



The Hidden Economy in Bulgaria

(BUSINESS)

November 2003

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METHODOLOGY

Sample

The survey of the business sector conducted in the month of November 2003 covered 421 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 October 13 - November 4, 2003.

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:
 - ². *Perceived scope of the hidden economy;*
 - ²². *Specific manifestations of the hidden economy:*
 - 1. Labor relations;*
 - 2. Concealed turnover;*
 - 3. Redistribution.*
- The hidden economy index values are presented in Appendix 1.

2. MAIN OBSERVATIONS

- ◆ The business sector poll conducted in November was the third consecutive survey under the project entitled *Monitoring of the Hidden Economy in Bulgaria* implemented by Vitosha Research. The comparative analysis of the three surveys shows definite progress in the fight against most of the practices associated with the hidden economy. In the short time span between the pilot survey and the latest one (January – November) businesspersons have grown considerably more inclined to report actual turnover and profit, as well as to require and issue appropriate accounting documents in transactions with other companies.
- ◆ The measures adopted by the government, particularly in the sphere of labor relations, have had a direct positive impact in terms of reducing the “grayness” of this sector. It should be noted, however, that any further progress is hardly possible without taking into account the underlying reasons for the emergence of a particular practice in the “gray sector”. The mere imposition of mandatory requirements without regard for the specific nature of the problem might simply cause a shift from one form of “hidden” activity to another. This is evidenced by the increased proportion of employees with contracts containing “secret clauses” in the context of the required registration of employment contracts.
- ◆ Another significant change compared to January is the fading of the differences between small and big companies in terms of the problems they are faced with in their operation. *Corruption* and the *unfavorable conditions for business* are the major problems to smaller and bigger companies alike.
- ◆ Despite the slight increase in the level of businesspersons’ approval of *government policy and the laws regulating business activity*, the practice of requesting input from the business community when elaborating new laws and regulations still does not appear to have been established.
- ◆ Overall, the share of the hidden economy in the country is still high, but there has been a certain shift towards lower levels; its estimated scope was mostly in the range of 10 to 25% as regards the individual sectors.
- ◆ The measures highlighted by businesspersons as ways of curbing the hidden economy, which are revealing as to the underlying reasons for its wide spread, have kept both their ranking and values of early 2003. The most commonly cited ones include: *alleviating the tax burden, providing more effective business incentives, reducing corruption, and the adoption and effective implementation of stricter legislation*.

22. CHIEF PUBLIC CONCERNS AND OBSTACLES TO BUSINESS DEVELOPMENT

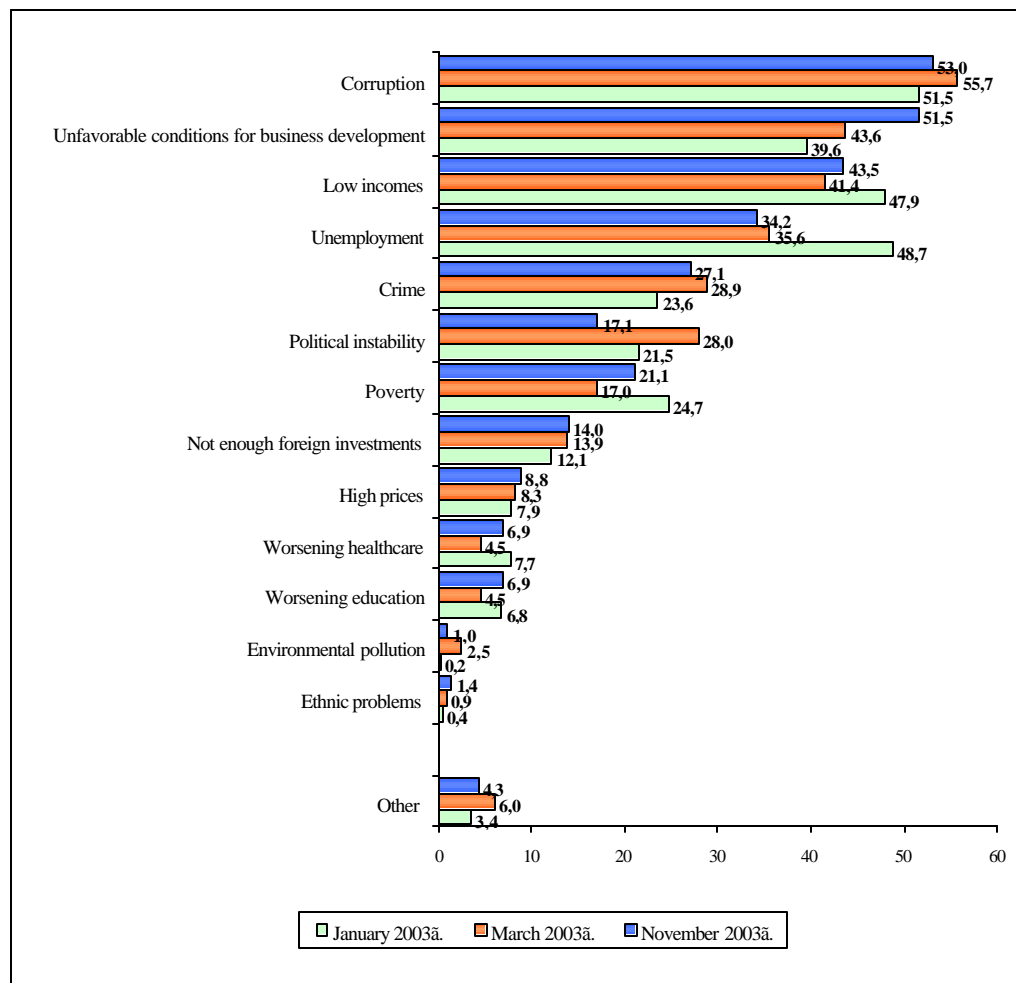
1. THE MOST CRITICAL PROBLEMS OF THE COUNTRY

In the period since early 2003, the problems perceived as most important to the country by the business community have generally kept their ranking. *Corruption*, the *low standard of living*, and *crime* are still the main concerns of entrepreneurs, along with the *unfavorable conditions for doing business in this country*.

Whereas *unemployment* and *low incomes* display a definite improvement in terms of their values, *business conditions* appear to be deteriorating and are still impeding the country's development, according to those interviewed (Figure 1).

Unlike the previous survey, when the ranking of the problems by importance was significantly affected by the size of the companies surveyed, towards the end of the year these differences have faded away. *Corruption* and the *unfavorable conditions for business* are the main problems to smaller and bigger companies alike (Appendix 2, Table 1).

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



Base: All respondents (January: N=530, March: N= 447; November: N=421)

2. OBSTACLES TO BUSINESS OPERATION AND DEVELOPMENT

Unfair competition was singled out by the respondents as the chief obstacle to business development in this country (Table 1). It was a concern to more than half of the companies, affecting smaller companies the most (Appendix 2, Table 4).

Ranked immediately behind it were *tax rates* and *crime* (Table 1). Unlike crime, where a certain drop can be observed, the unkept promises about alleviating the tax burden have been reflected in the results obtained. So far, the expectations regarding the provision of real incentives for business by reducing taxes have not been met, generating discontent among entrepreneurs.

In addition to its unfulfilled commitments, the state is still associated with a negative impact on private business development. Once again noted among the chief obstacles to business were: *the inadequately functioning license- and permit-issuing procedures, corruption among administrative officials, and the overall macroeconomic situation in the country*.

Some of the constraints cited, for ex. *inspections and checks by various control authorities, the operation of the local administration, and rules and procedures for starting a company*, appear to affect more seriously small and medium-sized companies. To the companies with more than 100 employees on the other hand, the most important problem proved to be the functioning of the *judicial system* (Appendix 2, Table 4).

TABLE 1 OBSTACLES TO BUSINESS OPERATION AND DEVELOPMENT

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

* In the pilot survey (January 2003) the option was: "the tax system".

