



Republic of Bulgaria  
ECONOMIC  
AND SOCIAL COUNCIL

## **OPINION**

on

### **"REDUCTION AND PREVENTION OF THE INFORMAL ECONOMY IN BULGARIA AS AN OPPORTUNITY TO ENCOURAGE GROWTH AND EMPLOYMENT"**

(own-initiative resolution)

April 2015

The Economic and Social Council (ESC) included in its Action Plan for 2015 the task to elaborate an opinion on **"Reduction and Prevention of the Informal Economy in Bulgaria As an Opportunity to Encourage Growth and Employment"**.

The elaboration of the opinion was assigned to the Labour, Incomes, Living Standard and Industrial Relations Commission.

Mr. Vasil Velev - Chairman of the Association of Industrial Capital in Bulgaria, a member of the ESC Group I - Employers, Deputy Chairman of ESC and Mr. Plamen Dimitrov - President of the Confederation of Independent Trade Unions in Bulgaria, a member of the ESC Group II - Unions, Chairman of the Work, Income, Living Standards and Industrial Relations Commission, were appointed rapporteurs.

At its Plenary Session, held on 20 April, 2015 ESC discussed and adopted this Opinion.

**ABBREVIATIONS USED**

BICA	Association of Industrial Capital in Bulgaria
PPA	Public Procurement Agency
BCCI	Bulgarian Chamber of Commerce and Industry
GLI	General Labour Inspectorate
VAT	Value added tax
EC	European Commission
EU	European Union
PPA	Public Procurement Act
ICT	Information and communication technologies
ESC	Economic and Social Council
CITUB	Confederation of Independent Trade Unions in Bulgaria
CL "Podkrepa"	Confederation of Labour "Podkrepa"
ILO	International Labour Organization
MLSP	Ministry of Labour and Social Policy
NRA	National Revenue Agency
IE	Informal Economy
OECD	Organisation for Economic Co-operation and Development
UN	United Nations
OPDHR	Operational Programme "Development of Human Resources"
WB	The World Bank

## 1. CONCLUSIONS AND RECOMMENDATIONS

- 1.1. The Economic and Social Council notes with concern that the informal economy is a phenomenon which reasonably engenders serious concern not only in individual countries but also on a global scale. It shows exceptional resistance, diversity and flexibility and always finds its niches. ESC expresses its concern about the significant share of the informal economy in Bulgarian GDP. ESC notes with regret that despite the measures undertaken in recent years to curb it, assessed positively by the European Commission, Bulgaria continues to be among the top three EU Member States with the highest share of informal economy reaching above 30% of the GDP.
- 1.2. Recognising the great potential of the reduction and prevention of the informal economy and the transformation of undeclared work<sup>1</sup> in regular employment for increasing economic growth and the implementation of the employment targets of the Europe 2020 Strategy, ESC expresses its consistent position that a gradual and long-term resolution of this problem will contribute significantly to the realisation of these important strategic goals of Bulgaria:
- Establishing lasting economic growth;
  - Sustainable development of social systems by increasing fiscal revenues;
  - Improving working conditions and job quality through compliance with the basic standards;
  - Creating an environment that encourages legal business and competitive sustainable enterprises based on fair market conditions, equal opportunities and effective and timely monitoring.
- 1.3. ESC notes that in recent years a significant number of policies and measures have been implemented to reduce and prevent the IE, including:
- Mandatory registration of employment contracts and the negotiation of minimum insurance income (with the active participation and involvement of the social partners);
  - Linking cash registers with the NRA;
  - Requiring manufacturers of excise goods (alcohol and fuel) to install appliances which send data directly to the Customs Agency - an obligation for remote transmission of data allowing the Agency to monitor the available quantities of fuel at liquid fuel selling point in real time;

---

<sup>1</sup> "Employment and Social Developments in Europe 2013 " EU publications 2014, Chapter 4 Undeclared work: recent developments, p. 231. The quoted study and the sources referred to include a representative and current overview of the used direct and indirect methods for the assessment of the so-called informal or "grey" economy, as well as comparative data for Bulgaria and other Member States used by the European Commission (p. 231-233 and 238).

- A number of measures related to improving the collection of VAT;
  - Ratification of Convention 177 on homeworking and adopted amendments to the Labour Code;
  - Simplifying the tax administrative burden, introducing a flat tax, introducing electronic payments, etc .;
  - Restriction of cash payments;
  - Criminalisation of insurance fraud.
- 1.4. ESC notes with satisfaction the commitment and responsibility of social partners who have initiated a number of joint initiatives, such as the two national agreements on home work and distance work<sup>2</sup> as well as the relevant changes to the Labour Code, social legislation and other applicable laws, joint campaigns, joint projects and other initiatives.
- 1.5. ESC notes with concern, however, that so far the policies and measures in the majority of cases unquestionable, yet short-term, effect. Largely this is due to the lack of integrated approach clear interdependence, update and upgrade individual policies, and the lack of monitoring and evaluation of the impact of specific policies and measures. The prevailing approach involves sanctions, insufficient preventive measures and incentives for both employers and workers to declare their labour, there are no measures to promote a culture of intolerance towards such practices.
- 1.6. The Economic and Social Council recognises the progress in reducing the informal economy by about 7 percentage points in the period 2010-2014<sup>3</sup>. Noting that this result

---

<sup>2</sup> National agreement governing the regulation of home work in the Republic of Bulgaria, 2010, and National agreement for the organisation and implementation of distance work in the Republic of Bulgaria, 2010. on

<sup>3</sup> The sociological and statistical data, as well as the criteria and methodology for the collection and processing, quoted by in the Opinion (unless otherwise stated) are based on the findings of the project "Reducing and preventing informal economy", financed under OP HRD by ESF - <http://www.ikonomikanasvetlo.bg/>.

According to the conducted in October 2012 representative surveys the share of the informal economy nationwide has shrunk by 5.4 pp based on assessments of employers (36.8% as compared to 42.2% in 2010) and by 7.3 points based on evaluations of employees (from 48.6% in 2010 to 41.3% in 2012).

After calculating the composite index "Business to the Rules" BICA concluded that according to the final and revised data for 2013 the index value is 67.77. The new adjusted value shows increase as compared to the value for 2012, which was 66.74.

Despite these improvements, according to the European Commission, as well as the studies of the European Foundation for the Improvement of Living and Working Conditions, Bulgaria has the largest share of informal economy in the European Union. This share is estimated (for 2012) to approximately 32% of the

was achieved thanks to the hard work and close cooperation between the state, social partners and structures of organised civil society, ESC calls not to lose pace in the implementation of following action in this direction, even more so **as there are signs of slowing down the process of "formalization" of the economy**<sup>4</sup>.

- 1.7. The Economic and Social Council expressed its serious concern over the fact that the adopted update of the State Budget for 2014<sup>5</sup> for the first time since 2011 envisions budget deficit exceeding the limit amounting to 3% of the GDP. The gloomy picture is exacerbated by planned for 2015 deficit of 3%, as well as the forecast for a slow-down in the rate of economic growth in Bulgaria resulting from the unfavourable world economic situation. Considering the fact that in this situation the main source for the implementation and increase of budget revenues is better collection, **ESC urges the state authorities, in cooperation with all stakeholders to take urgent measures to significantly limit the informal economy in the country.**
- 1.8. The Economic and Social Council recommends that **efforts should be directed the following** four areas, where the main manifestations of informal practices are traditionally concentrated:
  - 1.8.1. Prevention of the violation of labour and social security legislation through measures directed against the following specific practices: incorrect drafting of contracts (including with respect to the amount of wages and hours of work); incorrect assessment of the due health and social insurance contributions; violating the right to safe and healthy working conditions, rest and leave.
  - 1.8.2. Limiting the practice firms to declare lower turnovers, respectively lower profits, by not issuing financial documents for part of the transactions and resorting to cash payment in order to conceal income.
  - 1.8.3. Taking measures to prevent the evasion of customs duties, excise duties and taxes, VAT fraud and the like.

