

Undeclared Work in Bulgaria: Monitoring and Policy Dynamics

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PRESENTATION



Forms of Undeclared Work

- Work without contract (main job) declining - varies between 6% in 2003 to 4% in 2013
- Work without contract (second job) - steep decrease from 77,4% in 2003 to 32,2% of dependent employees in 2013
- Under-declared employment (envelope wages) on the rise - 10% in 2003 and 13,8% in 2013
- Under-reporting by employers more serious than non-reporting by self-employed or households

Sectorial, Business and Socio-Economic Variations

Vulnerable sectors / productive activities

- Construction, real estate sales
- Tourism, hotels and restaurants
- Wholesale trade and retail (food, garments, textiles)
- Agriculture, food processing
- Services (repairs, advertising, accounting, hydroisolation, funerals, taxis, security...)
- Food commodities trade (grain, sugar, etc)
- Production and distribution of excise goods (cigarettes, fuels, alcohol)

Vulnerable business types

- Small and medium-size enterprises
- Domestic firms
- Micro-firms and sole traders
- Start-ups
- Firms in small/medium towns and in rural areas

Vulnerable population groups

- Long-term / temporary unemployed / discouraged
- Low-qualified, low earners, manual workers
- Self-employed
- Young people

Drivers of undeclared work

Structural drivers

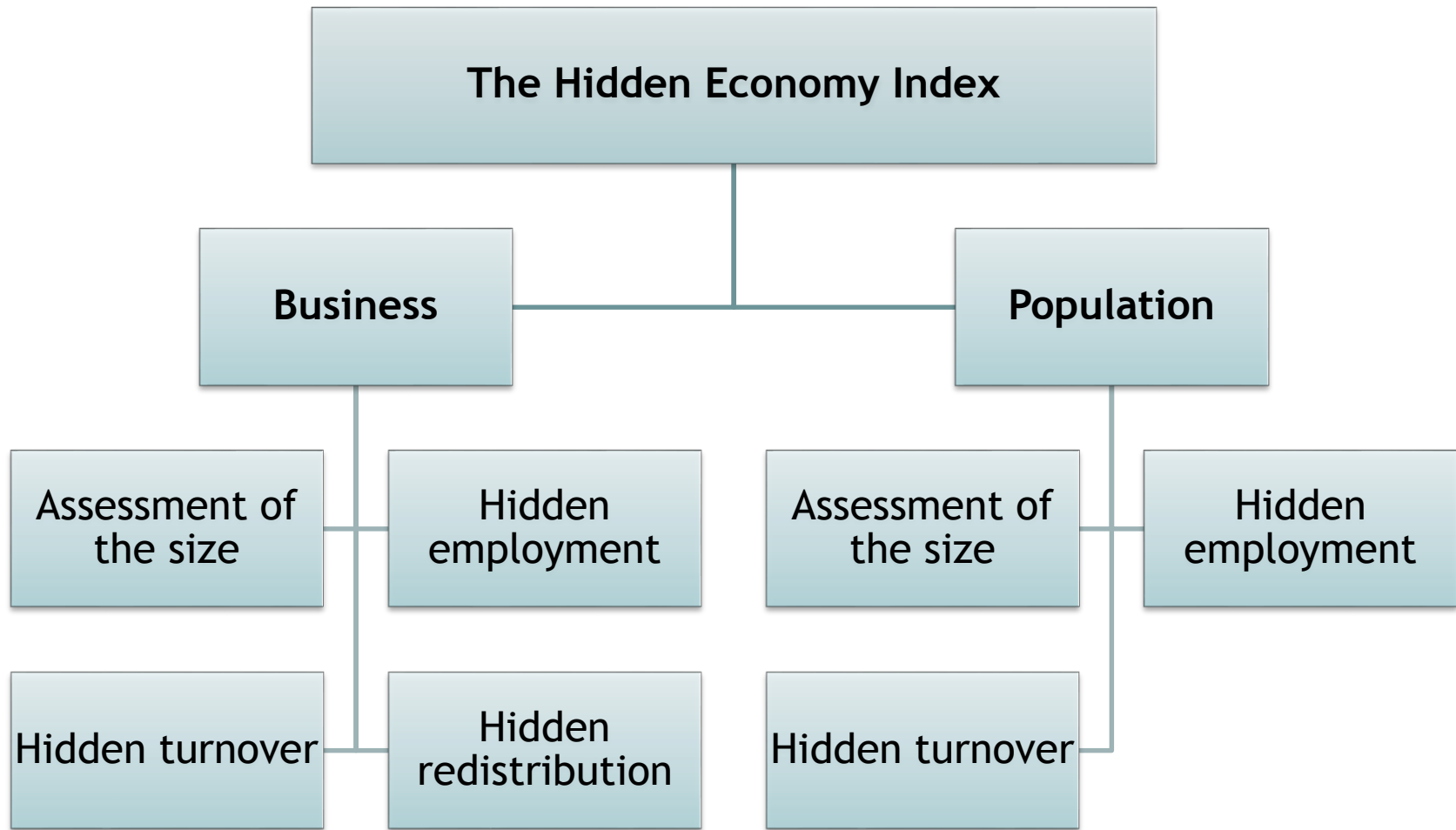
- Business regulations
- Structure of taxation
- Welfare system
- Labour market regulations and interventions (minimum wages, insurance thresholds, etc.)

Institutional credibility and social norms

- Government effectiveness, control of corruption, rule of law
- Procedural fairness and justice
- Tax morale
- Relationship of trust between state institutions and citizens

Direct Methods for Measuring

- *Eurobarometer survey*
 - Supply and demand of undeclared work
- *Hidden Economy Index, CSD (since 2002)*
 - Business Hidden Economy Index
 - Population Unreported Economic Activity Index
- *White Economy Index, Bulgarian Industrial Capital Association (since 2010)*
 - Population survey
 - Business survey
 - Sectorial audits

