

# Measuring and Tackling the Undeclared Economy in Bulgaria

## Envelope wages

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# Argument

- Envelope wages are a result of the **dual agreement** between employer and employed.
- Dual agreement is already established informal market institution.

# Dual agreement

- A targeted discrepancy between the formal written contract and informal verbal agreement.
- Dual agreement should be clearly distinguished from the oral agreement. The latter does not imply the existence of a formal contract, while dual agreement is defined as such precisely because of deliberate non-compliance with the formal written contract.

# Forms of dual agreement

Between **business partners**:

- Business partners implement dual agreement on the real prices and other parameters of the deal and for those marked on invoices

Between **employer and employee** at the company level.

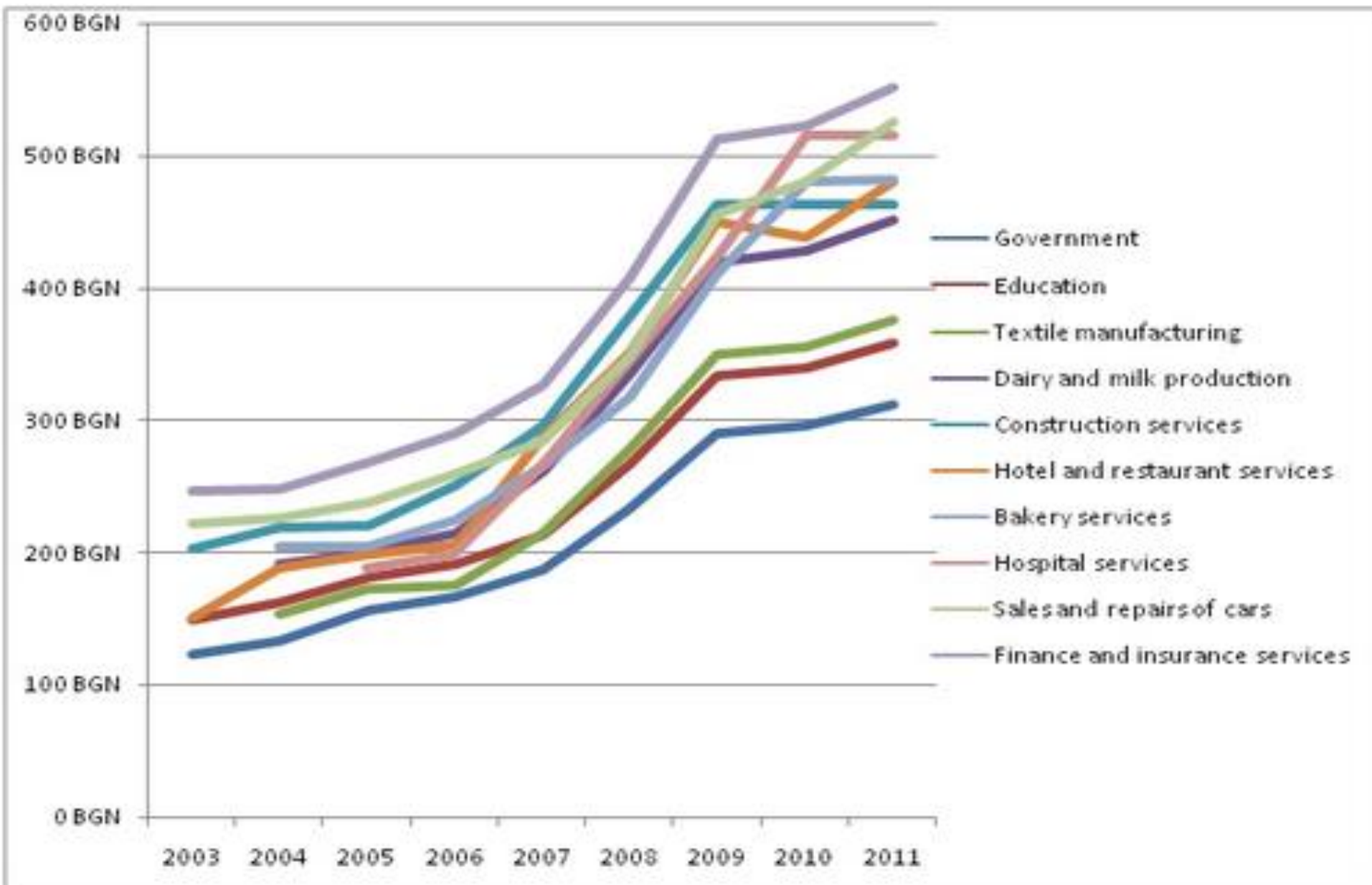
- **Result:** envelope wages

# Tendencies

- Increase of envelope wages in the period 2003- 2013
- Regional specificities of EW practices:
  - Sharp difference between the capital city and the rest of the country.

