

Shadow Economies in Ukraine

Results of the 2019 Survey under H2020 Project
SHADOW (GA no. 778188)

An exploration of the nature of informal economies and shadow practices in the former
USSR region



SHADOW is research project financed by the European Commission under the H2020 funding scheme with two main aims:

- 1) estimate the level of shadow economy in 5 post-USSR countries
- 2) enhance capacity of participating researchers and thus their ability to consult national governments and international organizations

Limits and Significance of Shadow Economies

- 1) shadow economy occupies a significant part in business life
- 2) shadow economy index is only partly able to identify non-monetary transactions (blat', exchange of favours), should not be confused with corruption and overlaps only partly with the illegal economy
- 3) a significant amount of people is afraid of getting caught, this means that they are open for alternatives
- 4) understanding the motifs for engaging with shadow transactions can help policymaking

What are Shadow Economies

They can be regarded as related to corruption but they are not the same thing as corruption

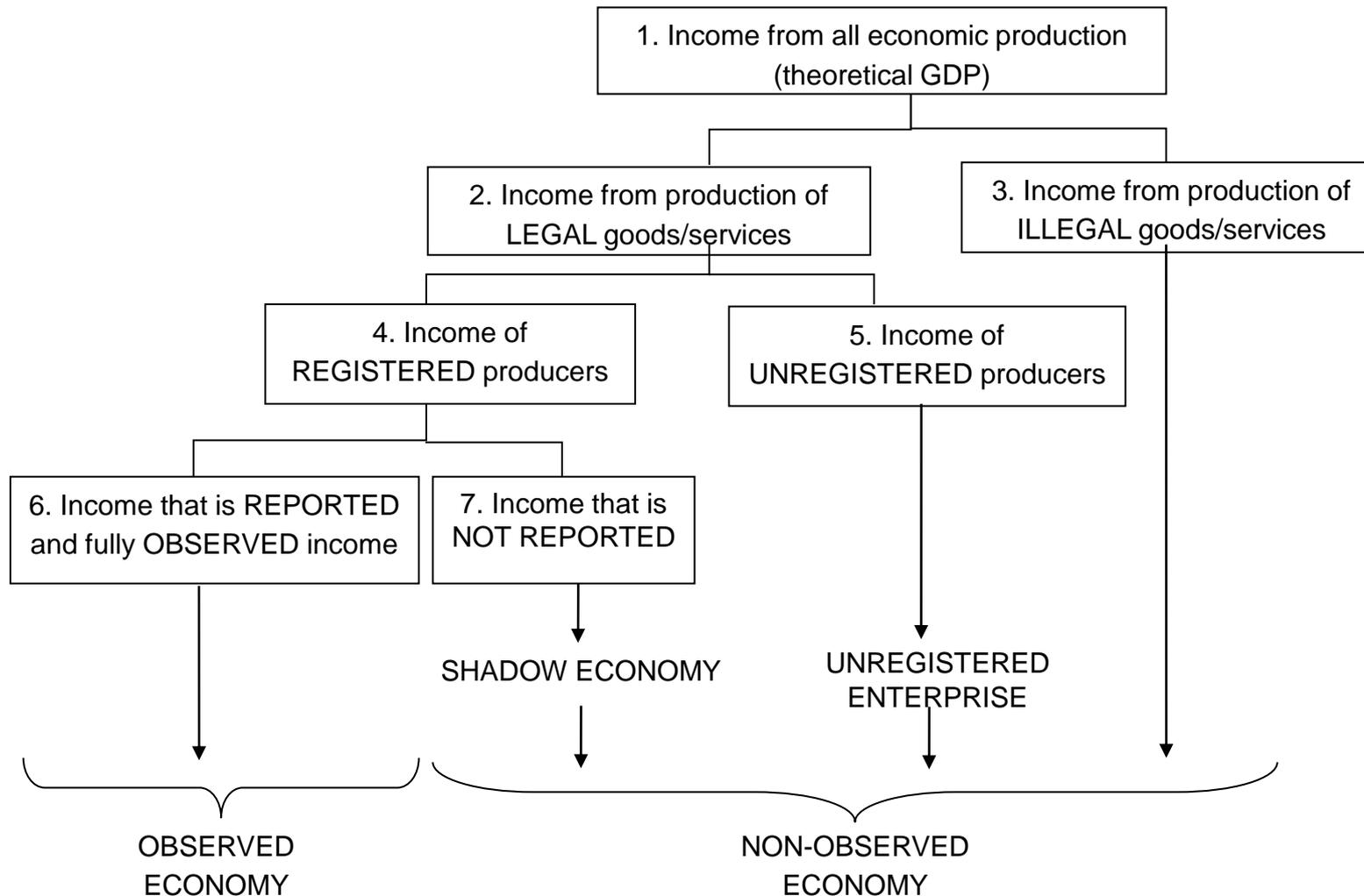
We distinguish:

Shadow economy

Illicit transactions (criminal)

Corruption

Observed and Non-observed Components of GDP (Putnins and Sauka, 2015)



Why Measuring the Shadow Economy is Important

1) it provides an understanding of how strong and targeted should be measures to tackle underreported incomes and shadow transactions

2) it offers an indicator of what sectors are more affected

but also

3) shadow economies they can be regarded as a proxy of the attitude of citizens towards the law and how much a law is effective (or enforced).