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

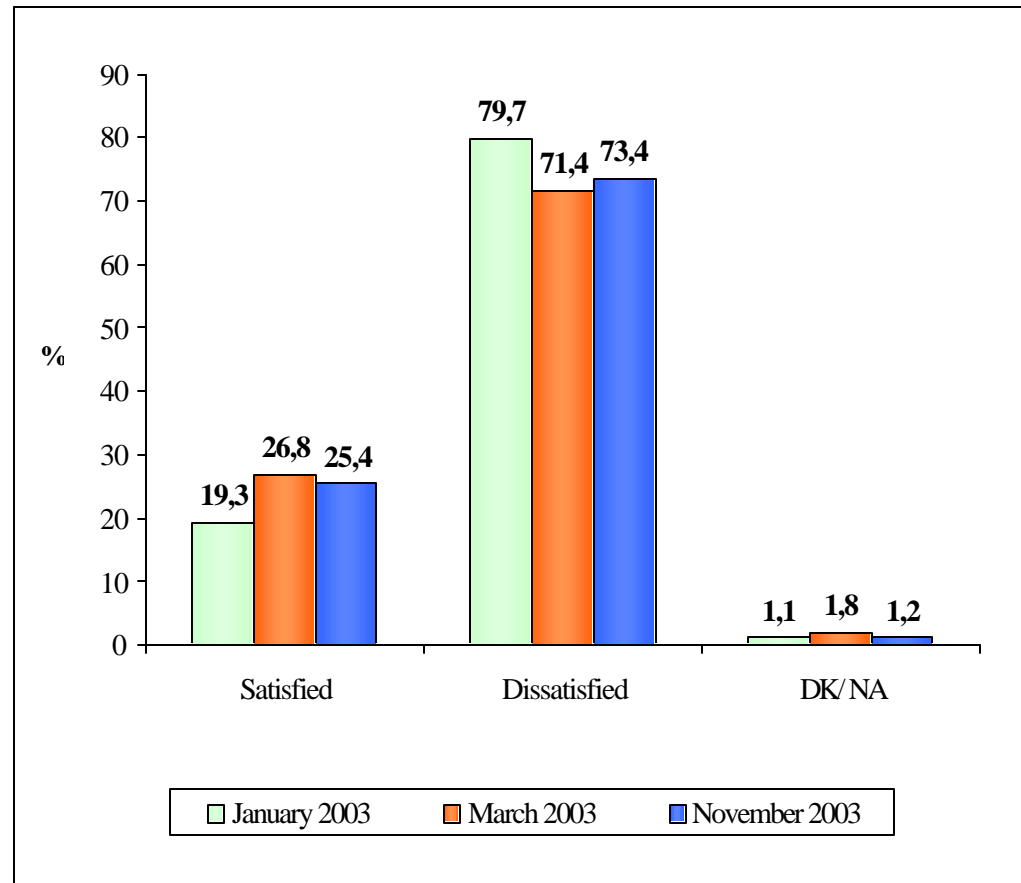
*** In the pilot survey the option was: "labor legislation"

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 claim that there has been a certain improvement in this respect over the last year. The adoption of stricter labor regulations was an attempt to reduce the gray sector in the labor market and 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 chaotically, without regard for the opinions of entrepreneurs. Amendments are being passed “piecemeal”, without a clear vision about their long-term implications. In this context, it is hardly surprising that nearly three-fourths of those surveyed expressed dissatisfaction with the legal framework in which they have to operate (*Figure 2*).

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



Base: All respondents (January: N=530, March: N= 447; November: N=421)

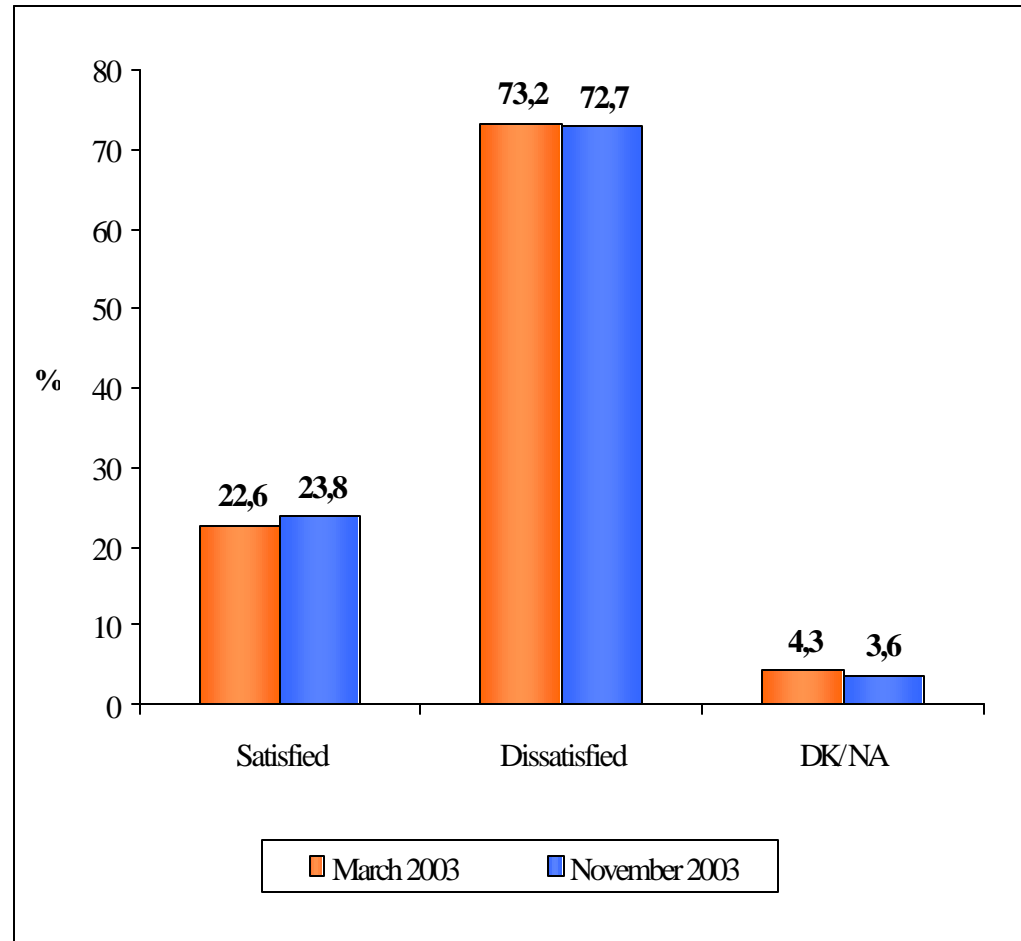
4. *SATISFACTION WITH THE QUALITY OF PUBLIC SERVICES RELATED TO BUSINESS OPERATION IN BULGARIA*

A similar situation was registered as regards the *implementation of existing laws and the quality of public services* – the high rate of dissatisfaction has remained unchanged throughout the year. Fewer than one-fourth of those interviewed were satisfied with the services they use in connection with their activity. (Figure 3)

The provision of expedient high-quality administrative services is equally a feasible task that would have a significant positive impact on the business environment in this country.

The rate of dissatisfaction with *the quality of the legislation and its administration and the quality of public services* was considerably higher among smaller companies. They also proved most affected by the frequent changes in the legal framework. (Appendix 2, Table 5)

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



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

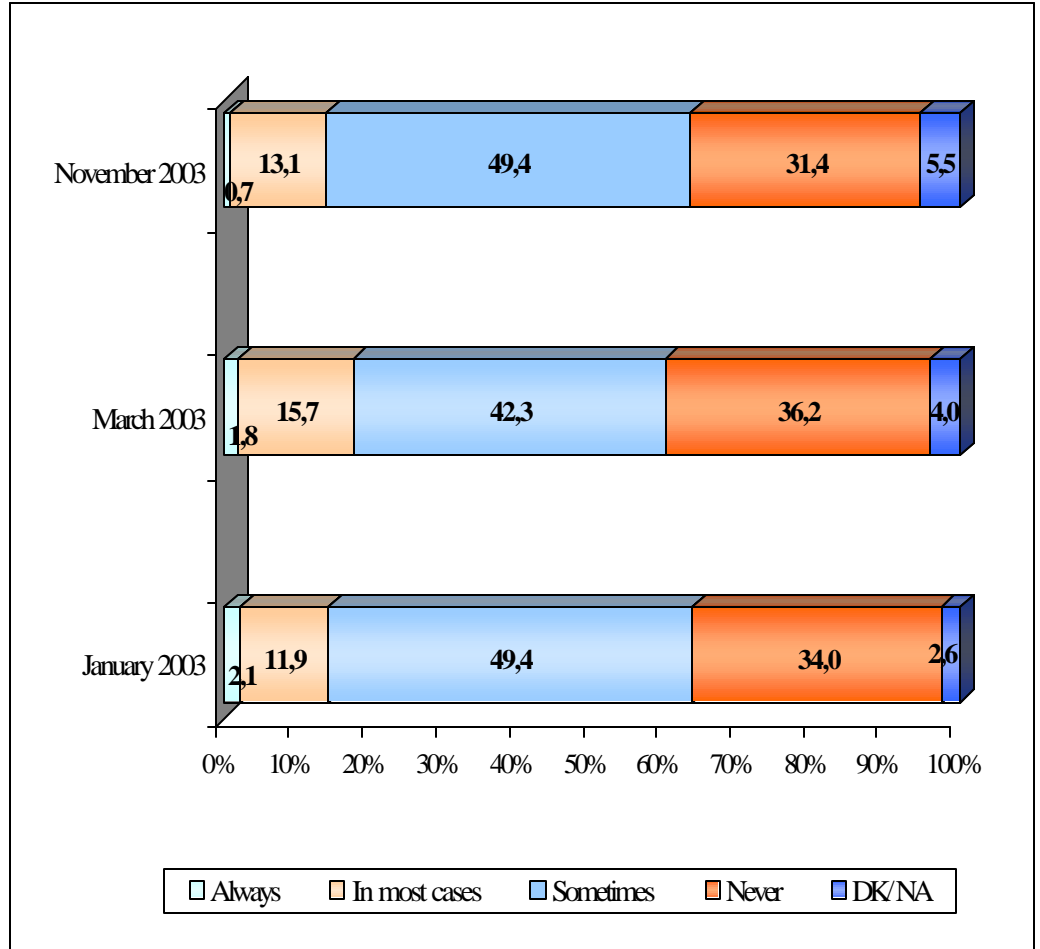
5. *KEEPING THE BUSINESS COMMUNITY INFORMED OF FORTHCOMING CHANGES IN THE LEGISLATION*

The business sector surveys conducted so far suggest that the legal framework in which businesses are operating is still quite unsatisfactory and largely generates hidden economy itself.

