



The Hidden Economy in Bulgaria

(THE BUSINESS SECTOR)

April 2004

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SURVEY METHODOLOGY

Sample

The survey of the business sector conducted in the month of April 2004 covered 478 companies from across the country.

Survey Method

The survey employed the method of the face-to-face interview.

Fieldwork

Fieldwork took place in the period March 30 –April 20, 2004.

MAIN GOALS

- The principal goal of the research is to conduct *systematic monitoring of the size and dynamics of the hidden economy in Bulgaria* (HEM).
- The project involves a series of representative surveys of the *country's adult population* and of the *business sector* on a quarterly basis. This makes it possible not only to watch the dynamics of the problem, but also to collect viable information about the differences in the attitudes of the *general population* and the *business community* to the manifestations and reasons for the spread of the hidden economy in this country.
- The outputs of the *Hidden Economy Monitoring* (HEM) include:
 - ✓ *Annual Assessment Report on the Hidden Economy in Bulgaria*. It presents the summarized findings of the surveys conducted throughout the year and shows the evolution of the problem and any changes in the gray sector of the economy.
 - ✓ *An index system to monitor the size and dynamics of the hidden economy*. A system of synthetic indicators has been designed to cover different aspects of the hidden economy and to monitor the dynamics and changes in its size and characteristics.

HIDDEN ECONOMY INDEXES

- The hidden economy indexes are the basic output of the *Monitoring of the Size and Dynamics of the Hidden Economy in Bulgaria*, which Vitosha Research Agency has been conducting since 2002. The index values are updated quarterly.
- The hidden economy indexes assume values from 0 to 10.
- The closer the value of the indexes is to 10, the more negative the assessments of the size and manifestations of the hidden economy in this country.
- Index values closer to 0 indicate low level of hidden economy.
- The hidden economy indexes are grouped within the following categories:
 - I. Perceived scope of the hidden economy;*
 - II. Specific manifestations of the hidden economy:*
 - 1. Labor relations;*
 - 2. Concealed turnover;*
 - 3. Redistribution.*
- The hidden economy index values are presented in Appendix 1.

I. MAIN OBSERVATIONS

- ✓ The fourth consecutive survey of the size and forms of the hidden economy in Bulgaria conducted in April 2004 indicates a certain setback from the previously registered progress in restricting the hidden economy. The values of almost all of the indicators measuring its various forms mark a more or less significant increase from the previous survey.
 - ✓ The data point to a certain abatement of the impact of the adopted government measures. In order to stabilize the achievements to date and make further progress it is necessary to take into account the underlying reasons for the occurrence of one practice or another in the gray sector. Simply imposing forcible measures without regard for the specific nature of the problem might lead to the mere shift from one form of hidden activity to another. This is evidenced by the increasing share of the companies practicing *non-issuing of tax receipts* and *fraudulent VAT-refund schemes*.
 - ✓ The administrative pressure on business aimed at bringing the economy “into the light” has a rather negative side effect. The differences in the behavior patterns among different-sizes companies are deepening and the dividing line does not simply run between small and large companies, but rather, ***between the biggest companies and the rest***. While the large and the largest companies manage to cope with the tougher administrative requirements and control, the remaining ones are faced with the choice of either going out of business or continuing with high-risk operation “on the edge of the law”. There is a real danger for this high-risk situation for the small companies to have a direct adverse impact on their employees, as well as the rate of unemployment in this country. Under the present conditions for business in this country, the expenditures companies incur in order to meet all the official requirements considerably exceed the cost of evading them.
- ✓ Despite the slight increase in the level of satisfaction with *government policy and the legal framework regulating their activity*, as a rule, the business community is still not sought as a partner in the elaboration of new regulations. This creates a sense of continuing confrontation between the state and business. Too little use is still made of the opportunities for public advocacy and open lobbying for particular business agendas. Any lasting curbing of the gray sector can only be expected once the state assumes the role of an equal partner to the business community and starts developing its strategies in cooperation with it.
 - ✓ Overall, the share of the hidden economy in this country is still too high. After the shift in the estimates towards lower levels registered by the previous survey, in April 2004 there appeared to be a reversion to the situation of one year earlier. The share of the hidden economy is most commonly estimated to range between 26 and 50%. These opinions are strongly influenced by the level of respondents’ association with the area assessed. For example, the answers that ***“there is no hidden economy” tend to increase drastically – from 1.2% for the country in general, through 7.3% for the sector, and as much as 75.5% for the respondent’s company.***
 - ✓ The measures to combat the phenomenon cited by the business community, and which in turn provide information as to the reasons for its proliferation maintain their ranking of early 2003. This, too, points to the absence of notable changes in the business environment in the period under review. Still highlighted among the chief reasons for the “grayness” of Bulgarian business at all levels are *corruption* and the *insufficiently strict border, customs, and tax control*.

II. CHIEF PUBLIC CONCERNS AND OBSTACLES TO BUSINESS DEVELOPMENT

I. THE MOST CRITICAL PROBLEMS OF THE COUNTRY

Throughout the period covered by the monitoring, from late 2002 to April 2004, *corruption* has inevitably been singled out by the business community as the top problem of country. Compared to November 2003, it has even gained in relative importance.

The unfavorable conditions for business operation in this country tend to lose some of their urgency as a problem and give way to the population's low standard of living.

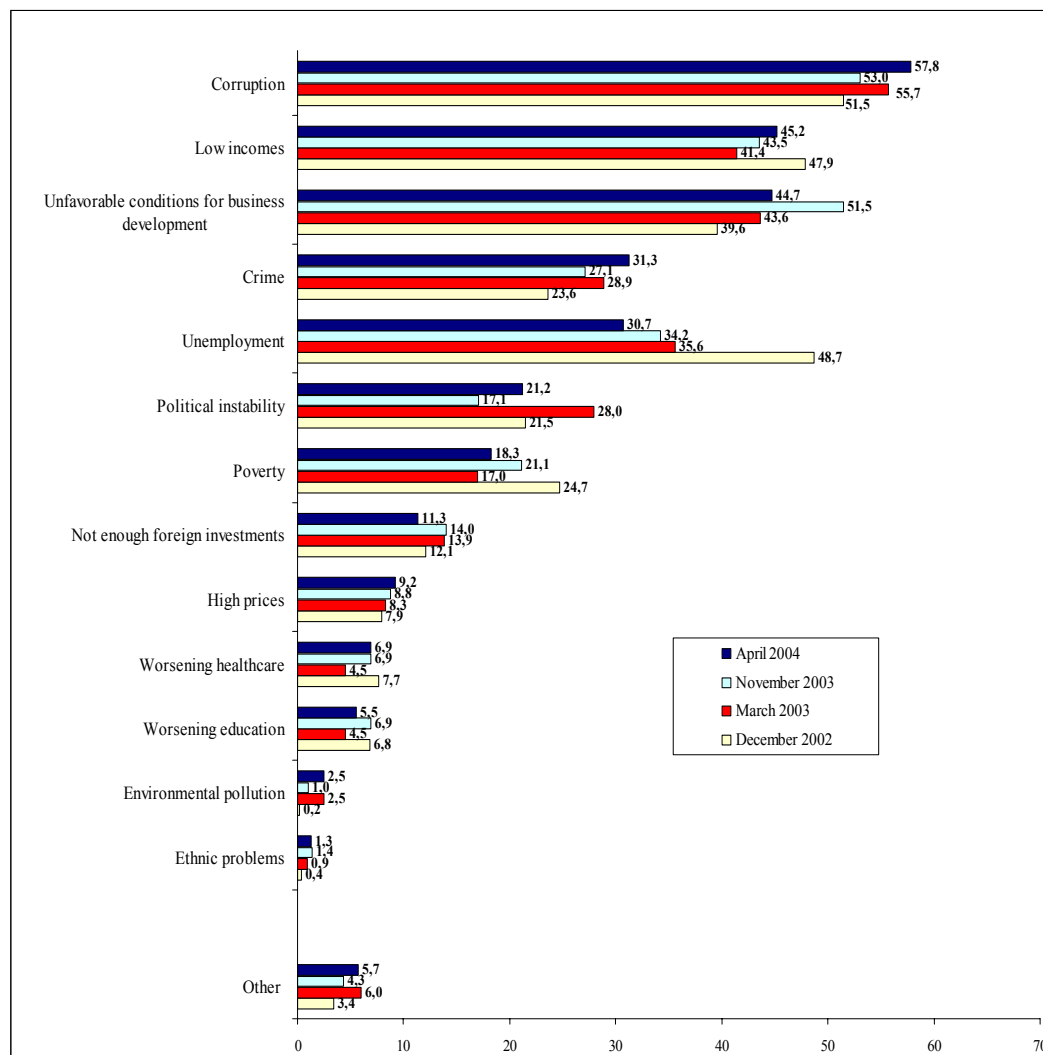
In the period under review, *unemployment* and *poverty* have declined steadily in importance. Conversely, the relative weight of *crime* has been growing (Figure 1).

The perceived importance of the various problems is affected to a considerable extent by company size. To the small and medium-sized companies (employed staff up to 50), the most urgent problems are still the *unfavorable conditions for business operation* and the social problems, such as *low incomes, poverty, unemployment*. (Appendix 2, Table 2)

Unlike them, the companies employing more than 50 people are more concerned about the evolution of the *macroeconomic situation in the country, the presence of foreign investments, and political stability*.

Irrespective of their size, however, all of the companies surveyed are unanimous that corruption is the biggest problem faced by the country.

FIGURE 1 THE MAIN PROBLEMS FACED BY THE COUNTRY (%)



Base: All respondents (DEC'02: N=530, MAR'03: N=447; NOV'03: N=421; APR'04: N=476)

2. OBSTACLES TO BUSINESS ACTIVITY AND DEVELOPMENT

As with the problems affecting the activity of the companies themselves, the ranking of the chief obstacles remains the same.

Unfair competition is still defined as the most serious obstacle to business development in this country (Table 1).

It is followed by the *tax rates* and *crime*, whose values mark a slight drop.

Compared to 2003, the main dividing line does not appear among the various types of obstacles faced, but rather, between the different-sized companies. Nearly all of the problems appear to have a significantly lower relative weight among the companies with 50 and more employees and especially among those employing more than 100 people. ***Overall, small and medium-sized companies are experiencing far greater difficulties both in starting and in running their business.***

Different-sized companies tend to single out different types of obstacles. To the smallest companies with staff under 10, the biggest problem is posed by the *rules and procedures for starting a company*. To medium-sized companies (up to 50 employees), it is the *operation of the central administration*. Among the companies employing 51 to 100 people, the main problem is *corruption among business counterparts*, and to those employing more than 100 people, *staff recruitment and dismissal procedures*. (Appendix 2, Table 5).

TABLE 1 *OBSTACLES TO BUSINESS OPERATION*

Major problem	December 2002	March 2003	November 2003	April 2004
Unfair/illegal competition	57,4	52,6	52,3	47,1
Tax rates*	32,5	41,8	49,2	43,7
Crime	52,5	45,2	43,2	39,7
License- and permit-issuing procedures	41,1	40,7	41,6	38,9
Access to financing of business operations **	49,6	39,6	40,6	34,3
Corruption among administrative officials	39,6	38,5	39,0	33,7
The macroeconomic situation in this country	39,8	40,0	37,1	30,1
Rules and procedures for the acquisition of real estate property and construction of buildings	19,8	28,9	28,3	23,8
Corruption among business counterparts	25,5	22,6	23,5	21,3
Inspections/checks by various control authorities	NA	22,4	24,7	19,0
The judicial system	21,5	19,9	23,0	18,4
The operation of the local administration	NA	17,2	18,8	15,9
The operation of the central administration	NA	17,9	16,9	14,4
Staff recruitment and dismissal procedures***	16,8	11,9	10,5	14,0
The current political situation	19,8	20,8	18,5	10,5
Rules and procedures for starting a company	10,9	7,2	10,2	5,0
<i>Base</i>	<i>530</i>	<i>447</i>	<i>421</i>	<i>478</i>

* In the pilot survey (December 2002) the option was: "the tax system".

