New forms of employment
Voucher-based work, Lithuania

Case study 56: Policy analysis

Lithuania has introduced a voucher system in an effort to combat undeclared work. While most of the feedback is very positive, the main weakness is the lack of employment security for voucher workers.

Introduction

Agriculture has traditionally been one of the sectors with the highest levels of undeclared work in Lithuania. According to a representative of the Chamber of Agriculture, in the past few years around 7% of work in agriculture has been undeclared. One of the main reasons for this was the lack of appropriate regulation for short-term work in the Labour Code, which is aimed more at large companies than small ones, and makes no exception for sectors such as agriculture where work is heavily dependent on weather conditions and seasonality. Under the code, employing workers for short-term on-call types of work involves a high administrative and tax burden.

The Seimas – the Lithuanian parliament – addressed this with the 'Act on provision of services in agriculture and forestry using the service voucher' (*Žemės ūkio ir miškininkystės paslaugų teikimo pagal paslaugų kvitą įstatymas*), which came into force on 1 April 2013. The act established a voucher system for employing temporary workers. It is important to note that the act regulates this employment relationship under civil law rather than labour law, as the latter is less flexible and subject to higher taxes.

A service voucher is essentially a receipt issued as proof of service and forms the basis of payment for these services. They are a relatively new concept in Lithuania and, at the time of this case study, remained little known by the general population beyond the target group of agricultural companies, despite very positive and widespread media coverage. The system was quickly embraced by agriculture and forestry companies. According to the figures from the State Social Insurance Fund Board (SoDra) some 22,905 people were hired under the voucher scheme from 1 April to 31 December 2013.

This study is based on interviews with two representatives of the Ministry of Agriculture, a representative of the Ministry of Social protection and Labour, a former Member of the Seimas and co-initiator of the act, and a representative of the Chamber of Agriculture. The authors also consulted a representative of the Ministry of Social Protection and Labour, which is responsible for monitoring the voucher scheme.

Background and objectives

The act was drawn up during the 2008–2012 Seimas, when draft regulations were proposed by the Ministry of Agriculture and the Ministry of Social Protection and Labour. There was also an organised lobby by the Chamber of Agriculture for a way to regulate undeclared work. Farmers

had been complaining about the lack of options for short-term flexible hiring during the 2004–2008 Seimas, but this issue became particularly pressing after a draft bill to regulate illegal work was registered in 2011. A Chamber of Agriculture representative said the bill, meant to comply with an EU directive on illegal work, had four sanctions, two of which were applicable specifically to farmers. However, it was rejected later that same year by the parliament's legal department due to its terminology (LR SK Teisės Departamentas, 2011). At the time of this study (May 2014), it had yet to be amended and become law. However, its registration added extra pressure on farmers, and accelerated organised action to introduce simplified employment.

Moves to do this began in 2009 when the head of the parliament's Rural Affairs Committee met representatives of the labour and agriculture ministries, expressing the need for a bill to simplify the short-term employment of low-skilled workers, particularly in the agriculture sector. Each ministry researched possible options. The Ministry of Foreign Affairs collected information about simplified employment systems from Austrian, Hungarian, French and Italian representatives, via their embassies in Lithuania. However, a representative of the Ministry of Agriculture, which had asked for the data, said that it provided the policymakers with inspiration, but with no examples that could be followed. Consequently (and compared with the other countries' systems) the Lithuanian system was made much simpler and more liberal in terms of taxation, administration and redemption of vouchers.

Before the end of the 2008–2012 Seimas term, two draft bills on the more flexible regulation of work were registered. A group of MPs registered a 'Work voucher scheme' (XIP – 4450) on 17 May 2012, aimed at simplifying the work relationship under labour law, based on suggestions by the Agriculture Ministry. On 29 June 2012 an MP registered draft bill XIP 4627 for a 'Service voucher scheme' to be applied under civil law, as recommended by the Ministry of Labour and Social Affairs. Parliament's legal department suggested there should be just one act, and a taskforce was formed by representatives of the Seimas, the two ministries, the Association of Agricultural Companies, and the head of the Chamber of Agriculture. Representatives of other social partners, the State Social Insurance Board and the Tax Inspectorate were also occasionally invited to attend.

