

- **The Hidden Economy Trends and Developments and the Role of the CSOs: The Experience of Bulgaria**

Skopje, 27-28 November
2014

Ruslan Stefanov
Director
Economic Program

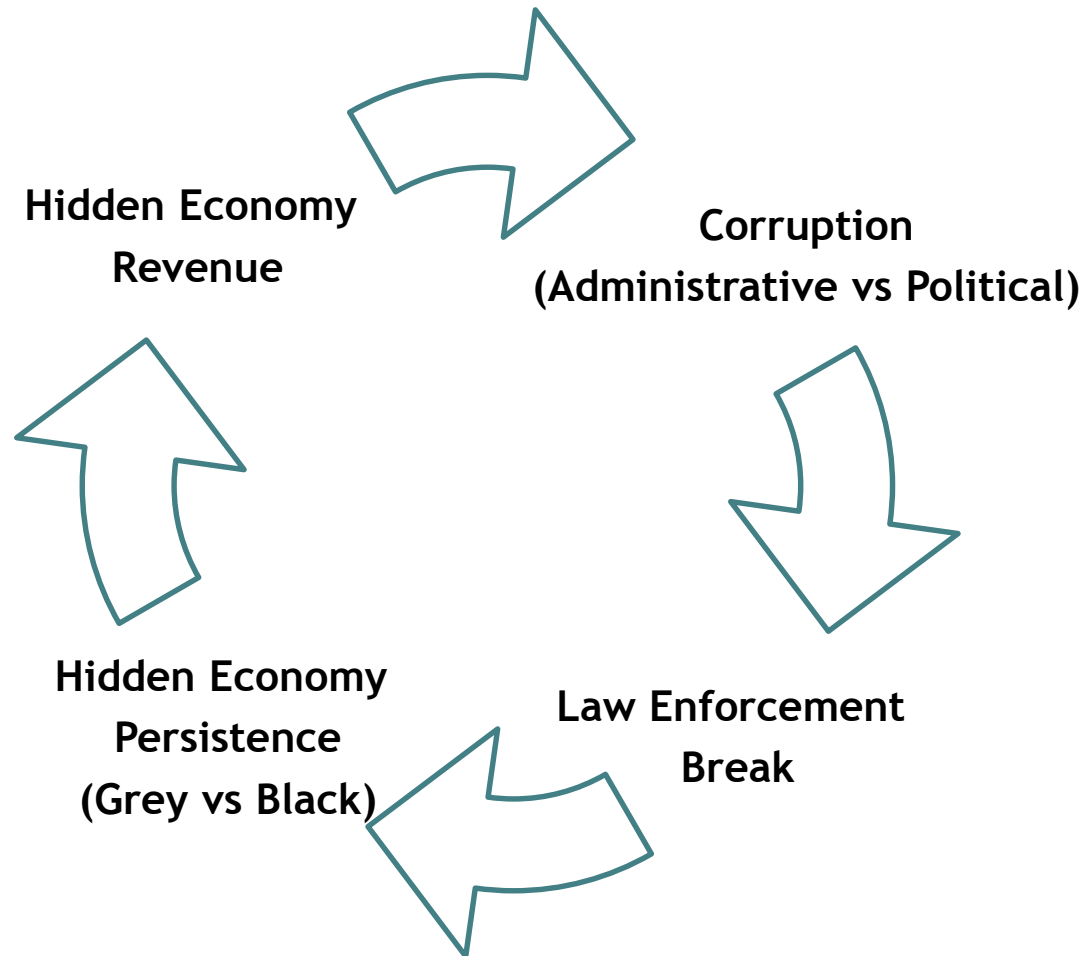
PRESENTATION



CSD Services and activities



A Vicious Circle