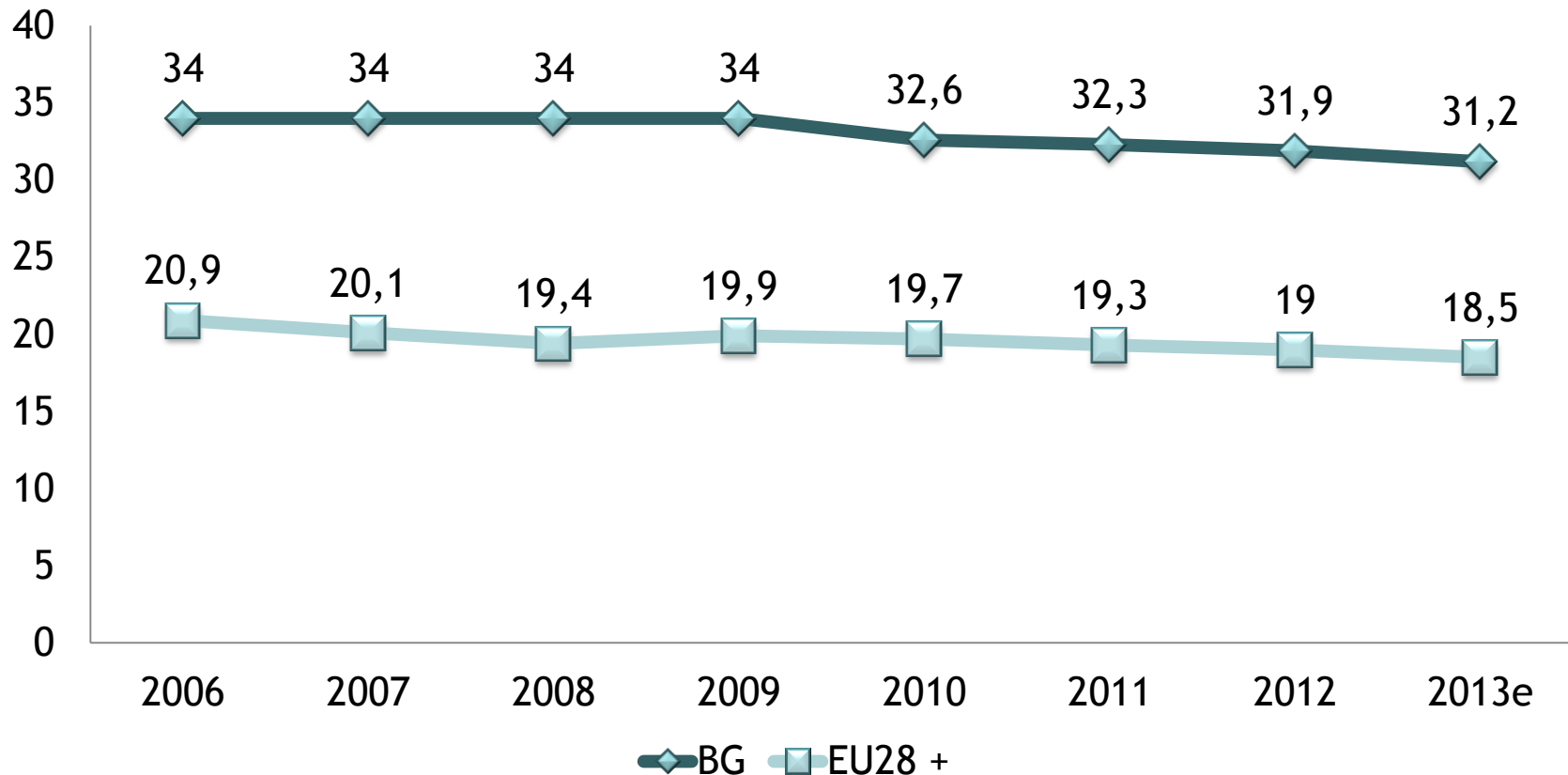


Indirect Methods for Measuring

Measurement method	Period covered	Estimated size of the undeclared sector as % of GDP
DYMIMIC (Schneider 2013)	2013 1999 - 2007	31.2% 35.3%
Two-sector dynamic general equilibrium model (Elgin and Öztunali, 2012)	2000-2008	35.5% - 31.9%
Electricity consumption (Ministry of Finance, 2010)	2000-2009	20%
Monetary method (corrected) (Ahumada et al, 2009)	1998-2007	15%
Currency circulation method (Nenovski and Hristov, 2000)	1999	26.8%
Electricity consumption (Kyle et al, 2001)	1989 - 1998	25% - 37%

