Same storm – different boats
The impact of COVID-19 on Europe’s shadow economy
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Introduction

As the COVID-19 crisis struck Europe in early 2020, so too did the implications of the Great Lockdown. Despite the stark outlook, though, many felt secure in the knowledge that they could rely on their governments, employers and the service providers around them to ensure a semblance of normality. Furlough schemes allowed many businesses to avoid lay-offs and continue paying their employees. Social safety nets ensured access to healthcare. And many could sit comfortably in their homes, confident that their groceries or restaurant orders would be delivered contact-free.

“We’re all in the same boat,” was a common refrain in the early stages of the pandemic – meant to engender a sense of solidarity. The virus did not care whether you were a politician or a plumber, a farmer or a pharmacist.

As data was collected, however, it became clear that a large share of Europe’s population could not count on receiving the same degree of support. Some groups were suffering more than others.

A more accurate analogy began to emerge – that we were all in the same storm, but certainly not in the same boat.

The last months have shown the vital role played by migrants working on the frontlines of the crisis – for example in the healthcare, agricultural and sanitation sectors – but what about those engaged in the informal economy? What vulnerabilities have they disproportionately faced during the pandemic, and what must be done to ensure that they are also recipients of protection?

Migrant workers, particularly undocumented migrants, are overrepresented in sectors such as deliveries and hospitality, two sectors which in different ways have been heavily affected by the pandemic and lockdown policies. Demand for deliveries, particularly of groceries, but other non-food retail products also, skyrocketed during the first wave in Europe, as non-essential shops were closed, and people shielding from the virus were forced to buy groceries online. Whilst a surge in demand could be seen as a benefit for delivery workers, many drivers are outsourced to third parties, where they are classed as self-employed, meaning in many cases workers who would have otherwise been shielding had no choice but to continue to work despite the risks.

The hospitality sector became arguably the biggest political football as we entered the second wave of the pandemic across Europe, and the focus of many anti-lockdown protests. Although some cafes and restaurants were able to remain open by offering takeaway and delivery services, bars were amongst the first businesses to close. These establishments often rely on informal labour, meaning staff were unable to access furlough schemes, and workers were forced to choose between their health and their livelihoods.

Europe’s reliance on migrant labour is nothing new. Migrants have been living and working in the European Union since before there was a European Union. Migrant workers have built so much of the Europe we know today, often literally, and they have built communities and lives alongside. From fish and chips to doner kebabs, from Matongé to Maryhill, Europe would not be Europe without migration – and European institutions are slowly but surely waking up to this reality. In a recent Friends of Europe debate, European Commissioner for Home Affairs Ylva Johansson was unequivocal
in her rhetoric: “Migration will always be there, and we need migration.” Unfortunately, rhetoric too often comes easier than policy.

This publication will explore the ways in which underrepresented groups – often those of migrant background – have come to prop up cities through the so-called ‘shadow economy’ of informal work. It will look in particular at the impact of the COVID-19 crisis, outline case studies of government actions to recognise and respond to inequalities, and set out recommendations for better acknowledging and dealing with the significant work done ‘off the books’ in Europe.

The ‘shadow economy’

There is no single definition – nor a single terminology – for what constitutes the so-called ‘shadow economy’. Other ways of describing this sort of activity include underground, non-observed, hidden, cash and informal. In their 2017 report “Shining light on the shadow economy: opportunities and threats”, the OECD offers the following definition: “Economic activities, whether legal or illegal, which are required by law to be fully reported to the tax administration but which are not reported and which therefore go untaxed unlike activities which are so reported.”

Activities taking place within the scope of the shadow economy can include everything from unregistered staff working in restaurants to money laundering and trafficking. Across the world this informal sector contributes a significant amount to states’ GDPs. For the purposes of this publication, we will define the shadow economy in relation to economic activities that are not illegal in and of themselves, but which go unreported and as such are not formalised – rather than activities classed as criminal. As such, activities such as drug dealing and trafficking in stolen goods are not included in our definition. Moreover, since this paper examines the impact of the COVID-19 crisis on workers in informal sectors of the economy, activities that straddle the line between the shadow and illicit economies, such as corporate tax evasion, are not discussed.

According to the International Labour Organization, over two billion people globally earn their living in the informal sector – more than 60% of the total working worldwide – with women disproportionately represented. Despite informal work being associated predominantly with lower-income countries, the shadow economy has a significant presence in middle- and higher-income countries, taking up around 15-20% of the European GDP and often even larger shares of individual member states’ labour markets.