** In the pilot survey the option was: "access to credit to finance business operations"

*** In the pilot survey the option was: "labor legislation"

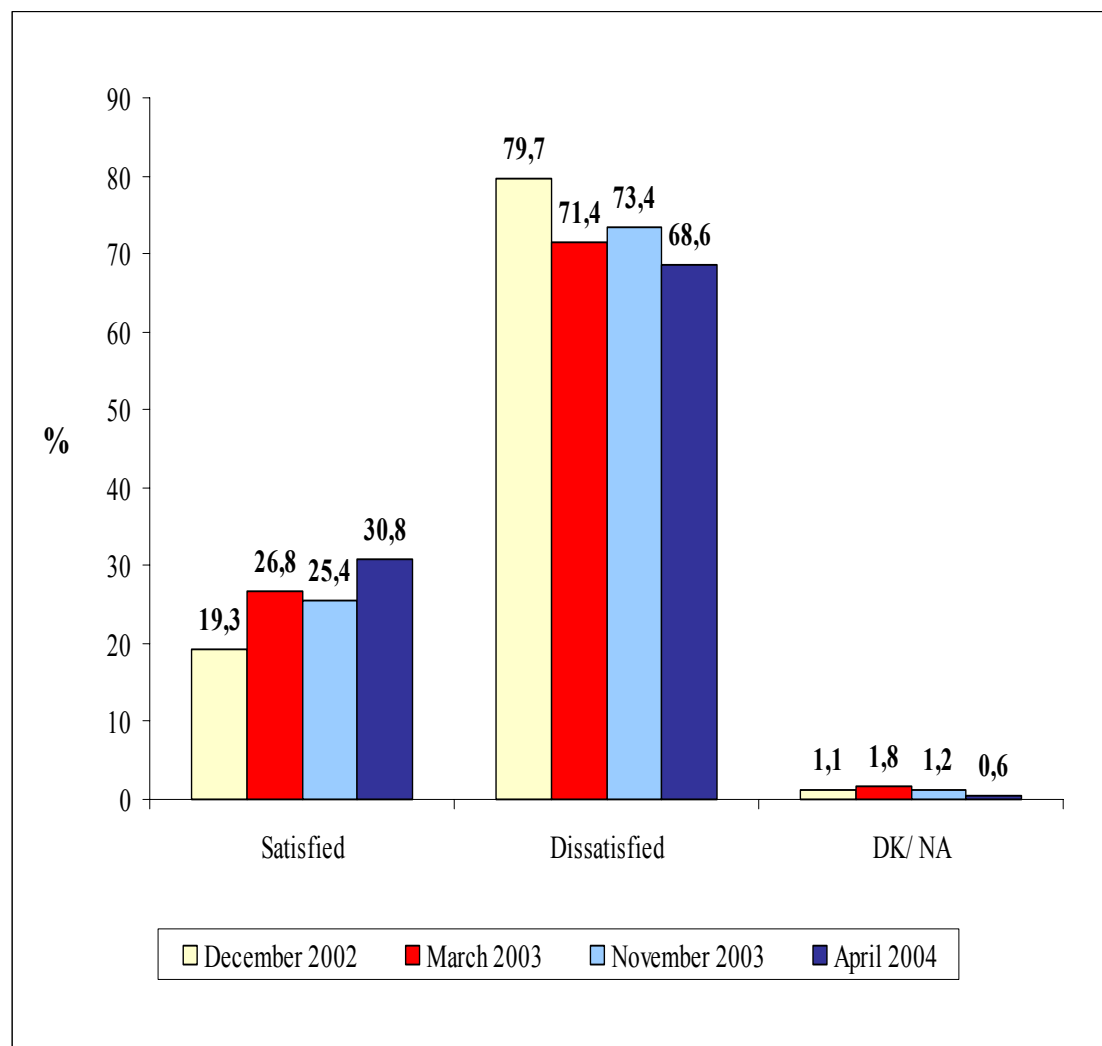
3. *SATISFACTION WITH THE QUALITY OF THE LEGISLATION AND THE ADMINISTRATIVE REQUIREMENTS ON BUSINESS*

When considering ways of curbing the hidden economy, one of the main and most commonly made recommendations is the establishment of clear-cut rules and requirements on business, which should be applied equally to all. There is reason to speak of a certain progress in this respect over the one-and-a-half year period under review. The adoption of stricter labor regulations was an attempt to reduce the gray sector in the labor market. This measure has shown that in the presence of a clear strategy and sufficient political will restricting the hidden economy is a feasible task.

Nevertheless, the legal framework of business is still being amended too slowly and largely chaotically, without regard for the opinions of entrepreneurs. Despite a slight improvement from December 2002, more than two-thirds of those surveyed expressed dissatisfaction with the legal framework in which they have to operate. (Figure 2)

The frequent amendments to the legislation affect most strongly the operation of small and medium-sized companies. They are likewise the ones to express highest levels of dissatisfaction with the administrative requirements imposed on them. (Appendix 2, Table 6)

FIGURE 2 SATISFACTION WITH THE QUALITY OF THE LEGISLATION AND THE ADMINISTRATIVE REQUIREMENTS ON BUSINESS



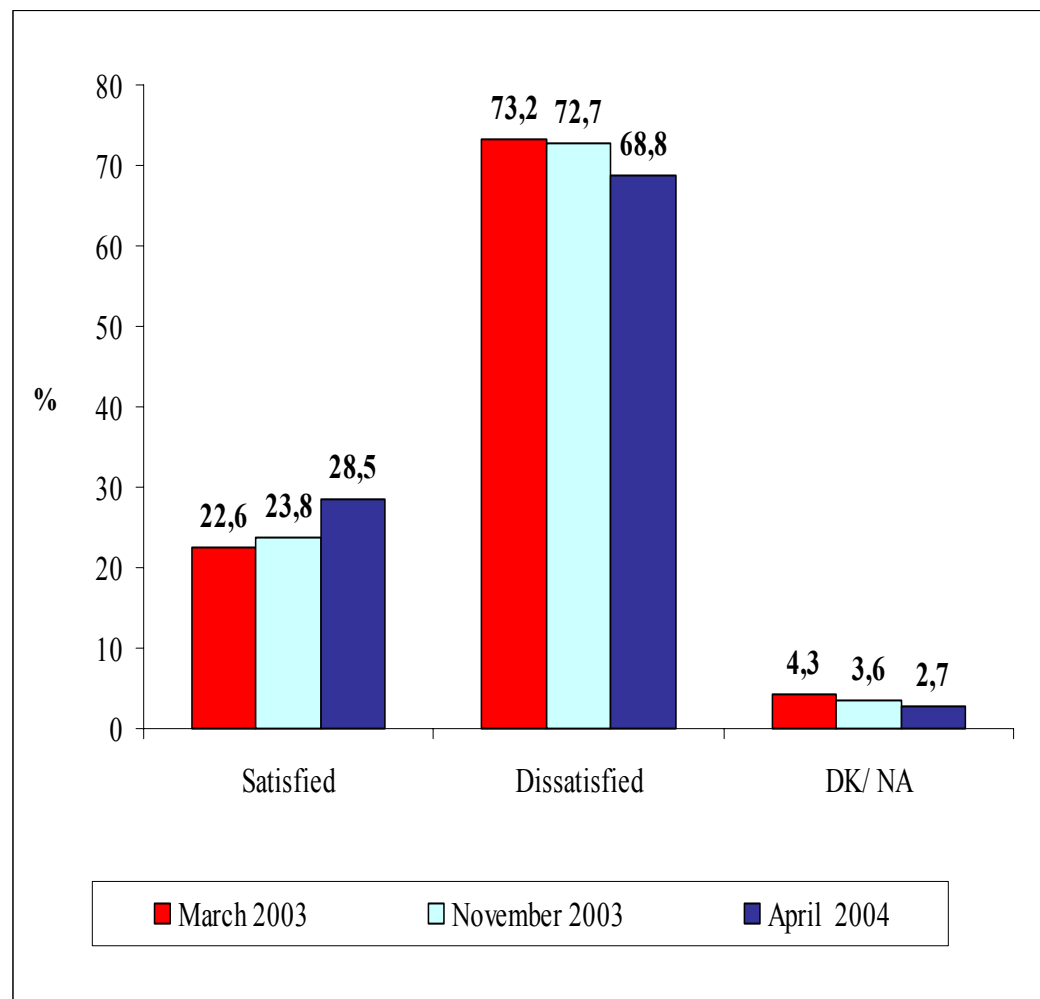
Base: All respondents (DEC'02: N=530, MAR'03: N=447; NOV'03: N=421; APR'04: N=478)

4. *SATISFACTION WITH THE QUALITY OF PUBLIC SERVICES RELATED TO BUSINESS OPERATION IN BULGARIA*

The situation is similar as regards the *implementation of existing laws* and the *quality of public services*. Although the level of satisfaction has been rising gradually over the past year and a half, the proportion of the dissatisfied still remains too high - more than two-thirds of those interviewed. (Figure 3).

Company size again proved to play a role in shaping the assessments. The rate of dissatisfaction with *the quality of the legislation and its administration* and *the quality of public services* is considerably higher among smaller companies. The additional expenses they are forced to incur in order to comply with the frequently changing regulatory requirements put a serious strain on these companies. Another notable problem to them is that the process of obtaining the administrative services required is too time-consuming. (Appendix 2, Table 6)

FIGURE 3 SATISFACTION WITH THE QUALITY OF PUBLIC SERVICES RELATED TO BUSINESS OPERATION IN BULGARIA



Base: All respondents (March: N= 447; November: N=421; April: N=478)

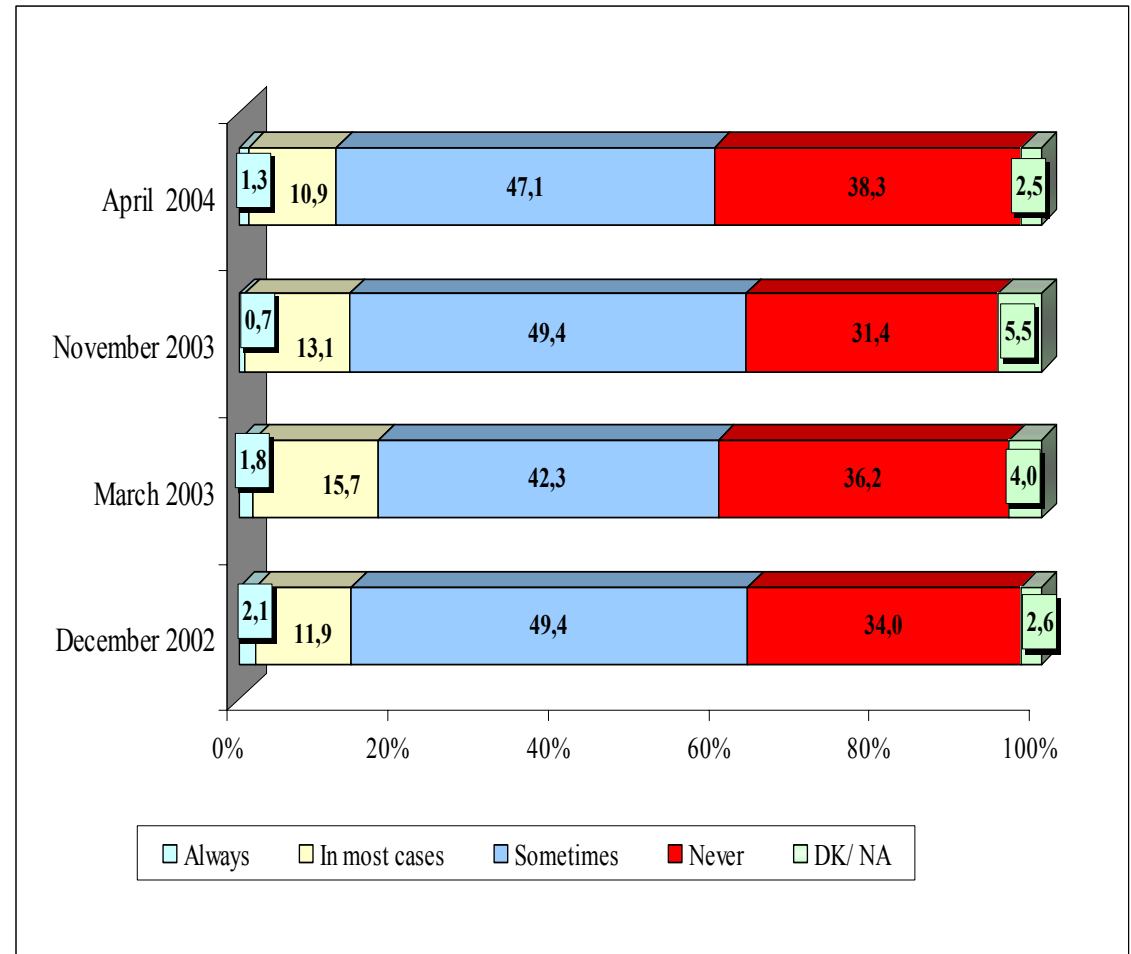
5. *PRIOR INFORMATION TO THE BUSINESS COMMUNITY ABOUT FORTHCOMING CHANGES*

IN THE LEGISLATION

The practice to date in this country of changing the legal framework without first consulting with the business community seems to suggest the absence of a purposeful government policy in support of the business sector.

The weak favorable tendencies registered in late 2003 regarding the predictability of the legislation proved temporary and unstable (*Appendix 2, Table 3*). The changes are still being adopted without prior consultations and public discussion and so businesspersons usually are insufficiently prepared for them. One in three respondents said the business community was never informed in advance about planned changes in the legislation (*Figure 4*). In their turn, the lack of prior information and inadequate preparation help foster a negative attitude to the legal framework.

