included in procurements that legally oblige contractors to hire or offer internships to people outside the labour market. This way both workers and society as a whole benefits by being ensured decent working conditions. [60, 61].

In public procurements that exceed the EU thresholds good working conditions must be defined in the procurement contract. The conditions set are a minimum that each worker is entitled to receive in terms of wage, vacation days and working hours. Each subcontractor is responsible for enforcing these conditions with regard to the workers performing work under the procured contract. The terms of the contract must follow a single central collective agreement and the contractual terms shall not prevent that better conditions are offered. This shall be monitored and appropriate sanctions should be included in the contract if the conditions are not met [62].

#### 4.2.2 Rättvist byggande

Rättvist byggande (Fair construction) is a model developed for both commercial and public entities that wants to ensure a fair competition, ensure that taxes are paid and guarantee that workers receive a fair wage with good working conditions. Rättvist byggande was first developed in 2017 by Stockholmshem, which is a municipal housing company [63]. It was developed in liaison with Swedish Economic Crime Authority (Ekobrottsmyndigheten), the Police, Swedish Tax Agency (Skatteverket), Swedish Work Environment Authority (Arbetsmiljöverket) and trade associations Stockholms Byggmästareförening, Fairplay Bygg and ID06. Rättvist byggande serves currently as a non-profit association with 19 members.

Rättvist byggande's work includes to incorporate tougher procurement requirements. These include the requirement of ID06 card, the requirement for the customer to approve subcontractors, and the client's ability to conduct unannounced inspections. As part of this

model companies that make offers on procurements are controlled to make sure finances are in order and taxes are paid. Rättvist byggande aims to establish legal precedents for the industry and recently won a case at the Södertörn District Court that the main contractor must be accountable for the subcontractors. Rättvist byggande operates by including relevant sanctions in their procurement contracts, such as a contractor being subject to fines of up to 50 000 Swedish krona per illegal worker [64-66].

#### 4.2.3 ID06 card and electrical access list

In 2016 an electrical access list became mandatory on construction sites in Sweden on sites when the estimated total expenses exceed 180 000 SEK. The client or main contractor has an obligation to notify the Swedish Tax Agency (hereafter Skatteverket) when a construction site starts and when it's finished. Skatteverket must have access to the access list in case of site controls to ensure the law is enforced as defined in 9<sup>th</sup> chapter 5 § of skatteförfarandeförordningen (SFS 2011:1261) and Skatteverket's regulations SKVFS 2015:6 [67]. The penalty for failing to check someone in is 2500 SEK per person, and the penalty for failing to update the access list on the day it's checked is 12 500 SEK [68]. The list must have the following information:

- The merchant's name, social security number, organization number or equivalent international number and coordination number.
- For those involved in commercial activities, their name, social security number, coordination number, or comparable foreign number
- The start and end time of each person's work shift [69].

The purpose of the ID06 card is to comply with the laws regarding the access list. It helps ensure an individual's identity has been verified and that the individual has a right to work in Sweden. The ID06 card can be used to quickly identify each worker on a construction site and to be able to link them to their employer. The ID06 card can be used as a key to enter enclosed work sites while logging you in electronically, and is used to digitalize competences and education [70].

#### 4.2.4 VAT reverse charge in the construction industry

To reduce tax evasion the VAT reverse charge was introduced in 2007 for the construction industry in Sweden [71]. The sellers offer their services tax-free since the buyer is responsible for the tax instead of the seller. This ensures the authorities get all VAT tax from one company and makes it easier to oversee. This applies to all construction services in Sweden but does not include construction goods [72, 73].

#### 4.2.5 Bygghandelskommisionen's recommendations

Bygghandelskommisionen (Construction Market Commission) is a commission financed by a number of construction companies, trades unions, developers and trade associations.

Bygghandelskommisionen has made a report on the situation in the construction industry in Sweden. They made many recommendations for ways to promote a sustainable construction industry with favourable social conditions for workers and businesses that pay taxes and contributions.

One of the main challenges in Sweden are the privacy laws. Company taxing information is confidential, so it has been challenging to determine whether the company is actually paying taxes. Another challenge is the privacy laws between inter-agencies since if the Swedish Work Environment Authority (Arbetsmiljöverket) suspects a company is cheating on taxes or using illegal labour they cannot notify the Tax Agency, Swedish Economic Crime Authority (Ekobrottsmyndigheten) or the Swedish Migration Agency (Migrationsverket).