---

country's GDP. The "top three" countries with the largest informal economy are still Bulgaria, Romania and Lithuania.

<sup>4</sup> Within the surveyed period the dynamics of the index "Business to the Rules" is very uneven. In 2011 both components of the index - the statistical and sociological, rise and the growth of the entire index is quite significant - 2.63 units. In 2012 the picture is different - the index even shows a slight decrease (-0.24 units), ie there are delays and loss of positive momentum from 2011. In 2013 the index grows again - by 1.03 units.

<sup>5</sup> Promulgated in State Gazette pcs. 98 /28 November 2014.

- 1.8.4. Preventing of corruption in terms of giving and receiving bribes and making public contracts without a tender and honest competitions.
- 1.9. ESC recommends that the necessary legislative and other measures to promote the protection of labour and social rights of workers and to protect the rights and interests of enterprises from the negative manifestations of the informal economy, which facilitate transition to the formal economy.
- 1.10. ESC expresses concern about the flexibility and vitality of the informal sector, fuelled by the mutual interest of the participants, and the possibility that it can become a generational problem, following the trend to reproduce informality, found by studies of the World Bank,<sup>6</sup> following patterns transmitted in the family ("**the informality trap**" which is handed down to future generations). On the one hand, working under these conditions, workers and businesses "survive" but on the other, they "ingrain" into the sector all the negative consequences for their future personal or business development. ESC believes that to raise workers and employers' awareness of the cost of functioning in the informal economy, it is necessary to use specific information and motivation policies, not just administrative and sanctioning policies.
- 1.11. ESC believes that the full potential should be used of the Public Council for Restriction and Prevention of the Informal Economy, created within the project BICA and CITUB; as well as the dynamics engendered within the project, the cooperation and synergy of the actions involving participating organisations and institutions. Therefore, ESC proposes that the government and the social partners should support its transformation into a permanent body and a kind of public platform for preventing and limiting the informal economy (after the relevant change of its status).
- 1.12. According to ESC, it is necessary to overcome the deficit of public data, provided by NSI, NSSI and NRA (concerning various aspects of the informal economy) which creates difficulties in its measurement and monitoring of objectives and formulation of relevant policies and designing the necessary measures for the implementation and evaluation.
- 1.13. **ESC calls for the adoption and enforcement by national legislation of a definition of informal work.** In this regard, besides the most general definitions of the terms "informal economy" and "informal labour", there must be provisions for the most common forms of their manifestation such as working without a contract or working under an

---

<sup>6</sup> Packard, T., Koettl, J. and Montenegro, C. (2012) *In From the Shadow. Integrating Europe's Informal Labor*. Washington D.C.: World Bank Group.

employment contract which contains untruthful information regarding wages and/or working hours, etc. On these grounds the policies and legislative measures to be undertaken must take into account the diversity of situations and profiles in the informal economy.

- 1.14. ESC recommends amendments to the legislation and particularly in the labour and social security legislation to be carried out after assessing the expected impact on the informal economy.

## **2. GENERAL CONTEXT AND TERMS IN THE AREA OF THE INFORMAL ECONOMY**

- 2.1. The problems of the informal economy have so far been subject to only one specialised ESC Opinion<sup>7</sup> before Bulgaria's accession to the European Union, but one way or another the theme of the informal economy has been discussed and a number of other ESC opinions and analyses in the area of economic and financial policy, labour market and policies to improve the business environment, where ESC has proposed specific measures for the reduction and prevention of the informal economy.
- 2.2. ESC, taking into account the profusion of names and aspects of the informal economy and their current use as interchangeable concepts (informal economy, grey economy, shadow economy, unregistered, unrecorded economy, undeclared economy / undeclared labor, etc.) and the lack of common definitions and measurement methods and national and internationally (Appendix 1), used in this Opinion "informal economy" - a term used in two projects of the social partners under the OP HRD<sup>8</sup> as well as previously by ESC.
- 2.3. ESC believes that the frequently used term "combating the informal economy" does not accurately reflect the nature of the policies and measures of the government, social partners and civil society organizations need to take to reduce the informal economy. Given the sustainable nature of the informal economy and understanding that it cannot easily and completely disappear as it is woven into the overall socio-economic and productive structure of society, ESC uses in this Opinion the terms "restriction" and "prevention". Restricting means reducing the volume/scope of the IE through its transformation into a formal economy, while prevention through various policies and measures is aimed at limiting its expansion and the entry of new persons and entities in it.

---

<sup>7</sup> ESC Opinion on "The Informal Economy and Measures for Reducing It", 7 December 2006.

<sup>8</sup> Project "Restriction and prevention of the informal economy" BICA and CITUB as well as project "Raising the public intolerance towards the informal economy in labour and insurance relations and preventive actions to for its restriction" BCCI and "Podkrepa".



- 2.4. With the present Opinion ESC aims to encourage public debate on the alarming scale of the informal economy, to direct policies and measures taken in this so important for society, the economy, businesses and workers issue and respond to the concerns of European and international institutions expressed in a number of new entrants and upcoming acceptance documents. They require serious commitment and shared responsibility of the government, the social partners and civil society to develop coherent policies and actions to legalize the informal economy, especially in a crisis.

### 3. CURRENT PROBLEMS RELATED TO THE INFORMAL ECONOMY

- 3.1. Despite some positive results in recent years the share of the informal economy in Bulgaria is still very high, as some cases of informal practices in the field of employment have increased. In this regard, ESC calls for special attention to measures related to undeclared work. According to the results published in 2014 in a study by "Eurobarometer" on the topic, as the main reason for the existence of undeclared work Bulgarian respondents indicated: excessively low wages in the formal business sector (32%), lack of regular jobs in the labour market (38%), excessive taxes and/or social insurance contributions (14%) and lack of control by the authorities (27%). And the percentage of people in Bulgaria, who are not informed what might be the consequences/penalties for taking undeclared work is the highest in the EU (25%)<sup>9</sup>.

- 3.2. As a social and economic phenomenon the informal economy in recent years has a noticeable dynamics.

- 3.2.1. A significant phenomenon is the restructuring of the violations of labour legislation. There is a steady trend towards limiting the cases of work without an employment contract, paralleled by **increased incidence of work under contracts with fictitious clauses** (as regards salaries and working hours). For the period 2010-2014 a substantial restructuring of existing practices in the grey area of labour law can be observed. If in 2010 16.6% of employees worked without an employment contract, in 2014 their share was reduced to 6.4%. This indicates that the practice of working without a contract has been placed under control. At the same time, however, for the period 2010-2014 a negative trend can be observed that is expressed in the progressive increase in the number of people working under employment contracts with fictitious clauses. In 2010 the share of such persons was 10.8%, and increased to 19.6% in 2012, and to 27.6% in 2013, reaching a level of 44.2% in 2014.

---

<sup>9</sup> Special Eurobarometer 402. Undeclared Work in the European Union Report. Fieldwork: April – May 2013, Publication: March 2014.