All six of the interviewed informants who participated in the working group said that their work was constructive and went smoothly. The group met every Thursday for a period of around three months. They initially mulled over passing a resolution under the existing legislative base suggesting tax and other cuts for the target group, but later opted for a separate bill altogether to ensure consistency with existing laws. The idea of using service vouchers was adapted from the proposal by the Ministry of Social Protection and Labour. Adapting a new piece of legislation to the existing base and preparing the draft bills was done by an attorney hired and paid by the Chamber of Agriculture (which cost around LTL 10,000 in total (€2,900)).

The final bill, with additional documents, was presented in September 2012. A lot of work was done remotely, via email: after every meeting group members prepared new suggestions and discussed them, consulted lawyers and then presented them at the following meeting. The policymakers sought to keep the system as simple and flexible as possible. There were several important points.

- Taxation. Given that the voucher scheme was to come under civil law, social insurance contributions were excluded (these are applicable under labour law). After consultations with the tax inspectorate the group decided against applying personal income tax to voucher 'contracts' as the cost of administering the tax would be more expensive than potential earnings. The only tax applicable to the voucher scheme the health tax – at 9%.
- Occupational accident insurance. This is optional. Agriculture is a sector prone to accidents, but as accident insurance is also dealt with by labour law, it was not included in the voucher

legislation. A proposal to apply mandatory civil liability insurance for employers was turned down to avoid distorting the market and raising insurance prices.

- The list of services. The group agreed that only manual, non-mechanised activities would be included, as accident insurance is not mandatory. Forestry was included in the discussions as it is similar to agriculture in that it is vulnerable to an unpredictable demand for workers due to weather conditions. The Chamber of Agriculture wanted to include more activities, such as those related to rural tourism, but the general consensus was to start with a more narrow list to see whether the new legislation would prompt employers to use the measure as a means of tax evasion.
- Monitoring. This would be done for two years to address fears that the liberalisation of labour relations would lay the ground for tax evasion, exploitation of workers and other forms of abuse.
- Limitations of use. Various limitations (such as duration of employment for one or more employers) were set to prevent the voucher system from replacing contract-based employment. There were discussions on whether to apply sanctions to those who violated the set limitations but, in reality, there is nobody to fine – an employer has no way of knowing whether a specific voucher worker worked for someone before them unless they volunteer this information. Meanwhile, according to the interviewee, most of the voucher workers belong to a social stratum whose members cannot be effectively supervised or fined. No such limits apply to employers. It was decided not to impose such restrictions because it is very hard to identify the demand for labour for different farmers and how to measure it. The extra specifications would also have increased the probability of the regulation failing. As the regulation aimed to improve the conditions for agricultural activities, farmers had to be allowed to hire as many workers as necessary.

The main goal of the act was to create a new institution – a voucher system for repayable services in agriculture and forestry. Its objectives were to:

- allow farmers to hire temporary workers more easily and to minimise their administrative burden;
- reduce undeclared work in agriculture and forestry;
- increase employment;
- enable unqualified workers in rural areas to earn an independent income without losing their rights to social allowances.

Before the act, employment in the agriculture sector was regulated only by the labour code. From the farmer's point of view, especially for small organisations and private people, hiring short-term workers was an expensive and tedious procedure that did not take into account the volatile demand for help in this sector – unpredictable weather patterns make it impossible for farmers to know in advance whether they will need a worker on a given day, and for how many hours. Moreover, if a worker did not show up for a day's work the farmer would have to follow a lengthy procedure of reporting it to the relevant institutions.

Farmers could use urgent horticulture works contracts (*Sodininkystės ir daržininkystės skubių darbų atlikimo rangos sutartis*). The decree for this was issued by the then Minister of Agriculture, but it was never complemented with the necessary amendments to existing legislation and was of questionable legality. However, it was tolerated by the labour inspectorate which, according to informants, did not fine farmers applying these contracts to hire short-term help.