The presence of ambiguous and often contradictory regulations and their chaotic revision sustain the sense of an unpredictable and unfavorable business environment. In addition, the failure to consult and seek input from the business community before adopting new rules creates the impression that the state is impeding, rather than facilitating, business.

Yet, even if slow-paced, there has occurred a slight improvement as regards the stability of the legal and administrative requirements on business. By the end of the year, the respondents who thought the laws had become more predictable in the past three years increased by close to 5 points. (*Appendix 2, Table 2*)

FIGURE 4 KEEPING THE BUSINESS COMMUNITY INFORMED OF FORTHCOMING CHANGES IN THE LEGISLATION

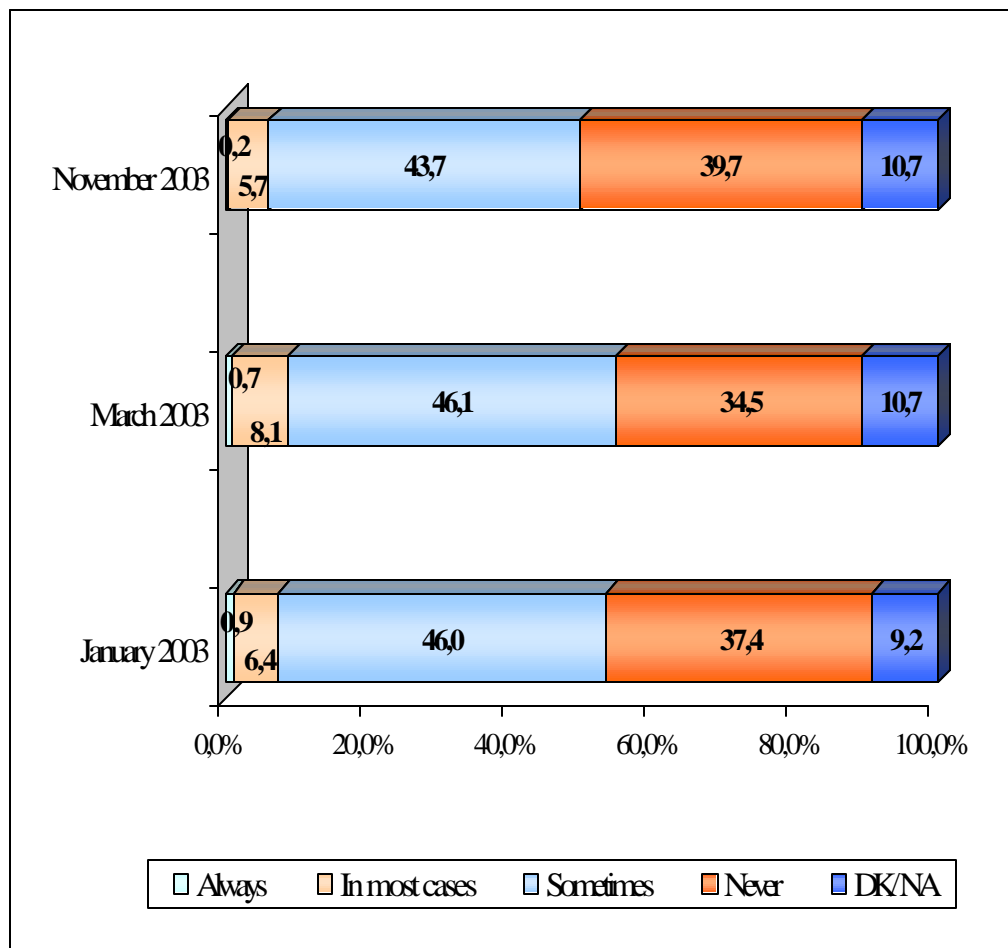


Base: All respondents (January: N=530, March: N= 447; November: N=421)

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, by the end of the year the values went back to their former levels. *Not only are business associations and individual entrepreneurs not invited as partners in the elaboration of new regulations but it is not even deemed necessary to inform them about forthcoming changes that will affect their activity (Figures 4 and 5).* This creates a sense of ongoing confrontation between the state and the business community where each is acting to the detriment of the other. As a result, the hidden economy becomes the means whereby business protects itself from the inconsistent and unfavorable policy of the government.

In the function of a “defensive” reaction of the business community against laws restricting or impeding its operations, the high level of hidden economy at present is hardly surprising. 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. Therefore, 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 (January: N=530, March: N= 447; November: N=421)

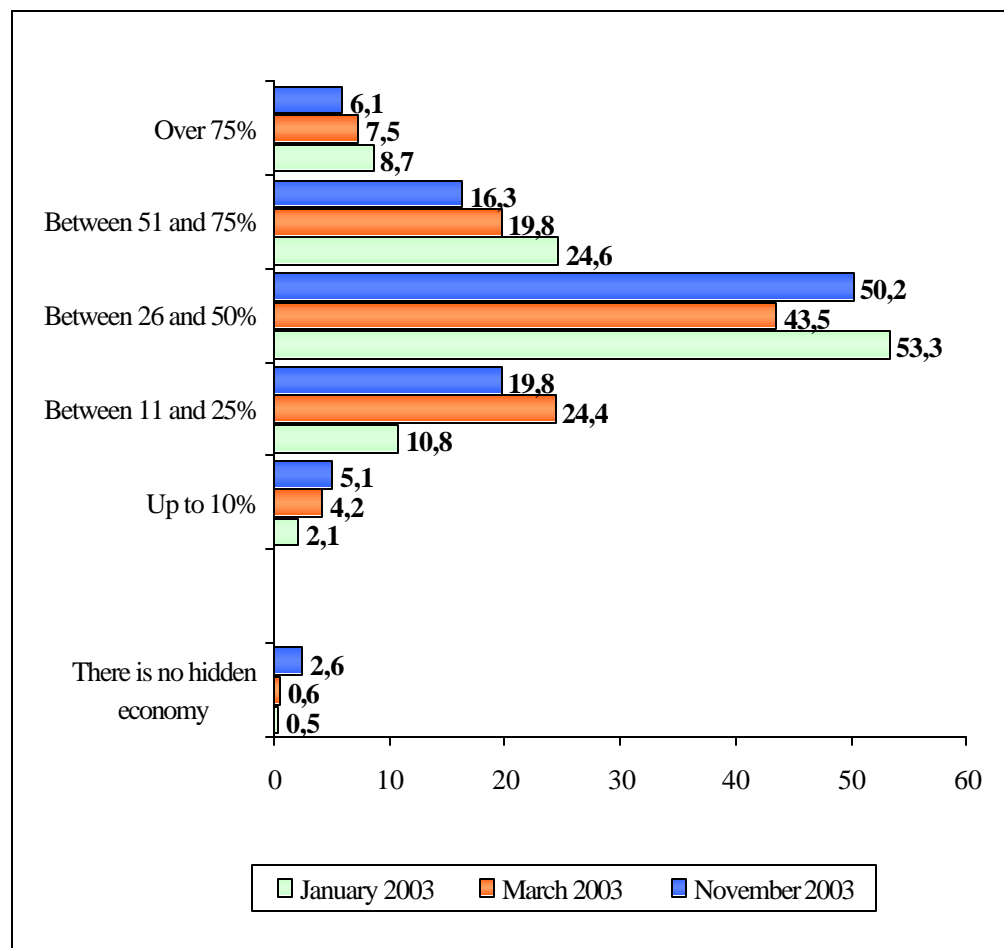
222. PERCEIVED SCOPE OF THE HIDDEN ECONOMY

1. ESTIMATED SHARE OF THE HIDDEN ECONOMY

The latest survey registered a persistent tendency towards decline in the perceived spread of the hidden economy in the country as a whole and by sectors, as first observed in March 2003.