Пирамида на политиките срещу сивата ИКОНОМИКА

Grey Economy Policy Pyramid

**развитие на култура за отчетност и
почтеност**

developing a culture for accountability &
integrity

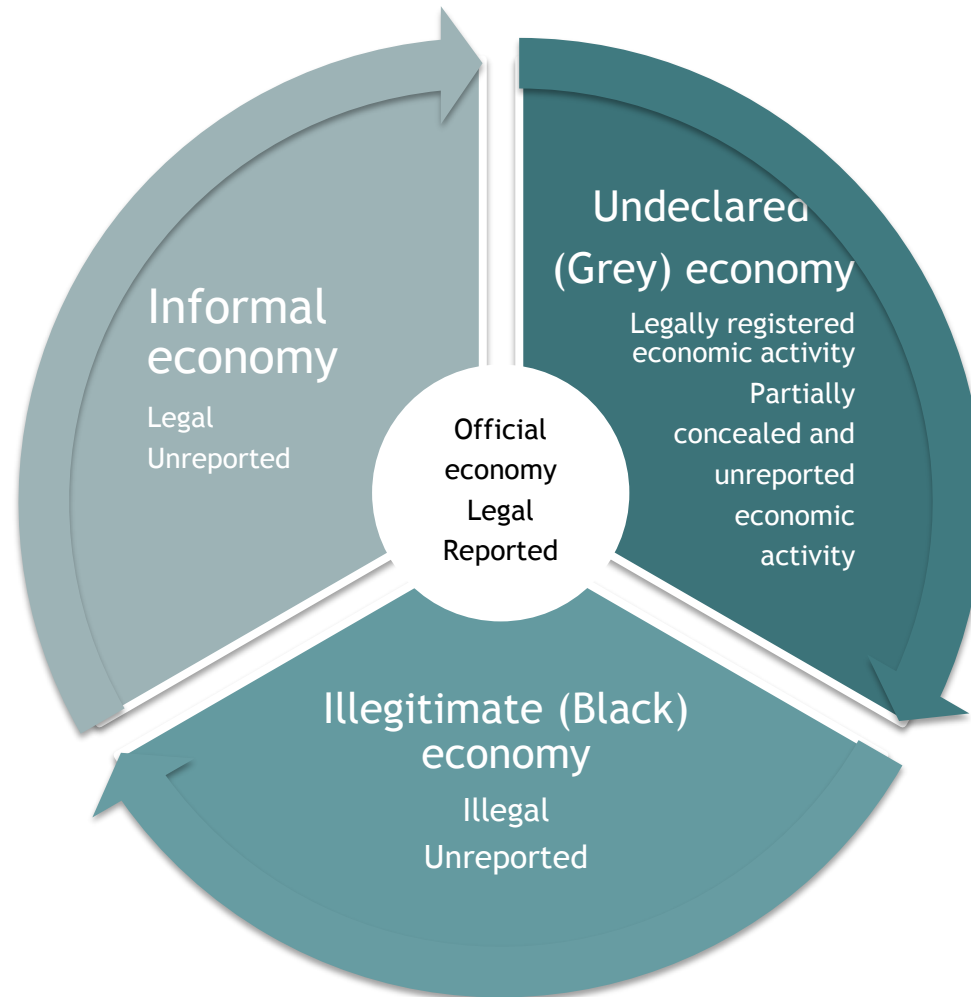
**намаляване на разходите
за легалния бизнес**