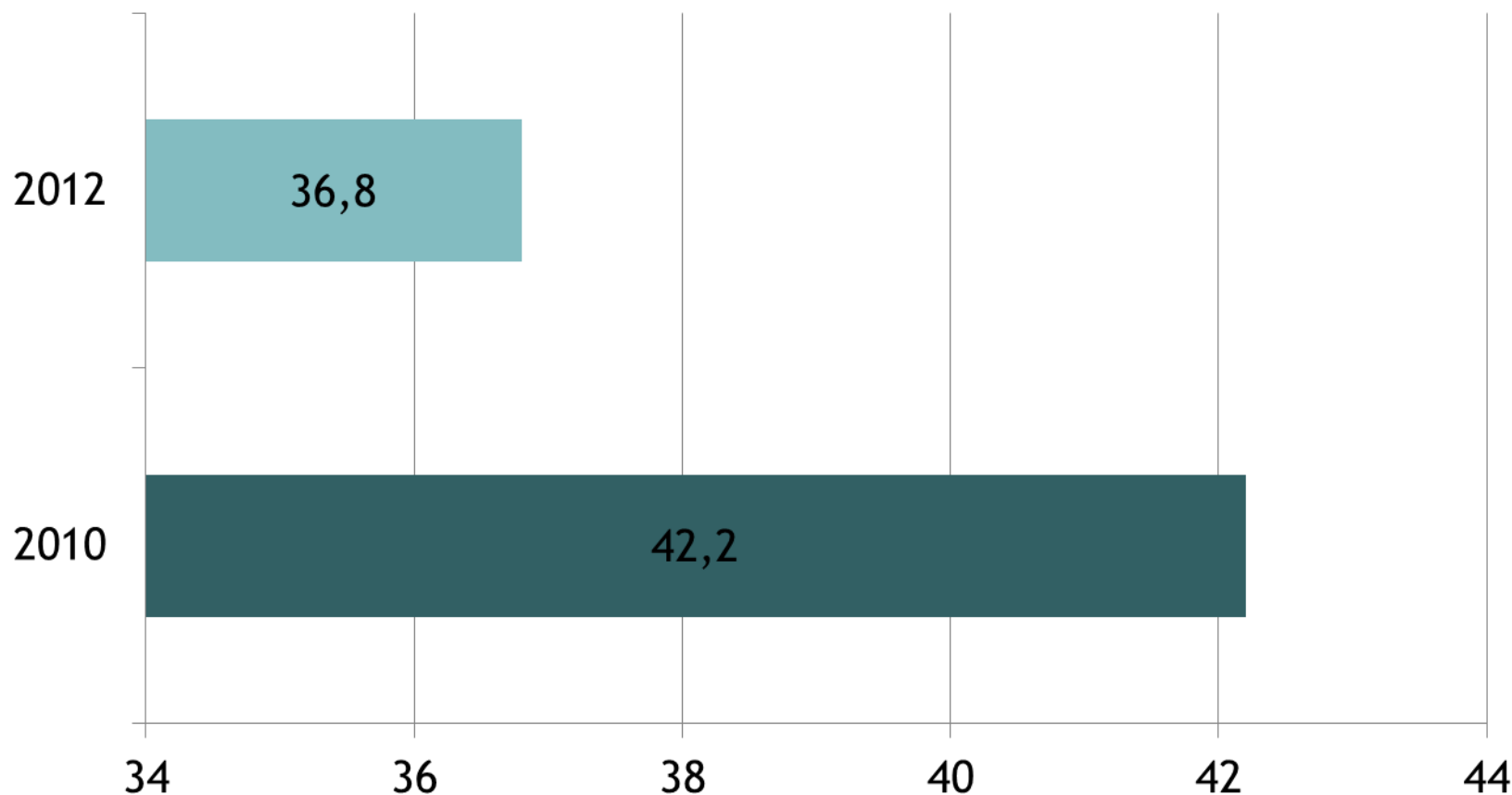
Extent of Undeclared Work

Shadow economy as % of GDP



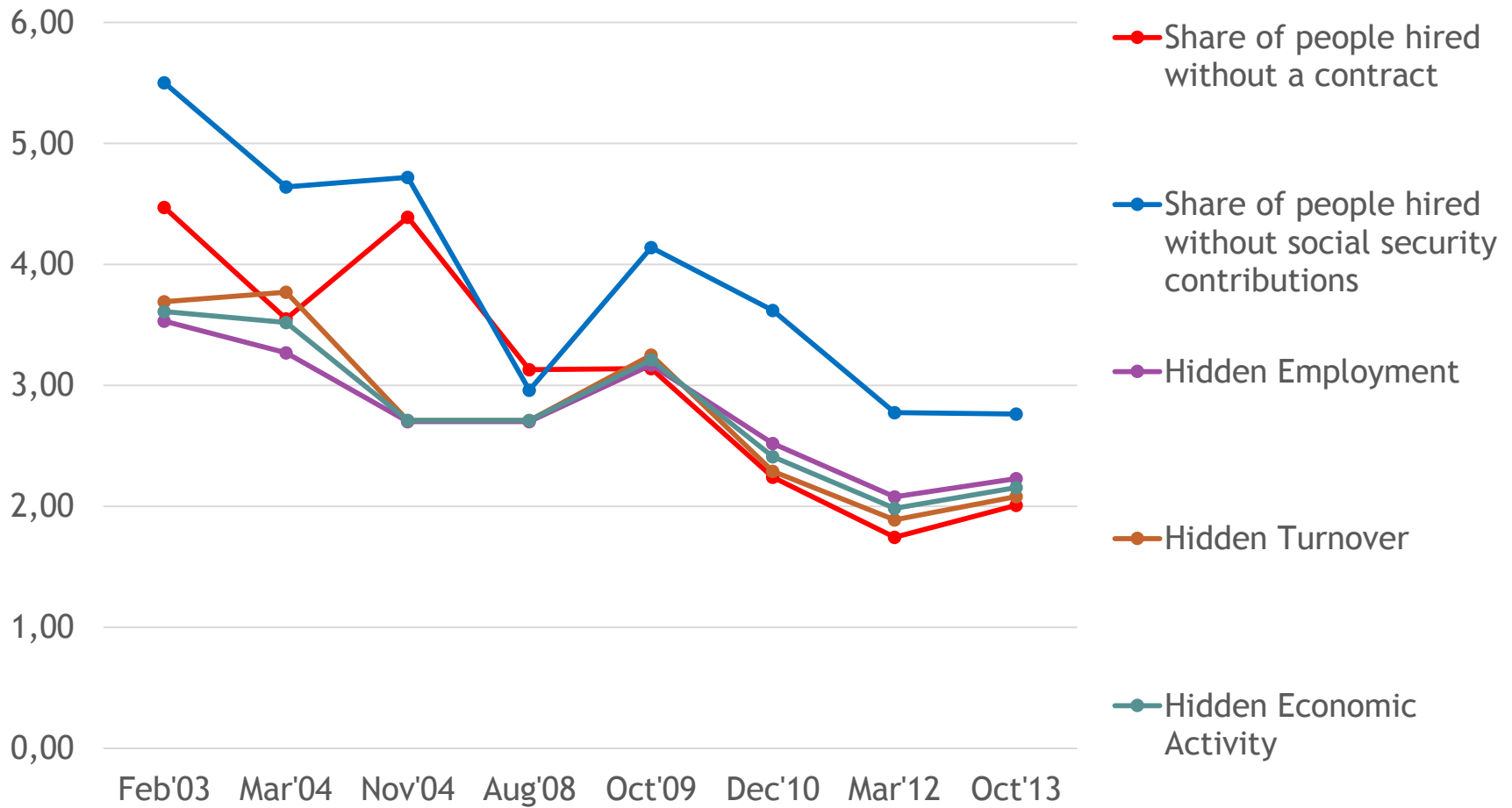
Source: Schneider, 2013 (MIMIC method)

Employers' Estimates of the Informal Economy Share in Bulgaria



Source: BICA, First Monitoring Report on Informal Economy and Progress in Prevention