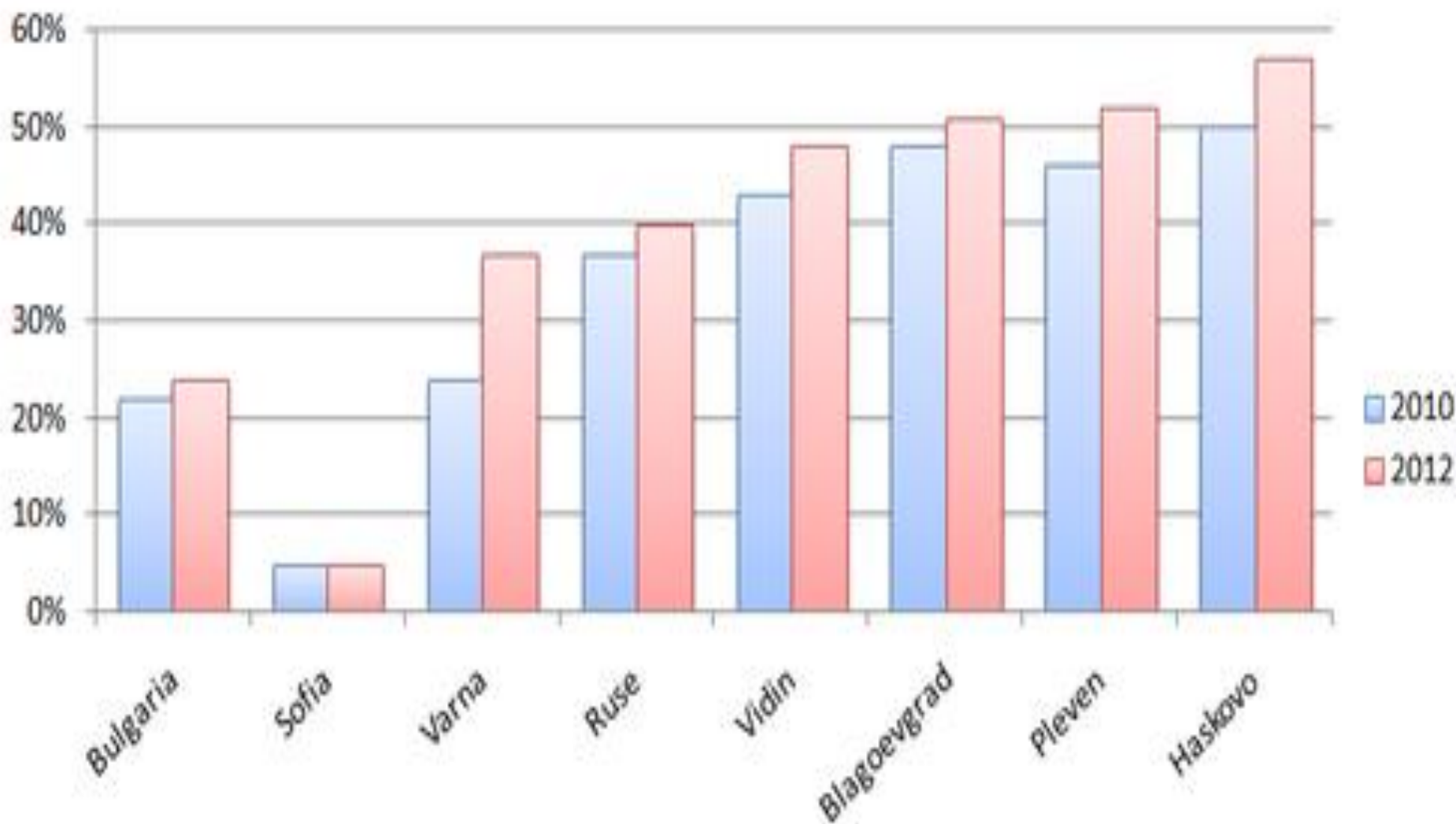
# Minimum Social Insurance Thresholds 2003-2011 (BGN)

Source: State Social Security Budget Law, cit in Slavova 2011.