FIGURE 4 PRIOR INFORMATION TO THE BUSINESS COMMUNITY ABOUT FORTHCOMING CHANGES IN THE LEGISLATION



Base: All respondents (DEC'02: N=530, MAR'03: N=447; NOV'03: N=421; APR'04: N=478)

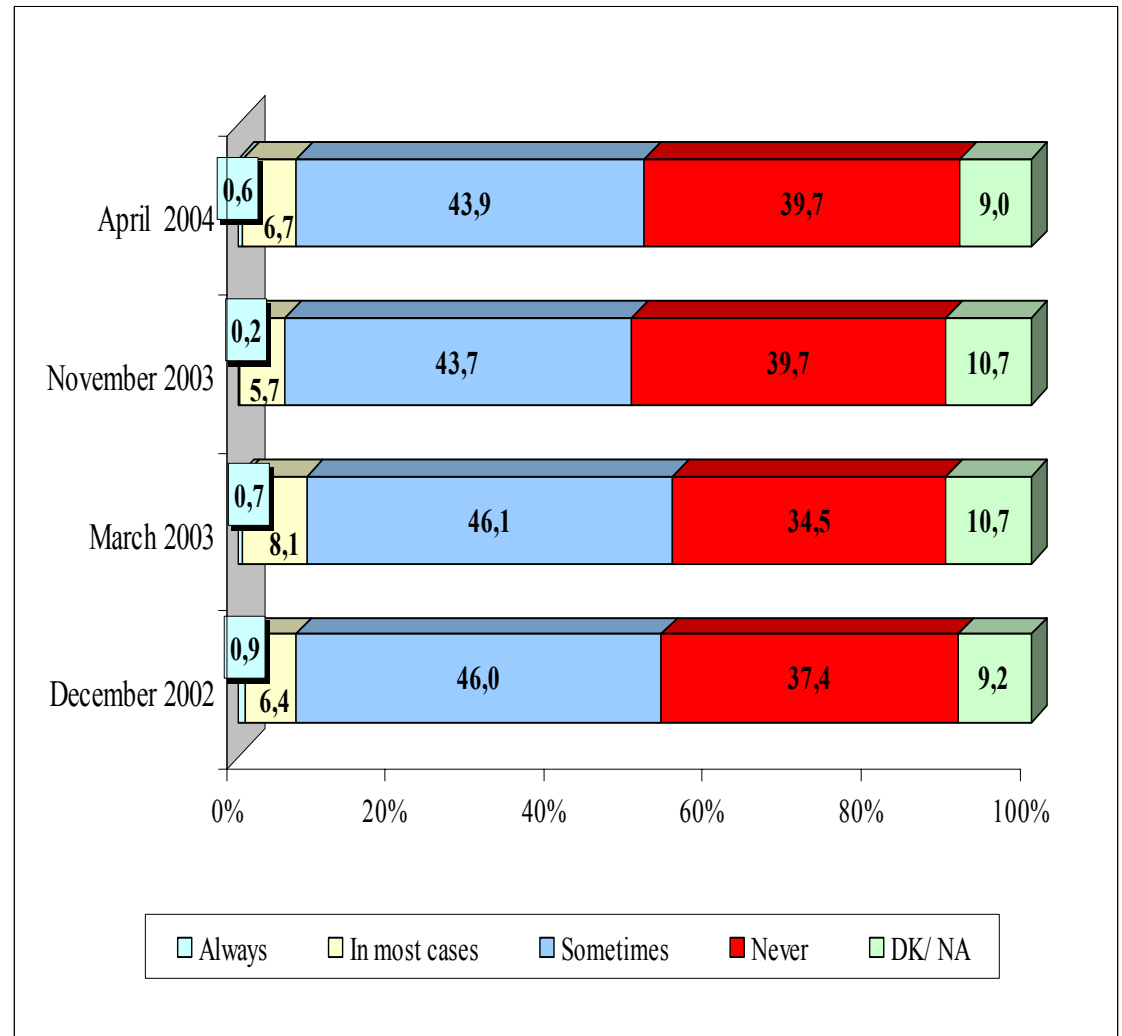
The predictability of the laws, however, is only one aspect of the matter. After the slight progress registered in March as regards the government/business dialogue, in April 2004 the values went back to their initial levels.

Business associations and individual entrepreneurs are generally not kept informed about forthcoming changes affecting their activity and are rarely invited as partners in the elaboration of new regulations (Figures 4 and 5).

This creates a sense of continuing confrontation between the state and the business community. Too little use is still made of the opportunities for public advocacy and open lobbying for particular business agendas.

Under the current conditions of entrepreneurial activity, the expenditures companies incur in order to meet all the official requirements considerably exceed the cost of evading them. Any lasting curbing of the gray sector can only be expected once the state assumes the role of an equal partner to the business community and starts conceiving its policies in cooperation with it.

FIGURE 5 TAKING INTO ACCOUNT INPUT FROM THE BUSINESS COMMUNITY WHEN AMENDING THE LEGISLATION



Base: All respondents (DEC'02: N=530, MAR'03: N=447; NOV'03: N=421; APR'04: N=478)

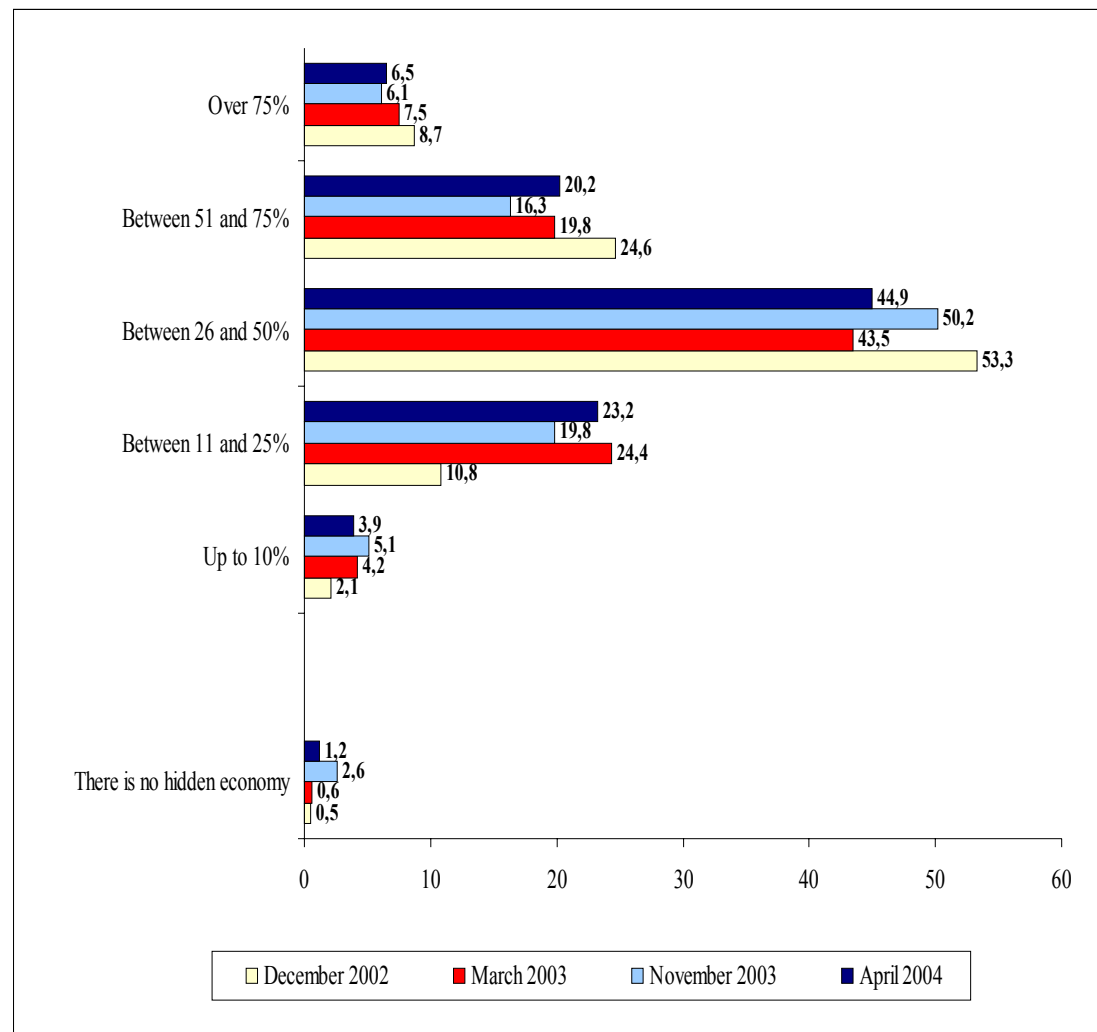
III. PERCEIVED SCOPE OF THE HIDDEN ECONOMY

1. ESTIMATED SHARE OF THE HIDDEN ECONOMY

The downswing first observed in March 2003 in the perceived share of the hidden economy proved a fragile and short-lived tendency, too. The results of the latest survey point to a reversion to the former higher levels.

The proportion of unreported business activity is still too high. Nearly three-fourths of those surveyed estimated it to range between 10 and 50% (*Figure 6*). Its share is most commonly estimated at 26 to 50%. However, the proportion of those making such estimates has begun to decrease while more respondents perceive the hidden economy as occupying a larger share – over 50%.

FIGURE 6 ESTIMATED SHARE OF THE HIDDEN ECONOMY IN BULGARIA



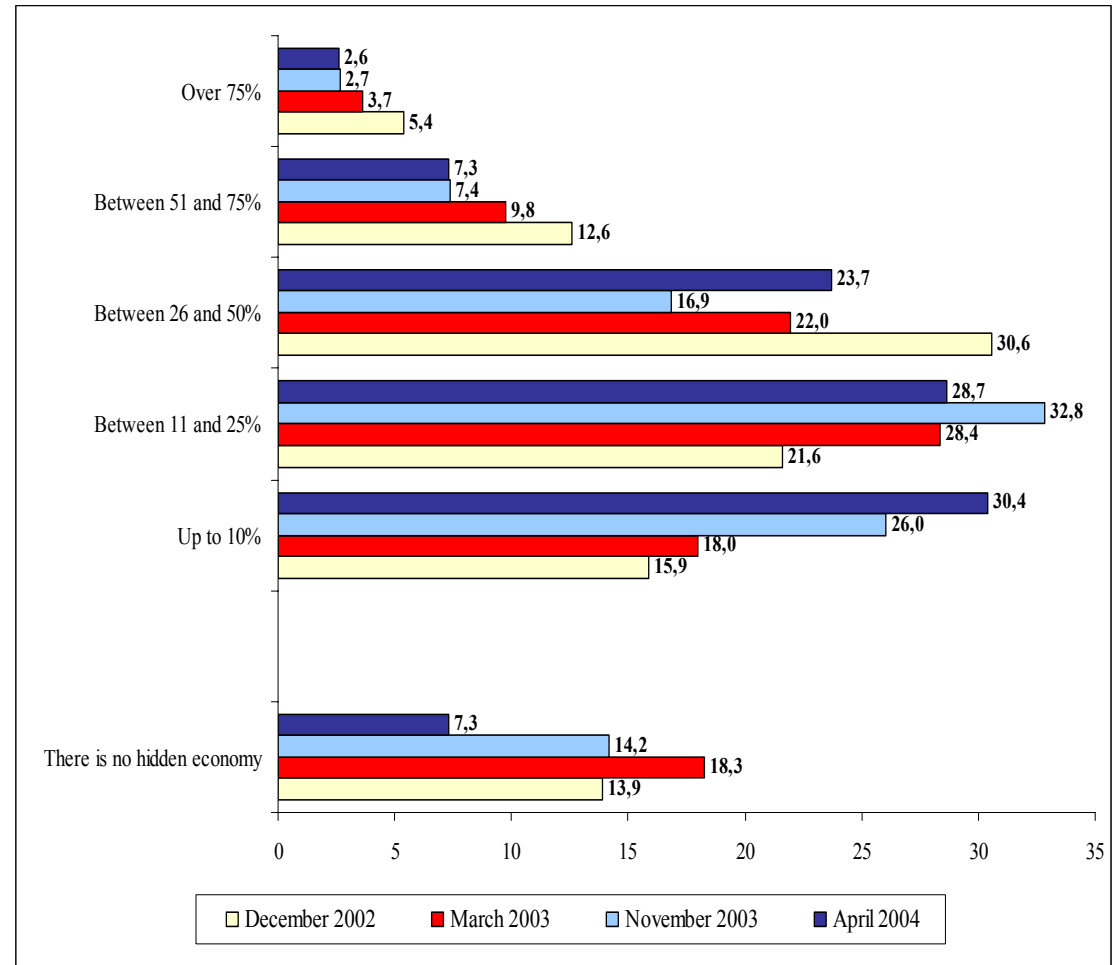
Base: (DEC'02: N= 390; MAR'03: N= 308; NOV'03: N=313; APR'04: N=336)

2. ESTIMATED SHARE OF THE HIDDEN ECONOMY BY SECTOR

The tendencies regarding the share of the hidden economy by sectors are proving equally short-lived and vacillating. In late 2003, the opinion predominated that the hidden economy ranged between 11 and 25% of the activities in the respective sector. In April 2004, the options “up to 10%” and “11 to 25%” drew equal shares (*Figure 7*). At the same time, more respondents estimated the respective share of the hidden economy at 26 to 50%, while the number of those saying it did not exist at all in their sector dropped by half.