Although still quite high, the proportion of unreported business activity was estimated by three-fourths of those surveyed to range between 10 and 50% (Figure 6). There appears to be a gradual shift from higher to lower estimates and even the answers that there was no hidden economy in the country grew considerably in the latest survey.

FIGURE 6 ESTIMATED SHARE OF THE HIDDEN ECONOMY IN BULGARIA



Base: (January: N= 390; March: N=308; November: N=313)

2. *ESTIMATED SHARE OF THE HIDDEN ECONOMY BY SECTOR*

A more slow-paced, but again favorable, change is observable as regards the estimated share of the hidden economy by sectors. The majority of the respondents thought up to 25% of the activities in their own sector fell within the gray economy, and 14.2% said it was non-existent in the respective sector.

The assessments of the scope of the hidden economy continue to vary substantially depending on the size of the companies surveyed (*Appendix 2, Table 6*). What appears more notable is that the share of the big companies claiming there is no hidden economy in their sector actually fell by half compared to March – from 43.8 to 22.6%. This is indicative of a certain “graying” even of the traditionally more transparent and law-abiding bigger companies.

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



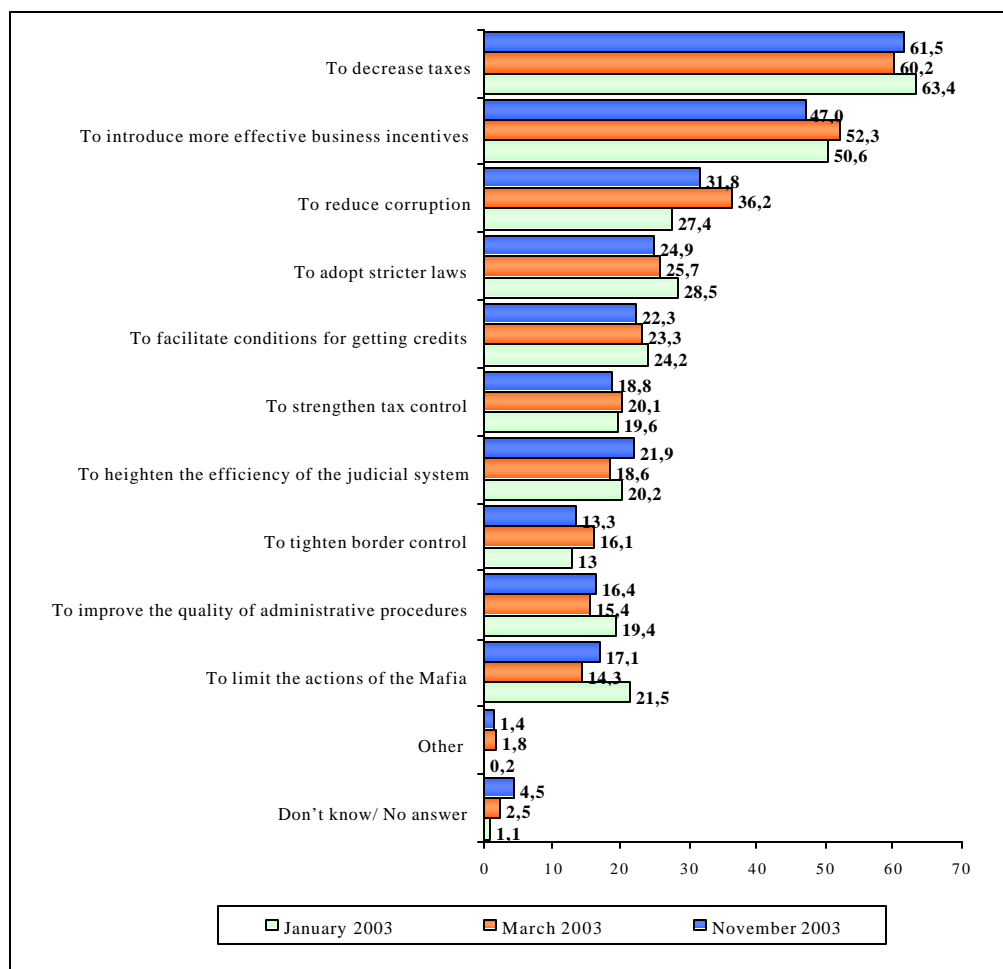
Base: (January: N=389; March: N=328; November: N=338)

3. 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 January 2003 (*Figure 8*). Once again, *reducing taxes* and *providing incentives for business* were the most popular recommendations.

The distribution of the remaining answers suggests, on the hand, that there has been little change in the business environment in the country over the past year. On the other hand, they again point to the chief reasons for the “graying” of Bulgarian business at all levels: *the high tax burden, difficulties in securing financing of business operations, lack of strict laws, ineffectiveness of the judicial system*, etc. These are all well-known problems that entrepreneurs cannot address themselves even if they were inclined to operate entirely legitimately.

FIGURE 8 MEASURES TO LIMIT THE HIDDEN ECONOMY IN BULGARIA



Base: All respondents (January: N=530, March: N= 447; November: N=421)

2V. HIDDEN ECONOMY PRACTICES

1. LABOR RELATIONS

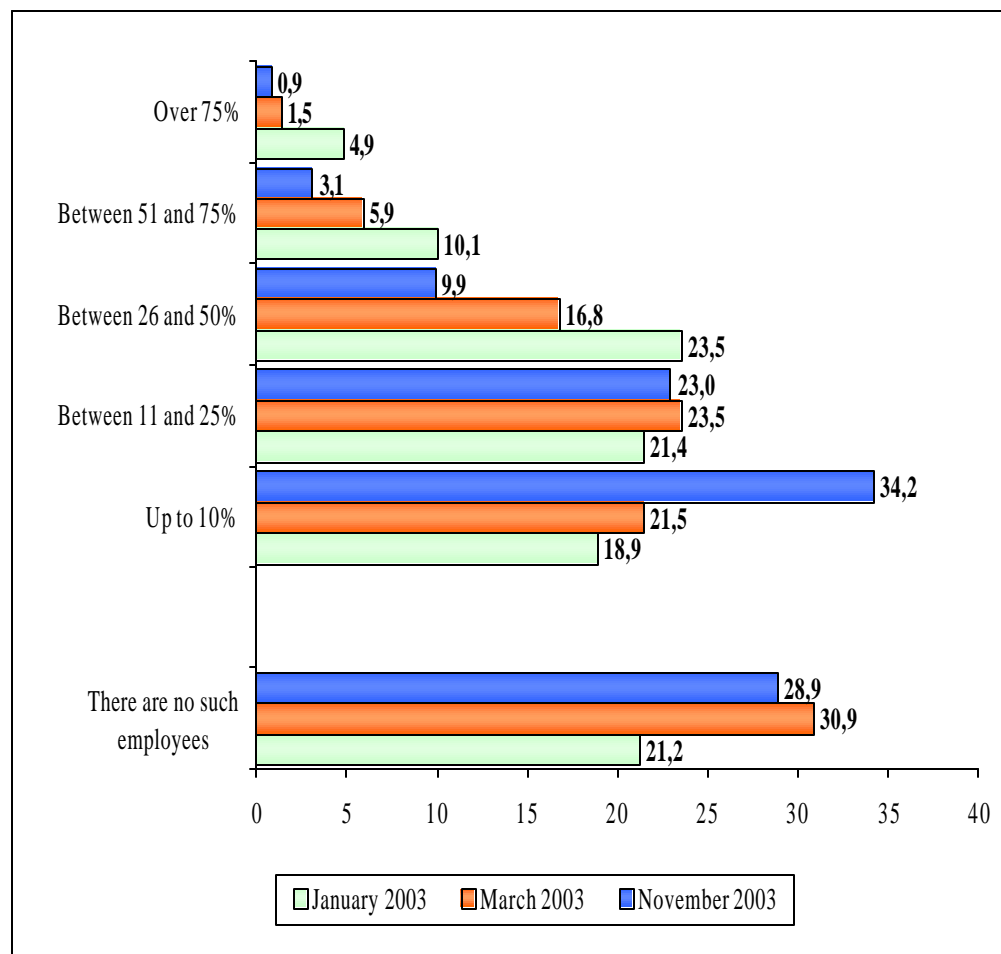
A. SHARE OF THOSE HIRED WITHOUT CONTRACTS IN THE RESPECTIVE SECTOR

The adoption of a straightforward and specific measure in early 2003 and namely, the *mandatory registration of employment contracts*, has shown quite clearly that possibilities to limit the gray sector do exist, as long as there is sufficient political will.

In less than a year there has been a nearly ten-point increase in the share of those who said there were no employees without employment contracts in their sector or if any, they only amounted to less than 10% of the employed workforce (*Figure 9*).