But what makes working in Europe’s shadow economy attractive? And why not just work ‘on the books’?

For individuals, the answers are varied. Sometimes positions ‘on the books’ come with visa requirements that migrant workers are unable to meet, and other times people may simply forget to report the income earned from helping out a friend on a job. One thing is clear, though: there remains consistent demand for goods and services supplied informally. In 2013, each European citizen spent on average 200 EUR on goods and services produced through informal channels.
However, when looking at the informal economy more broadly, structural patterns in Europe’s economy as a whole come to light. As the European Union has moved to liberalise work over the past four decades, national labour markets (and labour policymakers) – many of which are characterised by strong social protections, labour laws and trade union presence – are unable to adapt to the new types of employment found in modern economies, many of which then fall into the informal economy.

Gig economy jobs are a prime example of this precarity leading to informality. Lauded by employers as an instrument for accessing more flexible labour, the modern gig economy relies on technology to connect potential workers with work opportunities, such as delivery drivers for restaurants. The benefits seem obvious – restaurant owners have a large pool of labour available to them, and drivers have wider opportunities for work beyond single restaurants. However, this flexibility comes at a price – despite relying on the courier platform for their wage, workers are classed as self-employed, meaning neither the restaurant, nor the platform, are contributing to ‘employee’ welfare. Whilst this leads to savings for businesses, it’s a system rife with exploitation.

In a profit-driven economy, the overarching challenge for business owners is the tendency of the profit rate to fall. In order to lessen this, businesses may attempt to cut costs, especially in labour, often through outsourcing. In the case of delivery drivers, the presence of the gig economy provides a cheaper alternative to individual restaurants employing their own delivery drivers. But, as competition intensifies, so does the need to cut costs. To circumvent minimum wage laws, informal labour – particularly from migrant workers (regular or otherwise) lacking access to public funds and who may not be aware of labour laws in their new country – becomes more attractive.

Delivery drivers and the gig economy are newer examples, but the trend of subcontracting work, increasing precarity at each stage, is longstanding in Europe. In construction, both public and private sector projects are frequently subcontracted to workers with lower bargaining power – and these workers are often of migrant background.

It is important to state that informal work in Europe and globally, is neither driven nor carried out exclusively by migrant workers, documented or otherwise. Informal economic activities can even fall within the formal sector – a ‘cash in hand’ shift done by a contracted worker at the bar they work at and they go far beyond the scope of what can be classed as the gig economy.

But what remains largely the case is that in Europe those working in the informal sector come significantly from groups underrepresented in policymaking circles, and at risk of exploitation.

**The same storm**

In the winter of 2019, COVID-19 felt like a foreign problem for Europe. The rest is history. As people across the continent prepared to welcome a new decade, China was informing the World Health Organization (WHO) that the novel coronavirus had pandemic potential. Italy went into lockdown first, and the rest of Europe, to greater or lesser degrees, followed suit. People clapped for the healthcare workers fighting the virus, and for workers across the economy that kept supermarket shelves stocked and delivery systems running. Those who were able to do so worked remotely, and many others were protected by robust welfare states.
But for many in the informal economy, lockdown meant facing a stark choice: run the risk of catching the virus or lose their only source of income. Support programmes such as furlough schemes and temporary unemployment were not accessible for workers who, according to ‘the books’, did not exist.

In Greece, self-employed workers were given 800 EUR per month, providing they paid taxes – but “all others who work in the gig economy but are completely off radar, meaning they do not report any income to the tax authorities, [were] not eligible for this support”10. In countries with insurance-based healthcare, working for an employer that does not pay into such plans meant workers had to take the risk, knowing they had no access to healthcare.

For undocumented migrants, the ramifications of lockdown were even more severe. In countries like France and Spain, where permits were required when leaving the house during the first lockdown, those without a registered address could be stopped by the police and fined for such mundane activities as buying food11. Before the pandemic, fear of immigration authorities prevented many migrants without papers from accessing healthcare services to which they were entitled – COVID-19 brought this threat to the supermarket.