3.2.2. In the period 2010-2014 a new trend in violations of financial discipline can be observed. As compared with 2010, in 2014 the share of employers systematically violating financial discipline has remained almost unchanged (about a quarter), but the proportion of employers who allow occasional (sporadic) **violations of financial discipline has increased**. This is an alarming indication suggesting that the financial situation in the country continues to deteriorate and the measures restricting the informal sector must be strengthened. At the same time, the systemic problem of rigged tenders and competitions remains, as well as the existence of corruption practices and the non-issuance of receipts in the services sector.

3.2.3. Based on data from the individual performance of the composite index "Business to the Rules" as a very common and extremely problematic manifestations of the informal economy **in 2013 once again there is a very clear manifestation of the losses from the smuggling of tobacco products; VAT fraud; failure to comply with customs procedures for trade with countries outside the EU**. All these should be given particular consideration in formulating future actions to reduce and prevent the informal economy.

3.3. The Economic and Social Council warns that there is a wide range of **objective and subjective factors and reasons for the existence of informal practices in Bulgaria**<sup>10</sup>, the main ones being:

- Excessive government regulation, frequent changes in legislation, heavy bureaucracy and complicated administration ("invented regulatory regimes," "bad attitude of the state towards business", "failing or poorly functioning administrative framework");
- Gaps and deficiencies in the legislation that allow for various interpretations or allow loopholes to circumvent the law;
- Lack of control, abdication of the state from its control functions;
- Corruption at all levels, including at the highest levels;
- Widespread practice of rigged public procurement contracts distributed between "groups of companies", provoking the opposite reaction - "if you steal from my taxes, I'm not going to pay them";
- Striving of political elites and economic groups to become rich quickly - the gray sector is more profitable: to pay lower taxes than those actually due; labour costs are lower; generate free cash flows that can be used for other purposes; It gives more freedom in the choice of suppliers and distributors; easier to attract and retain personnel; to save paperwork and costs associated with the accounting for the business;
- The inadequate quantity and poor quality of public services and the inefficient judicial system undermining people's confidence in the institutions and motivating their

---

<sup>10</sup> According to the survey of employers under project BICA and CITUB.

refusal to participate in civic life;

- Low salaries of public sector employees;
- Relatively low tax morality in the country;
- The global financial crisis from 2008-2010, which affected the functioning of a significant part of Bulgarian economic entities;
- The peculiarities of the Bulgarian mentality associated with the established traditions of circumventing the laws and adopting the practices of the informal economy as a means of survival for businesses and citizens.

3.4. ESC also recognizes the fact that work in the informal sector is largely due to the **still high level of social tolerance of Bulgarian society to the informal practices**. During the period 2010-2014 public awareness of informal practices significantly increased, but in 2014 still 11.3% of the population (as compared to 28.9% in 2010) openly declared that they are willing to work without employment contract, and 31.0% in 2014 (as compared to 46.5% in 2010) expressed readiness to work with fictitious contracts clauses.

3.5. ESC emphasises that the informal economy poses a serious threat not only to the functioning of the labour market and the competitiveness of Bulgarian business to sustainable budgetary and social systems, but also for the exercise and protection of the rights included in it workers and businesses. Non-compliance of their activity with the law poses serious difficulties for the protection of their rights, including their rights to organise, rights to collective bargaining, social protection and safe and healthy working conditions. Businesses in the informal economy do not have enough secure property rights and face serious difficulties in accessing funding, and business services. The informal economy distorts the market relations and undermines the development of human capital, deskilling and marginalizing a significant part of the workforce. It leads to social dumping, unfair competition and breach of basic labour, social and business standards.

3.6. ESC recognizes the exceptionally **negative effects that the informal economy has on the system of budget revenues** in the country. At the same time, ESC warns that the higher rate of informal economy will lead to:

- Distortion of macroeconomic ratios;
- **Higher official unemployment** because more people are involved in it and will be formally reported as unemployed (71.6% of employers stand behind this opinion);
- Formal reporting **of lower rates of economic growth** because not all production will be accounted for (according to 71.6% of employers);
- Relative **reduction in revenues from direct and indirect taxes** (73.6% of the employers are of this opinion);
- **Reduction of revenues from customs duties** (According to 57.2% of employers);
- Distorted assessment of income.

- 3.7. ESC **strongly condemns the distortion of competition** and equality in the labour market created by the informal economy. Companies that do not comply with the laws and do not pay taxes and social security contributions have competitive advantage over socially responsible businesses driving them into bankruptcy. This slows down the overall growth and leads to fewer opportunities for quality employment.
- 3.8. Taking into account that the informal economy has its sectoral and regional specificities, ESC identifies as a major priority the taking of specific targeted measures in sectors, industries and regions where the informal economy thrives best.

#### **4. EUROPEAN CONTEXT OF THE RESTRICTION AND PREVENTION OF THE INFORMAL ECONOMY**

- 4.1. ESC shares the concern of the European and international institutions for the ever-growing incidence of various forms of informal economy - both in Europe and globally, covering more than two-thirds of the global 3-billion workforce (according to OECD<sup>11</sup> over 1.8 billion people are involved in informal practices), and the EU shadow economy is estimated to 2.1 trillion euros (2013). In the interconnected global world, the informal economy increasingly transcends the national and becomes a cross-border phenomenon.
- 4.2. ESC supports the idea that (alongside its high-priority treatment in national policies) joint efforts is needed also at the European and global level to reduce and prevent informal economy by maintaining a systematic exchange of information, data and analysis at the European level to engage the participation of institutions and the social partners.
- 4.3. The European institutions over the past 15 years have adopted a number of documents aimed at limiting and preventing the informal economy, which put the reduction and prevention of undeclared work among the political priorities of the EU thereby declaring their commitment in this area<sup>12</sup>.
- 4.3.1. Integrated Guidelines for Growth and Jobs were developed in the context of the Europe 2020 Strategy of the European Union to achieve smart, sustainable and inclusive growth, which connect economic development and policies in support of employment with the fight against the informal economy and related unreported

---

<sup>11</sup> Quoted in accordance with : PietRenooy, ColinC. Williams. 2014. Tackling undeclared work. Bringing the undeclared economy out of the shadows: the role of temporary work agencies.

<sup>12</sup> EC communication "Stepping up the fight against undeclared work", 2007; EP Resolution 2008; EP resolution "For closer cooperation and the strengthening of labour inspectorates to combat undeclared work", 2014.

labour. This is a continuation of the close attention paid to these phenomena under the European Employment Strategy and the Employment Guidelines in the context of the need for reforms of the labour market.

- 4.3.2. The reduction and prevention of the informal economy and undeclared work are elements of the package of employment measures proposed in April 2012, which specifically highlight the need for transforming informal work into regular employment; the Annual Growth Survey as well as specific recommendations to Member States to reduce the informal economy, tax evasion and corruption.
- 4.3.3. In April 2014 the European Commission - after two rounds of consultation with the European social partners - proposed the creation of a "European Platform for Prevention and Limitation of Undeclared Work", aimed at improving the cooperation at the European level to more effectively prevent and deter undeclared work<sup>13</sup>. The new platform will connect labour inspectorates and all control and law enforcement bodies involved in combating undeclared work, and other stakeholders, including the European social partners. The platform will provide a forum in which experts will be able to share information and best practices.
- 4.3.4. ESC appreciates the desire of the Commission to create conditions for pan-European response to the informal economy, designed to protect workers, to ensure a level playing field between companies and ensure revenues from taxes and social contributions and supports the creation of the Platform as part of the integrated approaches, policies and efforts of the European institutions in its efforts to establish a favourable European environment and legalising the informal economy. Moreover, ESC calls on the government and relevant institutions to actively participate in the work of the Platform in order to reduce and prevent informal economy at national and the European level.
- 4.3.5. The ESC welcomes the approach of European institutions at the center of development and implementation of policies to curb the informal economy participation of social partners and social dialogue and believes that this approach should be followed in Bulgaria.