Bygghandelskommisionen views Rättvist byggande and ID06 cards in a positive light and wishes to develop and expand these programs across the country. Another suggestion is to make it easier to exclude dishonest bidders because reportedly it has been exceedingly difficult for public authorities to exclude bidders they suspect of committing work-related crime [3].

#### 4.3 Norway

Each year Norway's public sector spends more than 58 billion euros on goods and services. Norway wants to make good use of public funds and help stimulate innovation and

sustainable economic growth. Combating climate change, workplace crime and ensuring fair markets where small companies have an opportunity to participate in procurements. The Norwegian government wants to limit the possibilities of profiting on work-related crime and protect workers' rights. By making the market smaller for criminal actors and making it more difficult to take advantage of the market [74]. The Norwegian government is building a national model "Norgesmodellen" to ensure their goals are achieved. The model is going to be based on existing models like the Oslo and Skien model for public procurements, which is presented in 4.3.7 [75].

#### 4.3.1 Laws and regulations to combat shadow economy and workplace crime

The main contractor shall not have more than two contract tiers in the supply chain and if more is used there must be a justified reason, stated in § 8-13 and § 19-3 of anskaffelseforskriften [31]. Everyone involved in public procurements must be provided wages and working conditions according to collective pay defined in § 6 of the Public Procurement Act (anskaffelsesloven) [7]. § 5-7 in regulations on salary and working conditions in public contracts require that this is guaranteed by including it in the procurement contract and that the client must have the right to all information since the client is obliged to control this is being carried out [76]. The contract shall include sanctions if the requirements are not met, and possible subcontractors are subject to the same demands [77, 78].

#### 4.3.2 Regulation on the obligation to provide information and the right of inspection

This regulation applies to all construction sites and states in § 5 that the client is responsible of informing workers that they are entitled to a minimum salary and working conditions in accordance with contractual pay. The same applies to contractors who hire subcontractors. The client or the main contractor has the obligation to ensure compliance depending on which form of contract is utilized. The specifics of how this is carried out in practice is not determined specifically and considered from case to case. For example, contractual clauses allow for the demand of copies of workers work contracts, salary slips, time sheets and documentation that adequate housing for posted workers has been arranged. The Norwegian Labour Inspection Authority (Hereafter Arbeidstilsynet) suggests imposing financial penalties on contractors who fail to comply with this in order to enforce compliance [79, 80].

### 4.3.3 Wage theft

A new law came into effect in January of 2022 to help prevent wage theft. Any employee who fails to pay salary, holiday pay or other compensation can now be punished with a fine or a maximum sentence of two years in prison, according to § 395 and § 396 in Criminal law (straffeloven) [81]. This law was implemented since no employer had been convicted for depriving their employees of salary or other compensation in 20 years with the exception of instances that could be considered as human trafficking [82].

### 4.3.4 List on site and HMS-card

Construction works that last over 15 days or exceed 250 working days must send in a notice to Arbeidstilsynet as stated in § 10 in the construction client regulations (Hereafter Byggherreforskriften) [83]. Regulation of HMS-card on construction sites § 4 defines that everyone working on a construction site in Norway must display a HMS-card issued by Arbeidstilsynet visibly [84]. All companies, whether Norwegian or foreign must be registered in the entity register, the business register and the VAT register to be able to apply for an HMS card. Each employee must be registered in the Aa-register which is a register the governmental authorities use to get information about each person's work conditions so that benefits like sick pay and pension can be paid correctly. Each employee must also have a national identity number or d-number from the Norwegian Tax Administration (Skatteetaten) and if a worker is from outside the EEA the worker must have a valid work permit to work in Norway in order to obtain an HMS card [85, 86]. The construction client is required to keep a list over everyone working on the construction site electronically and this must be controlled and updated daily and must contain the following info as stated in § 15 of

Byggherreforskriften:

- “a) name and address of the construction site*
- b) name of the client*
- c) names of employers or one-man enterprises or, in the case of hired workers, the name of the undertaking hiring the workers*
- d) organisation numbers of undertakings subject to registration*



*e)names and dates of birth, and HSE-card number of all persons performing work at the construction site.” [87]*

