

**GOVERNMENT RESOLUTION ON
A NATIONAL STRATEGY FOR TACKLING THE SHADOW ECONOMY AND ECONOMIC CRIME FOR 2016–2020**

Government Resolution on a National Strategy for Tackling the Shadow Economy and Economic Crime for 2016–2020

Background

On 18 November 2015, the Ministerial Committee on Economic Policy decided to start the preparation of a new National Strategy for Tackling the Shadow Economy and Economic Crime. It commissioned the steering group for the prevention of economic crime to formulate the Strategy and consider whether its term should exceed the government term.

The new Strategy is a follow-up to the previous action plans to combat the shadow economy and economic crime, the most recent of which ended in 2015. In accordance with the requirements of the Parliamentary Audit Committee, the following points were taken into account in formulating the Strategy: international aspects, the fact that the Strategy must be comprehensive, and the fact that the action to be taken must be consistent and that its progress can be predicted in the long term. The Strategy aims to focus the attention on the international flow of money and goods and on issues related to a mobile workforce.

The goal of the Strategy is to reduce both national and international economic crime and shadow economic activities in Finland. The aim is to prevent and reduce these activities in business as well as the damage they cause to society. The Strategy promotes projects that improve companies' opportunities for healthy competition and that make it easier for them to fulfil their obligations under public law. Special attention is paid to measures preventing the shadow economy and economic crime.

To successfully tackle the shadow economy and economic crime, the authorities must work together and have a shared situation awareness. The private sector also has a key role to play in the prevention. Effective action against the shadow economy and economic crime calls for smooth cooperation between the public and private sectors.

Corruption has been found to be associated with the shadow economy and economic crime. Action to prevent and combat corruption will be enhanced by drawing up an Anti-Corruption Strategy. It will be adopted in 2016 and it will complement the Strategy for Tackling the Shadow Economy and Economic Crime. The Anti-Corruption Strategy aims to clarify and strengthen the structures of anti-corruption action, to increase people's awareness of corruption and change attitudes, to enhance transparency in different sectors and situations, to facilitate the detection of corruption, and to promote research and collection of information on corruption.

Shadow economy and economic crime and on their impacts

The shadow economy and economic crime are harmful to society in many ways. They represent a wide range of activities characterised by failure to comply with different statutory obligations. This reduces government tax revenue and revenue from other statutory payments, such as employment pension contributions. They also distort competition between companies and may result in employees being

subjected to unlawful treatment. Further, they may lead to low tax morale and undermine the credibility of the rule of law in general.

As the shadow economy is mostly a hidden activity, only part of it becomes known to the authorities. Official statistics on the number of cases involving economic crime and shadow economic activities mainly reflect the operational effectiveness of the authorities, but they also provide some indication of the trends in the shadow economy and economic crime. However, thus far, they have not been able to provide comprehensive information about the size of the shadow economy or phenomena associated with it.

As economic crime cases are large and complex, the criminal investigation of the cases as well as the consideration of charges and subsequent trials take a long time. According to a study on the duration of criminal proceedings in economic crime cases published by the Supreme Court in 2007, the average duration was a little less than five years. Statistics by the Police and Customs show that economic crime investigations by the Police and Customs have been completed in 470 and 303 days on average, respectively. According to statistics on consideration of charges, in economic crime cases in 2015, consideration of charges took an average of 160 days. Court statistics show that, in recent years, district court proceedings in economic crime cases have lasted for approximately 250 days.

Traditional shadow economic activities are particularly prevalent in labour-intensive sectors. In these sectors, it is common to use undeclared labour, while unreported income (i.e. sales) is typical of cash-intensive sectors. It has also been found that foreign companies and foreign labour are used. Shadow economic activities also take place in the internal market of the European Union and in other international trade markets. Furthermore, it has been estimated that they play a significant role in investments disguised as international.

The shadow economy and economic crime are tackled through actions by many different authorities, and through cooperation with public authorities in other countries and with the business sector. This includes actions by the Police and Customs to combat economic crime and trace the proceeds of crime; tax supervision by the Finnish Tax Administration and Customs; cooperation between the authorities during criminal and enforcement procedures; actions by the Office of the Bankruptcy Ombudsman; enforcement of occupational safety and health and of the contractor's liability by Regional State Administrative Agencies; monitoring of permits by permit authorities; supervision of compliance with alcohol legislation; and monitoring of employment pension contributions and other social insurance contributions and of public aid.

Focus on prevention and cooperation

The measures to tackle the shadow economy and economic crime comprise preventive and supervisory measures and legislative amendments. The aim is to shift the focus towards prevention by creating new operating models for prevention. For example, more and more actions will be taken in real time. These include improving cooperation between the Occupational Safety and Health Administration, the Tax Administration and the Police, and by having different authorities carry out joint inspection visits in the construction sector. The authorities will also cooperate on construction projects and within a national business security working group.