The impact of lockdown did not stop at migrant workers. Remittances to low- and medium-income countries (LMICs) are predicted to drop by 14% from 2019 levels by the end of 202112, according to the World Bank. Although remittance flows are typically resilient in the face of shocks to host-country economies13, the global nature of COVID-19’s economic hit has caused currencies in remittance-source countries to depreciate. Allied to this, the number of international migrants is predicted to decline as a result of tighter immigration policies worldwide and pandemic-induced return migration14. This decline is a potential disaster for LMICs looking to increase healthcare spending, particularly as remittance-source countries may cut foreign aid in governments’ efforts to reduce deficits.

As with any crisis, the impact is never gender-neutral. The majority of international migrants are men, and in Africa and especially Asia, the disparity is striking15. While men and women send broadly similar amounts of remittances, men tend to remit to their wives, whereas women send money to the person taking care of their child, usually also a woman, and in general assume greater responsibility for remittances to extended family16. For female migrant workers without recourse to work or to public funds, the effects of the pandemic are felt even more keenly in the sending country.

**Solidarity forever, solidarity for - us?**

The European Union response to the COVID-19 crisis was dubbed ‘European Solidarity in Action’17. Despite being slightly slow to get going, the EU made a concerted effort to live up to the grandeur of the title. The European Commission Emergency Support Instrument delivered masks to healthcare workers across the bloc and in the neighbourhood, including to the United Kingdom, North Macedonia, and Montenegro. Member states also coordinated to bring over 82,000 European citizens home, financed in part by the EU Civil Protection Measure18.
For those without the luxury of a European passport, however, solidarity was somewhat less forthcoming. The European Union supplied 350 million EUR to Greece, to provide food and non-food emergency items to refugees in camps. But emergency items don’t solve housing crises. This crisis was exacerbated by the fire on 9 September which left 11,000 asylum-seekers without adequate shelter – hundreds of which have since tested positive for COVID-19.

When it came to the economy, the majority of decisions were left in the hands of member states. The cases of the UK, France and Portugal present three very different approaches to the informal economy and the effects of the pandemic.

The United Kingdom

The United Kingdom has long had a complicated relationship with immigration. Since before the HMT Empire Windrush first docked on British shores in 1948, bringing one of the first groups of (British) migrants from the West Indies, immigration has been a dominant talking point of British media, culture, politics, and wider society – especially their role in Britain’s workforce.

Britain’s informal economy is no exception to this, and much of the more recent anti-immigration narrative has focused on linking migrants with informal work – construction workers from Eastern Europe, hospitality staff from South Asia, and now delivery drivers from Africa and West Asia. The gig economy in Britain has grown rapidly, employing as many as 1 in 7 adults in 2019.

However, this boom in gig work has come with increased precarity – in 2018 Deliveroo riders lost a high court battle over the right to collective bargaining – in effect to be considered as employees – since drivers have the right to ‘outsource’ deliveries to substitutes. In practice, this means such companies often rely on people desperate for work to fulfil certain deliveries, and these are frequently those without papers or the legal right to work in the UK.

Profiting from the informal economy has not stopped many companies from working with the Home Office nonetheless, as they attempt to clamp down on those who work in it. Byron Burger, UberEats, and Deliveroo have cooperated to organise immigration raids on their own premises, citing the 2016 Immigration Act and desire to avoid government sanctions.

For many informal workers in the UK, COVID-19 saw their livelihoods grind to a halt. Construction work in particular took a hit, and workers were forced to look elsewhere for income. For many workers of migrant background, the pandemic had the extra impact of delaying visa processes. Around 400 migrants classed as ‘skilled’ on the now phased-out Tier 1 visa who were in the process of applying for indefinite leave to remain in the UK found their applications stalled or rejected due to Clause 3.2.2(5) – usually used in relation to counterterrorism, and used here to reference minor (since resolved) tax discrepancies.

In an interview with Katharine Thane of the Migrants’ Rights Network NGO, she outlined how many of these migrants, several of whom have lives and families in the UK, are pushed towards destitution due to lack of access to public funds and the right to work. Some are forced to work ‘off the books’, but many fear that this could
impact their right to remain in the UK as they continuously reapply for visas every 30 months. This fear takes precedence over the health risks of informal work, which tends to involve more contact (and less worker protection), and the increased dangers of COVID to Black, Asian, and Minority Ethnic people in Britain.  

The onslaught of hostile immigration policies is evidence of the structural racism in Britain, according to Katharine, and has led to many migrants not knowing or trusting in their fundamental rights. Crucially, this includes the right to free healthcare in the UK – immigration checks are not carried out for COVID-19 tests or treatment.