reducing costs for formal
business

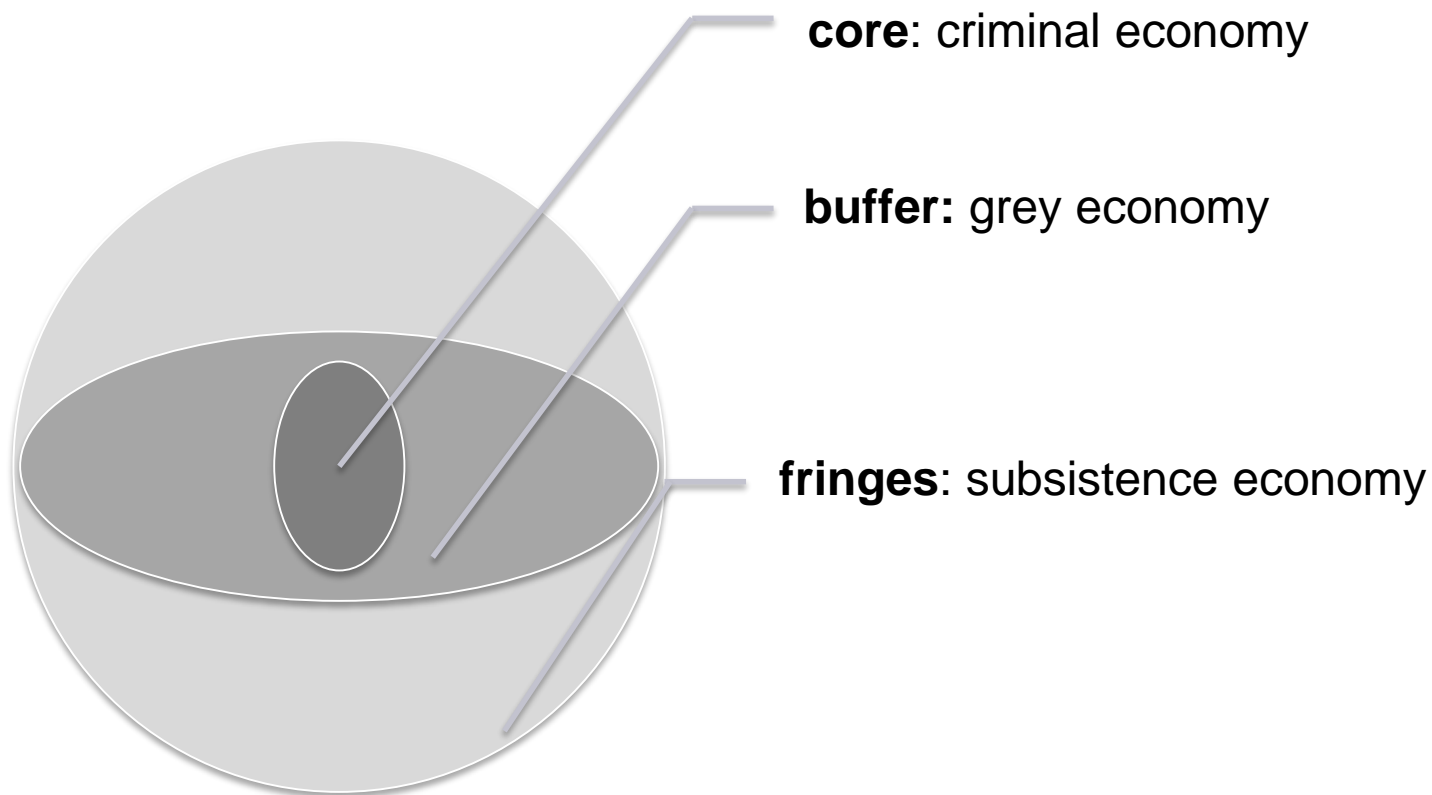
**укрепване на
правоприлагането**

strengthening
enforcement

Definition of Hidden Economy



The Hidden Economy Loops



Causes of Hidden Economy

- Tax and Social Security Burden
 - Not only size matters
 - Compliance costs (private and public)
- Regulation
 - Goods quality requirements
 - Price regulations and entry barriers
- Institutional Context

Effects

- **The Economy and Government Policies**
 - Positive – incomes are being spent into the official economy
 - Yet the gray sector has a negative effect on the tax system
 - Might have short term stabilizing function, but in the long-term, can have lasting negative consequences for the institutional legitimacy
 - Government policies are becoming more ineffective – underfunding of public goods
- **Institutional Efficiency – level of fair competition**
 - Inflow of dirty money into politics
 - Aids corruption and the criminalization of the economy
 - Hinders efficient resource allocation
- **Business Efficiency**
 - Lack of enforcement of contractual obligations
 - Increased regulatory burden on legitimate businesses

CSD Hidden Economy Index

Size of the hidden economy

- Subjective perceptions of businesses for the scope of the hidden economy in the country in general and in their respective sector

Hidden employment

- Hiring workers without contract
- Underreported remuneration (envelope wages)