These contradictory assessments call for a more careful examination of the underlying reasons. There appears a strong dependence between the size of the company surveyed and the perceived scope of the hidden economy in the particular sector. The larger the company, the more transparent its activity. In turn, the opinions about the presence of hidden economy in the sector tend to be more favorable (*Appendix 2, Table 7*).

FIGURE 7 ESTIMATED SHARE OF THE HIDDEN ECONOMY IN THE RESPECTIVE SECTOR



Base: (DEC'02: N= 389; MAR'03: N= 328; NOV'03: N=338; APR'04: N=342)

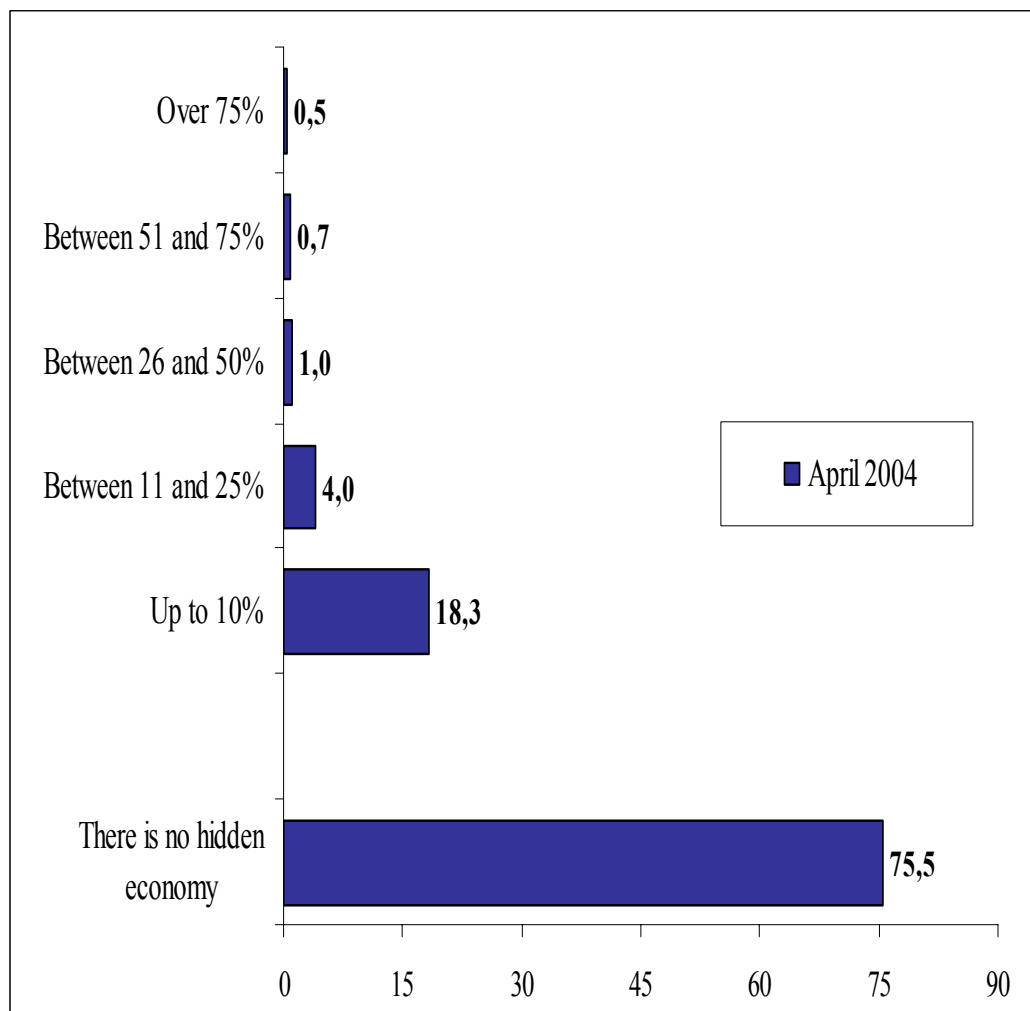
3. ESTIMATED SHARE OF THE HIDDEN ECONOMY IN THE COMPANY

As is only to be expected, three-fourths of the business representatives refuse to acknowledge that their own company, too, generates hidden economy or in other words, that it is breaking the laws of the country (Figure 8).

The question about such irregular practices in the respondent's own company was asked for the first time in the latest survey. It is interesting to note that in moving from the general estimate of the hidden economy in the country as a whole to the particular company, the answers that *"there is no hidden economy" increase drastically – from 1.2% for the country in general, through 7.3% for the sector, and as much as 75.5% for the respondent's company.*

Those who do admit that some forms of hidden economy can be encountered in their own company, as well, estimate its share at 10% at the most.

FIGURE 8 ESTIMATED SHARE OF THE HIDDEN ECONOMY IN THE COMPANY



Base: (April 2004: N=404)

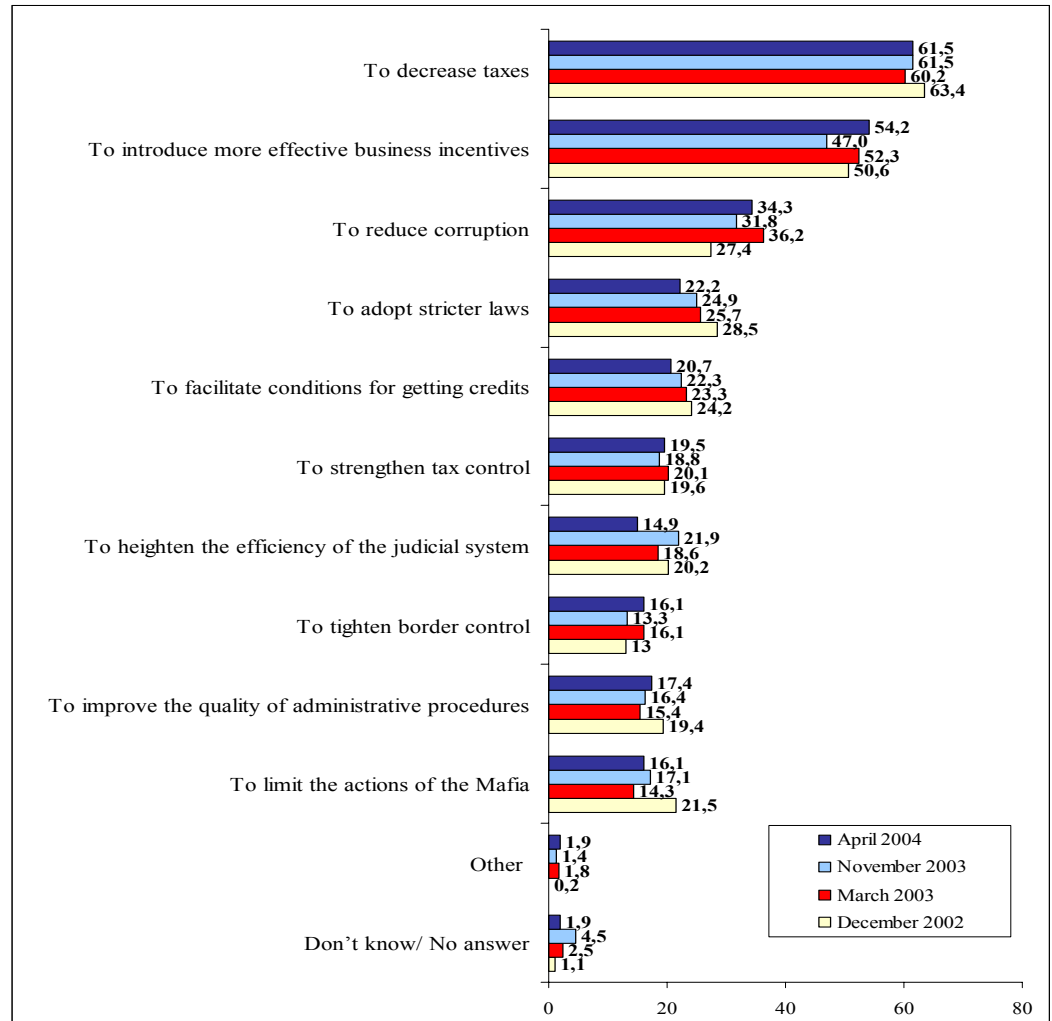
4. MEASURES TO LIMIT THE HIDDEN ECONOMY IN BULGARIA

As regards the counter measures deemed appropriate by the business community there do not appear any serious changes – both their ranking and values have remained essentially unchanged since November 2003 (Figure 9). Once again, *reducing taxes* and *providing incentives for business* were the leading recommendations, with the latter gaining in importance compared to previous surveys.

It is worth noting that the representatives of the companies employing more than 100 people are less likely to cite these two answers. In their opinion, what would be more effective is *reinforcing tax control* and *improving the administrative procedures* (Appendix 2, Table 9).

The consistent preferences for certain measures points to the absence of notable changes in the business environment in the period under review. Still found among the chief reasons for the “grayness” of Bulgarian business at all levels are *corruption* and the *inadequate border, customs, and tax control*.

FIGURE 9 MEASURES TO LIMIT THE HIDDEN ECONOMY IN BULGARIA



Base: All respondents (DEC'02: N=530, MAR'03: N=447; NOV'03: N=421; APR'04: N=478)

IV. HIDDEN ECONOMY PRACTICES

I. LABOR RELATIONS

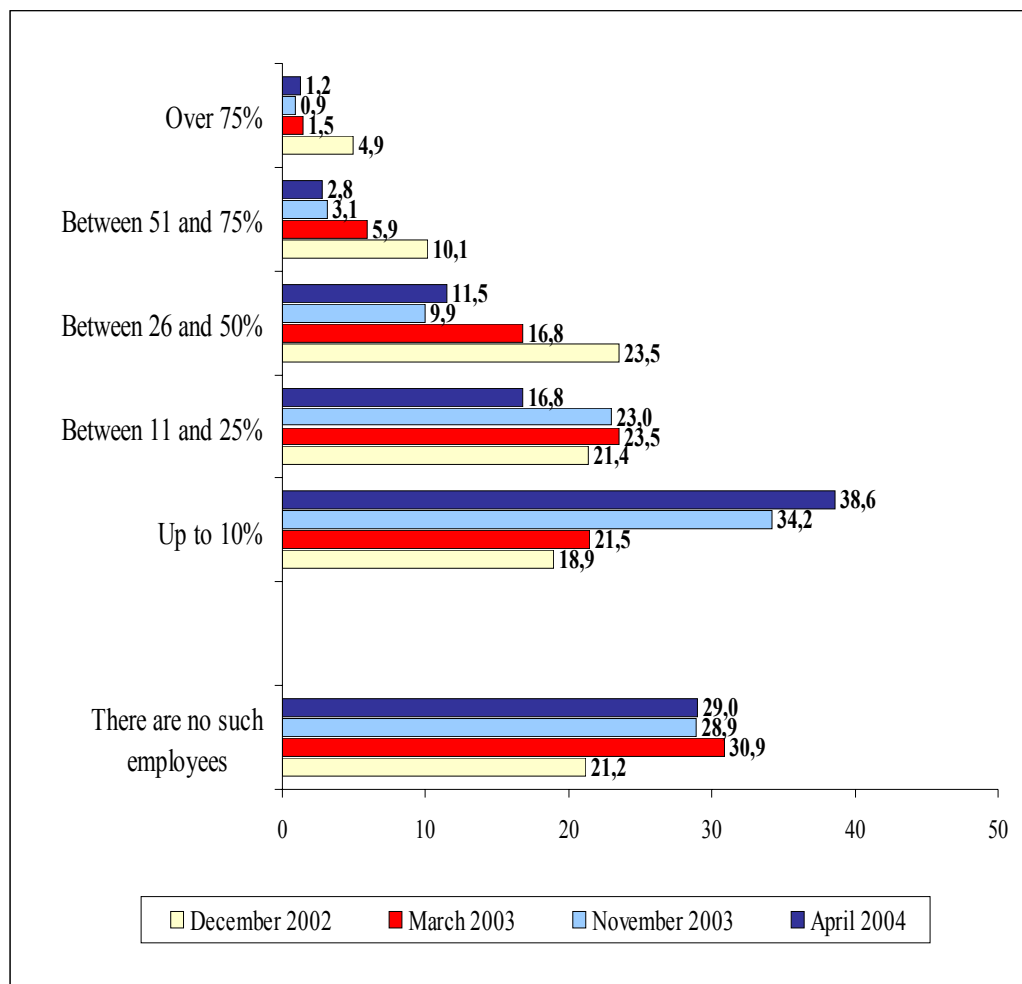
A. SHARE OF THOSE HIRED WITHOUT CONTRACTS IN THE RESPECTIVE SECTOR

The adoption of a straightforward and specific measure in early 2003 and has shown quite clearly that in the presence of political will, it is possible to limit the gray sector.

The proportion of those who said there were no *employees without employment contracts* in their sector remained unchanged from the preceding survey (*Figure 10*). Nevertheless, the positive tendency does persist – in one year alone, the share of the opinions that hardly more than 10% of the workers in the sector are hired without contracts has increased by 17 points.