#### 4.3.5 HMSREG and StartBANK

HMSREG was developed in cooperation between Oslo municipality and Omega As to counter work-related crime and social discrimination. HMSREG helps distinguish between serious contractors who fulfil their legal obligations and irresponsible ones [88]. HMSREG provides an overview of the whole contractor and supply chain. Documentation of safety trainings, verifying each HMS card and integrating competences and certificates into it, registers suppliers and subcontractors and maintains the required documentation in one place [89, 90]. StartBANK is a supplier register in the construction industry, which ensures a fair and open competition. StartBANK gathers all information about a company in one place including insurance and tax documentations. The VAT paid to Skattedirektoratet is reported in real time and each companies credit rating is available [91].

#### 4.3.6 Recommendations on rules to use in public construction procurements

The Norwegian Government Agency for Financial Management (DFØ), the Organisation of the Municipal Sector (KS), Federation of Norwegian Construction Industries (Byggenæringens Landsforening) and The United Federation of Trade Unions (Fellesforbundet) have together developed rules of seriousness that should be used in all public procurements.

- Each supplier shall provide their StartBANK ID or a copy of registration proof from StartBANK or equivalent supplier register. The supplier shall give power of attorney to the supplier register so all tax and fee information can be collected during the whole contractual period.
- Requirement that a minimum of 40 percent of hours worked belonging to construction and infrastructure is carried out by workers with certificate of completed apprenticeship in accordance with national rules. Trainees that are registered according to the requirement of use of trainees can also be counted.
- Requirement of use of trainees in execution of contractual work within construction. A minimum of 7 percent of worked hours shall be carried out by trainees or people

registered as a trainee. This requirement can be carried out by the contractor's subcontractors, and this applies to foreign contractors as well and they may use a trainee from their own country. The Client shall withhold 5 percent of the contractual sum to ensure this is carried out by the contractor.

- Contracts given out to foreign suppliers or subcontractors and all workers on such contracts must be reported to OAR in accordance with § 7-6 law about tax administration (Skatteforvaltningsloven). The supplier is responsible that this is carried out down the supplier chain.
- The supplier must ensure that all regulations regarding safety, health and working environment plans from the client is incorporated into the work and is followed up. All communication between project keypersons shall be in Norwegian unless otherwise agreed. The supplier must ensure that all workers and subcontractors can communicate in a way that lack of communication does not constitute a safety risk. At minimum one on each work team shall understand and be able to make themselves understood in Norwegian or English. If work tasks are carried out in teams, each member must be able to understand each other. Everyone on a work site shall understand the SHA-plan, safety teachings, HMS plans, safety brochures, warning signs, and instruction for tools and work equipment. The material shall be in the workers mother language if they do not understand the information fully in English or Norwegian.
- Supplier's use of one man companies or staffing companies shall be justified in written form. The client may only refuse this if there is a justified reason.
- Breaches of obligations in this contract shall be written down and may lead to consequences in later tendering.
- The client may perform financial inspections on the supplier and potential subcontractors to investigate if contractual requirements are being met [92, 93].

#### 4.3.7 Oslomodellen

Oslo municipality is one of Norway's largest public developers and a large part of their procurements activities involve the construction industry. Oslo municipality is using their purchasing power to turn the negative development within the industry by ensuring good working conditions and fair competition. A series of requirements for the contractor are

included in the procurement contract with necessary sanctions such as withholding a percentage of the contract sum or the ability to stop the contractor's work if the requirements are not met.

#### 4.3.7.1 Requirement of using permanent employees and collective pay between work tasks for employers within staffing agencies

Tasks for Oslo municipality are required to be carried out using permanent employees with at least an 80 % job position. Wage and work conditions may not be worse than any collective agreements and this is to ensure workers for Oslo municipality receive fair wage and working conditions. Since use of permanent employees may not always be possible and staffing agencies are required, Oslo municipality wants to ensure that these employees are paid between work tasks so that these workers can have a steady income. The pay must be according to collective pay also between work tasks.

#### 4.3.7.2 Requirement of professional competence and use of trainees

The municipality of Oslo believes that professional competence encourages seriousness and guarantees better quality of work. Key persons carrying out projects for Oslo municipality must understand Norwegian. Each team carrying out work on the site must also have a person who understands Norwegian or English and the whole team must be able to understand each other. This is to ensure effective communication and ensure safety and other instructions are understood. Oslo municipality demands that a minimum of 50 percent of worked hours on a construction site is to be carried out by persons with documented trade credentials. In work fields where trainees are required, trainees must make up a minimum of 10 percent of the workforce.