Four out of ten representatives of big companies said there were no employees without registered contracts in their industry (*Appendix 2, Table 8*).

FIGURE 9 SHARE OF THOSE HIRED WITHOUT CONTRACTS IN THE RESPECTIVE SECTOR



Base: (January: N=387; March: N=340; November: N=322)

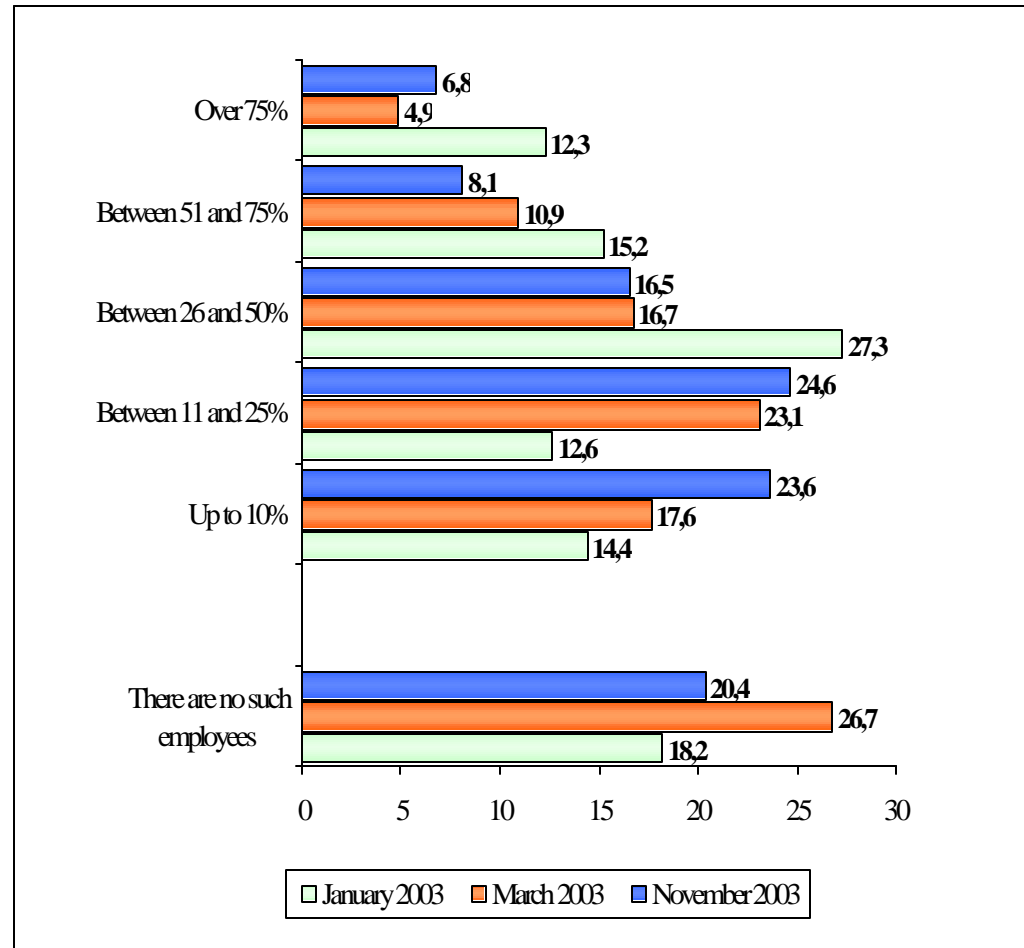
B. SHARE OF THOSE HIRED UNDER CONTRACTS WITH “SECRET CLAUSES” IN THE RESPECTIVE SECTOR

The general tendency towards diminishing scope of the hidden economy is equally observable with regard to the contracts with “secret clauses” – nearly half of the respondents said that such employment contracts did not exceed 25% of those concluded in the respective sector, if any.

Two out of ten claimed that practices such as *paying social security and health insurance contributions based on understated remuneration; payment of unreported extra compensations*, etc. did not exist at all in their sector.

Unlike the registration of employment contracts, the situation with “secret clause contracts” is not improving at such a rapid pace. In fact, there has even been an increase in the share of answers that such contracts amount to more than 75% of those concluded in the respective sector. This would appear to reveal 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.

FIGURE 10 SHARE OF THOSE HIRED UNDER CONTRACTS WITH “SECRET CLAUSES” IN THE RESPECTIVE SECTOR



Base: (January: N=374; March: N=329; November: N=309)

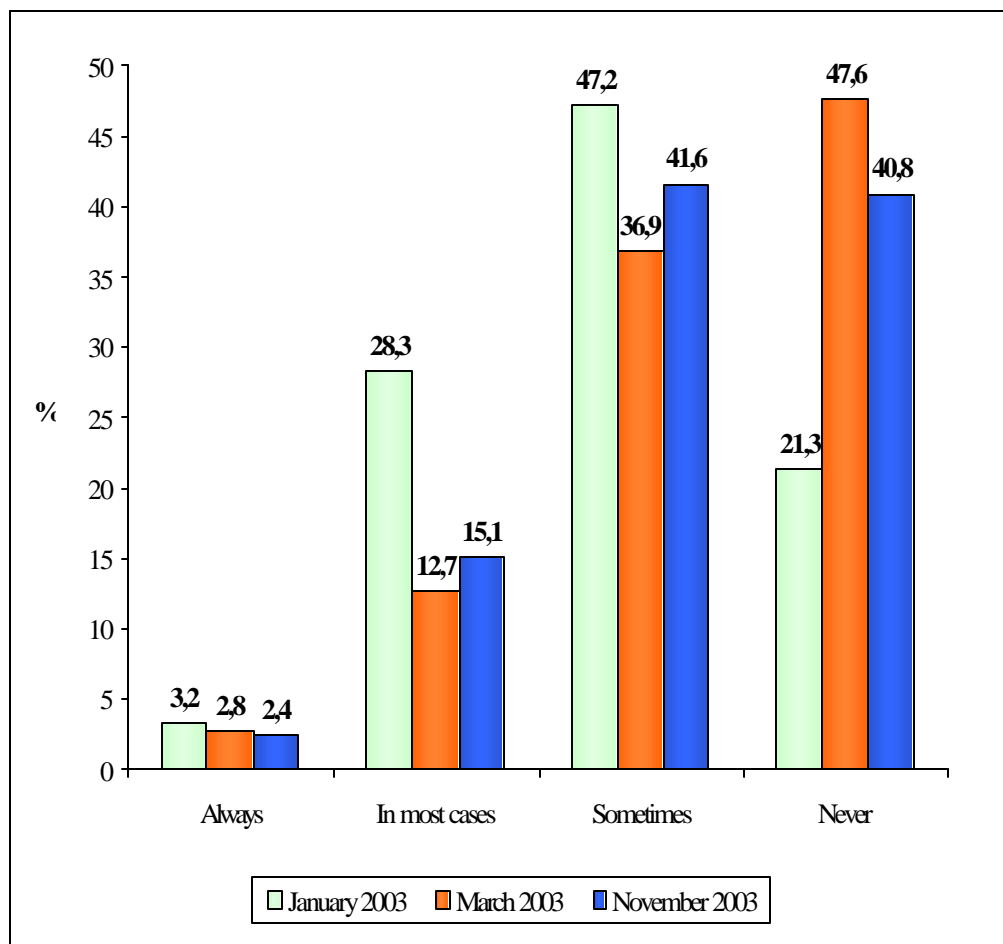
2. CONCEALED TURNOVER

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

Although with certain fluctuations over the period monitored, there has definitely been some progress in restricting one of the most commonplace hidden economy practices – the *non-issuing of accounting documents, cash receipts and invoices*. Four out of ten companies claimed they never fail to issue such documents (*Figure 11*).

In ten months alone, the share of those who said that they never issue, or usually do not issue receipts, has dropped by nearly half. The changes in the overall macroeconomic situation and the measures adopted by the government have affected this indicator, as well. Gradually reporting actual incomes and profits is becoming more worthwhile than the efforts to conceal them and to operate in the gray sector.