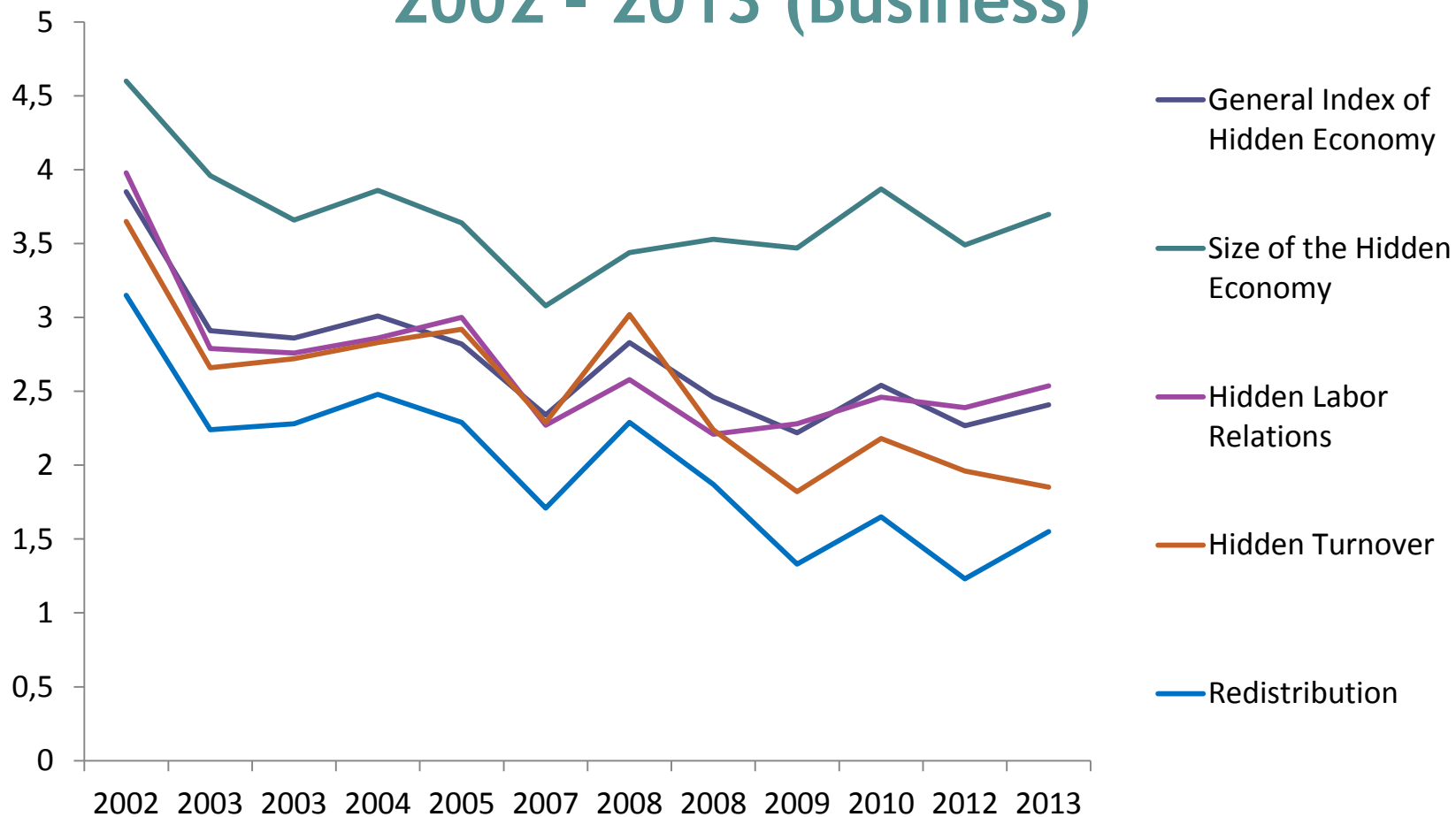
Hidden turnover

- Failure to issue tax receipts on sales
- Underreporting turnover
- Underreporting profit
- Illegal (undeclared) export / import