**Portugal**

What’s a country to do when a pandemic puts a stop to the economy and threatens the health of its citizens – but where there is still a need for parts of the population to put themselves at risk and continue working due to their immigration status? In the case of Portugal, the answer was seemingly simple – naturalise them (at least for the time being).

The scale of the initiative was impressive. As of November 2020, Portugal’s Minister of Home Affairs Eduardo Cabrita noted that since the advent of the coronavirus pandemic, 246,000 foreign citizens had been regularised in Portugal – around 2% of the country’s total population. The regularisation process allowed foreign nationals to access not only healthcare in the wake of the pandemic, but also social security – critical for those who would otherwise be forced to work informally and break lockdown restrictions.

The move by the Portuguese government is not unprecedented in the European Union. Over the past 25 years, different European states have implemented nearly 70 regularisation schemes targeting over six million migrants. Studies have indicated that such policies positively affect both the labour market and the living standards of newly regularised migrants, who are protected by national minimum wage and collective bargaining laws and as a result are also more economically productive. Moreover, the entrance to the formal economy has a positive effect on the tax base.

The policy has its limitations – the regularisation process excludes around 100,000 migrant workers, many of whom fall into the ‘invisible’ category of informal work and are most vulnerable to exploitation – which will worsen as they are further otherised through this exclusion. Furthermore, the lack of clarity over the permanence of the move has led to criticism from experts that the policy, whilst welcome, does not go far enough, and will not address the underlying structural issues in Portugal’s approach to migration.

One thing is undeniable, however, and that is the role that creating a consistently positive narrative around immigration has played in influencing the Portuguese government in pushing through this policy. In 2018, 77% of Portuguese citizens had a positive perception of immigrant citizens’ integration, compared to a European average of 54% – a decision that elsewhere would require significant political courage was in fact politically advantageous in Portugal.
France

The French Council for Employment identified 2.5 million people working ‘off the books’ in its latest 2019 census. In the past, measures have been implemented for exceptional regularisation for informal work, notably through the ‘exceptional grants’ of residence or working permits. The ‘circulaire Valls’ of 2012 has allowed for workers to be granted the appropriate residence and work permit, upon various strict conditions of proven informal employment. This measure has offered an opportunity for employees with a proven track record of employment – even informal – to seek a residence or work permit.

In 2018, this measure allowed over 33,000 migrants to access a residence and work permit. The success of such an initiative relies on the goodwill of employers who must provide payslips and can be liable to retrospectively cover the corresponding social security contributions.

As this immigration status requires a minimum of consecutive payslips, it pushes migrants to seek informal employment not only for subsistence, but also in an attempt to gain regularisation. French laws similarly push asylum-seekers to the informal economy as they only gain the right to work after a minimum duration of 9 months on the territory.

In November 2018, growing dissent in migrant communities and wider society in France led to the creation of the Gilets Noirs, following the concept of the Gilets Jaunes movements. The Gilets Noirs demonstrations aimed to both bring to light the hidden (or more often ignored) plight of both documented and undocumented migrants, and to demand measures addressing their vulnerability and exploitation.

In a most recent example, a worker was taken to a detention centre upon his denunciation and repatriated to Dakar after his employer’s refusal to recognise or regularise him. Gilets Noirs took to social media to pressure the employer to eventually support the deported employee and other of his informal employees’ regularisation applications.

The COVID-19 pandemic only worsened the already precarious living conditions of many. France introduced partial unemployment measures after the first COVID-19 wave, to support non-essential workers with conditional financial assistance. This, however, relies on employers’ due diligence and prevents undeclared workers from accessing any support.

While civil society organised to support vulnerable groups, the precarity of the living situation of migrants in particular – who relied on their informal employment – was heightened. In April 2020, the Gilets Noirs published an op-ed in which they highlighted their growing vulnerability as confinement barred them from accessing social safety nets when their informal employment was terminated.

In an op-ed in French newspaper L’Humanité, the Gilets Noirs stated: “We want papers. But we don’t want a regularisation process like the one in Portugal, for a few months, only for those who have submitted a register application, those who do not have a criminal record or are not threatened with deportation. We don’t want a regularisation process like the one in Italy, offering our bodies so European countries can profit off our backs. ‘Work for papers’ is a slave master blackmail technique.”

