

Bulgaria

In BEEPS V, the top three business environment obstacles identified by Bulgarian firms were competitors' practices in the informal sector; political instability; and corruption (Chart 1). Large firms also complained about labour regulations, while young firms were concerned about transport, competitors' practices in the informal sector and workforce skills. Since BEEPS IV, access to finance and electricity issues have become relatively less problematic.

Shadow economy and continued corruption concerns

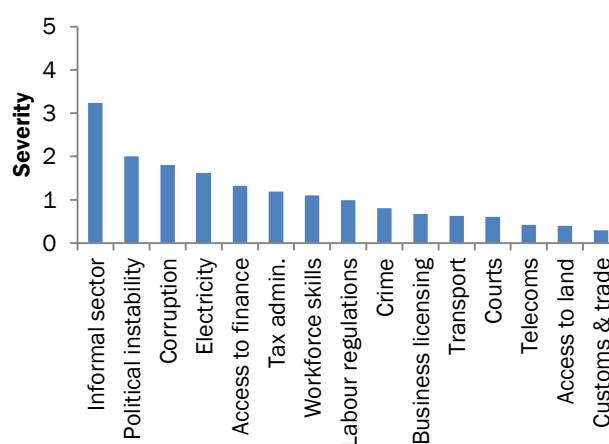
Competitors' practices in the informal sector remained a major issue. The share of firms that competed against unregistered or informal firms increased from 54.1% in BEEPS IV to almost 60% in BEEPS V (Chart 2). Analysis by the World Bank suggests that the problem lies in the lack of economic viability for low-wage earners in the formal sector. Single persons who earn less than the minimum wage in the informal sector would have to give up 50% to 70% of their income to formalise.

Electricity issues remained among the top three obstacles mentioned by manufacturing firms. Corporate users are able to choose a supplier, but the state's involvement in regulation, electricity generation and transmission continues to inhibit the development of open price competition. Moreover, the public has lost confidence in the management of energy companies and the government's oversight of the electricity sector. Top concerns included the time needed to obtain an electrical connection – on average 49.6 days or 13 days longer than the BEEPS V average (Chart 3) – and informal payments for electrical connections. Of the firms surveyed, 28% reported that an informal payment was expected or requested, by far the highest share in south-eastern Europe (SEE).

In fact, concerns about electricity billing practices led to demonstrations in winter 2012, which eventually led to the government resigning in February 2013, followed by early elections in May 2013. The weak coalition survived a second wave of protests against controversial political appointments; however, the new government was unable to avoid another round of early elections in late 2014. Frequent changes in government since February 2013 most likely explain why **political instability** was identified as the second most severe obstacle in 2012-13.

Corruption was the third main constraint. In BEEPS V, almost 60% of firms reported making informal payments to "get things done" at least once in a while. The level was higher than the 55% reported in BEEPS IV and more than 16 percentage points above the BEEPS V average. However, firms considered corruption to be more of a solution than a problem, which is disconcerting.

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Competition from the informal sector

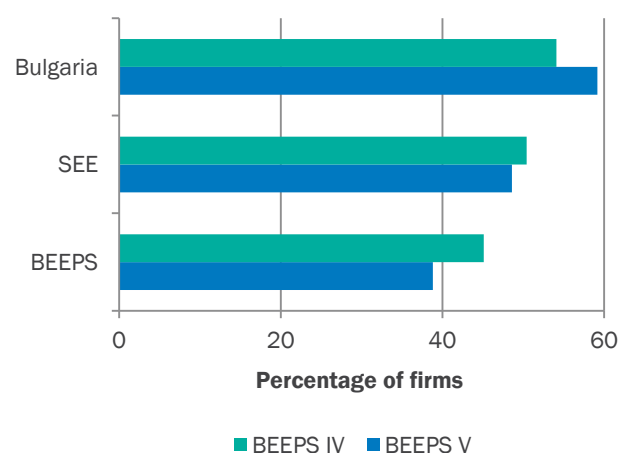


Chart 3. Waiting time to be connected to electricity