Shadow transactions can be regarded as “deviation from an attitude suggested by the state” (i.e. Pay your taxes! No!)

If people do not follow the state, it is not necessarily because these are “bad people”, it could simply be lack of trust towards the state and needs to be addressed to improve the economy

Accordingly

4) measuring and understanding shadow economies can help government not only to think of punitive measures but also, and more important, to identify possible ways to invite business out of the shadow

It is cheaper and faster to regularize (or formalize) business activities than to “punish, destroy and reconstruct”

Measuring Shadow Economies

There are many methods used to measure shadow economies. SHADOW uses Putnis and Sauka's methodology

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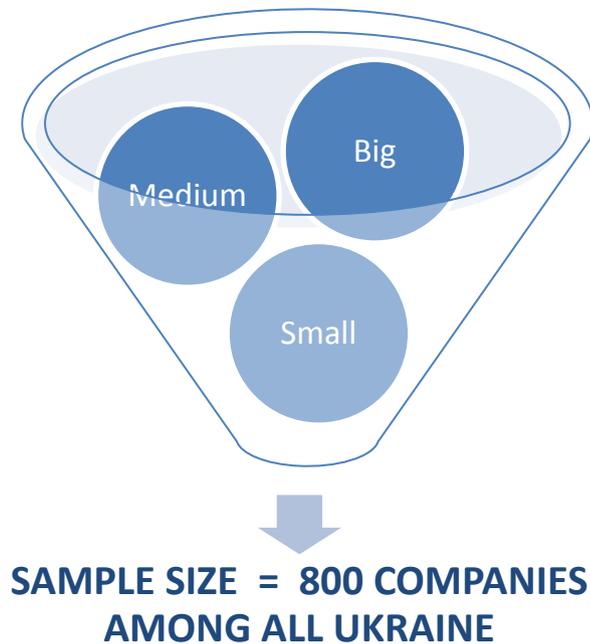
Measuring the shadow economy using company managers

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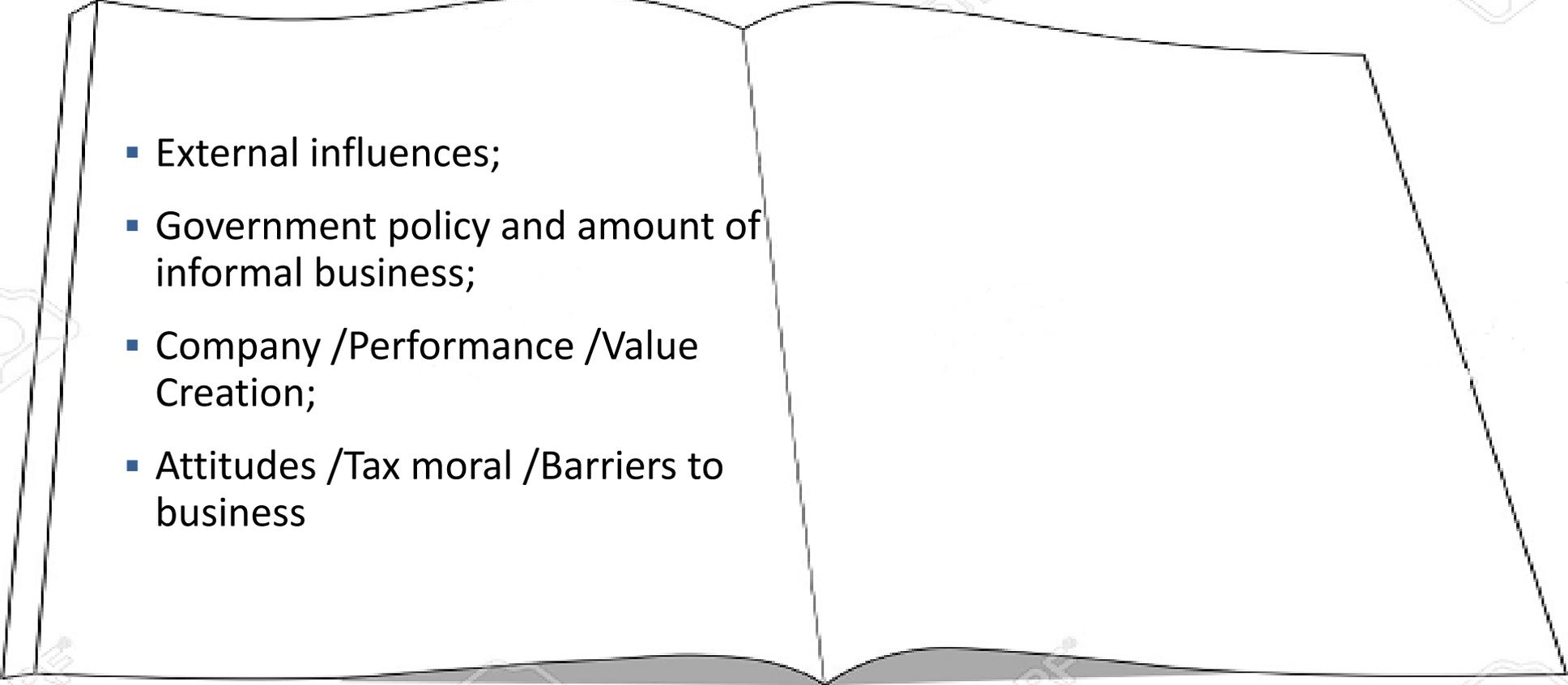
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Ukraine Survey Description