The favorable tendencies are more pronounced among the companies with more than 50 employees – nearly half of the interviewed representatives of large companies said there were not any workers without registered employment contracts in their sector at all. (*Appendix 2, Table 10*)

FIGURE 10 SHARE OF THOSE HIRED WITHOUT CONTRACTS IN THE RESPECTIVE SECTOR



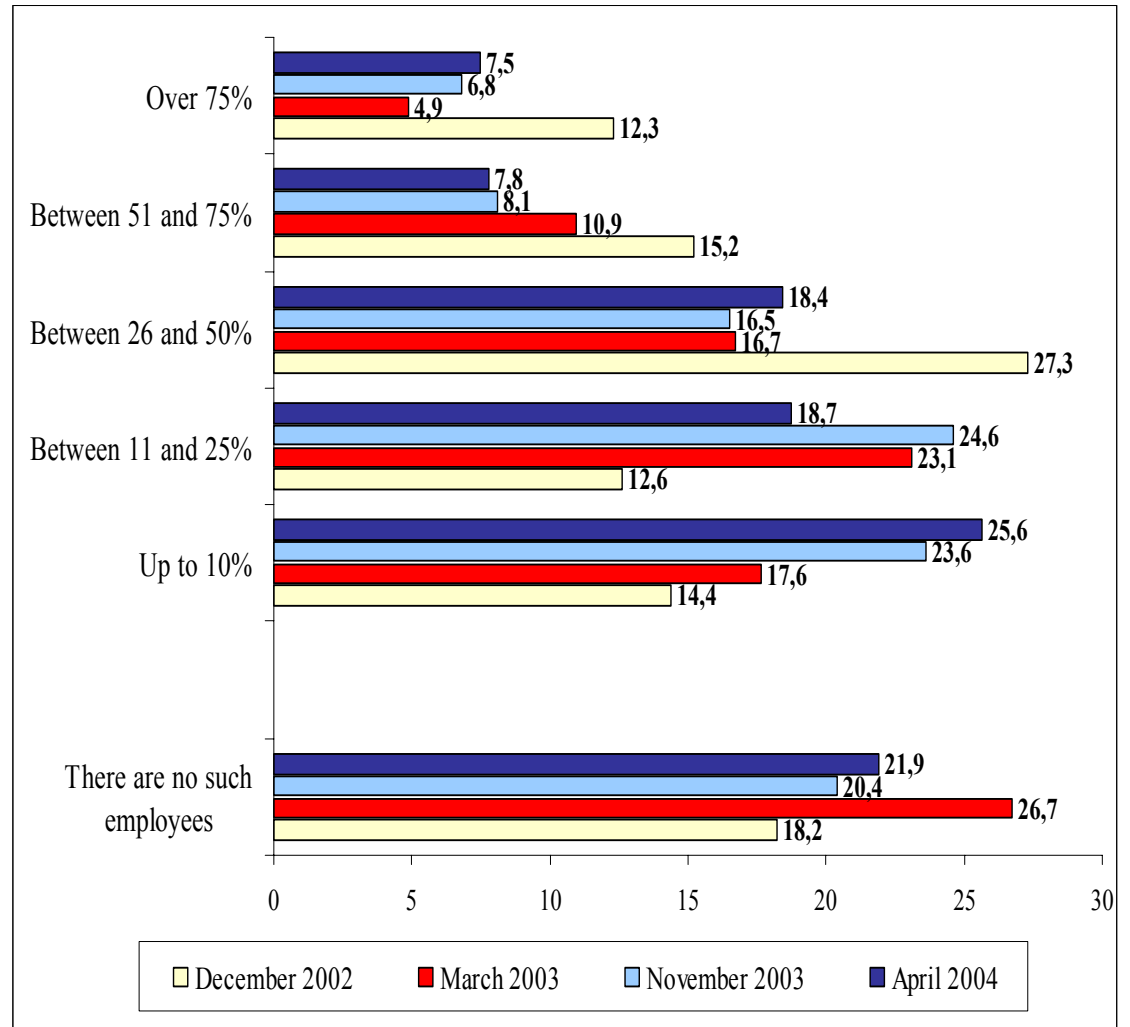
Base: (DEC'02: N= 387; MAR'03: N= 340; NOV'03: N=322; APR'04: N=321)

B. *SHARE OF THOSE HIRED UNDER CONTRACTS WITH “SECRET CLAUSES” IN THE RESPECTIVE SECTOR*

Regarding the *contracts containing secret clauses*, the trends are not as straightforward. On the one hand, compared to November 2003, there has been a slight increase in the answers that such contracts with secret clauses either did not exist at all, or did not exceed 10% of the contracts in the sector while there has been a drop in the 11 to 25% estimates of their proportion (*Figure 11*). On the other hand, there has equally been a slight increase in estimated higher proportions of contracts with secret clauses, which almost neutralizes the positive changes.

This points to the cause-and-effect relation between the legal framework and the reaction of business. The newly enforced administrative measures have solved part of the problem but laid an additional burden on employers in terms of social security payments. In response, even the big companies have resorted to gray sector mechanisms in an attempt to avoid the negative repercussions on their operation. Their representatives indicate an increasing number of workers in the particular sector hired under contracts with secret clauses (*Appendix 2, Table 10*). Yet, it should be noted that there has also been a tangible increase in the answers that “*there are no employees with such contracts at all in the sector*”.

FIGURE 11 **SHARE OF THOSE HIRED UNDER CONTRACTS WITH “SECRET CLAUSES” IN THE RESPECTIVE SECTOR**



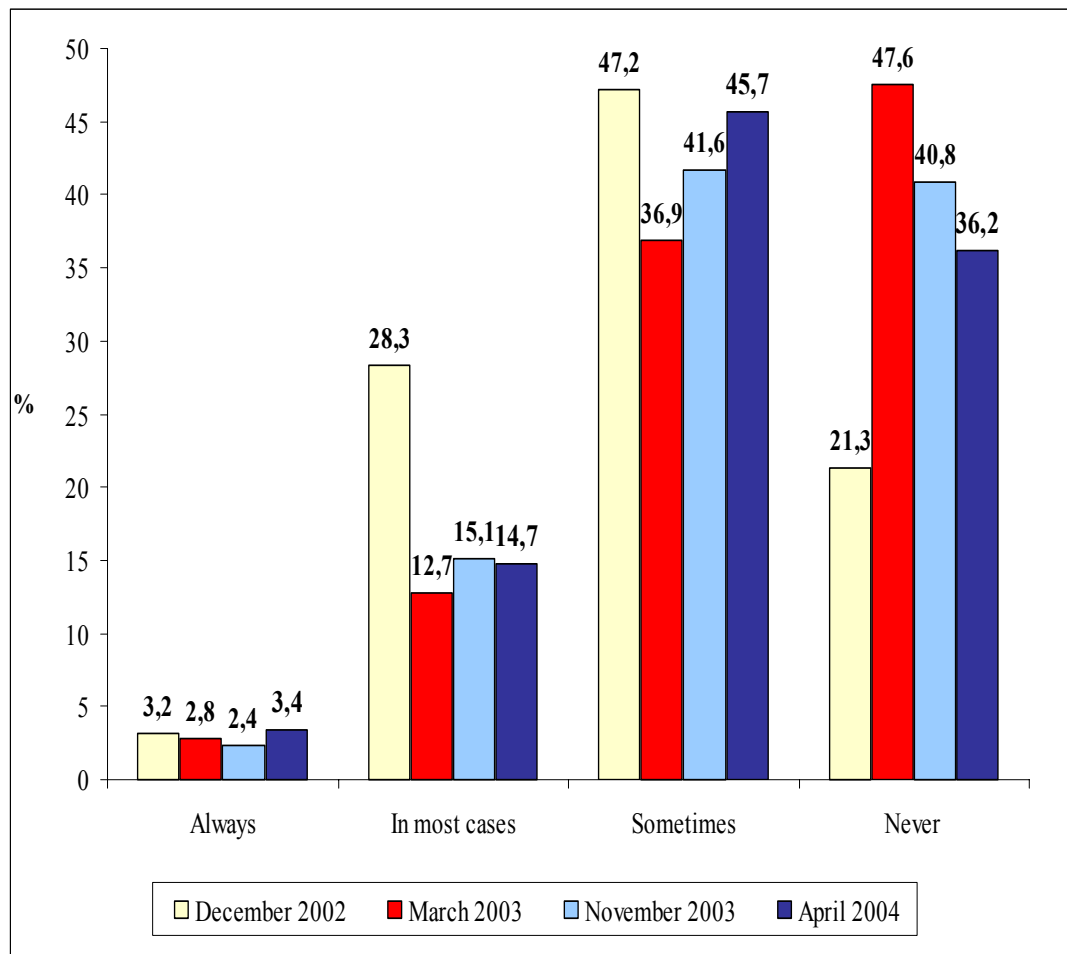
Base: (DEC'02: N= 374; MAR'03: N= 329; NOV'03: N=309; APR'04: N=347)

2. SUPPRESSED TURNOVER

1) NON-ISSUING OF TAX RECEIPTS FOR ACTUAL SALES MADE IN THE RESPECTIVE SECTOR

Despite the slight overall improvement regarding the *non-issuing of accounting documents, cash receipts and invoices* over the entire period monitored, the changes in past one year have been unfavorable. The share of the companies claiming there are no instances at all of non-issuing of tax receipts is still falling while more and more of them acknowledge this may be practiced occasionally (*Figure 12*). Thus, since March 2003, the latter have increased by 9 points and, similarly to December 2002, have now come to make up the largest share of all the respondents. The incidence of non-issuing of accounting documents in the companies is falling but the proportion of companies allowing such practices is increasing.

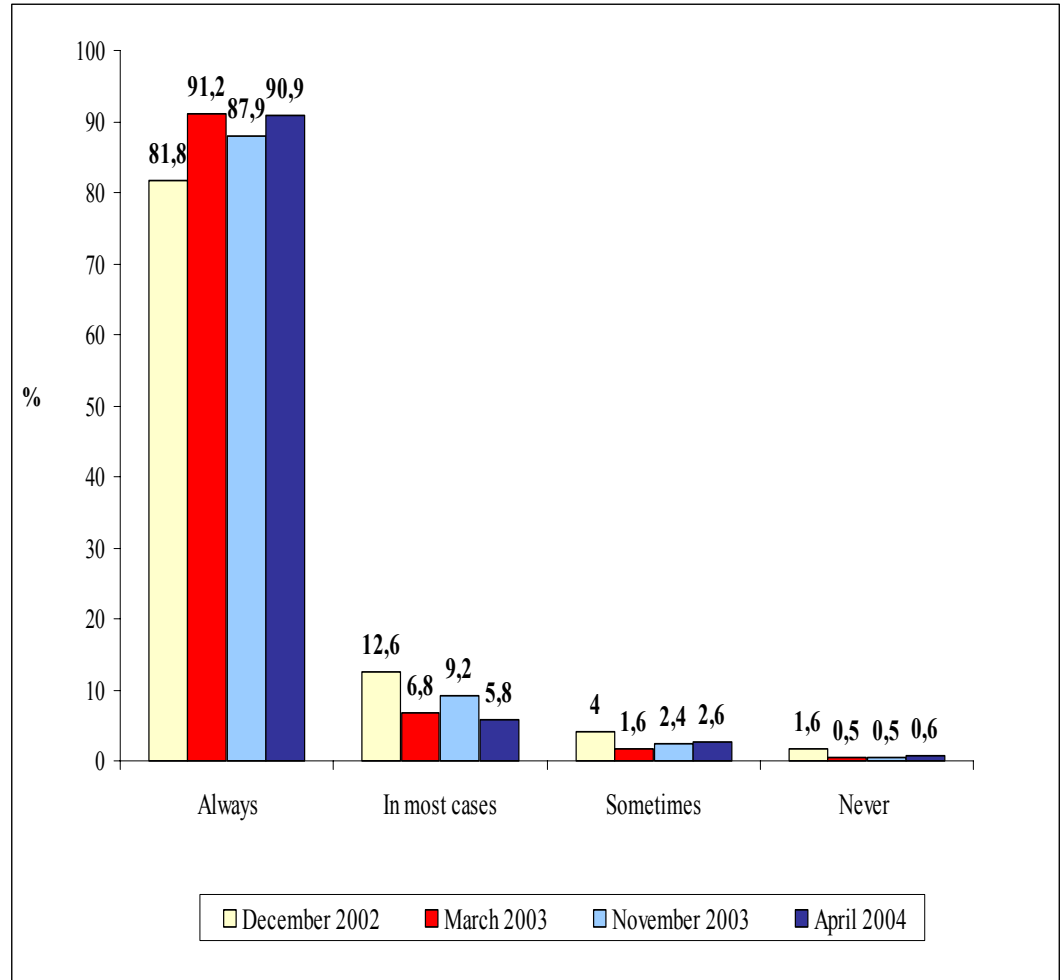
FIGURE 12 INCIDENCE OF NON-ISSUING OF INVOICES/CASH RECEIPTS



Base: (DEC'02: N= 470; MAR'03: N= 393; NOV'03: N=377; APR'04: N=414)

With regard to the reverse process, there have not been any notable changes since March 2003. The proportion of the companies claiming they *always request accounting documents* when working with another company remains very high (Figure 13).