---

<sup>13</sup> European Commission (2014) Proposal for a Decision of the European Parliament and of the Council on establishing a European Platform to enhance cooperation in the prevention and deterrence of undeclared work. COM(2014) 221 final. Brussels.

## **5. ILO POLICY ON THE TRANSFORMATION OF THE INFORMAL ECONOMY INTO A FORMAL ONE**

- 5.1. ESC supports the increased attention directed to the informal economy by the international community (OECD, World Bank, ILO) as a global challenge for all countries, regardless of their stage of economic development and the proposed measures and policies based on the recognition that the transition from the informal to the formal economy is essential to achieving sustainable and inclusive growth, eradication of poverty, growth companies and realisation of fundamental principles and rights at work<sup>14</sup>. Along with this ESC also joins the existing international consensus that both the manifestation and scope of the informal economy and the measures necessary to facilitate the transition from the informal to the formal economy are specific and depend on the national circumstances of each country.
- 5.2. ESC appreciates the efforts of the ILO both for developing a conceptual framework for the informal economy and for the 2002 consensus achieved in 2002 (among delegates of governments, employers and workers' organizations from ILO member states) on the need to put forward the transition from the informal to the formal economy as an objective and to promote policies for going out of the informal economy<sup>15</sup> as well as for the subsequent development of this framework.
- 5.3. ESC supports the forthcoming adoption in June 2015 of the Recommendation of the International Labour Conference for the transition from informal to formal economy, discussed at the 103rd session in 2014 by delegates of governments, employers and workers' organisations from 185 countries- ILO members<sup>16</sup>. In its recommendations ILO proposes a framework to facilitate the transition from the informal to the formal economy encouraged the creation, preservation and sustainability of decent jobs in the formal economy and consistency of macroeconomic policies, employment policies, commercial, industrial, fiscal, sectoral and infrastructure policies, enterprise policy, promoting investment, and the creation of sustainable enterprises, educational policies and skills development, social protection policies and other social policies.

The recommendation made several key messages:

- It is necessary to develop a cohesive, coherent and integrated framework of policies taking into account the diversity of national circumstances and priorities of the actors in

---

<sup>14</sup> World Bank report (2012). [“In From the Shadow: Integrating Europe’s Informal Labor”](#); OECD Employment Outlook, 2008. Chapter 2: Declaring Work or Staying Underground: Informal Employment in Seven OECD Countries; OECD Employment Outlook, 2004. Chapter 5: Informal Employment and Promoting the Transition to a Salaried Economy; ILO (2013) Report V (1) Transition from Informal to formal economy.

<sup>15</sup> ILO Resolution on Decent Work and the Informal Economy, 2002.

<sup>16</sup> International Labour Organization (2015) Transitioning from the informal to the formal economy, Report V (2B). International Labour Conference, 104 Session. Geneva: ILO.

the informal economy. Any measures taken should apply to all workers and economic units in the informal economy.

- The transition from the informal to the formal economy depends to a large extent on the government. It is important for ensuring the engagement of governments and developing an integrated policy framework to improve legislation, regulations and capacity building of institutions, control and enforcement, and increase the confidence in them.
- Governments should take measures to reduce barriers to the transition to formal economy, including those relating to registration, taxation and compliance with laws and regulations, provide incentives and promote the benefits of the transition to the formal economy, including improved access to business services, finance, infrastructure, markets, technology, education and programs for skills acquisition and ownership rights.
- Employers and workers' organisations play an active role in facilitating the transition from the informal to the formal economy. Therefore, it is necessary to strengthen the role of tripartite dialogue and involvement of social partners in the development of policies to facilitate the transition from the informal to the formal economy.
- The expansion of labour and social rights and protection of all workers in the informal economy, overcoming the deficits of decent work in the informal economy is considered a key element of the transformation of the informal economy in official. According to the ILO international labour standards apply to all workers, regardless of where they work, including working in the informal economy - fundamental rights at work, social rights - maternity, child care, salary maintenance, regulation of labour relations, working conditions must be provided for workers in the informal economy, which will facilitate the transition to the formal economy. Extending the rights is important for economic units, as most of the economic units in the informal economy do not benefit from secure property rights, which deprives them of access to capital and credit, the legal and judicial system to public infrastructure.
- The development and implementation of policies to facilitate transition to the formal economy, largely dependent on the participation of workers and employers in the informal economy. In this regard, respect for the right of association of workers and employers, entrepreneurs, self-employed in the informal economy and opportunities for their representation - by the most representative organizations of workers and employers, as well as participation in social dialogue is an important factor for the success of policies.
- Special attention should be paid to informal work in enterprises of the formal economy, as well as the manifestations of informal work in global supply chains.
- It is necessary to adopt special measures and to create incentives to facilitate self and home workers to transition to the formal economy.

## **6. SHORT-TERM MEASURES - BY THE END OF 2015**

### **6.1. Legislative and administrative changes**

6.1.1. ESC recommends an integrated approach, as proposed legislative and administrative changes should combine **and balance better sanctioning measures and measures aimed at creating a system of incentives for neat businesses and citizens**- including reducing the administrative burden and ensuring uniform application of laws for all businesses and individuals. These packages should include proposals in the areas of administrative and financial law, labour and insurance law, commercial and contractual law, the proposals must be based on the agreement of the social partners and stakeholders and be accompanied by an impact assessment.

6.1.2. ESC emphasizes that the dialogue between the social partners, civil society and institutions is key to the adoption of workable and successful measures by which to achieve real limitation and prevention of the informal economy.

6.1.3. ESC is convinced that **The Public Procurement Act needs further development and improvement**. About a third of employers continue to believe that the changes in the PPA are still insufficient in terms of effect and do not contribute to the mitigation and prevention of the informal economy. ESC recommends legislative changes for regulating the area of public procurement to ensure blocking the direct relationship between the administrator of the tender and the contracting authority, as well as ensure transparency and equal access to public procurement contracts. **To achieve real results in those guidelines ESC proposes to undertake urgently legislative and administrative measures that lead to:**

- Regulation and technical support selection of a contractor in procurement by the Public Procurement Agency using an electronic system for centralized tenders. The developed and implemented electronic system must allow the exercise of control over the implementation of public procurement;
- Digitization, unification and standardization of documentation and procedures for conducting public tenders;
- Qualifying administration for timely preparation of good-quality documentation and working with external experts;
- Regulation and technical support of electronically submitted documents and the introduction of strict control on the access to information;
- Statutory regulation and introduction of regular reporting of the PPA;
- Statutory rules for the election of the Chairman of the PPA by the National Assembly;
- Introducing a register of external experts in order to neutralize the existing incompetence and corrupt practices;
- Introducing a register of rogue companies and mandatory checks with this register when conducting public procurement tenders;
- Statutory ban on including clauses for trade secret in contracts for public procurement.