# *Insured on or close to the minimum threshold (% of the insured by regions, 2010 – 2012)*

*Source: NSSI, cit. in Ganev 2013.*



# Techniques of Dual Agreements

Source: MLSP 2014a: 6.

Techniques=Informal practices	Sector	Company	
	Employers	Employers	Employed
Conclusion of fake part-time instead of full-time contracts	36.1	22.9	17.6
Deliberate reappointment of persons from positions with higher to positions with lower MSIT	21.2	11.9	13.1
Conclusion of fake contracts for lower wages than the real pay	13.9	-	6.1
Hiring without labour contract	10.5	3.8	8.2



# Pilot qualitative research - 2012

*”Informal practices in implementation of labour contracts”*

- Qualitative research *sampling*: a mix of convenience, criterion and maximum variation sampling (Palys 2008: 697-698). *Criteria*: single, young - up to 35 y., wage workers who receive “envelope wages”, employed in private sector in Sofia. *Maximum variation*: gender.
- *Method*: 12 semi-structured interviews.

# The sample

<b>GENDER:</b>		<b>TYPES OF CONTRACT:</b>	
Male	5	Permanent	8
Female	7	Fixed-term	3
<b>EDUCATION:</b>		<b>QUALIFICATION:</b>	
Higher	5	Highly specialized	9
Student	5	Artisan specialization	2
Secondary school	2	None- and low specialization	1
<b>AGE:</b>		<b>LENGTH OF WORK WITHOUT LABOUR CONTRACT OR WITH HIDDEN CLAUSES:</b>	
23-24	6	5 – 7 years	6
25-26	4	2 – 4 years	3
30-31	2	Less than 2 years	<sup>10</sup> 3

# Informal practices

Type of business	1	1	1	1	2	2	2	2	3	3	3	4
Working hours per day/contract	4	4*	8	8	6	8	8	8	4	8	8	8
Working hours per day/real	8	5*	8-12	8	12	12	8-10	8-9	9	9.5	10	24 av
Gross monthly salary (BGN)/contract	290	105	480	290	290	350	500	325	290	300	500	600
Gross monthly salary (BGN)/real	600	400	1200	1200	870	600	800 - 1200	700	1000-1500	600	750	1200
	2.1	3.8	2.5	4.1	3	1.7	2	2.2	4.3	2	1.5	2

Notes: 1 – micro; 2 - small; 3 – medium-sized; 4 - large businesses.

1 Euro= 1=95 BGN; \* 4 hours for 5 days per month – 5 days more monthly.

# Leaves

- An explicit agreement for use of doubly reduced leave of 10 days instead of 20 days as regulated by law.
- All respondents without any exception indicated that the corresponding dual agreement is effective not only for them personally but for all employees in a company and it has not been changed since their job start.

## EMPLOYEES:

- barely familiar with the system of the MSIT, do not distinguish between the MSIT and the NMW
- stand ready to work for minimum wage, but to stay at work and have incomes
- massively underestimate the importance of knowledge of the basic laws (LC) and rely on the correctness of employers
- Apathy

# Social legitimacy of dual agreement

- *Origin*: Mixture of perceived lack of choice, self-interest and social apathy.
- *Manifestation*: It is not important what is stated in the contract but what is verbally agreed – that is what should count.
  - Result: compliance with the informal agreement by the employers (one exception)
- *Protests*: not towards the dual agreement but towards the lack of verbal agreements in regard to:
  - overtime and extra work, incl. in holydays
  - non-specification of the content and volume of the labour duties

# Social legitimacy

- Well, now it [EW practice] is so penetrated into the relationship between employer - employee and public institutions that ... **it's just a way of working and the way in which the whole of labor relations are put into practice** and ... and it would be very hard to change. Do not even think ... rather to deepen than to fix. (*employer, m., 33 y., law company, 2009*)

# Conclusion

## **Measuring and understanding:**

- Combination of **qualitative** and quantitative methods.

## **Control:**

- Limited/no opportunities for control

## **Strategic tackling:**

- in-depth study of interdependence between MSIT and NMW
- Better understanding of regional aspect
- Finance and civic education in the secondary school