Unreported Economic Activity of the Population

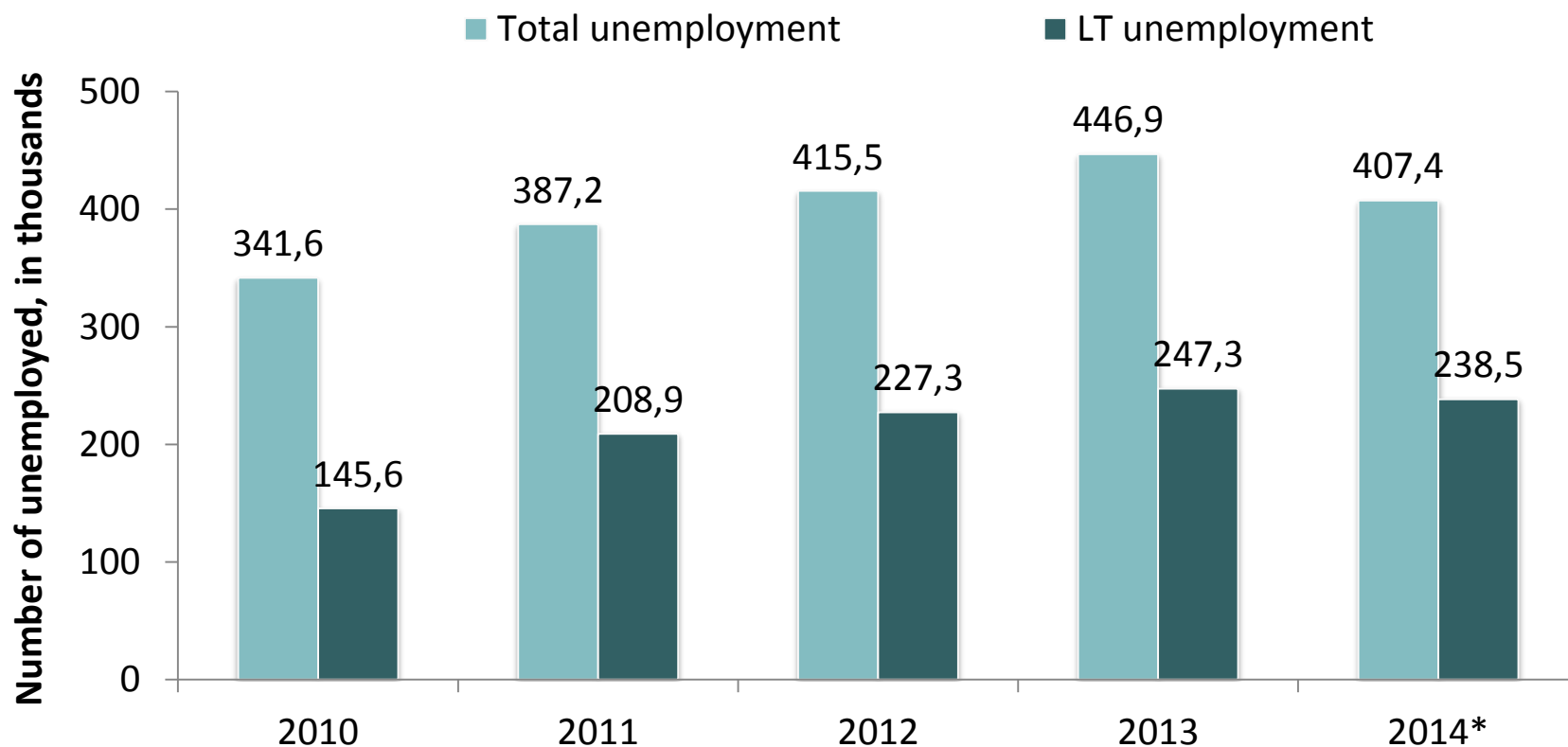


Source: CSD, Hidden Economy Survey on the Population

Main Economic Trends

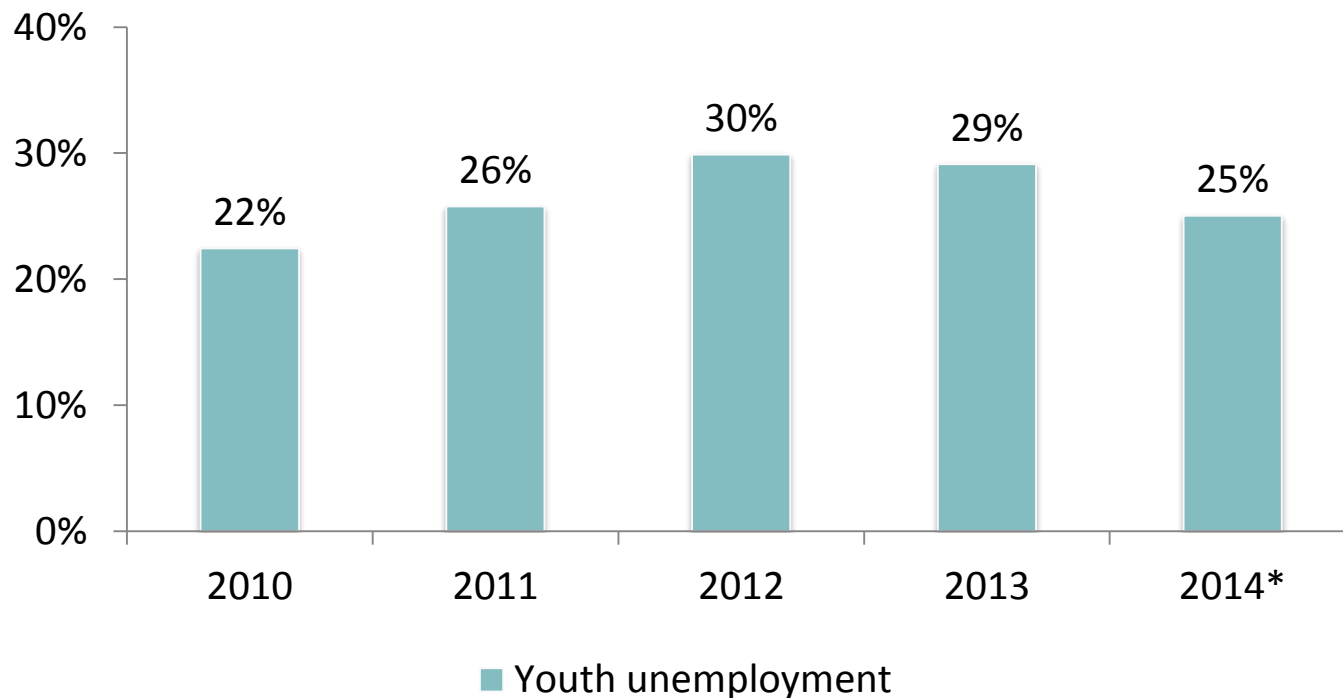
- ❑ Main positive competitiveness boosting factors are **Bulgaria's fiscal stability and the low labor and productivity costs**
- ❑ Main concerns are related to the **deep structural problems of the Bulgarian labor market, corrupt management practices and weak institutional framework in the country**

Long Term vs. Overall Unemployment for 2010 - 2014 (Q1 & Q2)