6.1.4. ESC believes that the creation and maintenance of a sustainable social security system is an important factor contributing to the transition to formal employment. In this regard, ESC urges concerted action to expand the range and quality of social protection in accordance with Recommendation № 202 ILO 2012. It is essential that workers uncovered by the social security system should be encouraged to join the formal schemes of social protection and health insurance through flexible and simplified rules and procedures. Policies to extend social security should be coordinated with fiscal and economic policies, as well as with those promoting competitiveness, and employment, in order to promote the transition to the formal economy.

6.1.5. ESC is convinced that the development of the social economy is a promising approach to transforming the informal economy and urges the Government and the social partners to meet their responsibilities in relation to the realization of the concept of social economy, adopted in 2012. ESC emphasizes that at this stage the social economy is a necessary complement to the deformed economic and social environment, which contributes to the maintenance of market elements in the economy, as well as to combining business profitability with the protection of human capital and supports the social safety nets. It helps create new economic operators to expand the market participants, to create new jobs for disadvantaged people<sup>17</sup> which are among the most vulnerable groups to end up in the informal economy due to the highly segmented labour market.

6.1.6. ESC highlights the need to further improve the activity of the General Labour Inspectorate (GLI), ensure the better training of its staff, increase the capacity of labour inspectors to improve working conditions, compliance with labour legislation, detect and adequately sanction all manifestations of the informal economy, as well as provide advice to employers and workers on how to get out of the informal economy. It considers it appropriate to continue the **joint inspections of** GLI and the National Revenue Agency (NRA) and to extend their scope. Improvement of institutional development and coordination between state institutions to combat the informal economy, in particular as National Revenue Agency, the Customs Agency, Bulgarian Agency for Food Safety and others, as well as expanding cooperation of these institutions with the social partners.

6.1.7. ESC recommends that in order to prevent the informal economy and informal employment practices GLI should increase and expand the thematic inspections

---

<sup>17</sup> See ESC Opinion on "The Social Economy - Opportunities and Prospects for Development in Bulgaria", 2012

related to the control of labour and social security legislation for homeworkers and teleworkers resulting from two national agreements of the social partners in relation to home-based and telework, as well as the legality of employment and working conditions of foreign nationals and posted workers.

6.1.8. ESC insists that work on **the restriction of cash payments should continue** as well as organising annual campaigns for the declaration and payment of health insurance contributions. It is recommended to stimulate and accelerate the development of electronic payments in all areas by:

- Placing mandatory cashless payment terminals in retail outlets;
- Tax exemptions or other incentives for businesses and consumers using electronic payments.

6.1.9. ESC proposes that the Ministry of Finance and the Ministry of Labour and Social Policy should initiate the establishment of **working groups by industry and branches** composed of representatives of the social partners and the state administration to prepare **specific packages of proposals for changes in legislation and administrative practices to reduce and prevent the informal economy**. These packages must be aimed at solving specific problems identified by economic activities with a focus on industries and sectors where the prevalence of gray practices is particularly large or legal and administrative deficiencies are identified. Moreover, it is necessary to create the practice that social partner representatives from relevant sectors and industries should participate in the planning of checks and approving the instructions for inspection by public authorities throughout the whole chain in a given industry - from the purchasing and supply of raw materials through production to the ultimate realisation through trade.

6.1.10. Taking into consideration the existing and well established during the last ten years practice to negotiate the minimum insurance income (thresholds) with a view to further develop and deploy social dialogue, ESC is of the opinion that it is necessary to adopt a statutory procedure for determining and applying minimum insurance income.

6.1.11. ESC proposes that **an objective methodology for determining fees** of state and municipal authorities should be adopted based on the cost of the provision of each service. The ambiguity in determining the fees, conflicting decisions, arbitrary interpretation of regulations are prerequisites for corruption in institutions that have daily contact with citizens and businesses and are an essential factor generating the informal economy.

- 6.1.12. ESC believes that it is necessary to develop the existing and, if necessary, to create a new regulatory framework regarding business enterprises to provide temporary work, the implementation of homeworking and teleworking through which objectively can establish their actual use in practice and effectiveness of their legislative framework (adopted in 2011-2012 years), based on the results of which to assess the need to revise it.
- 6.1.13. ESC holds that the Employment Agency - in cooperation with the social partners must increase its capacity to develop innovative approaches to better protect the unemployed and their transition into the labour market through various employment programs and not to allow their inclusion in different manifestations of the informal economy. Along with this, the ESC suggests a maximum possible **simplification of documentation on employment programs** and projects related to human resources development. The technical difficulties in accessing the various programmes are also among the notable motives for employers to hire workers informally.
- 6.1.14. Considering that migrants are a particularly vulnerable group in terms of the informal economy, ESC holds that the development of the migration policy of the government and the social partners should include measures for preventing the participation of immigrants and Bulgarian emigrants in other countries in the informal economy. Labour immigration creates a significant adverse effects on host countries. It is connected to maintaining a parallel informal segment of the labour market of the host countries, support for the "grey" sector of their economy and the distortion of the principles of fair competition in the national and common European market. From the perspective of workers, this means failure of their labour and social rights and increasing the uncertainty of their employment. In this regard, ESC recommends that the efficiency of the existing Offices of Labour and Social Affairs (LSIOs) with MLSP should be improved in many countries to prevent the participation of Bulgarian emigrants in the informal economy of the host countries.
- 6.1.15. ESC proposes to **promote the certification of systems for managing the quality of the enterprise**. In genuinely operating systems of this kind it is more difficult to apply informal practices because these systems take into account inventory, turnover, accounting operations, time worked, etc. It is difficult to manipulate reporting, which is a necessity in informal practices involving unaccounted for inventories of goods and working hours, unaccounted for payments, unregistered assets, etc.
- 6.1.16. ESC proposes to grant health insurance exemptions to people who care for sick or children of workers helping in the household without having declared their activity,

provided that they register for health insurance within a certain time period. It also recommends to create the necessary statutory basis, using the experience of other European countries (Belgium, Denmark, Germany, Finland) for introducing vouchers for such services that encourage households to employ workers legally and will bring into the light significant part of this informal working group integrating them into the tax and social security system.

6.1.17. ESC proposes to create a system of incentives for companies to encourage them to engage in the fight against corruption and to reduce the informal economy by joining **the UN Global Compact**. The development of corporate social responsibility is also a step in the right direction.

## **6.2. Information campaigns and providing advice**

6.2.1. ESC sees major opportunities **for reducing and preventing the informal economy through active use of ICT**, such as:

- Whistleblowing and telephone consultations using the National hotline maintained by BICA;
- Active discussions on the topic in the social networks (Facebook, Twitter, etc.) as well as using especially designed forums;
- Dissemination of Internet banners on the topic in popular websites as well as the websites of public facilities and institutions, including municipalities, universities, etc.;
- Giving wide publicity to the serious irregularities and the consequences for employers who hire workers informally as well as for employees who agree to work on fictitious contracts through conducting various TV and radio games and competitions, as well as launching competitions, such as "Take a photo of the shadow economy."
- Introducing a registration code for place of work (employment) in accordance with the classification of settlements (Unified Classification of the Administrative-Territorial and Territorial Units) in return forms for localising the employment of persons covered by social and health insurance, facilitating control and information security measures against the informal economy and undeclared work.