From the workers' perspective, before the voucher act, there was no legal way that they could take short-term low-skilled work while keeping their unemployed status and corresponding benefits. The loss of this unemployed status discouraged some from earning an independent

income. The result was precarious for both employers and workers as ad hoc short-term hiring was often undeclared.

As of May 2014 (the time of this study) the voucher system is regulated by the Act and four additional documents:

- a governmental decree with the list of activities;
- a ministerial decree on the rules of filling in vouchers;
- a ministerial decree on monthly reports to the State Social Insurance Fund Board;
- a ministerial decree on rules of selling voucher books.

Characteristics of the agriculture and forestry service voucher system

Content and working procedures

Aside from limiting potential activities to a prescribed list in two sectors, the voucher system has few restrictions for potential voucher workers and employers. Since the system falls under civil law, all details concerning the individual employment relationship, including working time and rest periods, are up to the employer–voucher worker agreement. Voucher workers can have any employment status and skill level, and are eligible to participate in the scheme as long as they are legally residing in the country. Minors of any age are also eligible if they have the consent of at least one of their parents or guardians. There is no official form for parental consent, but the voucher should specify how many hours the minor should work and on what type of tasks. Employers may be private, public persons or individuals. The exhaustive and very specific list, based on the classification of economic activities and confirmed by a government decree, covers services related to agriculture and forestry (EVRK, Lithuanian classification based on European NACE 2). To give examples, planting seedlings, pruning trees and producing compost fall under the agriculture-related pool of activities, while various activities related to fisheries such as infusing oxygen into frozen lakes to save fish from suffocation and forest maintenance fall under forestry.

The agriculture and forestry services voucher confirms an agreement for service provision between the voucher worker and the employer, and is the basis for cash or bank transfer payments for the voucher worker.

There are no intermediary organisations between the employer and voucher worker. However, there are some institutional actors involved:

- State Social Insurance Board, which collects data on service voucher employment and sells voucher books;
- National Health Insurance Fund, which receives health insurance contributions paid by the employers;
- labour inspectorate, which inspects farmers and collects data on any misuse of the voucher system;
- State Tax inspectorate, which collects income taxes if a voucher worker's income per year exceeds LTL 6,000 (€1,737.69);
- local public employment services (PES) offices, whose role is not regulated, but in many cases they cooperate voluntarily with farmers when recruiting workers.

Farmers who want to employ people under the voucher system can buy a voucher booklet for LTL 5.75 (€1.67) at local branches of the state Social Insurance Board. Each voucher book consists of 50 sets of vouchers marked by unique numbers and detailed instructions for use. A set

comprises two vouchers, one for the employer and one for the voucher worker. According to a separate ministerial decree an employer has to fill out the following information before handing the copy to a voucher worker:

- name and ID or company code of the employer;
- name and ID code of the voucher worker;
- table for calculation of payment: date, code or name of services provided, measure of units, volume or duration of services provided, price per unit and the calculated or agreed payment;
- method and date of payment.

After the period covered by a single voucher is over or if the work is completed beforehand, the employer, before handing the voucher back to the worker, fills in:

- the sum of the total payment and total of days worked using the particular voucher;
- the sum which has to be paid as a health insurance contribution (additional 9% of the total payment paid by the employer).

A single voucher is designed for an uninterrupted maximum six-day working week. If this week is interrupted, for example by a rainy day, or when this working period is over, the employer has to end a voucher and start a new one when work resumes. The employer has to make the payment within an agreed period (which cannot exceed five working days) in cash or by bank transfer. According to a government decree on how to fill in the vouchers, when payment is made in cash both parties have to confirm with their signatures that the payment has been made. The employer makes the payment directly to the voucher worker as, in the rural areas where most of the target employers and employees operate, having an intermediary for payment would be inconvenient.