Source: National Statistical Institute

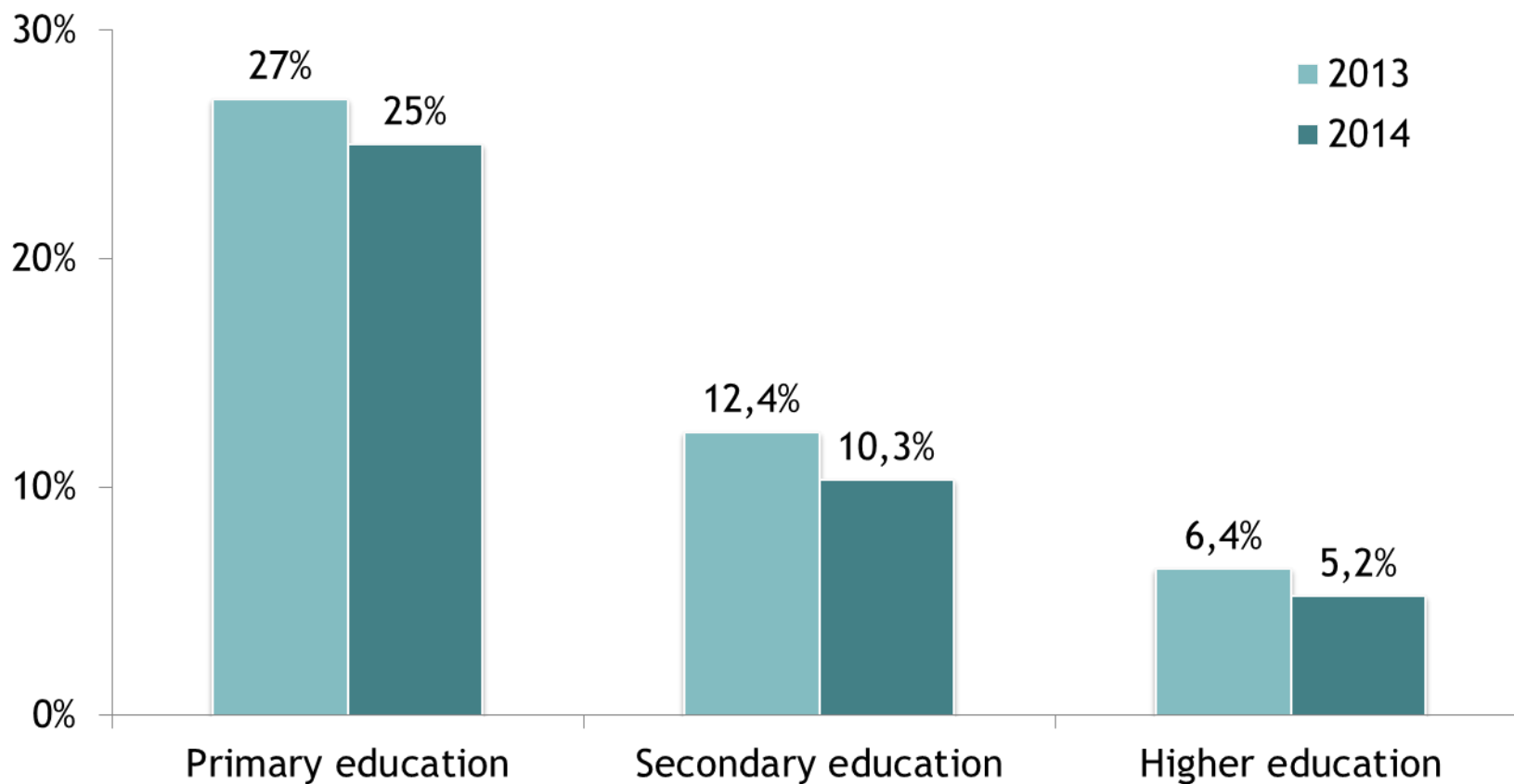
Youth Unemployment Overview for 2010 - 2014 (Q1 & Q2)



*preliminary values

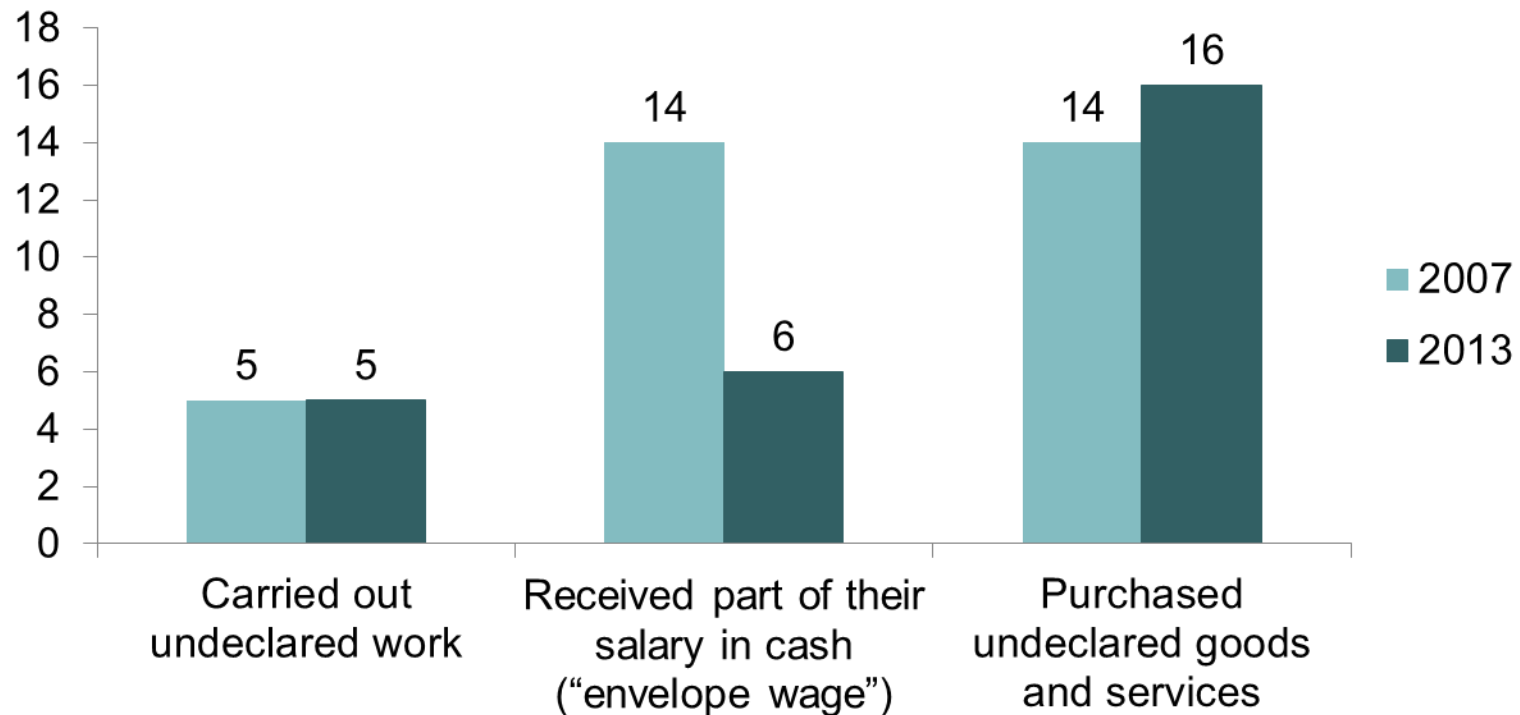
Source: National Statistical Institute Bulgaria