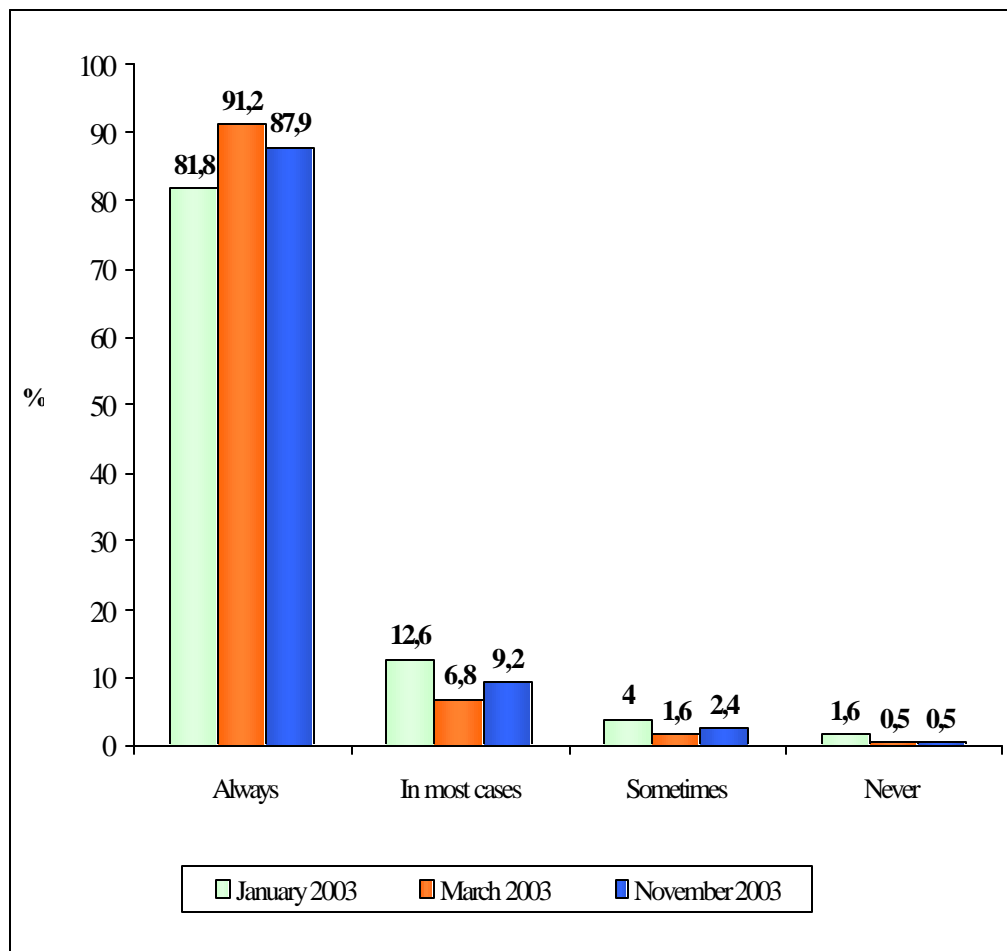
FIGURE 11 RATE OF NON-ISSUING OF INVOICES/CASH RECEIPTS



Base: (January: N=470; March: N=393; November: N=377)

A similar tendency is observable with regard to the reverse process – *requiring accounting documents in transactions with another company*. Compared to March, there appeared a slight drop in November, but the overall share of the companies that claim they always request such documents remained very high (*Figure 12*).

FIGURE 12 **RATE OF REQUESTING ACCOUNTING DOCUMENTS**



Base: (January: N=501; March: N=442; November: N=413)

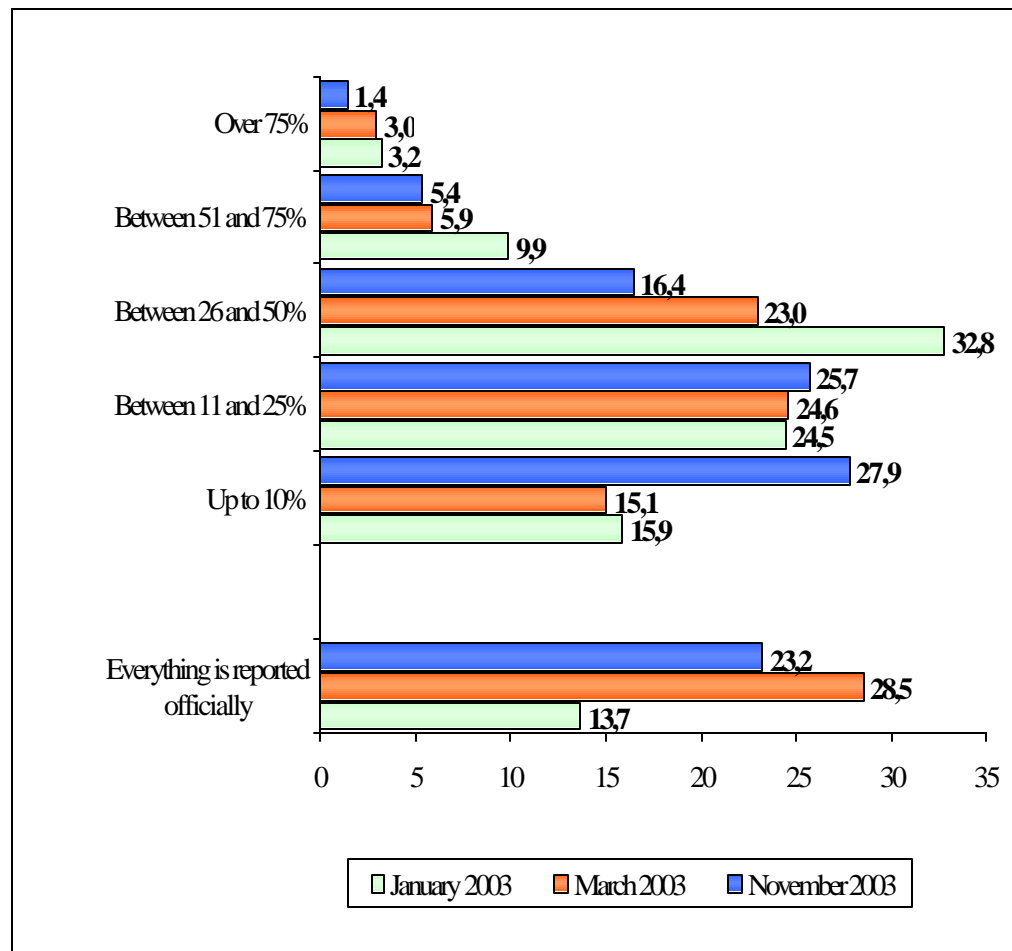
FIGURE 13 UNREPORTED TURNOVER

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

One-fourth of those surveyed still believed a considerable proportion of same-sector *company turnover* was not reported officially – between 25 and 50%.

Nevertheless, as with the remaining indicators of the level of hidden economy, even in this respect there has been a tangible shift towards lower values. This is a clear indication of positive changes in the business environment in the country. More than half of the businesspersons estimated “concealed turnover” at less than 25%, and one in four said the entire turnover was reported in their sector (*Figure 13*).

It is worth noting the tendency towards small business legitimization – the share of those who chose the option “*Everything is officially reported*” among micro-companies (up to 10 employees) was 16.5% in March and 18.4% in November. By contrast, big companies (more than 100 employees) display the opposite tendency – the respective share was 51.1% in March and dropped to 43.2% in November (*Appendix 2, Table 9*).



Base: (January: N=372; March: N=305; November: N=280)