FIGURE 13 RATE OF REQUESTING ACCOUNTING DOCUMENTS



Base: (DEC'02: N= 501; MAR'03: N= 442; NOV'03: N=413; APR'04: N=464)

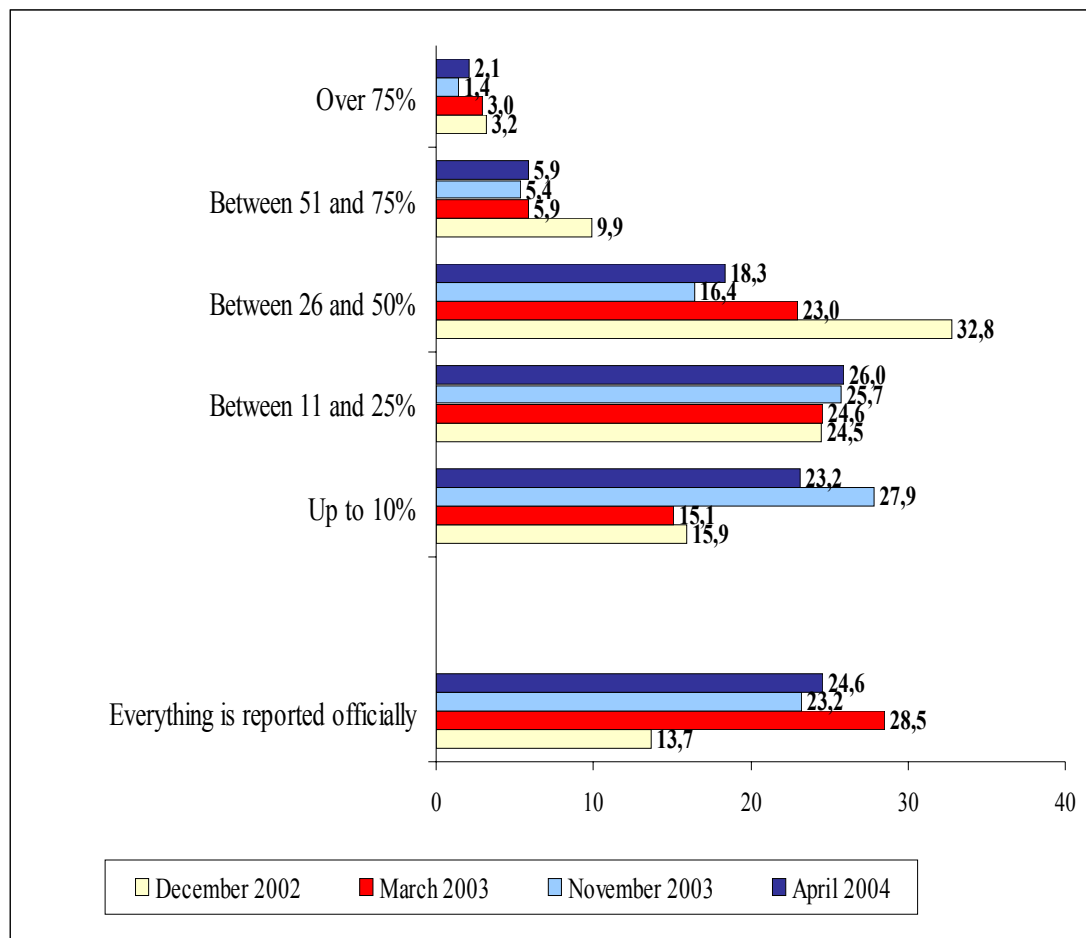
2) *THE PRACTICE OF UNDERREPORTING TURNOVER IN THE RESPECTIVE SECTOR*

Unlike the preceding survey, which found a shift in the estimates towards lower levels, there now appears to be a reversion to the results of one year ago. One-fourth of those interviewed said between 26 and 75% of the company turnover in their sector was not reported officially. About as many estimated this share at 11 to 25% (Figure 14).

Among the small and medium-sized companies with less than 50 employees, the share of the answers “Everything is officially reported” marked a slight drop. In contrast, it has actually increased by 6 points among the companies with more than 100 employees and has doubled among those employing 51 to 100 people (Appendix 2, Table 11). Regarding the largest companies, however, the changes are not straightforward since the share of the estimates of unreported turnover in the 26 to 50% range have increased more than four times (from 4.5 to 18%).

Overall, the rate of reporting turnover is about three times higher among the largest companies compared to the smallest ones.

FIGURE 14 UNREPORTED TURNOVER



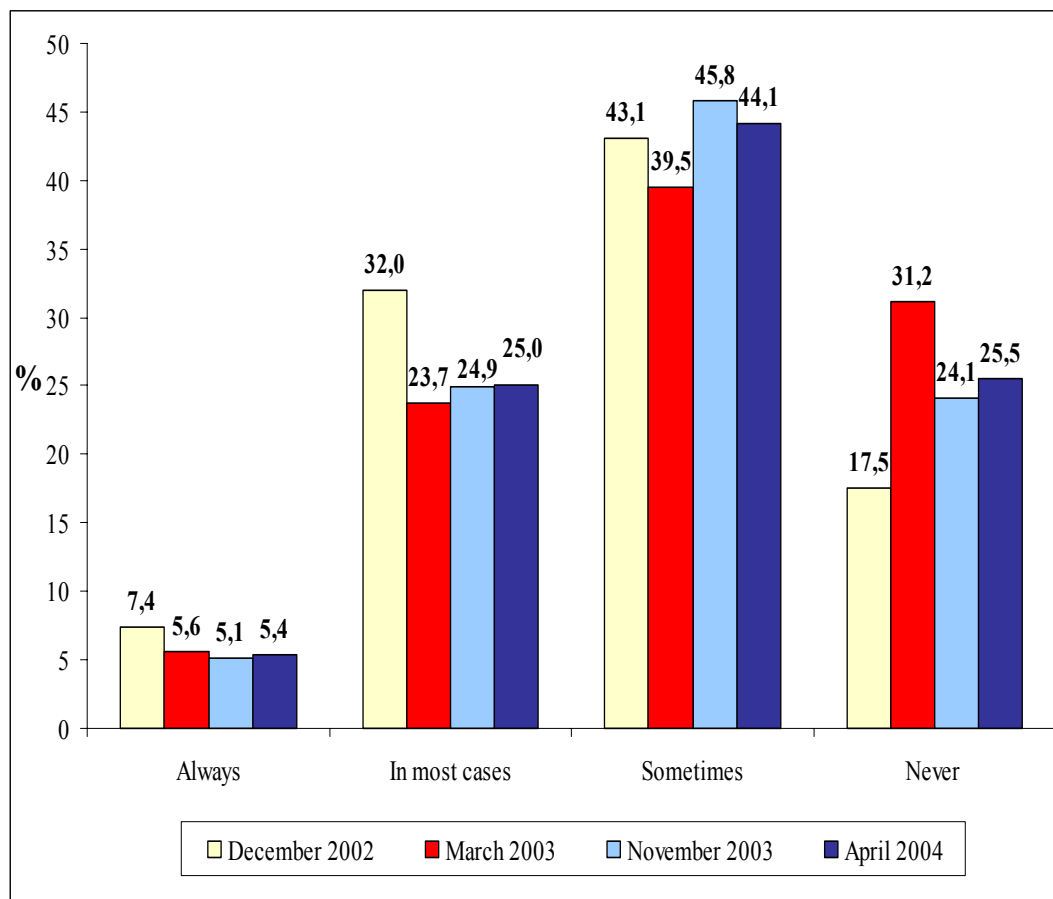
Base: (DEC'02: N= 372; MAR'03: N= 305; NOV'03: N=280; APR'04: N=289)

3) *THE PRACTICE OF UNDERREPORTING TURNOVER IN THE RESPECTIVE SECTOR*

There do not appear any noteworthy changes as regards the practice of underreporting profits. One-fourth of the companies claim this is never done in their sector and the remaining ones cite varying incidence rates (*Figure 15*).

The slight deterioration, from the preceding survey, under most indicators related to the official reporting of actual company turnover and profit is indicative of the business response to the enforcement of restrictive administrative measures and tighter government control. They may initially produce a tangible positive impact in terms of restricting the gray sector, but the sustainability of this effect depends on other aspects of the business environment, as well. Unless the administrative measures are accompanied by positive steps to encourage business, entrepreneurs will continue to feel pressured and threatened. It is only to be expected that they will then seek new ways of circumventing the laws and regulations.

FIGURE 15 UNDERREPORTING PROFITS



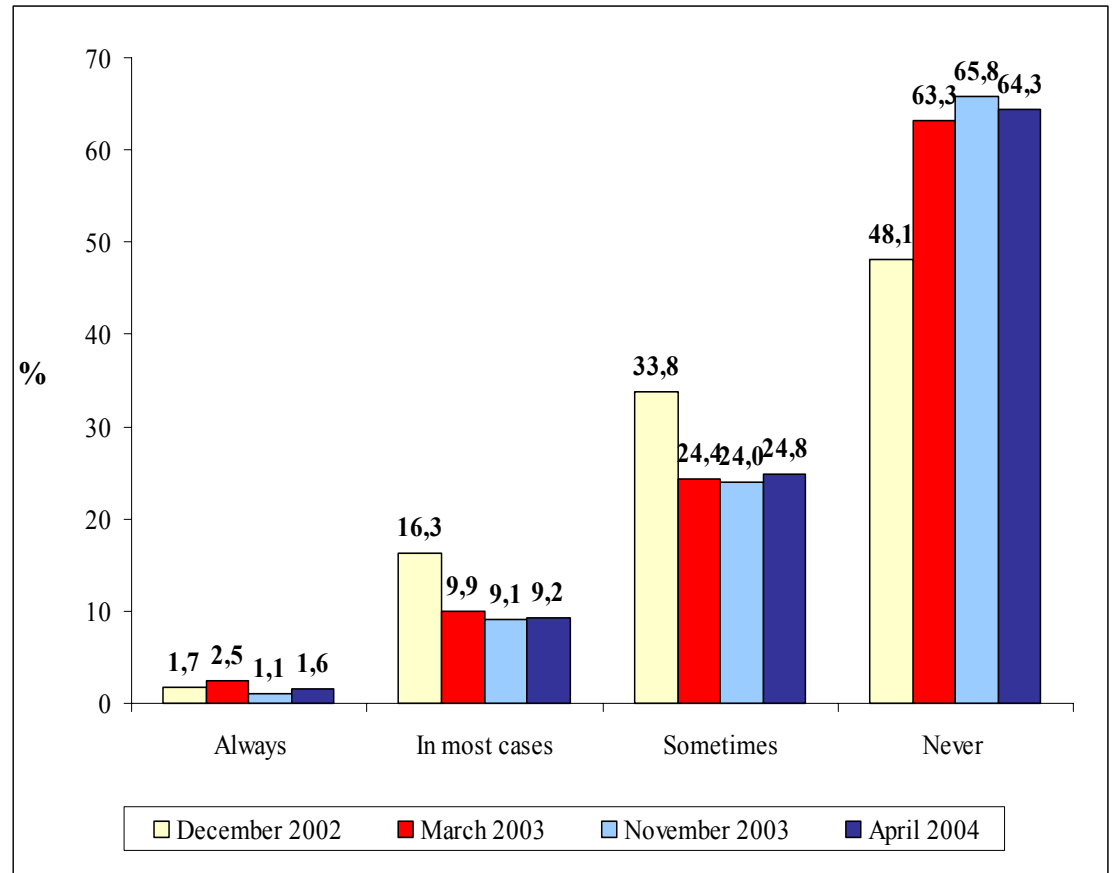
Base: (DEC'02: N= 462; MAR'03: N= 375; NOV'03: N=369; APR'04: N=408)

4) *ILLEGAL IMPORT/EXPORT IN THE RESPECTIVE SECTOR*

Regarding *illegal import and export*, there appears a stabilization of the findings of the preceding two surveys. Nearly two-thirds of those interviewed said such practices did not exist at all in their sector (*Figure 16*).

The steady findings indicate that the means employed to date to combat the phenomenon may have reached their ceiling. Any further improvement would call for sustaining the achievements to date and for adopting a new set of measures.