Comparison between the Unemployment Rates for 2013 and 2014 according to Educational Level



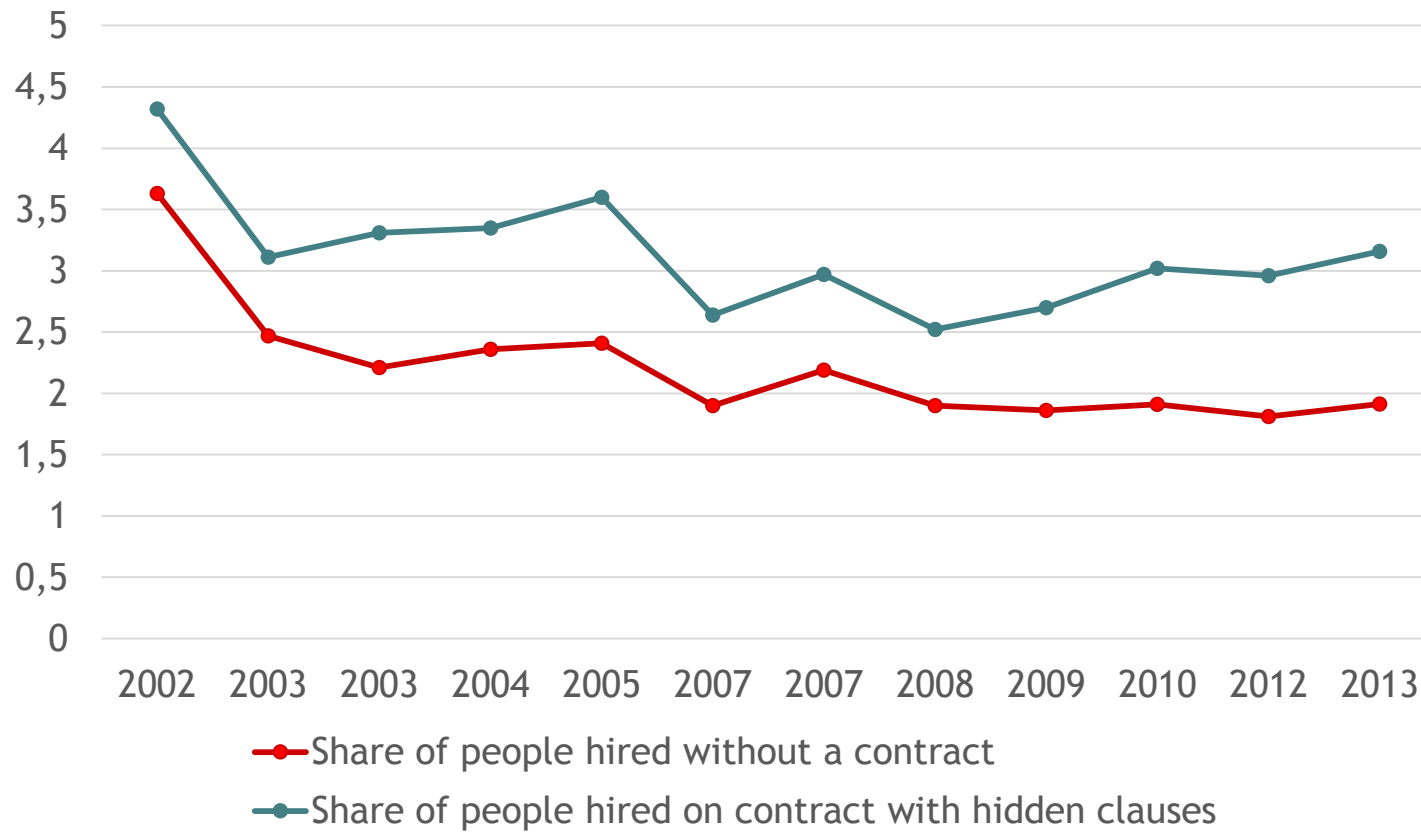
Source: National Statistical Institute

Eurobarometer survey 2007 and 2013 - Bulgaria

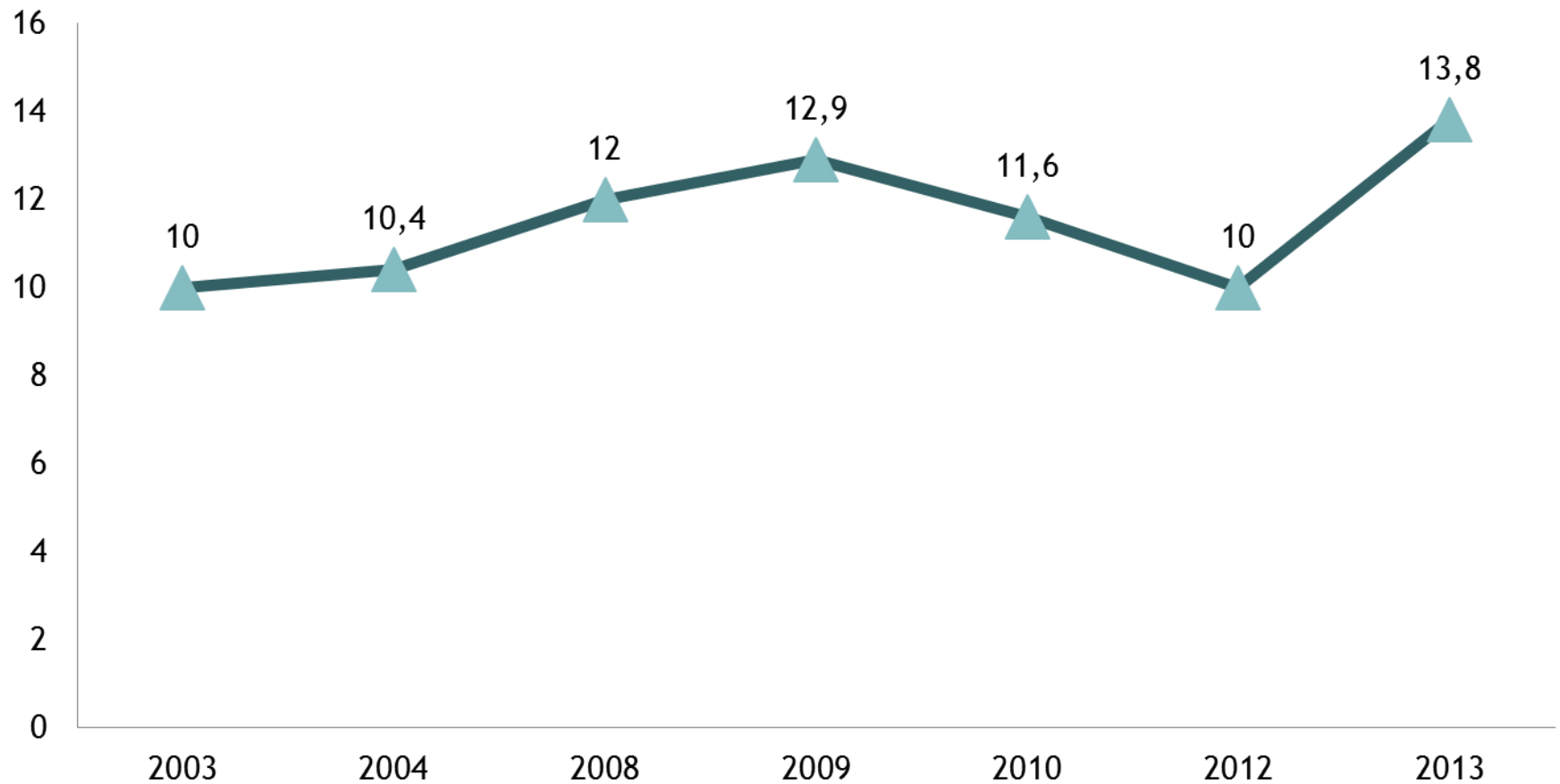


Source: Special Eurobarometer 402, N=1,000 / 1,018

Dynamics of the Indexes "Hired Without Contract" and "Hired Under Contract with Hidden Clauses"



Envelope Wages on the Rise: Payment of Renumeration Higher than the Stated in the Contract in the Past Month (Population)



Source: CSD / Hidden Economy Index, 2013

Base Amount for Payment of Social Security Contributions under Primary Employment 2003-2013 (%)