The voucher covers only health insurance for the voucher workers, and is the only tax payable by the employer, who has until the 15th of the following month to make any outstanding contributions to the national health insurance fund. If, however, a worker's income exceeds LTL 6,000 (€1,737.7) per year (which is not very likely given the strictly limited period of time and nature of work), the voucher worker has to transfer 15% of the margin (for example, if a person earns LTL 8,231 he has to pay LTL (8,231-6,000) x 0.15= 334.65) to the State Tax Inspectorate. Unemployed people registered with the PES, who made up 23% of all those employed through service vouchers from the second to the fourth quarter of 2013, are already covered for health insurance, as are minors; meaning the money returns to the state (see Outcomes). Unemployed people working within the voucher system do not lose their unemployment status and related benefits.

As mentioned in the Backgrounds and objectives section, accident insurance is optional. The act states that employers have a right to take out civil liability insurance but, in practice, 10 months after the introduction of the system, some insurance companies still refused to provide such services. According to a Ministry of Agriculture representative, insurance companies were still not familiar with the voucher system and were being cautious, but this problem is expected to be resolved as more farmers seek insurance.

There are some limits on the use of vouchers relating to how long a worker can use them, mostly to prevent them from being used as regular work contracts. A voucher worker can work a maximum of 60 days per year for one employer and 90 days total per year for multiple employers, irrespective of how many hours per day the voucher worker has worked. After a specific voucher worker completes 60 days of service in a given year the employer has to let them go or transfer them to a regular work contract; otherwise the employment is considered as undeclared. There are no sanctions in the act for exceeding this limit; however general sanctions for undeclared work apply.

The voucher system is centrally administered by the State Social Insurance Board. Before the 15th of every month the employers have to submit a report form about all the individuals who

provided them with agriculture and forestry services. This requires information about the days worked as well as summarised accounts of income and health insurance contributions.

There is no official platform matching employers and voucher workers apart from the seldom used page on the official PES website where employers can post advertisements for voucher work. In practice, however, local PES branches can act as an intermediary between the registered unemployed and employers. Moreover, rural areas are characterised by various 'informal' hubs such as grocery stores, where unemployed people gather to meet any employers who arrive seeking workers for the day.

The Ministry of Labour and Social Affairs is responsible for monitoring the voucher system. This involves compiling information from:

- the State Social Insurance Board (the number of sold voucher books, data from monthly employer reports);
- the Health Insurance Fund under the Ministry of Health which receives the health insurance contributions (data by categories of the insured);
- the labour inspectorate, which monitors potential violations.

The system also monitors the categories of workers: the shares of the unemployed, retired or women on maternity leave. However, the data is not attached to individuals; only aggregated figures are available (see Outcomes section for monitoring results).

The State Social Insurance Fund Board, the Health Insurance Board, the Ministry of Agriculture and the Lithuanian Agricultural Advisory Service disseminate information on the voucher system on their websites; via informational booklets; at trade shows and through social partners such as the Chamber of Agriculture, Farmers Union and Association of Agricultural Companies.

Future plans

Monitoring is expected to last at least until the end of 2014, and its results will inform decisions on further development of the voucher system.

The Ministry of Agriculture is preparing a slight amendment to the pre-approved list of services available under the voucher system to distinguish which activities are appropriate for minors. This became necessary as the ministry mentioned receiving calls from voucher system employers asking if minors could perform some risky and physically challenging tasks, for example chopping wood. As in the civil code, minors will be divided into two brackets: aged under 14 and from 14 to 18 years old. The easiest services from the list will be recommended for the first bracket, while the second will be more lenient and include more challenging tasks. The toughest tasks will be off-limits for minors. Because the system is flexible and all the regulating documents are separate, only the government decree which confirmed the list will have to be amended, although it will require the approval of the Ministry of Social Protection and Labour. Lastly, the interviewed agriculture ministry representative said they see a need to conduct a survey of affected employers and voucher workers to evaluate the voucher system's micro- and macro-level impact.

The list of permitted activities for the voucher system might also be expanded or reduced based on monitoring results. The interviewed representative from the Ministry of Social Protection and Labour, the former MP and head of the parliamentary Rural Affairs Committee said they see great potential for expanding the list to encompass other sectors such as public utilities and household services to provide legal avenues for short-term flexible hiring. On the other hand, another Ministry of Social Protection and Labour representative, who is in charge of monitoring, said that the ministry is unlikely to expand the list as employment through the voucher system does not provide the workers with social benefits. The Agriculture Ministry representatives were also against expansion as the needs of their target group – the farmers – have been met.