#### 4.3.7.3 Restricting the number of subcontractors

Norway restricts the amount of contractor tiers to two by law, but Oslo municipality has taken an even stricter approach by restricting this further down to only one contract tier. This is to give full control of all contractors operating on projects for Oslo municipality.

4.3.7.4 Right to insight in all the contractor's matters that are of importance for contract fulfilment and all payments must be made through a bank

All relevant resources and documentation shall be available for control by the client. The contractor must also ensure that the subcontractor complies with the procurement requirements set by Oslo municipality and that controls are carried out to ensure this. All transactions are to be made to the bank online to ensure tracability and transparency. This applies to all goods as well because cash payments are strictly prohibited [94, 95].

## 5 Results and discussion

Bygghandelskommissionens report from Sweden makes it clear that public procurements are surrounded by laws and legislation that prevent them from excluding dishonest bidders [3]. The Contractor's Liability Act in Finland can be considered effective in combating this problem since it obliges the client to verify that the contractors have fulfilled their legal obligations and have paid taxes before entering into a contract. This is monitored by the authorities in Finland and heavy fines are given if a client violates this law [96]. Norway recommends public entities demand access to relevant tax information from companies they contract with, and the companies must agree to allow the client to obtain relevant tax information in advance and throughout the contract period [97]. The main difference between Finland and Norway is that in Finland it is required by law and concerns every procurement, not just public entities, whereas in Norway it's just a recommendation for public entities. In Sweden this is reportedly difficult due to privacy laws and therefore excluding malicious actors has reportedly been difficult [3, 98].

Norway's employment rate is high, with only 3,2 % unemployment in June 2022. Finland had a rate of 6,4 % and Sweden 7,6 % in June 2022 [99-101]. The mandatory use of trainees in procurements in Norway is a good way of offering people who have no experience to get into the industry. Forcing companies to employ trainees and train people into their chosen field of work through legislation can be considered effective in Norway. Sweden has a policy of using public procurements to employ people outside the labour market. Finland is also employing people through public procurements that have a disadvantage in the labour market but it's

only done in a few municipalities so far [102]. Using public procurements to employ people outside the labour market can be seen as a good way to increase employment.

In Norway, an HMS card is mandatory by law on all construction sites. Arbeidstilsynet ensures that the company and workers have all documentation and registrations required in order. In Finland it is similar and is made mandatory through law, but it isn't specified in the law how this is carried out, so the markets have developed privatized solutions for this. The main difference in Finland is that the individuals taxing number must be visible so that the client can verify the taxing number against a public register to make sure it's correct. In Sweden there isn't a law that demands this directly but it's mandatory by law to have an electronical access list on construction sites over 180 000 SEK that logs each workers start and end time of a work shift. The markets developed a solution for this problem, the ID06 card and is therefore widely used. Similar access lists are required by law in Finland and Norway. The Valtticard and HMS-card can be used in the same manner to log each workers start and end times for a shift.

Norway limits number of contract tiers to a maximum of two and in Osломodellen only to one. This has an impact on the market and the contractor, and it may cause problems when special competence is required. Because subcontractors can't hire workers from other subcontractors they must also have more capacity which gives larger companies an advantage [103]. Bygghandelskommisionen's report from Sweden emphasized how much of a problem this is in Sweden since it's difficult to monitor and ensure good working conditions in the subcontractor chains [3]. The Swedish government has in the summer of 2022 started an investigation on how to easier shut out malicious contractors from public procurements and have suggested that limiting the amount of subcontractors might be a solution [104]. In Finland there are no laws regarding this but based on the exclusion grounds a subcontractor can be excluded. The client can demand subcontractors to submit reports in compliance with the contractor's liability act and that each subcontractor must be accepted in written form by the client [105, 106].

Public procurements over the national thresholds must follow EU directives and laws, and member states must comply with these. For example, Italian legislation restricts subcontracting to 30 percent of the total contract amount. The European Court of Justice has however ruled that this is not in accordance with EU directives and not possible. Directive 2014/24/EU for public procurements was used as a reference in the ruling and is something the Norwegian government also enforces [107, 108]. Based on this ruling, it could be considered that limiting the number of subcontractors in procurements above the EU thresholds might not be advisable.