A number of targeted enforcement projects are being carried out to tackle the shadow economy. For example, enhanced tax inspections in restaurants by the Tax Administration have revealed that the restaurants selected for inspection have concealed income. This project aims to intervene in unhealthy competition and improve the situation of those conducting the business honestly. National and international tax crime is tackled through cooperation, including exchange of information, with the authorities in different countries.

Shadow economy and economic crime are changing

The shadow economy and economic crime are constantly changing in form. In combating them, it is crucial to tackle the harmful phenomena caused by internationalisation. Finnish interests in foreign companies have grown dramatically. Supervision of foreign companies and employees is challenging, for example in terms of exchange of information. This increases the risk of people engaging in shadow economic activities. Supervision is especially problematic because of subcontracting chains that remain hidden behind foreign companies. Challenges are also presented by the international nature of electronic commerce of goods and services and by the use of virtual currencies, tax havens and middlemen. Furthermore, the fact that it is easy to transfer funds abroad beyond the reach of Finnish authorities poses challenges to the enforcement service and to the recovery of the proceeds of crime.

Criminal phenomena may also be interlinked. According to the authorities, up to 50 per cent of the members of identified organised crime groups, or of their family and friends, hold or have held a responsible position in a company based in Finland. Business is also carried on in sectors other than those traditionally vulnerable to organised crime. In addition, there are indications that cyber crime and the financing of terrorism have links with economic crime.

To combat serious crime, it is important for the authorities to obtain information and cooperate effectively. Effective action against the shadow economy and economic crime requires that in the performance of their duties the authorities are able to identify those operating in the shadow economy. The identification and monitoring is easier and more effective when company information is readily available and electronic services are used in the exchange of information between the authorities.

When tackling the shadow economy and economic crime in the future, the authorities must have a shared, evidence-based situation awareness on the shadow economy and related phenomena both in Finland and other countries.

Strategic objectives

The strategic objectives of the action against the shadow economy and economic crime are to

- 1) promote healthy competition between companies**
- 2) prevent the shadow economy and economic crime**
- 3) increase the effectiveness of the action taken by the authorities responsible for tackling the shadow economy and economic crime by improving their cooperation**
- 4) enhance the process of combating crime related to the shadow economy.**

The shadow economy is a significant factor in distorting competition. Reducing its size in Finland will increase not only our competitiveness but also our attractiveness as a good investment destination and a reliable investor. Honest competition between companies will be promoted so that illegally operating businesses do not gain undue competitive advantage in the market. The aim is to ensure corruption-free business and a level playing field for all companies.

Information on how companies meet their obligations is necessary for tackling the shadow economy and economic crime. The openness of information on the fulfilment of statutory business obligations and easy access to this information help companies to select partners that have satisfied the obligations. This increases honest competition and hinders dishonest conduct.

Prevention of the shadow economy and economic crime yields many benefits. Through preventive action, the authorities have already managed to influence the attitudes and decisions of those potentially operating in the shadow economy. It is more cost-effective to prevent crime than to intervene in it afterwards. The resources for combating the shadow economy and economic crime are limited, and criminal investigations and trials are often complex and time consuming. Preventive measures aim to create conditions where honest conduct is perceived to be more attractive than dishonest conduct. This will be done, for example, by encouraging honest businesses and making it easier for them to operate, and by making it more difficult to conduct dishonest business. Prevention also includes promoting transparency of business activities by increasing the risk of detection and by minimising the profit to be made from shadow economic activities. People's attitudes will be influenced through different communication channels.

The shadow economy and economic crime are tackled by many different authorities within their respective sectors. The effectiveness of their actions will be enhanced through a consistent strategy against the shadow economy and economic crime, a shared situation awareness, coordinated cooperation and a more coherent knowledge base.

The effectiveness of the entire process of combating crime related to the shadow economy – from criminal investigation and consideration of charges to subsequent trials and enforcement of sentences – will be enhanced, while ensuring due process. The aim is to create a system where sanctions are imposed quickly and are commensurate with the acts. Increasing the scope of application of administrative sanctions will also improve the effectiveness of the process of combating crime by lessening the pressure to close cases and by reducing overlapping processes.

Key projects under the Strategy

1) Well-functioning markets and healthy competition will be ensured by improving the opportunities for honest business for companies and people, by reducing the administrative burden and by enhancing anti-corruption action

Well-functioning markets and healthy competition will be ensured by using digitalisation to improve the openness and availability of information on the fulfilment of business obligations, where possible. It will also be established whether it should be made easier for private parties to access information on those who are potentially engaged in the shadow economy.

The administrative burden on companies will be reduced by simplifying the notification procedures related to their obligations under public law and by making it possible for information submitted to one authority to be used by other authorities, taking account of the protection of personal data. The effectiveness of the measures directed at companies will be assessed. The objective may be achieved, for example, by implementing the National Income Register and by further developing the use of the service providing information on the fulfilment of business obligations.