Interviewees were also divided on what procedure would need to be followed in order to introduce any changes, with some arguing that it would require a separate act, and others saying that the law is flexible enough, and only its name and a few articles would have to be amended.

The former MP who initiated the legislation in parliament mentioned that there were plans to create an electronic system which would allow farmers to fill in vouchers and monthly reports for the State Social Insurance Board online and via smart devices, even on-site. This would simplify the work of labour inspectors as they would be able to see online whether a particular person was employed at any given moment as a voucher worker. The development of this system could eventually lead to the abandonment of hard copies of service vouchers.

The Chamber of Agriculture is going to continue submitting proposals on the development of the voucher system and mediate between farmers and policymakers.

Outcomes

Macro level

According to the data collected by the State Social Insurance Board (SoDra), some 22,905 people worked through the voucher system between 1 April 2013 (when it came into force) and 31 December 2013. However, as the figure includes cases where the same person worked more than once, the Labour Ministry representative in charge of monitoring estimates that the real figure for people who worked within the voucher system could be around 15,000. Voucher workers comprised pensioners, the unemployed, students, people employed under regular labour contracts and people who were not working anywhere and were thus not covered by health insurance before engaging in the voucher system. The unemployed remained the largest group (23%) of voucher workers during the period in consideration.

According to data provided by the national health insurance fund, the number of men and women engaged in the service provision is nearly equal. During the same nine-month period there were 3,946 employers using the voucher system, 1,432 of them individuals, and 2,514 legal entities. All interviewed stakeholders were very positive about the effects of the voucher system and all of them said that the primary goals for the local labour market, employers and voucher workers were achieved.

As for the labour market and the economy, the new regulation provided an opportunity for the unemployed to earn additional income. Participating in the system also increased employability by means of staying active in the labour force and increasing visibility with potential employers. Voucher work, in some cases, has led to permanent employment – 838 jobs were created, as the people who provided services via the voucher system later got employment contracts with the same employer. Moreover, the employer–voucher worker relationship was legal and declared – a much more preferable arrangement for both workers and employers, and ultimately for the state, which collected LTL 841,000 (€247,570) in health insurance contributions in the first nine months after the system was launched. The interviewed former MP noted that, even though income tax is not collected, the money enters the system anyway, for example as VAT, because this new way of earning money increases the purchasing power of participating workers. Also, by formalising part of the shadow economy the system creates a certain attitude and behaviour shift in society towards more transparency. The aforementioned fears that the voucher system will substitute for regular employment have not materialised. According to the monitoring results for the nine months of 2013, only 414 people (around 1.8% of 22,905) who previously worked under work contracts were employed as voucher workers for the same employer, and 66 people worked for the same employer both under a work contract and as voucher workers.

Another positive side-effect is that, given the monitoring data, it is now easier to estimate labour demand in given months.

Finally, the interviewed former MP reasoned that the regulation benefited the sector that engages in the production of raw materials that are later processed and generate a significant share of GDP. By reducing costs at the bottom, the food production industry might become more competitive.

Overall, the changes were more positive, and these outcomes were achieved without significantly increasing administrative burden for state institutions. On the other hand, given that the voucher scheme is relatively new and monitoring data is available for only the first season, it is difficult to gauge macro-level impacts.

Micro level

For participating farmers – the employers in the voucher scheme – a key outcome is the ability to hire people legally for temporary work, with minimal costs, much reduced tax and administrative burdens and increased flexibility – they can call in a worker to work the same day based on the weather in the morning. The Chamber of Agriculture representative explained that farmers never liked undeclared work and circumventing taxes, but there was no regulation for temporary employment that took into account the unique nature of the sector. All in all, this makes farmers able to better plan food production activities and react to weather patterns and crop cycles, thus saving costs and making them more competitive. Given the above reasons employers are very willing to use the voucher system, and this trend held true for all the interviewees.