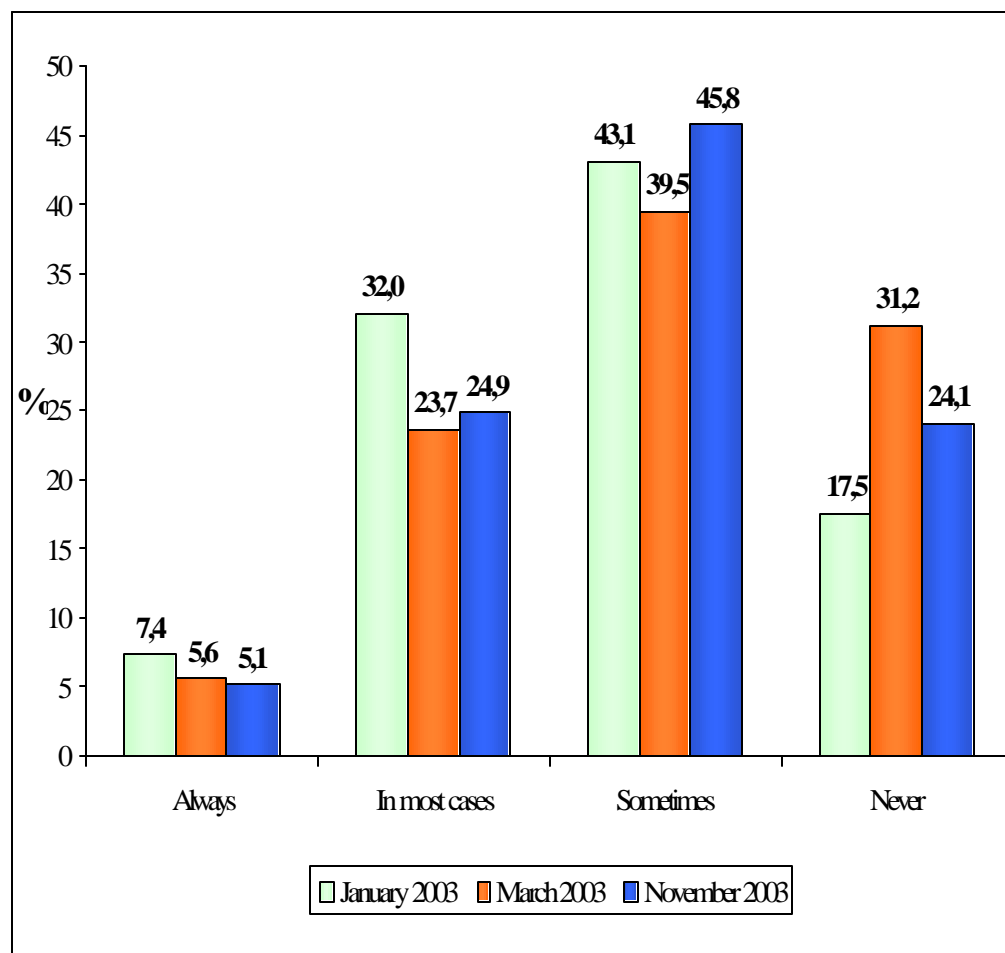
3) *THE PRACTICE OF UNDERREPORTING TURNOVER IN THE RESPECTIVE SECTOR*

Notwithstanding slight fluctuations in the course of the year, the *incidence of underreporting profits* has decreased considerably. One-fourth of the companies said they never did. Nevertheless, seven out of ten admitted to occasionally, or usually, reporting lower than the actual profit (*Figure 14*).

The tangible improvement of most of the indicators related to the official reporting of company turnover and profit can be accounted for by the overall change in the business environment in the country. Because of the improved access to credits and wider use of various banking services and preferential schemes many businesses are inclined to renounce some of their practices related to concealing the company's actual capital.

The higher proportion of limited liability companies compared to sole trader companies while the number and composition of the companies surveyed remains roughly the same (*Appendix 2, Table 11*) might be another indication of recovery in the banking sector and indirect business legitimization pressure. The financial advantages of legitimate operation are gradually beginning to outweigh those derived from concealing the actual revenues.

FIGURE 14 UNDERREPORTING PROFITS

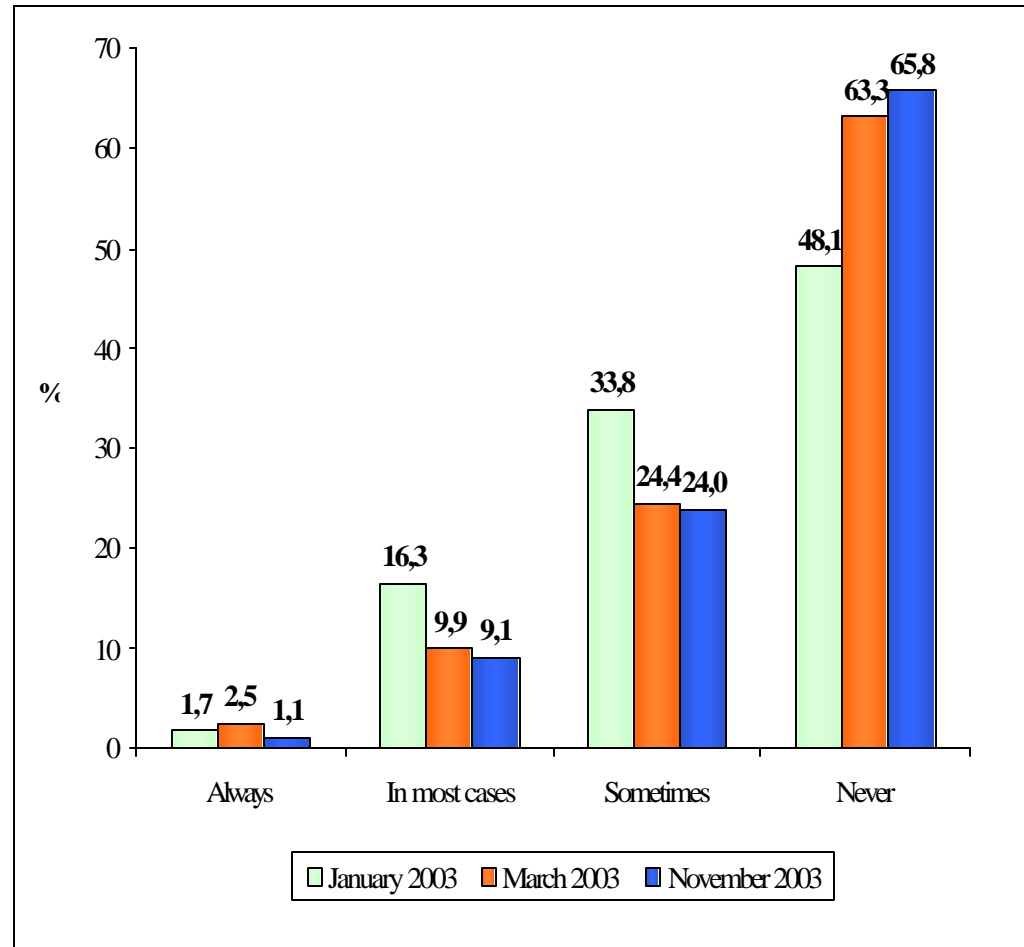


Base: (January: N=462; March: N=375; November: N=369)

FIGURE 15 **INCIDENCE OF ILLEGAL IMPORTS/EXPORTS IN THE RESPECTIVE SECTOR**

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

The positive tendency towards declining incidence of *illegal imports or exports* is continuing – nearly two-thirds of those surveyed said such practices did not exist at all in their sector (*Figure 15*). As with the other indicators, there is reason to speak of a definite inclination to renounce this practice.

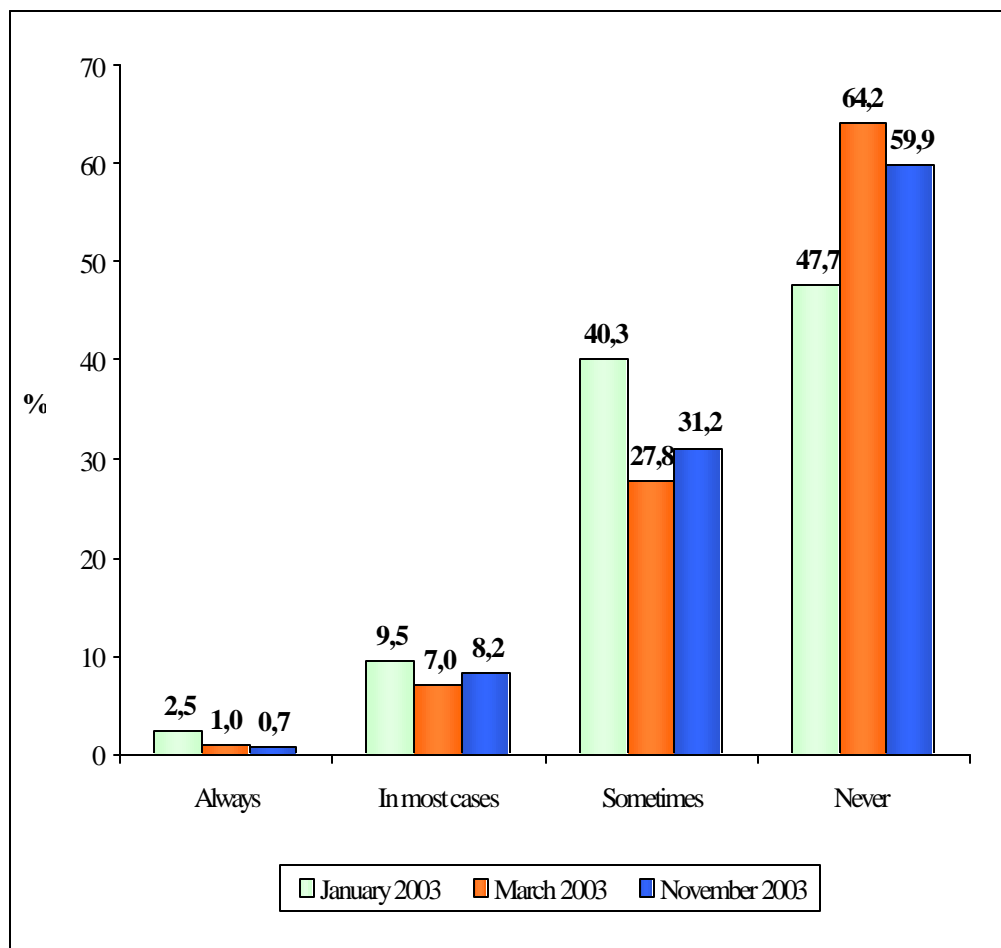


Base: (January: N=349; March: N=283; November: N=275)

5) FRAUDULENT VAT REFUND CLAIMS IN THE RESPECTIVE SECTOR

The practice of siphoning off funds through fraudulent VAT-related accounting schemes is beginning to settle down at a lower incidence rate – six out of ten companies said no such claims were made in their sector, and three out of ten, that these only occurred occasionally (*Figure 16*).