6.2.2. Considering that the reduction and prevention of the informal economy requires serious changes in the behavior and attitudes of the citizens and all stakeholders ESC emphasizes the important role of **public-information campaigns** that are important for creating public intolerance to all forms of the informal economy and promoting voluntary compliance. In this regard, ESC believes that the following actions should be taken:

- Publication in the media of analytical articles to be used as an opportunity to initiate a broad public discussion about the opportunities for mitigation and prevention of the informal economy. The media should more often show "the good guys" - those working "in the formal economy", the successfully overcome "informal practices", "best practices" in the economic environment;
- The media - reporters and programmes dealing with investigative journalism, should investigate and show widespread "informal practices";
- Raising public awareness of the informal economy and its many aspects while strongly promoting the benefits for society and the individual from working in the formal sector with the participation of social partners and their regional structures, in cooperation with the local authorities;
- Conducting mass awareness campaigns for informing the ordinary citizens about the opportunities to protect their rights in case of violation of social security or health insurance.

**6.3. Trainings.** Considering that awareness about the nature, incidence and harm caused by the growth of the informal economy is the key to limiting informal practices and minimizing the damage from them, ESC proposes the following set of actions in the field of education:

6.3.1. Conducting **attendance and distance trainings**, including through joint actions of the social partners, using educational materials with concrete examples and case studies, analysed at the individual level, designed for both employers and employees, as well as the control and enforcement authorities.

6.3.2. **Dissemination of information** for the damages of the informal economy and opportunities for **online learning among the young** (school and university students), which will stimulate developing a citizen's position on corruption.

6.3.3. Including the problems of undeclared work in the programmes for **the training of labour inspectors**.

6.3.4. Undertaking different forms of **specific training** of groups for which there is a high probability to end up in the informal economy - **seasonal workers, minorities, youths, migrants, homeworkers**.

6.3.5. **Young workers** in the informal economy are an important target group as they represent the major share of new additions to the labour market. Studies show that for the most part they do not possess knowledge and labour union culture and show nihilism in this regard. Therefore, they often fall into the trap of informal

practices, often in the long term. ESC recommends to include in the scope of secondary education measures to acquaint young people with employment, social and security standards in order to increase their sensitivity to informal employment and the violation of labour law, including through the CITUB and the initiative of the Bulgarian Teachers' Union (BTU) "My first job"<sup>18</sup>. With view to this, a new form of training could be introduced - representatives of the social partners may visit schools and explain people's rights at work, the benefits of social partnership and working in the formal economy, to hand out leaflets to students at least during the last two years of secondary school, which would provide basic knowledge of labour relations, the role of social partners, the damage inflicted by the informal economy and the advantages of working in the formal economy.

6.3.6. Undertaking initiatives for more **transparency of the social security system** in order to increase the predictability of the benefits for insured persons. It is necessary for them to know what benefits they may rely on in different situations and how they are related to their participation in the formal economy. Without asserting this relationship the motivation for leaving the informal economy will always be incomplete and weak.

6.3.7. Active **cooperation with higher education institutions** in the country with two objectives:

- Discussing the problems of the informal economy in educational materials, lectures and seminars for students in disciplines such as economics, business management, public administration, sociology, journalism, etc.;
- Using the research capacity of universities.

6.3.8. ESC proposes to disseminate and use widely in training methodical and training materials developed by the social partners within the successfully completed operation "Increasing the flexibility and efficiency of the labour market through the active participation of social partners", under Operational Programme "Human Resources Development 2007-2014"<sup>19</sup>.

6.4. ESC believes that it would be useful and recommends conducting an extensive public

---

<sup>18</sup> ESC, Resolution on "Actions to Support Young People and Tackling Youth Unemployment in Bulgaria", 2013.

<sup>19</sup> For example, educational materials for employers and employees on the project, led by BICA, "Restriction and Prevention of the Informal Economy", the manual "My first job", under the project led by CITUB, "Security through law flexibility through collective bargaining", Handbook for decent work developed by CL "Podkrepa", other materials and tools, including National Center "Business to the Rules" of BICA, the Virtual Social Academy, proposed within the project of BCCI, etc..

consultation and implementation of the proposed measures and instruments in joint projects of social partners targeted on the problems of the informal economy, developed within a successfully completed operation "Increasing the flexibility and efficiency of the labour market through the active participation of social partners", under Operational Programme "Human Resources Development 2007-2014".

- 6.5. Taking into account that the informal economy leads to a deficit of decent work in its four dimensions defined by the ILO, and that it prevents the creation of sustainable businesses based on fair competition, ESC calls on the government and social partners to support the new ILO Recommendation for transition from the informal to the formal economy and make it widely used in practice in the development of legislative, economic and social measures to achieve the optimal balance between incentives for legalization and disincentives for remaining in the informal economy. The ILO Recommendation will allow for the strengthening of public consensus that can be transformed into a more focused and effective policy for restricting and preventing the informal economy based approach to compliance with the standards and the rights of both workers and businesses.

## **7. MEASURES IN THE MEDIUM TERM - 2016-2020**

- 7.1. Legislative and administrative changes.** ESC attaches special importance to carrying out in the medium plan of successive actions to create a **regulatory environment and administrative practices** to limit the scale of the informal economy. The philosophy of this process should be to create a regulatory environment that takes into account relevant new processes and phenomena in the country's economy, such as global competition, the need for new technologies and engineering specialists, depopulation of certain regions, demographic problems, difficulties in lending, as well as imposing consistency in the measures and policies of the government.

7.1.1. Creating an operational **"electronic government"** and a comprehensive information system with a maximum range, incl. the so-called electronic employment records, an electronic personal employment file, electronic and educational qualification profile of Bulgarian citizens in a format agreed with the social partners. These electronic records should assist the collection of taxes, social security and health insurance, customs duties, etc. Moreover, this will put an end to the practice of the state to require from businesses and citizens to provide information that has been already submitted to another of its bodies, and to verify circumstances that have already been established.

7.1.2. Developing a good and reliable relationship between tax officials and taxpayers and increasing tax morality. Acceptance by the National Revenue Agency of the practice to **treat taxpayers as customers**.

7.1.3. Systematic seeking to reduce the administrative burden (including **reducing the number of regulatory regimes**) through regular evaluation and reviewing their scope. Reduce them to the minimum required by EU law.

7.1.4. Ensuring **transparency in the assessments and public procurement tenders** and stimulating more competition in public sector contracts.

7.1.5. **Transparency of public finances**, as well as the taxation and expenditure policy of the state, linking the tax and social security payments to the quantity and quality of public services.

7.1.6. Enhancing the transparency of public finances and fiscal decentralization - of the checks and transparent granting and financing public services **programing orientation of public spending and decentralization** decisions regarding taxation and spending.

7.1.7. Offering packages of measures for:

- Unifying practical implementation of the regulatory framework without the possibility of discretionary decisions at various levels in the administrative hierarchy;
- Improving the import and export of dual-use goods which is very archaic and impedes seriously the work both of businesses and the customs;
- Shortening the time, facilitating and unifying the procedures for obtaining permits and licenses in different branches and cost orientation of charges;
- Extending the application of the principle of tacit consent.

**7.2. Information campaigns and provision of advice** ESC believes that at this stage the public still shows high tolerance of the informal economy, which is gradually changing. This involves the delivery of a coherent information policy, respectively - appropriate information campaigns and consultations:

- Gradually creating a threshold of intolerance to corruption and to the informal sector in economic relations. **Promoting the opinion that it is fashionable to decent and to comply with regulatory regimes;**
- Stimulating and **developing investigative journalism** targeted in the informal economy;
- **Achieving social consensus** on the problems of the informal economy - through open public debate in which through accurate data and convincing messages to demonstrate the benefit everyone will have from the formalization of the economy;



- Creating a **system of continuous assistance** and advice to employers and workers to detect and avoid informal-economy practices.
- **Increasing the awareness of the subjects of labour relations** - employers and workers, including through expanding providing advice in relation to the costs and benefits of their participation in formal and informal employment, and the benefits to be organized and have collective representation and opportunity to express and defend their interests. It is appropriate to create the necessary circumstances for this to take place not only in current offices, where similar services are provided even now, but also electronically.