Hidden redistribution

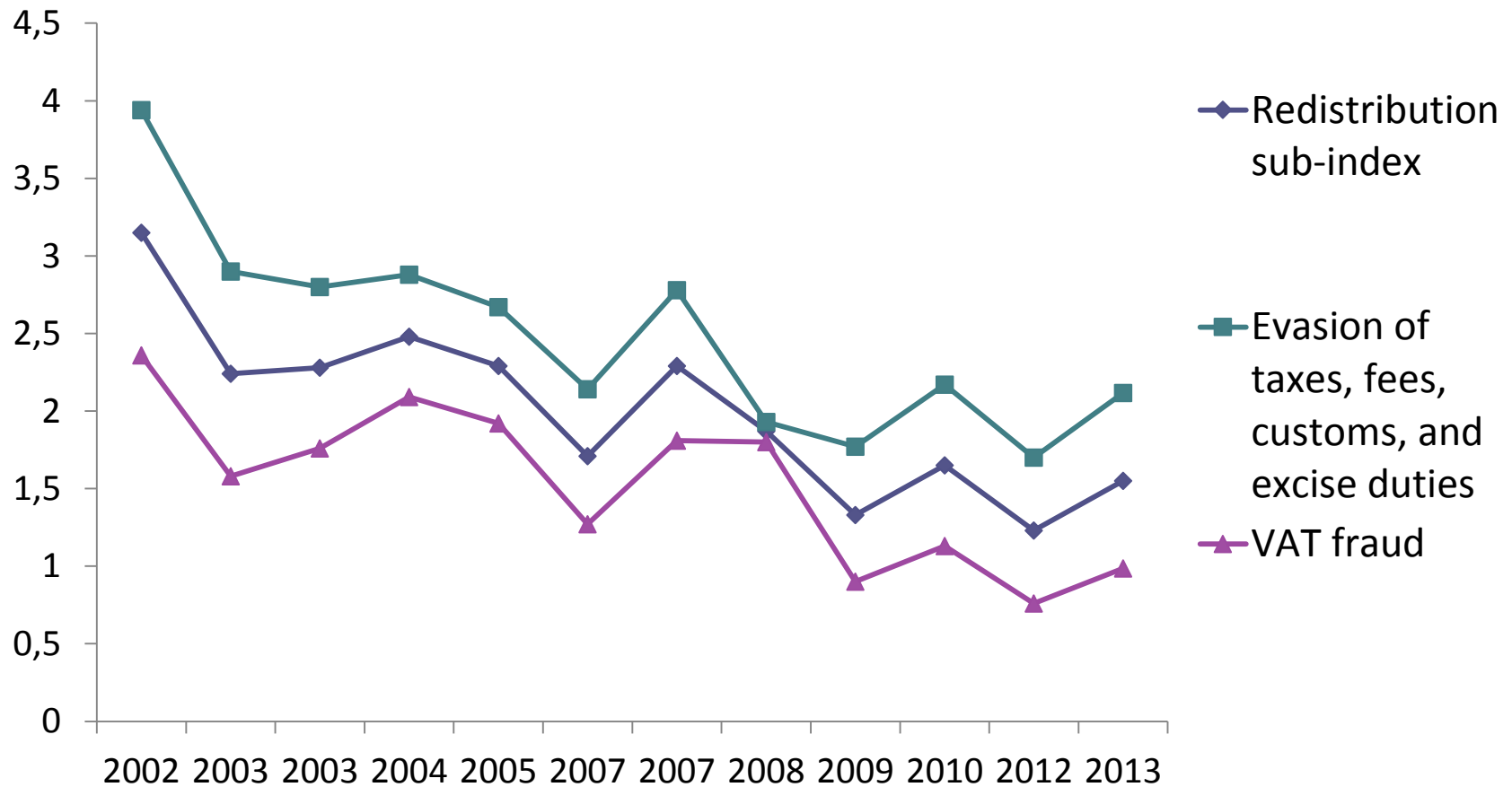
- Evasion / non-payment of taxes, fees, customs, excise duties
- VAT fraud

Dynamics of The Hidden Economy Index, 2002 - 2013 (Business)



VAT Fraud and Tax Evasion (Business)