The ability to work legally with no risk of a fine is also one of the most important outcomes for the affected workers. The regulation is specifically geared at ensuring the unemployed do not lose their unemployed status and related social benefits. Moreover, their voucher income is not included in the estimates of their total income, which could determine whether a person loses or maintains social allowances. This encourages workers to be open about their earnings. However, the voucher workers do not get any social benefits, severance pay or paid leave of any sort, nor does the time of employment through vouchers count towards a person's work seniority or, ultimately, their pension.

As for workers' work–life balance and the stress caused by being called in on short notice, voucher workers can choose freely when and whether to respond to work offers. However, as evidenced in case study 55 of this project on service vouchers in Lithuania, voucher workers for whom this type of work is the primary source of income tend to want all the shifts they can get (Eurofound, 2015). The types of tasks commissioned under vouchers are typically repetitive menial work that is not likely to be particularly interesting or offer rewards other than money.

Overall, according to the Chamber of Agriculture representative, the situation for workers did not change as much as it did for farmers, the main beneficiaries of the bill. However, the transparent employment relationship was beneficial to the workers. For one, the work atmosphere is improved by the mere fact of not having to hide in fear of being caught. In the same way, it is helpful in the event of accidents at work. While voucher workers are not covered for work-related accidents, they could sue over poor safety precautions at work, which would be unlikely if they were employed illegally. Finally, the labour inspectors have also found their work is now much easier since they no longer have to chase people who were previously employed illegally and who used to flee the work site upon their arrival. The data from labour inspectorate presented to the monitoring institution also indicated only very minor violations.

Strengths and weaknesses

Although it is still early to evaluate the voucher system's strengths and weaknesses, the interviewees see it as having several main strengths.

- Both individual farmers and companies become more competitive as a result of being able to react flexibly to weather and crop cycles with a system that reduces costs and administrative

burden. This is evidenced by how quickly the system expanded; in June 2013 there were 1,222 employers paying their workers by vouchers (Ministry of Social Security and Labour, 2013), but at the end of 2013 there were around 3,946 employers (aggregated). Some of this expansion also corresponds to the crop cycle – as most help is needed at harvest time so naturally the number of vouchers more than tripled during the summer season.

- Workers in the voucher system have the potential to increase their income. Moreover, money made through the voucher system does not affect any other income they may have – such as unemployment benefits; or wages for those working part-time or during vacations in their primary jobs. Voucher workers, moreover, are covered for health insurance. However, as explained in the Future plans section of this report, some groups such as the unemployed, those working elsewhere and school children are covered anyway, meaning that the contributions return to the state.
- Because of its simplicity, the voucher system has not caused a significant additional administrative burden for state institutions, which according to the Ministry of Agriculture was often a problem for other European countries with similar systems.
- The Ministries of Agriculture, Environment and Social Protection and Labour invest in the dissemination of information about the voucher system, meaning there is a wealth of available information, such as on the internet and in the form of informational booklets in PES offices.

While most of the feedback on the voucher system is very positive, the main weakness is the lack of work security for voucher workers.

- They have no work security and no guarantee of work from day to day and thus no notice periods.
- They are not eligible for paid leave of any kind.
- The time worked in the voucher system does not count towards their seniority which, especially for the pensioners, acts as a disincentive.
- The wage levels are at the discretion of the employer and may not even reach minimum wage in some cases, although no data is available on a voucher worker's average daily pay.

Transferability

The Lithuanian voucher system, as a simplified form of short-term employment, has in its short tenure been found to meet its goals and could potentially be transferred to other sectors in Lithuania (although most interviewees for the report were against expansion). Moreover, the system and the idea of regulating simplified employment under civil law could potentially be transferrable to other countries in need of liberalised employment in specific sectors. However, as pointed out by the Chamber of Agriculture representative, two aspects affect the transferability of the voucher system: a specific country's legal base and the national character. The Lithuanian system would not necessarily fit other country contexts, specifically bigger ones with more developed target sectors which would require significantly more oversight. However, examples of other countries applying similar systems for simplified employment may serve to legitimise the idea of introducing service vouchers in agriculture.

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