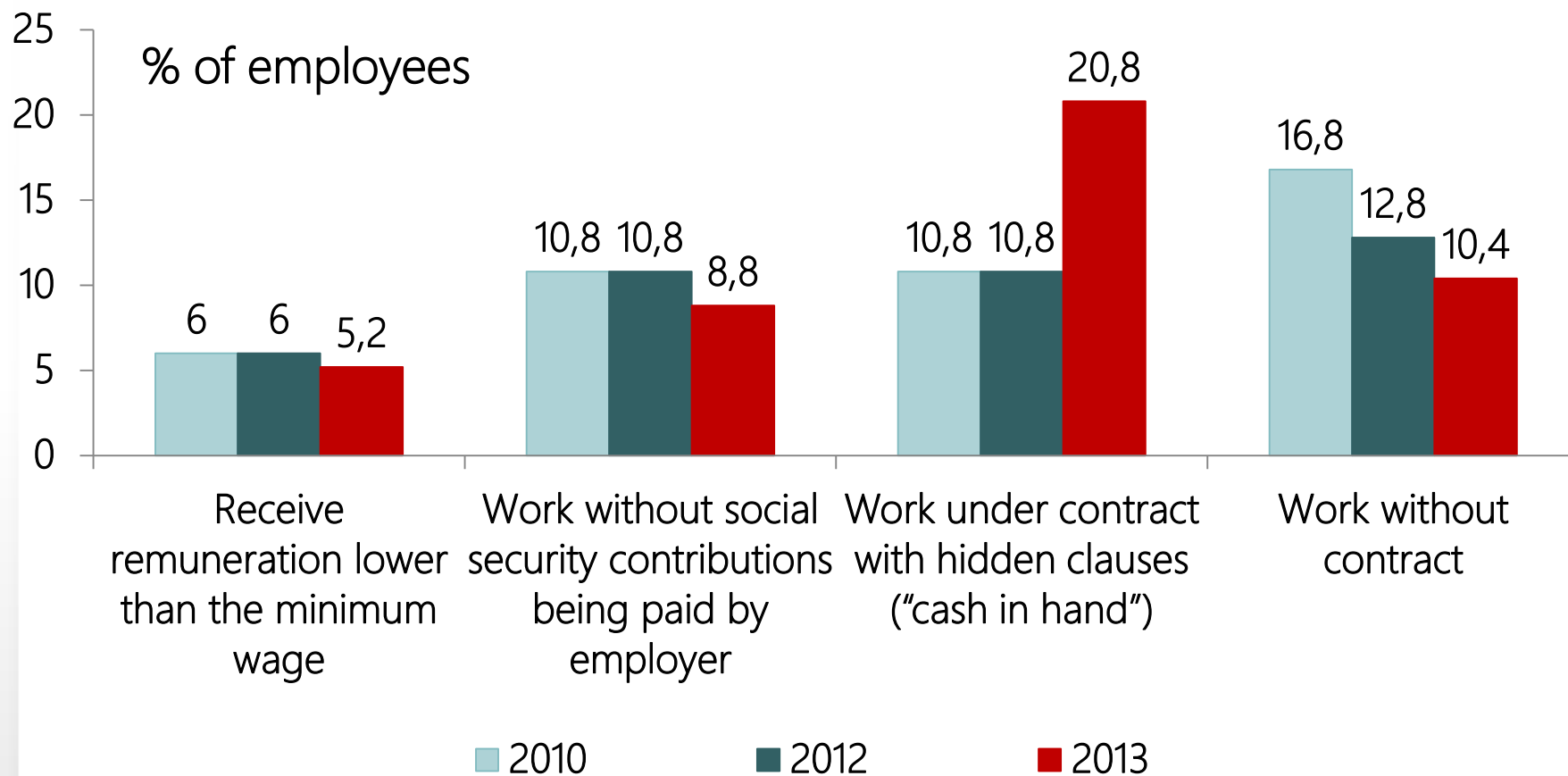
Type	2003	2004	2008	2009	2010	2012	2013
The minimum social security threshold, although sum of my remuneration is higher	12,1	13,4	13,5	12,9	10,3	9,0	12,6
The minimum social security threshold, which is what I am actually paid	10,3	14,3	9,5	12,6	5,9	7,0	5,2
The amount stated in my contract even though the total sum of my remuneration is higher	6,7	8,3	15,0	15,5	8,4	13,0	15,3
The amount stated in my contract, which is what I am actually getting paid	68,3	63,4	61,8	56,2	67,0	67,0	63,8
Other	2,6	0,6	0,3	2,8	1,5	4,0	3,1
Base	348	314	378	395	466	420	505