FIGURE 16 INCIDENCE OF ILLEGAL IMPORT/EXPORT IN THE RESPECTIVE SECTOR

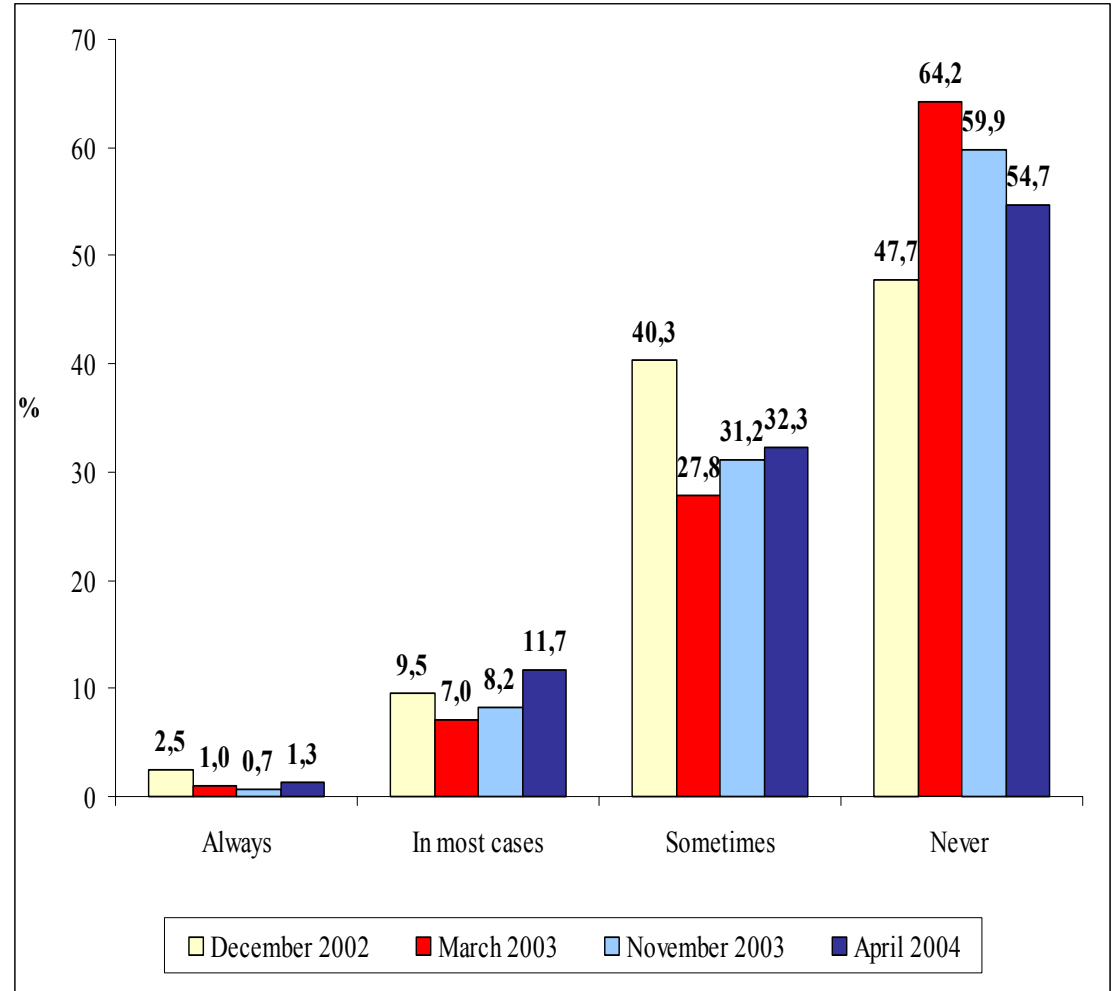


Base: (DEC'02: N= 349; MAR'03: N=283; NOV'03: N=275; APR'04: N=314)

5) *FRAUDULENT VAT REFUND CLAIMS IN THE RESPECTIVE SECTOR*

Since March 2003, fraudulent VAT-related schemes have been on the rise. *The estimated proportion of companies that have never engaged in such practices has dropped from close to two-thirds to slightly over half* (Figure 17).

FIGURE 17 **INCIDENCE OF FRAUDULENT VAT REFUND CLAIMS IN THE RESPECTIVE SECTOR**



Base: (DEC'02: N= 325; MAR'03: N=299; NOV'03: N=279; APR'04: N=316)

3. REDISTRIBUTION

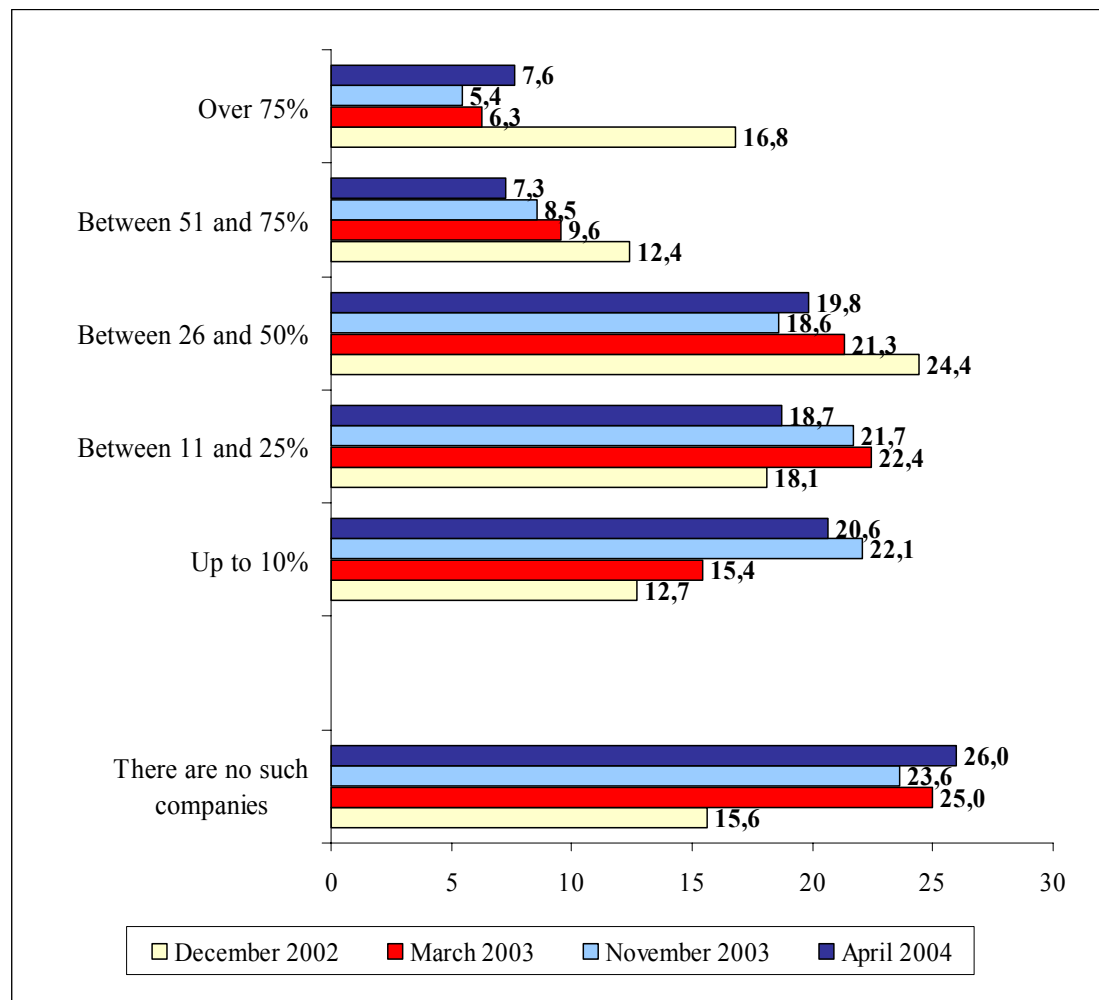
EVASION/NON-PAYMENT OF TAXES, CUSTOMS AND EXCISE DUTIES IN THE RESPECTIVE SECTOR

The payment of lower rates than the due taxes and customs duties is still one of the most common practices related to the hidden economy. One-fifth of the companies considered it commonplace (Appendix 2, Table 4).

A high proportion of the respondents still believe *more than half of the companies in their sector are evading part of the due taxes and customs duties through accounting schemes – 15 %*. (Figure 18).

Unlike other indicators, where the companies with more than 100 employees demonstrate a positive evolution, as regards *tax evasion*, the tendencies in this group are unfavorable (Appendix 2, Table 11). Tangible improvement only appears with respect to the companies with 51 to 100 employees. **The share of their representatives saying none of the companies in their particular sector is evading taxes has increased four times from the previous survey.**

FIGURE 18 SHARE OF THE COMPANIES EVADING /NOT PAYING TAXES, CUSTOMS AND EXCISE DUTIES IN THE RESPECTIVE SECTOR



Base: (DEC'02: N= 315; MAR'03: N=272; NOV'03: N=258; APR'04: N=262)

APPENDIX 1. HIDDEN ECONOMY INDEX VALUES

HIDDEN ECONOMY	December 2002	March 2003	November 2003	April 2004
	3.85	2.91	2.86	3.01
1. PERCEIVED SCOPE OF THE HIDDEN ECONOMY	4.60	3.96	3.66	3.86
1.1. Subjective estimate of the share of the hidden economy in the country as a whole	5.65	5.02	4.83	5.00
1.2. Subjective estimate of the share of the hidden economy by sector	3.55	2.90	2.49	2.71
2. LABOR RELATIONS	3.98	2.79	2.76	2.86
2.1. Share of those hired without contracts in the respective sector	3.63	2.47	2.21	2.36
2.2. Share of those hired under contracts with “secret clauses” in the respective sector	4.32	3.11	3.31	3.35
3. CONCEALED TURNOVER	3.65	2.66	2.72	2.83
3.1. Non-issuing of tax receipts for sales effected in the respective sector	3.93	2.48	2.77	2.99
3.2. Underreporting turnover in the respective sector	3.73	2.77	2.65	2.82
3.3. Underreporting profits in the respective sector	4.45	3.59	3.85	3.82
3.4. Illegal import/export in the respective sector	2.50	1.80	1.59	1.68
4. REDISTRIBUTION	3.15	2.24	2.28	2.48
4.1. Evasion/non-payment of taxes, customs and excise duties in the respective sector	3.94	2.90	2.80	2.88
4.2. Fraudulent VAT refund claims in the respective sector	2.36	1.58	1.76	2.09

APPENDIX 2. DISTRIBUTION BY TYPE OF COMPANY SURVEYED

TABLE 1. THE MOST CRITICAL PROBLEMS FACED BY THE COUNTRY BY COMPANY SIZE (NUMBER OF FULL-TIME EMPLOYEES) (%)

The most critical problems of the country	Number of full-time employees							
	Up to 10		11-50		51-100		Over 100	
	NOV 2003	APR20 04	NOV 2003	APR20 04	NOV 2003	APR20 04	NOV 2003	APR2 004
Political instability	18,6	20,6	12,0	19,3	18,4	23,3	16,4	24,4
Ethnic problems	0,4	2,0	2,2	1,5	5,3	-	1,6	-
Corruption	54,9	52,3	47,8	65,2	44,7	53,3	57,4	61,0
Low incomes	47,8	48,7	39,1	45,2	36,8	41,7	37,7	37,8
Crime	26,5	28,6	32,6	36,3	23,7	30,0	24,6	30,5
Unemployment	33,2	35,7	35,9	27,4	31,6	28,3	39,3	25,6
Environmental pollution	-	1,0	2,2	1,5	-	5,0	3,3	6,1
Deteriorating healthcare	6,6	8,0	5,4	6,7	15,8	3,3	4,9	7,3
High prices	9,7	10,6	8,7	11,1	13,2	6,7	3,3	4,9
Deteriorating education	4,0	5,0	13,0	6,7	2,6	1,7	8,2	7,3
Unfavorable conditions for business development	51,3	45,7	52,2	42,2	50,0	43,3	52,5	46,3
Poverty	20,8	22,6	26,1	15,6	18,4	16,7	18,0	13,4
Insufficient foreign investment	12,4	6,5	13,0	9,6	15,8	16,7	19,7	19,5
Other	4,0	5,5	3,3	2,2	7,9	13,3	3,3	6,1
<i>DK/NA</i>	0,4	-	-	0,7	-	1,7	-	-
<i>Base</i>	226	199	92	135	38	60	61	82

TABLE 2. HOW HAVE THE LAWS AND REGULATIONS WITH A SERIOUS IMPACT ON BUSINESS CHANGED IN THE PAST THREE YEARS? (%)

	December 2002	March 2003	November 2003	April 2004
Have become more predictable	11,9	12,3	17,6	12,3
Unchanged	46,6	42,3	39,0	40,6
Have become less predictable	35,3	31,8	32,5	35,8
<i>DK/NA</i>	6,2	13,6	10,9	11,3
<i>Base</i>	<i>530</i>	<i>447</i>	<i>421</i>	<i>478</i>

TABLE 3. INCIDENCE OF DUTY AND TAX EVASION IN THE ENTERPRISES/COMPANIES IN THE RESPECTIVE SECTOR (%)

	December 2002	March 2003	November 2003	April 2004
Always	3,6	3,2	3,0	5,3
Most of the time	26,2	19,2	17,4	16,3
Occasionally	41,0	33,8	40,7	37,7
Never	29,3	43,7	38,9	40,7
<i>Base</i>	<i>420</i>	<i>343</i>	<i>334</i>	<i>361</i>

TABLE 4. PROBLEMS/OBSTACLES TO BUSINESS OPERATION AND DEVELOPMENT BY COMPANY SIZE (%)