The Gilets Noirs’ struggle has been supported by unions, allied organisations, politicians and public personalities through demonstrations, fundraising and militant op-eds. The informal workers’ strike of February 2020 is an example of how unionisation and collective action has been key to pressuring administration and corporate decision-makers; but also how public opinions are shifting – albeit slowly – and considering the extremely precarious situation of black market migrant workers and their fundamental rights to protection and decent conditions, regardless of their origin and immigration status.

Recommendations

1. Everyone can do their part:

Civil society organisations can do much more to work with migrants in the informal sector, particularly undocumented migrants, around rights-based training. However, the onus is on wider civil society, including trade unions, caseworkers, and NGOs, to understand how to leverage these rights, and to stand in solidarity with the migrants in the informal sector who have been denied their basic human dignity. The Know Your Rights guide created by the Migrants Rights Network is a good base for many frontline organisations in the UK, but as the appeal continues for the Stansted 15, organisations can look to the victories won by ordinary people – some citizens and some, like the Gilets Noirs, famously not.

2. Follow the local lead:

A statement on 23 July 2020 by the Mayors’ Migration Council asked that “decision-makers at the national and international level join [them] and take the following actions:

a. Ensure safe, equitable access to services regardless of migration status, including healthcare and economic relief.

b. Empower migrants and refugees to be part of the solution to COVID-19, including through the regularisation of immigrant essential workers.

c. Combat misinformation, racism, and xenophobia to strengthen community solidarity in all COVID-19 response and recovery efforts.”

Whilst the Portuguese government has gone beyond this call to action, many other governments at local and national level are lagging behind these targets. Local authorities, particularly in cities, have a public that is much more pro-migration than national averages, and cities are where large parts of the informal economy operate. Local governments also have greater freedom to work with civil society organisations, trade unions, and other NGOs to provide support for migrants put at risk by the impact of the pandemic on the informal economy.

3. Change the narrative:

Policymaking is much easier when decisions are popular. Combatting the rise of racism and Far Right movements in Europe grows more difficult the longer they are left unchallenged. Local-level solidarity can do wonders for changing narratives in communities, but media organisations have a significant role to play
in undoing the damage of the past decade. Not providing mainstream platforms for racist views in the name of debate would be one concrete step in the right direction, but wider public education campaigns will likely be necessary given the levels of racism and wider anti-migrant sentiment in many EU member states. Whilst the high representation of migrant workers in healthcare has seen some improvement in attitudes towards migration, migrants across Europe still face a frequently overtly hostile media and are the first in line when governments look for groups to blame in times of economic crisis.

4. **Show European solidarity:**

Coherent European policymaking around both migration and informal labour has been hard to come by, and many attitudes in the institutions have reflected those of member states – European Commission Vice-President Margaritis Schinas’ initial brief of ‘Protecting our European Way of Life’ did not come out of the blue. One of the difficulties with creating a coherent policy for informal work is the varieties of labour and migration policies across member states – but the EU could work to create a baseline standard. Taking the case of California as an example of what not to do, the EU could mandate that gig economy workers be recognised as such – not as self-employed. An attitude that protects workers naturally protects migrants too, and as Europe’s population ages, the EU will have even more need of both – perhaps policies that prioritise human dignity could be a start.

5. **Structural problems require structural solutions:**

As was the main critique of the Portuguese government, temporary policies that lack universal access do not facilitate structural change. One of the drivers of informal work in Europe is a combination of worker desperation, due to lack of recourse to public funds and lack of access to the formal labour market, combined with employer exploitation.

In the immediate term, the EU could follow the example of some of its member states and pilot a work permit scheme for both undocumented migrants and those with pending visa applications, allowing access both to the formal labour market and public funds, trialling it in 3-5 willing member states initially and feeding back the impact over a three year period. This would give some bargaining power back to migrant workers, and prevent exploitation from employers using worker desperation to undercut local workforces – a tactic that causes division between local and migrant workers who could be working towards a common cause.

The COVID-19 crisis has shown that current systems are not only undignified, they are unworkable – and there’s never been a better moment to implement structural change than when we’re trying to ‘build forward better’. Ultimately, this will require more than policymaking. A rebalancing of power between capital and labour, underpinned by the principle that ‘no person is illegal’, is the only way to create lasting solutions. The UN claims that labour rights are human rights – it’s time Europe got the message.
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