Source: Center for the Study of Democracy, survey of the population

Share of Employed under no Employment Contract under Primary or Secondary Employment 2003-2013 (%)

	2003	2004	2008	2009	2010	2012	2013
Without labor contract- primary employment	6,0	5,9	5,6	5,9	3,4	3,0	4,0
Without labor contract- secondary employment	77,4	59,1	51,5	51,0	38,1	29,0	32,2

BICA employees survey: participation in undeclared work



Source: BICA (2013) Survey of employees, N=250 employees

Institutional framework for combatting undeclared work

Enforcement bodies:

- General Labour Inspectorate (GLI)
 - National Revenue Agency (NRA)
-
- Focus on inspections and administrative control measures
 - Tax revenue collection strengthened
 - A service-oriented approach towards taxpayers starting to emerge

Control Agencies: annual reports

National Revenue Agency;
Employment Agency; National Labor
Inspectorate

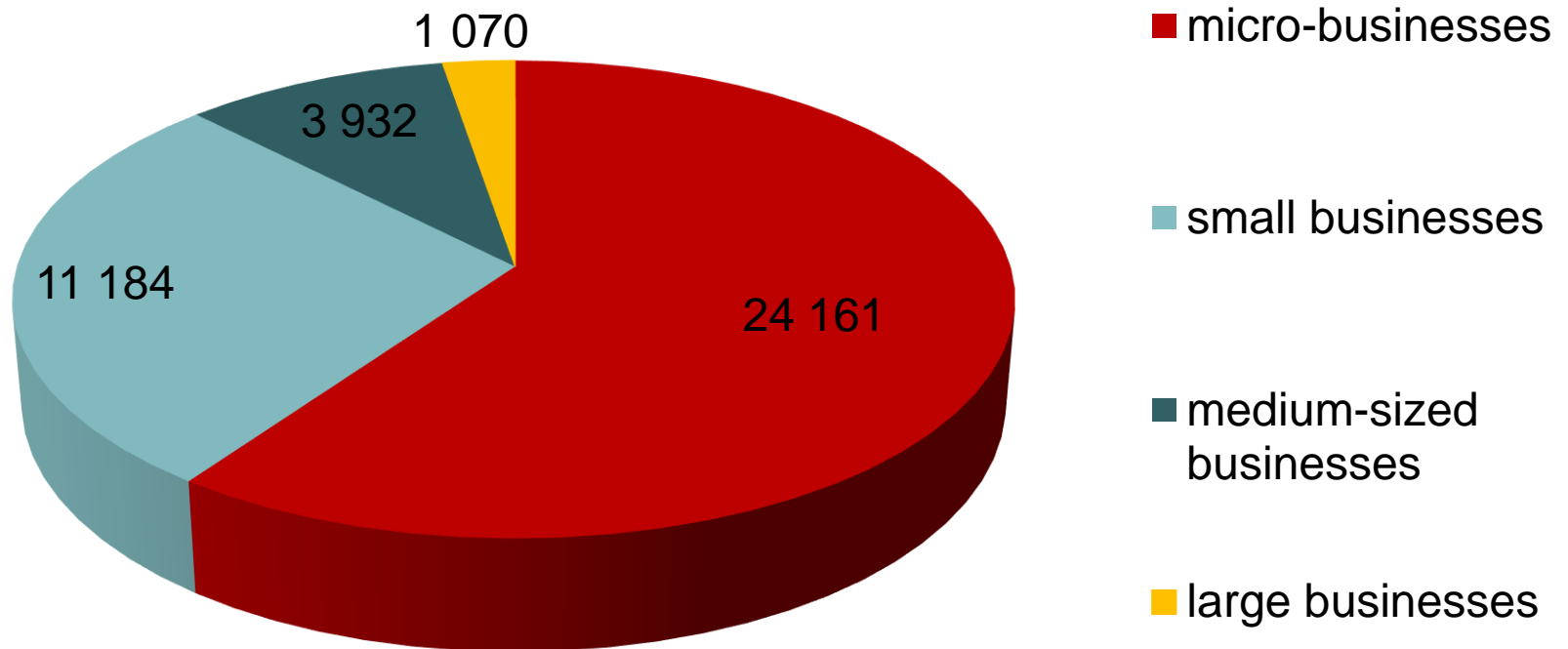
Regional Inspectorate for Protection
and Control of Public Health;
Bulgarian Food Safety Agency

Regional Inspectorate for
Environment and Water

Directorate for National Construction
Supervision

Observation on indicators for
Activities of Shadow Economy

Businesses inspected by GLI in 2012 by firm size



Source: General Labour Inspectorate, Annual Report 2012

Repressive measures

- Mandatory real-time link between fiscal devices and the revenue agency' servers (2011)
- Excise goods movement control system (2010)
- Increased penalties and enhanced (joint) controls (labour inspectorate and revenue office)
- Targeted inspection campaigns (seasonal work, high-risk sectors, part-time contracts)

Preventative measures (detering entry)

- Act on Limiting Administrative Regulation and Administrative Control on Economic Activity (2003)
- Mandatory registration of labor contracts (2002)
- Minimum Social Insurance Thresholds (2003)
- Restricting cash transactions above BGN 15,000 (2011)
- Enhancing administrative control and increasing sanctions: National Revenue Agency and the Chief Labor Inspectorate
- NRA is using more e-services to increase customer satisfaction (2012)
- More recently: introducing risk analysis

Enabling movement out of the shadow economy (curative measures)

- Flat income tax on personal income and corporate profits (2008)
- Food vouchers (2003)
 - additional non-taxable income for employees
 - substitute/reduce undeclared “cash” wage payments

Fostering a culture of commitment

- “Come Into the Light” campaign (2007) (Bulgarian Industrial Association and the Bulgarian Industrial Capital Association)
- “Work Legally” campaign (2008) (General Labour Inspectorate)
- Proactive role of **social partners**: research, formalisation advise, public awareness, education services:
 - National Center “Rules for Business” - Bulgarian Industrial Capital Association (BICA) and Confederation of the Independent Trade Unions in Bulgaria (CITUB)
 - Virtual Social Academy - Bulgarian Chamber of Commerce and Industry (BCCI)
(<http://www.vsa.bcci.bg>)

Policy conclusions

- Focus on **punitive and corrective measures** has produced some results in the area of tax evasion and registration of labour contracts.
- However, **sustainability of their effect** uncertain without efforts to stimulate voluntary compliance, create more enabling business environment, improve procedural fairness and justice and restore public trust.
- Many policy measures, but no integrated approach, no **systematic evaluation** of the effect of measures implemented or planned (inlc. adaptation costs for affected groups to increase policy acceptability).

Thank you for your attention

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