In Finland and Sweden, each contractor offers their services VAT-free since the client is responsible for the project's VAT. This was found to increase taxes for the government in Finland which is a practical example how this small change significantly reduced the shadow economy. Since the contract chains can be quite long in Finland and Sweden, this ensures that the government receives all its taxes from a single company and reduces the administrative load on the government. This can be seen as easier to oversee and possibly not required for Norway given that their laws restrict long subcontractor chains.

Norway has now introduced strict laws with up to two years prison to anyone stealing or withholding wages or other compensation. The regulation in Norway can be seen as a successful mean of preventing wage theft. In Finland this is considered as a debt and not a crime unless it can be proved that it was caused by discrimination based on gender or race. Employment discrimination is only punishable by law if it's seen as intentional, for example if the employer is paying Finnish workers but not foreign workers. [109, 110]. In Sweden it's regarded as both a breach of contract and debt. It is only punishable by law if prerequisites for human trafficking or human exploitation are met [111, 112].

It would be beneficial for the northern countries to work together and harmonize their laws and regulations. Better collaboration would ensure it's easier to combat the shadow economy. Harmonized laws, rules, and systems would help minimize the burden of administration and associated costs for companies operating in the different countries and making it easier to move workforce. For instance, a report produced in 2010 for the Finnish Ministry of

Employment and the Economy found that administration costs from obligatory legislation in just the construction industry exceeded 230 million euro [113].

The extent of the shadow economy is difficult to determine, but according to an estimate from the Finnish interior ministry it accounts for between one and 14 billion euro annually. Measuring the extent of the shadow economy is done through surveys, interviews, and the results of tax inspections. The demand for cash and consumption of electricity is also considered when measuring the shadow economy which further suggests that the numbers are rough approximations. Research done by the EU on each nation's proportion of shadow economy and tax evasion to GDP was estimated to be 17,6 % in Finland and 18,6 % in Sweden and Norway in 2003. In 2014 the results were 12,9 % for Finland, 13,6 % for Sweden, and 13,1 % for Norway. The development has been in the right direction but it is challenging to pinpoint which exact actions have been most effective since the actual size of the shadow economy in each country can't reliably be measured [114, 115]. Preventing shadow economy and work-related crime costs money and add to the burden of administration for businesses. Therefore, it's even possible that in some cases it costs the society more to actively try and prevent shadow economy than the shadow economy itself.

While transparency is important for preventing shadow economy and work-related crime, it also has some challenges. For instance, it was reportedly difficult to obtain company taxing information in Sweden due to privacy laws. Norway suggests demanding insight into employer salary slips, but this would not be possible in Finland due to salary information being private. Further research could be carried out on how legislation prevent implementing rules and strategies that could be considered effective in combating shadow economy and work-related crime.

## 6 Conclusions

This thesis aimed to identify effective strategies of preventing work-life crime and shadow economy. Based on the findings it's evident that this issue persists today but legislation has been successful in reducing shadow economy. Having common strategies and recommendations in place for public procurements can be seen beneficial but implementing

them as mandatory legislation can be presumed to be even more effective. Too much legislation may however restrict economic activity. Therefore, it's important during the early stages of a construction project to take measures in preventing shadow economy and work-life crime since here demands and requirements outside the law can be set in the contract. Having the appropriate tools in the contract to help oversee and ensure demands are being met is essential so that shadow economy and work-life crime may be prevented during the construction phase.

Demanding documentation that proves the contractors are fulfilling their legal obligations before entering into contract is a good way of ensuring the public sector only deals with serious contractors. Transparency such as having access to relevant documentation, salary slips and checking that the terms set in the contract are followed is important for preventing shadow economy and work-related crime. Contractor oversight is important and to maintain compliance financial sanctions must be in place.

Legislation that holds the main contractor responsible for the whole VAT tax is a good example of how through legislation shadow economy can be prevented. Mandatory reporting to the authorities of new construction sites, having electronic access lists of the people working daily on a worksite increases traceability and aids the authorities keep track of things. Building automatized systems to reduce the administrative burden is important in order to use resources effectively and ensuring legislation does not significantly increase the administrative burden.

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