FIGURE 16 INCIDENCE OF FRAUDULENT VAT REFUND CLAIMS IN THE RESPECTIVE SECTOR



Base: (January: N=325; March: N=299; November: N=279)

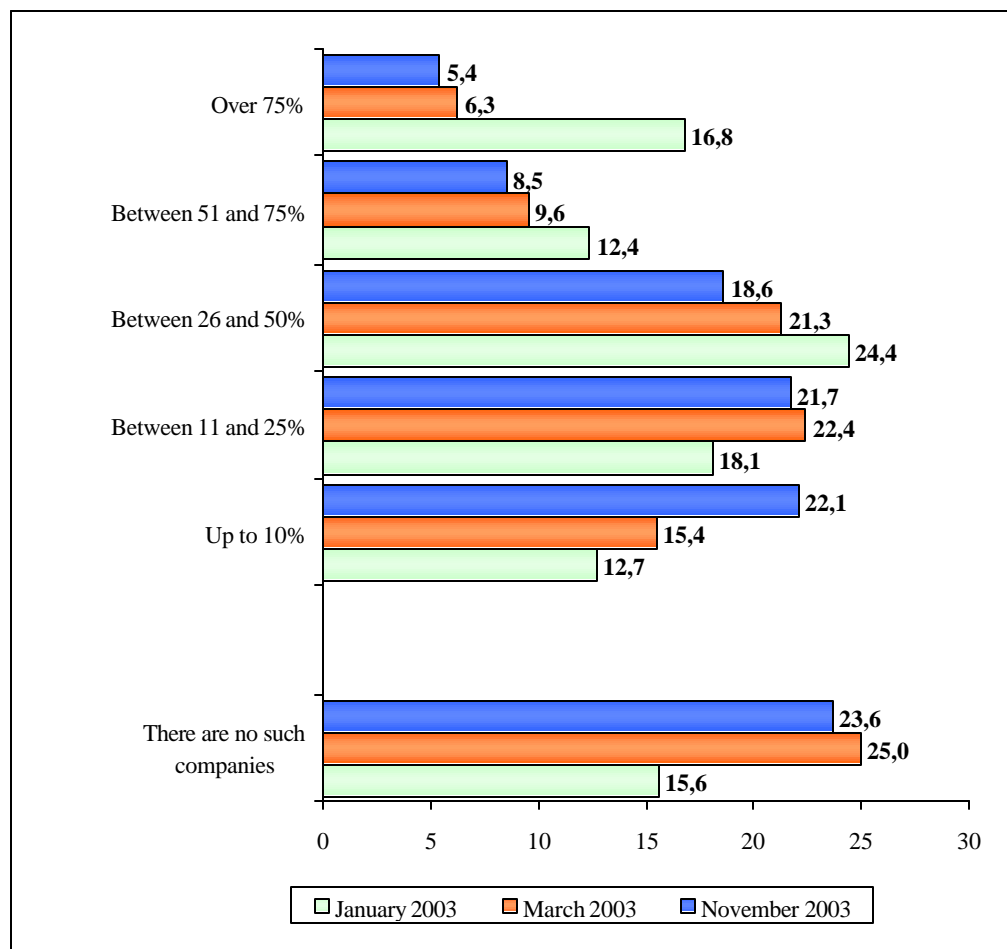
3. REDISTRIBUTION

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 – *two out of ten companies do it whenever they can, and four out of ten, occasionally* (Appendix 2, Table 3).

A high proportion of the respondents also said *more than half of the companies in their sector were evading part of the due taxes and customs duties through accounting schemes* – 13.9%. Nevertheless, a slight improvement is observable even in this case, with one-fourth of those surveyed saying there are no such companies in their sector at all. (Figure 17)

FIGURE 17 SHARE OF THE COMPANIES EVADING /NOT PAYING TAXES , CUSTOMS AND EXCISE DUTIES IN THE RESPECTIVE SECTOR



Base: (January: N=315; March: N=272; November: N=258)

APPENDIX 1. HIDDEN ECONOMY INDEX VALUES

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

* The index has been recalculated excluding the options “Frequency of barter deals” and “Using connections in fiscal and administrative matters”, which had been included in the pilot survey but obtained insignificant values.

** The index now comprises the added option "Fraudulent VAT refund claims in the respective sector.

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) (November 2003; %)

The most critical problems of the country	Number of full-time employees			
	Up to 10	11-50	51-100	Over 100
Political instability	18,6	12,0	18,4	16,4
Ethnic problems	0,4	2,2	5,3	1,6
Corruption	54,9	47,8	44,7	57,4
Low incomes	47,8	39,1	36,8	37,7
Crime	26,5	32,6	23,7	24,6
Unemployment	33,2	35,9	31,6	39,3
Environmental pollution	-	2,2	-	3,3
Deteriorating healthcare	6,6	5,4	15,8	4,9
High prices	9,7	8,7	13,2	3,3
Deteriorating education	4,0	13,0	2,6	8,2
Unfavorable conditions for business development	51,3	52,2	50,0	52,5
Poverty	20,8	26,1	18,4	18,0
Insufficient foreign investment	12,4	13,0	15,8	19,7
Other	4,0	3,3	7,9	3,3
DK/ NA	0,4	-	-	-

<i>Base</i>	226	92	38	61
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Table 2. “In your opinion, how have the laws and regulations with a substantial impact on business changed over the past 3 years?” (%)

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

Table 3. “In your opinion, how often do the companies in your sector evade customs duties, taxes, excise duties?” (%)

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

Table 4 . Problems/obstacles to business operation and development by company size (November 2003; %)

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

Table 5. Satisfaction with the quality of the legislation and the quality of public services related to business operation by company size (November 2003; %)

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

Table 6. Share of the hidden economy in the country and by sector, by company size (November 2003; %)

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

Table 7. Measures to limit the hidden economy, by company size (November 2003; %)

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

Table 8. Share of those hired without contracts or under contracts with “secret clauses”, by company size (November 2003; %)

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

Table 9. Unreported share of the turnover and share of the companies in the respective sector paying taxes lower than the due rates, by company size (November 2003; %)

<i>Unreported share of the turnover</i>	Number of full-time employees			
	Up to 10	11-50	51-100	Over 100
Over 75%	2,2	-	3,4	-
51 to 75%	6,6	7,1	-	2,3
26 to 50%	16,9	24,3	13,8	4,5
11 to 25%	27,9	14,3	41,4	25,0
Up to 10%	27,9	28,6	31,0	25,0
<i>Everything is reported officially</i>	18,4	25,7	10,3	43,2
<i>Base</i>	136	70	29	44
<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
Over 75%	5,3	4,7	13,6	2,5
51 to 75%	9,2	12,5	4,5	2,5
26 to 50%	19,8	20,3	18,2	12,5
11 to 25%	20,6	21,9	27,3	20,0
Up to 10%	25,2	14,1	27,3	22,5
<i>There are no such companies</i>	19,8	26,6	9,1	40,0
<i>Base</i>	131	64	22	40

Demographic characteristics of the companies surveyed:

Table 10. Number of full-time employees (November 2003)

	%	Base
Up to 10	54,2	226
11-50	22,1	92
51-100	9,1	38
Over 100	14,6	61
<i>Total</i>	<i>100,0</i>	<i>417</i>

Table 11. Legal status

	January	March	November
Sole trader	57,6	30,3	34,9
Commercial partnership	1,3	2,2	2,4
Joint-stock company	13,1	12,1	13,3
Limited liability company	22,9	54,4	46,3
Cooperative	-	-	0,2
Subsidiary of a foreign company	-	-	1,0
Other	5,1	0,9	1,7

<i>Base</i>	528	445	421
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Table 12. Main area of activity

	January	March	November
Agriculture, forestry, fishing	3.4	2.7	3,3
Hotel business and catering	1.7	2.3	2,6
Services	21.9	16.7	18,1
Construction	5.1	13.3	9,0
Transport and communications	6.4	5.4	5,2
Wholesale trade	7.5	17.8	16,9
Retail trade	32.5	17.6	14,7
Utilities (electricity, gas, water supply, etc.)	-	1.1	1,7
Industry (mining and processing industries, production)	16.0	13.3	16,6
Education / training	1.9	0.2	1,0
Healthcare / medical services	2.5	2.3	4,5
IT sector (information technologies, computers, Internet)	-	2.0	1,9
Other sector	1.1	5.4	4,3
<i>Base</i>	<i>530</i>	<i>444</i>	<i>421</i>

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