Anti-corruption action will be enhanced by paying more attention to the legality and transparency of public procurement procedures in municipalities, in particular, and by improving the effectiveness of the supervision of public procurement. It is also essential to enhance the protection of those reporting suspected corruption. Cooperation between the authorities will be further developed.

2) The authorities will intervene in phenomena associated with the shadow economy and economic crime proactively and take action to influence people's attitudes

The authorities will create a joint situation awareness function to combat the shadow economy and economic crime. Information from the private sector, for example from the national business security working group, will be used for maintaining situation awareness. The aim is to produce information for decision making, observe phenomena associated with the shadow economy and further develop the authorities' actions.

Intervention in phenomena related to the shadow economy will be promoted by improving cooperation between the authorities. Resources will be allocated for enforcement projects that proactively intervene in especially harmful phenomena, for example.

International cooperation will be promoted. In cases with international connections, supervision will be enhanced by means of both legislation and action by the supervisory authorities. Special attention will be paid to tackling the illegal phenomena caused by tax havens.

The authorities and social partners will together effectively provide information about the shadow economy and economic crime. The information will be communicated using multiple communication channels to reach different target groups.

3) Exchange of information between the authorities will be improved

The conditions for tackling the shadow economy will be improved by identifying the barriers to the exchange of information between the authorities, by further developing information exchange practices, and by making it possible for the authorities to also use the information for the purpose of analysis to identify those engaged in the shadow economy. Legislative measures will be taken, where necessary. The authorities will also assess the need to improve access to information for those granting public aid and carrying out public procurement and for the Occupational Safety and Health Administration, for example. In addition, digitalisation will be used to improve the availability of information.

4) The effectiveness of the process of combating crime related to the shadow economy will be enhanced and administrative sanctions further developed

The authorities will work together to establish whether it is possible to reduce the total time spent on criminal investigation and consideration of charges. The responsible authorities will launch a joint project to identify the key factors affecting the duration of criminal investigation and consideration of charges and to reduce the impact of these factors by improving working methods and the practical application of law. A study will be conducted to assess the need for any legislative amendments.

Possibilities to reduce the duration of the criminal procedure within the Programme for the Reform of the Administration of Justice will be established.

It will also be established on a cross-administrative basis whether it is possible to extend the scope of application of administrative sanctions as part of the Administration of Justice Reform Programme.

The tracing, safeguarding and confiscation of the proceeds of crime will be enhanced both nationally and internationally by further developing cooperation between the authorities, the flow of information and working methods throughout the procedure from the criminal investigation stage to the enforcement of sentences. Any problems encountered with confiscation will be identified. It will be established whether it is possible to prevent situations where the proceeds of crime actually remain in the possession of the offender or in the hands of family and friends.

The scale of punishments for economic offences will be reviewed following the completion of a study on a sense of justice to be conducted in accordance with the Government Programme.

Implementation costs of the Strategy

The authorities must have sufficient resources for tackling the shadow economy and economic crime.

The resource need will be assessed in connection with preparing the Action Plan. The implementation costs of the projects will also be assessed. The implementation of the Strategy and its measures might require reallocation of the available resources. Decisions on the resources will be made as part of the decision-making process on central government spending limits and the Budget.

Term of the Strategy

The Strategy for Tackling the Shadow Economy and Economic Crime is for a fixed term until 31 December 2020.

The term, which exceeds the government term, is longer than that of the previous action plans. This will ensure the continuity of the Strategy, the implementation of the projects under it and adequate assessment of the impacts of these projects.

Updating the Strategy and monitoring its implementation

To implement the Strategy, the steering group for the prevention of economic crime must draw up a separate Action Plan against the Shadow Economy and Economic Crime. This Action Plan must set out concrete actions and their goals, the responsible parties, a timetable for the actions, and means for assessing their impacts.

The steering group for the prevention of economic crime will monitor the progress made in the implementation of the Strategy and the Action Plan and assess the need for amending them. It will report on the progress of the projects to the Ministerial Committee on Economic Policy annually.

The Strategy and the Action Plan may be updated in connection with the monitoring of their implementation, and as required by any decisions made by the Government.

The steering group for the prevention of economic crime will submit any proposals for amending the Strategy to the Ministerial Committee on Economic Policy. The need for amending the Strategy will be assessed, for example, on the basis of situation awareness concerning the shadow economy and economic crime.

Indicators for the Strategy

Indicators necessary for monitoring the implementation of the Strategy include the assessment of the impacts of

- the phenomena associated with the shadow economy
- the legislative amendments
- the operational effectiveness of the authorities.

The assessment will be made, for example, by using the joint situation awareness function to be created under the Strategy and by conducting studies on different phenomena and surveys directed at businesses and public authorities.