7.3. According to ESC, an important goal of the employers and the workers should be the extension of their representation and reducing and preventing the informal economy through appropriate organizational forms, encouraging workers and employers to join existing trade union or employers' organizations, or to assist them to create their own organizations and the government to create the necessary guarantees for their involvement in social and civil dialogue.

**7.4. Trainings.** ESC proposes in the medium term to take action in the field of training and education to create serious public awareness of the scale of the damage caused by the expansion of the informal economy and informal practices through which it occurs. ESC recommends the development of proposals to the Ministry of Education and higher education institutions to **include in educational curricula in schools educational programmes in labour and social rights, consumer culture and business ethics in order for everyone to be informed:**

- What are the rights when applying for a job and how to uphold them;
- About the damage suffered by loyal businesses from unfair competition from informal business practices and how to avoid the pitfalls of the informal economy if we organize our own business or are self-employed;
- Not to forget to ask for a receipt and the relevant documents when shopping;
- About the damage resulting from non-compliance with product quality and environmental protection;
- About the damage suffered by consumers from the use and importation of substandard raw materials and commodities; failure to comply with legislative requirements for safety.

7.5. Taking into consideration the complexity and diverse character of the informal economy and different motives for participation, ESC stresses the need for a mix of policies, measures and tools providing flexibility and balancing the two approaches for limiting the informal economy - the deterrence approach, which seeks to detect and punish non-compliance and the preventive approach aimed at promoting the behaviour of compliance, as well as facilitating the formalization of the informal economy.

7.6. ESC emphasizes that the informal economy is a long-term challenge and problem of society as a whole, not just the state, businesses or unions. ESC is convinced that the shared commitment and cooperation between governments, social partners and civil society organizations to prevent and limit the informal economy will allow not only to implement the most effective measures to reduce the informal economy, but also for the transition to formal economy, employment and business according to the rules, thereby reducing the segmentation of the labour market and promote the creation of quality jobs in the formal economy, better conditions for business and economic growth.

7.7. ESC adopts this opinion as an important step towards further coordination the efforts of all stakeholders to reduce and prevent the informal economy and urges the relevant institutions for a constructive dialogue and active participation in its implementation.

Note: **For the purposes of this Opinion:**

**"Administrative burden"** shall mean the relationship between commercial entities and the state regarding the conduct of trade governed by regulations of different ranks.

**"Regulatory burden"** shall mean the relationship between commercial entities between commercial entities and the state, between commercial entities and individuals in connection with commercial activity regulated by laws of different ranks.

(signed)

Professor Dr. Lalko Dulevski

PRESIDENT OF THE ECONOMIC AND SOCIAL COUNCIL

#### APPENDIX 1

##### DEFINITIONS ASSOCIATED WITH THE INFORMAL ECONOMY

Name	Definition
<b>Informal economy / Informal employment</b>	<b>ILO - The term informal economy</b> refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs. Does not cover illegal activities.

	<p><i>ILO, Informal economy and decent work, 2002.</i></p> <p><b>"Economic units" in the informal economy</b> includes:</p> <ul style="list-style-type: none"> <li>(A) units employing wage labour;</li> <li>(B) units owned by individuals, self-employed or using unpaid or underpaid labour of family members; and</li> <li>(C) cooperatives and units of the social economy.</li> </ul> <p><b>"Informal employment"</b> includes:</p> <ul style="list-style-type: none"> <li>(A) persons in the informal economy, who own and manage business entities, including: <ul style="list-style-type: none"> <li>- self-employed workers;</li> <li>- employers; and</li> <li>- members of cooperatives and units of the social economy;</li> </ul> </li> <li>(B) family workers regardless of whether they work in economic units of the formal or informal economy;</li> <li>(C) workers occupying positions in informal or formal enterprises or in economic units in the informal economy, including subcontractors and supply chains, or as paid domestic workers employed by households; and</li> <li>(D) workers in unrecognized or unregulated employment relations.</li> </ul> <p>Informal work can be carried out in all sectors of the economy - both in public and in private enterprises.</p> <p>Informal employment means each informal work carried out in enterprises of the formal sector or the informal sector as well as households.</p> <p><i>ILO Draft Recommendation, 2015.</i></p> <p><b>Seventeenth International Conference of Labour Statisticians (2003)</b> recognizes that the importance of informal employment varies among countries, and that the decision to develop statistics on the informal economy is therefore determined by national circumstances and priorities. Informal employment comprises the total number of informal jobs as defined below, whether in establishments from the formal sector, establishments in the informal economy or households for a given reference period. <b>Informal employment includes the following types of jobs</b>(1) self-employed workers employed in their own businesses in the informal sector; (2) employers employed in their own businesses in the informal sector; (3) assisting family workers, whether working in enterprises in the formal or informal sector; (4) members of informal producers' cooperatives; (5) employees holding informal jobs in formal enterprises, enterprises in the informal sector or working as paid domestic workers employed by households; (6) self-employed workers employed mainly in the production of goods for their own final use, or use by the their household, if considered employed.</p> <p><i>Seventeenth International Conference of Labour Statisticians (Geneva, 24 November - 3 December 2003), Report of the Conference; Doc. ICLS/17/2003/R; International Labour Office, Geneva, 2003.</i></p> <p><b>OECD</b> - Employment or other economic activities aimed at production of lawful goods and services where one or more regulatory requirements relating to employment and the manufacturing process are not met.</p> <p>Informal employment, sometimes called undeclared, hidden or black employment, may more broadly be described as employment engaged in the production of lawful goods and services in which one or more of the legal requirements relating to employment are not met. Informal, undeclared or hidden employment is employment that is outside the scope of taxation, social security and other provisions.</p>
--	---

	<p>It could also be of a different type - workers who are not registered for social security, workers who declare only part of their income for tax purposes. Other groups may be self-employed or for people who have more than one job. Informality at the company level is also an important source of informal employment.  <i>OECD, Employment Outlook, 2004; 2008.</i></p> <p><b>Informal economy</b> It is a generic term, which means all violations of existing regulations formally carried out by economic entities and individuals in the realization of economic behavior. The informal economy covers an extremely wide range of illegitimate practices which are heterogeneous in nature and according to their functions. The informal economy is divided into three main types: 1) "shadow economy"; 2) criminalized economy, and 3) the .  "The shadow economy" includes only those specific practices and actions that accompany the performance of economic activities permitted by the law, but does not cover criminalized activities.  <i>Chengelova, E. (2012) The informal economy in the perception of employers - approaches and basic results. Economic and social alternatives, 1, 86-104.</i></p> <p>Although in the academic and expert circles grey and informal economy are distinguished as two different components of the hidden, unobserved economy, in general practice the terms are use indiscriminately. The informal economy is seen in a broader sense as blanket term for hidden, grey, and shadow economy. The hidden economy is that part of the economy, which remains unregistered by statistical reporting and includes the creation and redistribution of income away from public scrutiny. It includes illegal or hidden forms of employment and self-employment of the workforce. Therefore, it represents a serious threat to the labour and social cohesion in each country.  The hidden economy encompasses business activities and results, which are not recorded and reported by authorized institutions (statistical agencies, tax and customs administration, local authorities, etc.). Examples include unregistered employment and unwaged work, concealed for various reasons turnovers and operating income of legitimate businesses, undeclared taxes, social and health insurance, farm work, volunteering and the like.  <i>Project of BCCI and CL "Podkrepa" "Raising the public intolerance towards the informal economy in labour and insurance relations and preventive actions to for its restriction".</i></p> <p><b>The informal economy</b> - understood as all voluntary exchanges of labour, goods and services that are made, undetected by the government. Concepts such as informal economy, shadow economy, grey economy, unregistered economy, unsupervised economy, etc. generally mean the same thing.  <i>Stanchev, Kr. (ed.) et al. Study of incentives, characteristics and strategies of firms operating 'in the shadows' (Project IBEU, funded by the European Commission ), 2004.</i></p> <p><b>Informal economy</b> is defined broadly as "economic activities that are not fully accounted for by the national statistics, are not taxed by the government, are not penalized, regulated or protected by the state".  In the literature and in the public discourse it is possible to encounter different terms for almost the same phenomenon - such as black or illegal economy but the concept of informality seems to be more general and encompassing one for the content that is specific to the different terms used in one context or another.  <i>Belev, B., ed. The Informal Economy in the EU Accession Countries: Size, Scope, Trends and Challenges in the Process of EU Enlargement, CSD, 200.3</i></p>
--	---