Major problem	Number of full-time employees							
	Up to 10		11-50		51-100		Over 100	
	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004
Rules and procedures for starting a company	13,3	70,8	8,7	16,7	5,3	-	3,3	12,5
The tax rates	50,9	49,3	42,4	25,8	52,6	11,5	50,8	13,4
License- and permit-issuing procedures	48,7	47,6	32,6	29,7	47,4	10,8	24,6	11,9
Corruption among administrative officials	44,2	45,3	35,9	28,6	28,9	11,8	32,8	14,3
Corruption among business counterparts	25,2	43,1	22,8	29,4	15,8	15,7	23,0	11,8
Access to financing of business activities	42,9	48,8	39,1	28,0	36,8	12,2	34,4	11,0
The judicial system	23,5	42,0	18,5	33,0	23,7	8,0	29,5	17,0
Rules and procedures for hiring and dismissing staff	7,5	29,9	14,1	34,3	7,9	10,4	18,0	25,4
The current political situation	19,5	46,9	20,7	24,5	10,5	10,2	18,0	18,4
Rules and procedures for the acquisition of real estate property and construction of buildings	27,9	50,0	33,7	28,9	34,2	12,3	19,7	8,8
Crime	46,9	43,9	39,1	31,2	42,1	9,0	39,3	15,9
Unfair/ illegitimate competition	54,4	41,5	52,2	31,3	39,5	11,6	50,8	15,6
Inspections and checks by various control authorities	28,3	51,6	22,8	27,5	18,4	9,9	19,7	11,0
The operation of the local administration	20,8	46,1	16,3	36,8	18,4	5,3	14,8	11,8
The operation of the central administration	18,1	36,2	18,5	42,0	18,4	5,8	9,8	15,9
The macroeconomic situation in the country	37,6	47,2	38,0	28,5	34,2	9,0	34,4	15,3
<i>Base</i>	226	199	92	135	38	60	61	82

TABLE 5. SATISFACTION WITH THE QUALITY OF THE LEGISLATION AND THE QUALITY OF PUBLIC SERVICES RELATED TO BUSINESS OPERATION BY COMPANY SIZE (%)

<i>Satisfaction with the quality of the legislation</i>	Number of full-time employees							
	Up to 10		11-50		51-100		Over 100	
	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004
Highly satisfied	2,2	1,0	2,2	3,0	-	3,3	1,6	2,4
Somewhat satisfied	19,9	21,1	27,2	27,4	23,7	36,7	31,1	42,7
Somewhat dissatisfied	27,0	28,6	30,4	28,1	31,6	36,7	34,4	34,1
Highly dissatisfied	50,0	48,2	38,0	41,5	44,7	23,3	31,1	19,5
<i>DK/NA</i>	0,9	1,0	2,2	-	-	-	1,6	1,2
<i>Satisfaction with the quality of public services</i>	Up to 10		11-50		51-100		Over 100	
	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004
Highly satisfied	3,5	2,5	3,3	5,2	-	5,0	3,3	-
Somewhat satisfied	17,7	19,6	28,3	20,7	18,4	38,3	23,0	37,8
Somewhat dissatisfied	31,4	36,7	26,1	33,3	39,5	30,0	36,1	28,0
Highly dissatisfied	44,2	38,2	37,0	37,8	42,1	25,0	32,8	31,7
<i>DK/NA</i>	3,1	3,0	5,4	3,0	-	1,7	4,9	2,4
<i>Base</i>	223	199	92	135	38	60	61	82

TABLE 6. SHARE OF THE HIDDEN ECONOMY IN THE COUNTRY AS A WHOLE AND BY SECTOR, BY COMPANY SIZE (%)

<i>Share of the hidden economy in the country</i>	Number of full-time employees							
	Up to 10		11-50		51-100		Over 100	
	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004
Over 75%	8,8	9,9	2,8	6,9	3,4	-	4,1	1,9
51 to 75%	19,4	23,4	11,1	22,8	27,6	14,6	6,1	11,5
26 to 50%	46,9	43,3	54,2	44,6	37,9	51,2	63,3	46,2
11 to 25%	14,4	19,9	30,6	19,8	27,6	29,3	18,4	32,7
Up to 10%	7,5	1,4	-	5,9	3,4	4,9	4,1	5,8
<i>There is no hidden economy</i>	3,1	2,1	1,4	-	-	-	4,1	1,9
<i>Base</i>	<i>160</i>	<i>141</i>	<i>72</i>	<i>101</i>	<i>29</i>	<i>41</i>	<i>49</i>	<i>52</i>
<i>Share of the hidden economy in the respective sector</i>	Up to 10		11-50		51-100		Over 100	
	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004
Over 75%	2,9	3,4	2,6	3,8	3,0	-	1,9	-
51 to 75%	10,4	9,5	7,9	8,6	3,0	-	-	4,3
26 to 50%	16,8	27,7	22,4	20,0	21,2	22,0	7,5	21,3
11 to 25%	32,9	30,4	30,3	29,5	21,2	31,7	41,5	19,1
Up to 10%	25,4	23,6	19,7	34,3	42,4	36,6	26,4	36,2
<i>There is no hidden economy</i>	11,6	5,4	17,1	3,8	9,1	9,8	22,6	19,1
<i>Base</i>	<i>173</i>	<i>148</i>	<i>76</i>	<i>105</i>	<i>33</i>	<i>41</i>	<i>53</i>	<i>47</i>

TABLE 7. SHARE OF THE HIDDEN ECONOMY IN THE COMPANY, BY COMPANY SIZE (APRIL 2004, %)

<i>Share of the hidden economy in the respective company</i>	Number of full-time employees			
	Up to 10	11-50	51-100	Over 100
Over 75%	1,2	-	-	-
51 to 75%	1,2	0,9	-	-
26 to 50%	1,8	0,9	-	-
11 to 25%	4,1	4,5	3,8	2,9
Up to 10%	18,9	20,5	15,1	15,9
<i>There is no hidden economy</i>	72,8	73,2	81,1	81,2
<i>Base</i>	169	112	53	69

TABLE 8. MEASURES TO LIMIT THE HIDDEN ECONOMY, BY COMPANY SIZE (%)

	Number of full-time employees							
	Up to 10		11-50		51-100		Over 100	
	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004
To reduce taxes	58,8	66,8	62,0	61,5	55,3	63,3	75,4	48,8
To adopt stricter laws	26,5	19,1	20,7	23,7	31,6	26,7	19,7	23,2
To provide more effective business incentives	46,0	54,8	47,8	55,6	55,3	60,0	45,9	46,3
To reinforce tax control	15,9	16,1	14,1	20,0	26,3	21,7	31,1	25,6
To enhance the efficiency of the judicial system	23,5	11,1	15,2	19,3	23,7	15,0	24,6	17,1
To improve the quality of administrative procedures	17,7	15,1	13,0	18,5	15,8	16,7	14,8	22,0
To reduce corruption	34,1	34,2	26,1	33,3	39,5	38,3	27,9	31,7
To facilitate credit access	21,7	26,1	30,4	19,3	18,4	6,7	16,4	19,5
To restrict mafia operations	19,5	16,6	17,4	17,8	7,9	18,3	14,8	11,0
To reinforce border and customs control	12,4	18,6	15,2	17,0	5,3	10,0	18,0	12,2
<i>Other</i>	0,9	1,5	1,1	1,5	5,3	-	1,6	4,9
<i>DK/ NA</i>	3,5	1,0	9,8	1,5	2,6	3,3	16,1	3,7
<i>Base</i>	226	199	92	135	38	60	61	82

TABLE 9. SHARE OF THOSE HIRED WITHOUT CONTRACTS OR UNDER CONTRACTS WITH “SECRET CLAUSES”, BY COMPANY SIZE (%)

<i>Share of those hired without contracts</i>	Number of full-time employees							
	Up to 10		11-50		51-100		Over 100	
	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004
Over 75%	1,2	1,4	1,3	2,3	-	-	-	-
51 to 75%	4,8	1,4	1,3	4,5	-	-	2,1	5,7
26 to 50%	11,9	15,9	7,8	10,2	13,8	7,3	4,3	5,7
11 to 25%	20,8	13,8	33,8	18,2	17,2	26,8	17,0	15,1
Up to 10%	35,1	45,7	27,3	37,5	48,3	34,1	34,0	26,4
<i>There are no such employees</i>	26,2	21,7	28,6	27,3	20,7	31,7	42,6	47,2
<i>Base</i>	168	138	77	88	29	41	47	53
<i>Share of those hired under contracts with “secret clauses”</i>	Up to 10		11-50		51-100		Over 100	
	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004
Over 75%	8,8	8,3	5,5	11,6	3,7	2,4	4,2	1,9
51 to 75%	9,4	8,9	6,8	6,3	3,7	2,4	8,3	11,1
26 to 50%	20,1	21,0	16,4	14,7	11,1	24,4	6,3	13,0
11 to 25%	20,1	18,5	31,5	18,9	33,3	24,4	22,9	14,8
Up to 10%	23,9	24,8	15,1	29,5	33,3	24,4	31,3	22,2
<i>There are no such employees</i>	17,6	18,5	24,7	18,9	14,8	22,0	27,1	37,0
<i>Base</i>	159	157	73	95	27	41	48	54

TABLE 10. UNREPORTED SHARE OF THE TURNOVER AND SHARE OF THE COMPANIES IN THE RESPECTIVE SECTOR PAYING TAXES LOWER THAN THE DUE RATES, BY COMPANY SIZE (%)

<i>Unreported share of the turnover</i>	Number of full-time employees							
	Up to 10		11-50		51-100		Over 100	
	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004
Over 75%	2,2	4,3	-	-	3,4	-	-	2,0
51 to 75%	6,6	7,7	7,1	-	-	-	2,3	2,0
26 to 50%	16,9	23,1	24,3	12,5	13,8	17,1	4,5	18,4
11 to 25%	27,9	23,9	14,3	34,1	41,4	34,3	25,0	10,2
Up to 10%	27,9	25,6	28,6	21,6	31,0	25,7	25,0	18,4
<i>Everything is reported officially</i>	18,4	15,4	25,7	23,9	10,3	22,9	43,2	49,0
<i>Base</i>	136	117	70	88	29	34	44	49
<i>Share of the companies in the sector paying taxes lower than the due rates</i>	Up to 10		11-50		51-100		Over 100	
	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004	NOV 2003	APR 2004
Over 75%	5,3	12,2	4,7	6,9	13,6	3,2	2,5	-
51 to 75%	9,2	9,6	12,5	6,9	4,5	-	2,5	6,8
26 to 50%	19,8	20,9	20,3	19,4	18,2	19,4	12,5	18,2
11 to 25%	20,6	17,4	21,9	23,6	27,3	29,0	20,0	6,8
Up to 10%	25,2	19,1	14,1	25,0	27,3	12,9	22,5	22,7
<i>There are no such companies</i>	19,8	20,9	26,6	18,1	9,1	35,5	40,0	45,5
<i>Base</i>	131	115	64	72	22	31	40	44

Demographic characteristics of the companies surveyed:

TABLE 11. NUMBER OF FULL-TIME EMPLOYEES

	November 2003		April 2004	
	%	<i>Base</i>	%	<i>Base</i>
Up to 10	54,2	226	41,8	199
11-50	22,1	92	28,4	135
51-100	9,1	38	12,6	60
Over 100	14,6	61	17,2	82
<i>Total</i>	<i>100,0</i>	<i>417</i>	<i>100,0</i>	<i>476</i>

TABLE 12. LEGAL STATUS

	December 2002	March 2003	November 2003	April 2004
Sole trader	57,6	30,3	34,9	37,9
Commercial partnership	1,3	2,2	2,4	2,1
Joint-stock company	13,1	12,1	13,3	16,5
Limited liability company	22,9	54,4	46,3	42,7
Cooperative	-	-	0,2	0,2
Subsidiary of a foreign company	-	-	1,0	-
Other	5,1	0,9	1,7	0,6
<i>Base</i>	<i>528</i>	<i>445</i>	<i>421</i>	<i>478</i>

TABLE 13. MAIN AREA OF ACTIVITY

	December 2002	March 2003	November 2003	April 2004
Agriculture, forestry, fishing	3,4	2,7	3,3	2,3
Hotel business and catering	1,7	2,3	2,6	2,7
Services	21,9	16,7	18,1	3,6
Construction	5,1	13,3	9,0	14,6
Transport and communications	6,4	5,4	5,2	11,8
Wholesale trade	7,5	17,8	16,9	13,9
Retail trade	32,5	17,6	14,7	19,4
Utilities (electricity, gas, water supply, etc.)	-	1,1	1,7	1,1
Industry (mining and processing industries, manufacturing)	16,0	13,3	16,6	26,6
Education / training	1,9	0,2	1,0	0,2
Healthcare / medical services	2,5	2,3	4,5	0,8
IT sector (information technologies, computers, Internet)	-	2,0	1,9	-
Other sector	1,1	5,4	4,3	3,0
<i>Base</i>	<i>530</i>	<i>444</i>	<i>421</i>	<i>474</i>

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5, Alexander Jendov Street, Sofia 1113

Tel: 971 3000

Fax: 971 2233

E-mail: VR@ONLINE.BG

WWW.VITOSHA-RESEARCH.COM