Dynamics of Sub-Index Redistribution 2002-2013



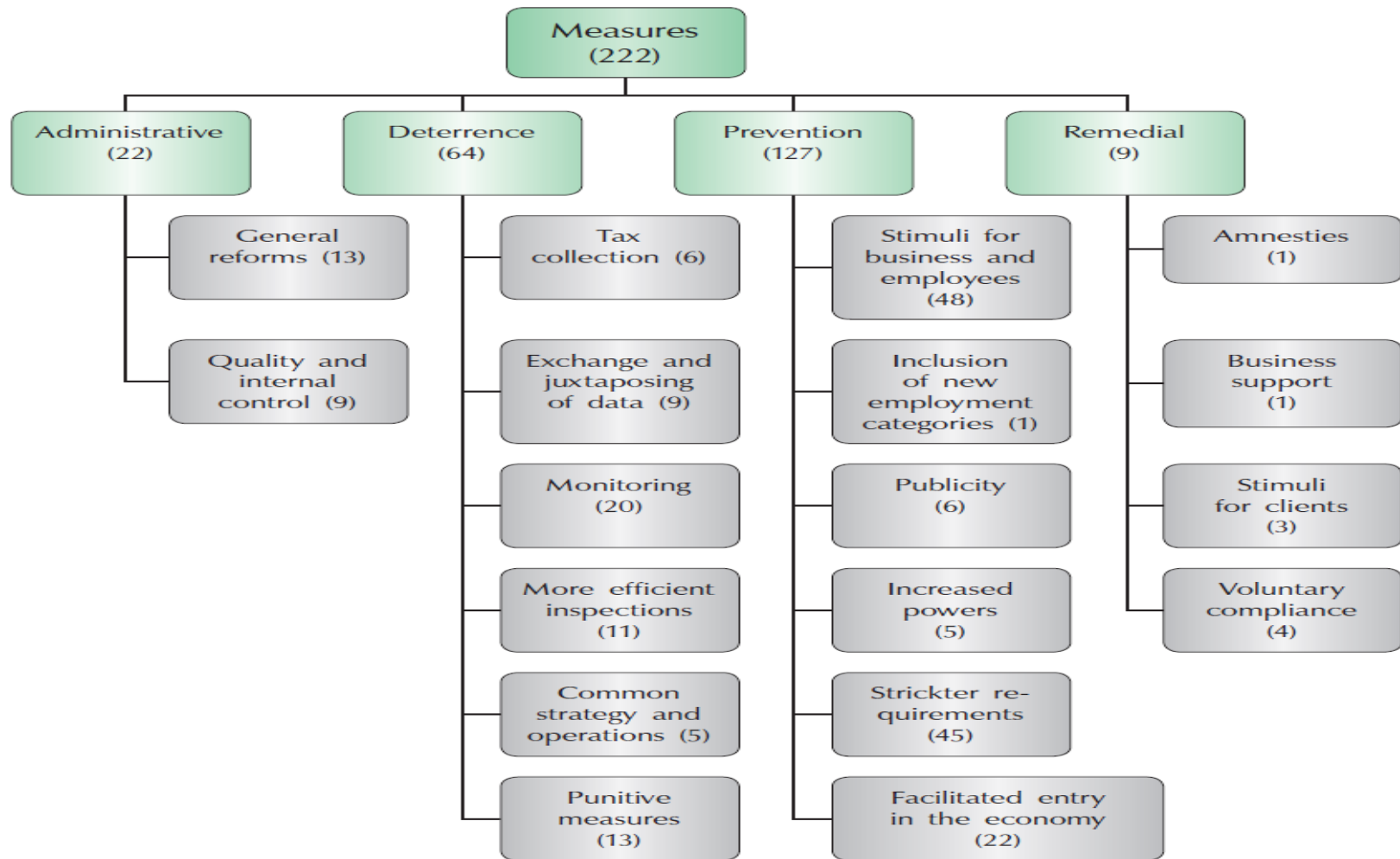
Assessment of the Report Capacities of Regulatory Agencies

- National Revenue Agency (NRA)
- Chief Labor Inspectorate (CLI)
- Bulgarian Food Safety Agency (BFSA)
- Executive Forest Agency (EFA)
- National Construction Control Department (NCCD)
- Bulgarian Drug Agency
- Regional Health Inspectorates
- Regional Inspectorates on the Environment

Report Capacities of the Regulatory Agencies

- Not all regulatory agencies have built up adequate basic public accountability mechanisms, such as publishing an annual activity report
- None of the agencies provide a comprehensive efficiency and impact analysis of its work
- NRA started reporting on some impact indicators
- Certain elements need to be present in order for visibility and quality control to be assured. Some of these elements include:
 - details about staff, budget, type of governance;
 - watchdog function
 - the service of information center, including fraud signals by citizens;
 - actions taken as a result of citizens' signals and complaints;
 - report on auditing revisions and results of specific regulatory actions.

Measures Proposed in 2008 and 2009 to Limit the Hidden Economy



Policy Actions on Hidden Economy - Recommendations

- indicators across government regulatory agencies
- tackling corruption through the introduction of e-services in administration
- speeding-up VAT refunds and reducing control checks on law-abiding companies
- administrative reform to speed-up payments on European programs
- better legal framework on late payments and business-to-business private debt
- special focus on improving legislature in terms of filing for bankruptcy in a retroactive manner
- promoting free enterprise and competition through improving the enforcement of the anti-monopoly legislation.

Thank you for your attention

WWW.CSD.BG