<b>Grey economy</b>	<p>The term is used more frequently by some state institutions (Ministry of Finance) and the social partners as a broad term describing all types of economic activity that is hidden from the authorities.</p> <p><b>Grey economy</b>- legal, registered but partially unreported economy.  <i>University of National and World Economy "The Hidden Economy in Bulgaria: Current Estimates during the Period of European Integration," 2006-2008.</i></p> <p><b>The grey economy</b> can broadly be defined as the totality of market economic activities aimed at the production and exchange of legal goods and services which, however, circumvent or avoid government regulation, taxation or control. "Grey" economic activity can also be seen as a "complete" or "partial". Completely "grey" are, for instance, a number of services without the supplier to be even registered as a business entity for the purposes of general commercial and tax law. In this case, the whole enterprise is "hidden" or "informal". In other cases, it is possible that a separate business operation may remain off the record or to involve employment of workers without contracts. Then again there is an overall "informality", but in terms of the specific transaction. Very often, however, the manifestations of the "gray economy" includes partial disregard of activity, although on the whole it may be declared - such cases include reporting lower than the actual real sales or the payment of salaries without reporting documents.</p> <p>The terms "grey", "informal", "unreported", "undeclared economy" are used interchangeably.  <i>Project of BCCI and CL "Podkrepa" "Raising the public intolerance towards the informal economy in labour and insurance relations and preventive actions to for its restriction".</i></p>
<b>Shadow economy</b>	<p><b>The World Bank defined the shadow economy</b> as "market-based production of goods and services which are generally lawful according to the legislative framework, but are being hidden in order to avoid payment of taxes and social security or compliance with a product or factor market regulation "</p> <p><b>Informal employment in the shadow economy</b> - workers are classified as "informal" if they work in a small business without a written contract or are uncovered by the social security system, or work in a company that does not comply with existing regulations. Self-employed and informal businesses and employers with up to 5 or up to 10 workers that correspond to this description are also included in this group.  <i>T. Packard, J. Koettl, C. Montenegro (2012) In From the Shadow: Integrating Europe's Informal Labor, World Bank.</i></p> <p>Professor <b>Friedrich Schneider</b> defines the shadow economy as "any legal production of goods and services that are deliberately concealed from officials and seek to circumvent the payment of taxes, social security, and to avoid the implementation of labour standards and administrative duties and other regulations. "  <i>Schneider, F. (2012) The Shadow Economy and Work in the Shadow: What Do We (Not) Know? IZA Discussion Paper No. 6423.</i></p>
<b>Hidden Economy</b>	<p><b>The "hidden economy"</b> is seen as a concept that includes the "natural," "black" and "gray" economy, in which business activity is not officially reported.  <i>Vitosha Research. The Hidden Economy in Bulgaria. Pilot study. December 2002.</i></p> <p><b>The hidden economy encompasses:</b></p> <ul style="list-style-type: none"> <li>• the grey economy (legal, registered, but partially unreported);</li> <li>• the black economy (illegal, unreported, unrecorded);</li> <li>• the informal economy (legal, unregistered, unrecorded).</li> </ul> <p><i>University of National and World Economy "The Hidden Economy in Bulgaria: Current</i></p>

	<i>Estimates during the Period of European Integration," 2006-2008, project manager V. Goev.</i>
<b>Unattended economy</b>	<p>A common categorization adopted in the early 90s by the national statistical institutes of <b>OECD</b> members introduces three definitions of the unattended economy: the hidden economy; the informal economy; and the criminal economy. The term unattended economy denotes all activities for the production of legal goods and services, which remains unknown to the government for various reasons - the avoidance of taxes and insurance, failure to comply with labour laws, lack of administrative regulations. It covers two different categories - shady enterprises (companies of different sizes, which are fully or partially concealed from the tax authorities and national statistics) and shady employment (where the irregularity can vary from a complete lack of formalized relationship to only formal regularity different from contractual salary and working conditions). The informal economy, though disguised as legal production of goods and services, is inherently highly fragmented and small-scale. <i>OECD (2002) Measuring the Non-Observed Economy. Handbook, Paris</i></p> <p><b>The unattended economy</b> - understood as productive activities that are not covered by the national statistical system. Its components are: the hidden, illegal, informal economy and productive activities of households for own needs, which are not mutually exclusive and may overlap. <i>Dudeva, L., "Statistical aspects of the "non-observed economy", Center for Economic Development, 2001.</i></p>
<b>Undeclared economy / undeclared labour</b>	<p>The European Commission defines <b>undeclared employment</b> as "any paid activity that is lawful as regards its nature but not declared to public authorities, taking into account differences in the regulatory systems of the Member States". <i>Communication of the Commission on Undeclared Work, COM (98) – 219.</i></p> <p><b>OECD's definition of undeclared employment</b> is similar "employment which although not illegal in nature, is not declared to one or more public bodies."</p> <p>Three-level categorisation: unreported self-employment, combining paid employment and undeclared paid work. Unreported paid work can be divided into wage labor in an illegal or legal enterprise, failure to report the full amount of one's income, and employment of prohibited categories of workers, such as unemployed receiving compensation or illegal immigrants.</p> <p>There are the following types of undeclared work: violation or circumvention of the rules in the field of labour and employment: a) failure to register a worker at one's own expense with the taxation and licensing authorities; b) declaring lower income by self-employed persons to national revenue and social security services, too common among freelancers; c) failure to declare employed workers due to failure to declare the whole enterprise, thereby avoiding any industrial and insurance control; d) failure to declare employed workers in legal enterprises, sometimes they acquire the status of 'self-employed' suppliers or subcontractors; e) reporting lower wages, failure to declare bonuses, remuneration in kind, which are widespread among the most highly skilled workers; f) non-payment of salaries, social security deductions and unemployment funds and insurance against accidents at work g) payment of wages below the established minimum wage.</p> <p>OECD defines undeclared economy as all legitimate production activities which deliberately concealed from public authorities in order to avoid paying income tax, VAT or other taxes; to avoid payment of social security contributions; you do not have to comply with certain legislative standards such as minimum wages, maximum working hours, safety standards and health, etc. <i>OECD (2002) Measuring the Non-Observed Economy. Handbook, Paris.</i></p>