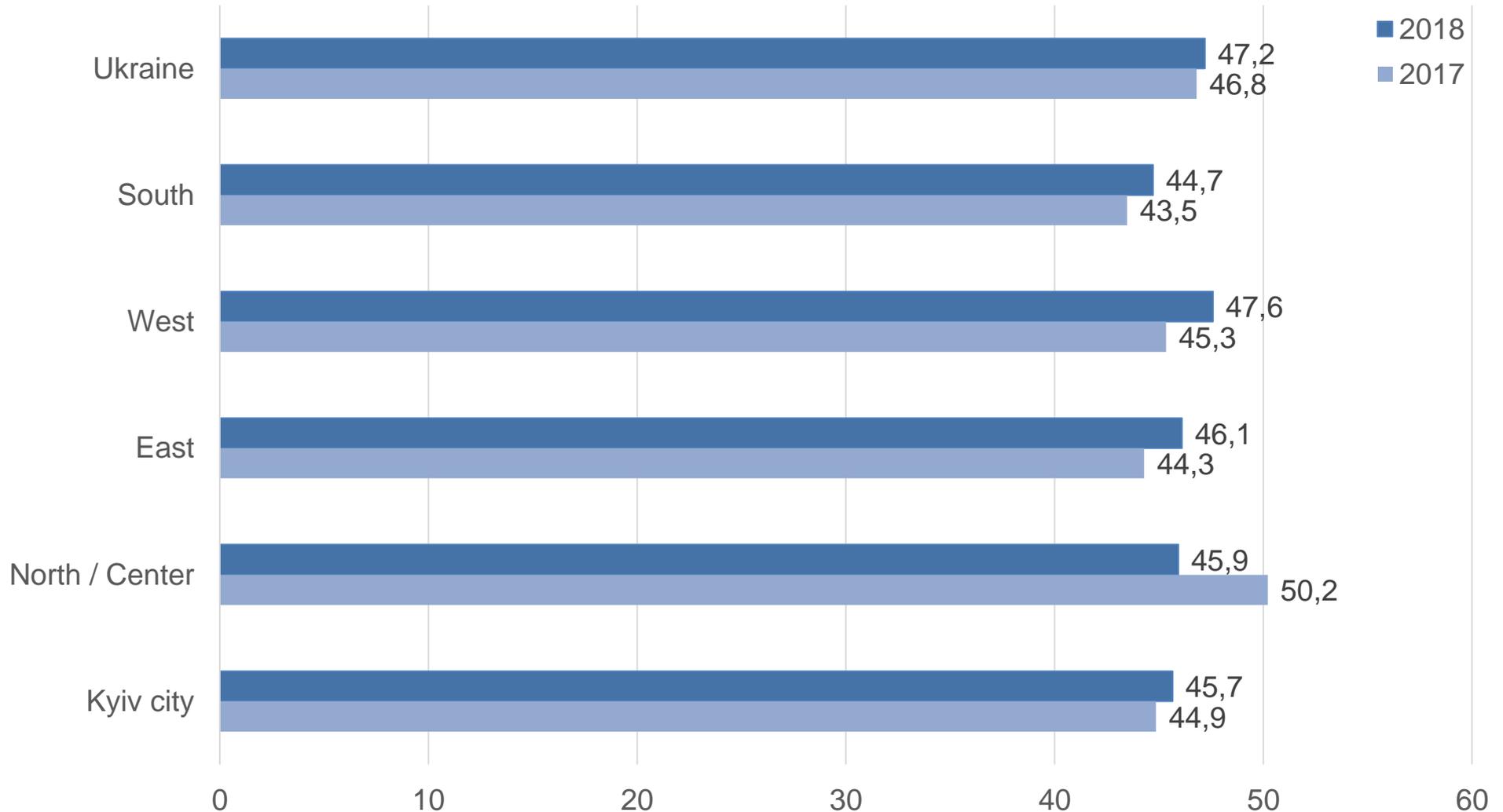


- ❖ Represents all companies of Ukraine as big, medium sized as small sized;
- ❖ Stratified random sample design;
- ❖ Stratified by 5 regions:
South, West, East, North/Center and Kyiv city;
- ❖ Surveyed 800 owner and top-managers of companies by CATI method;
- ❖ Covers all regions and sectors of economy;
- ❖ Data collection period: March – May 2019;
- ❖ Unified multicounty survey questionnaire

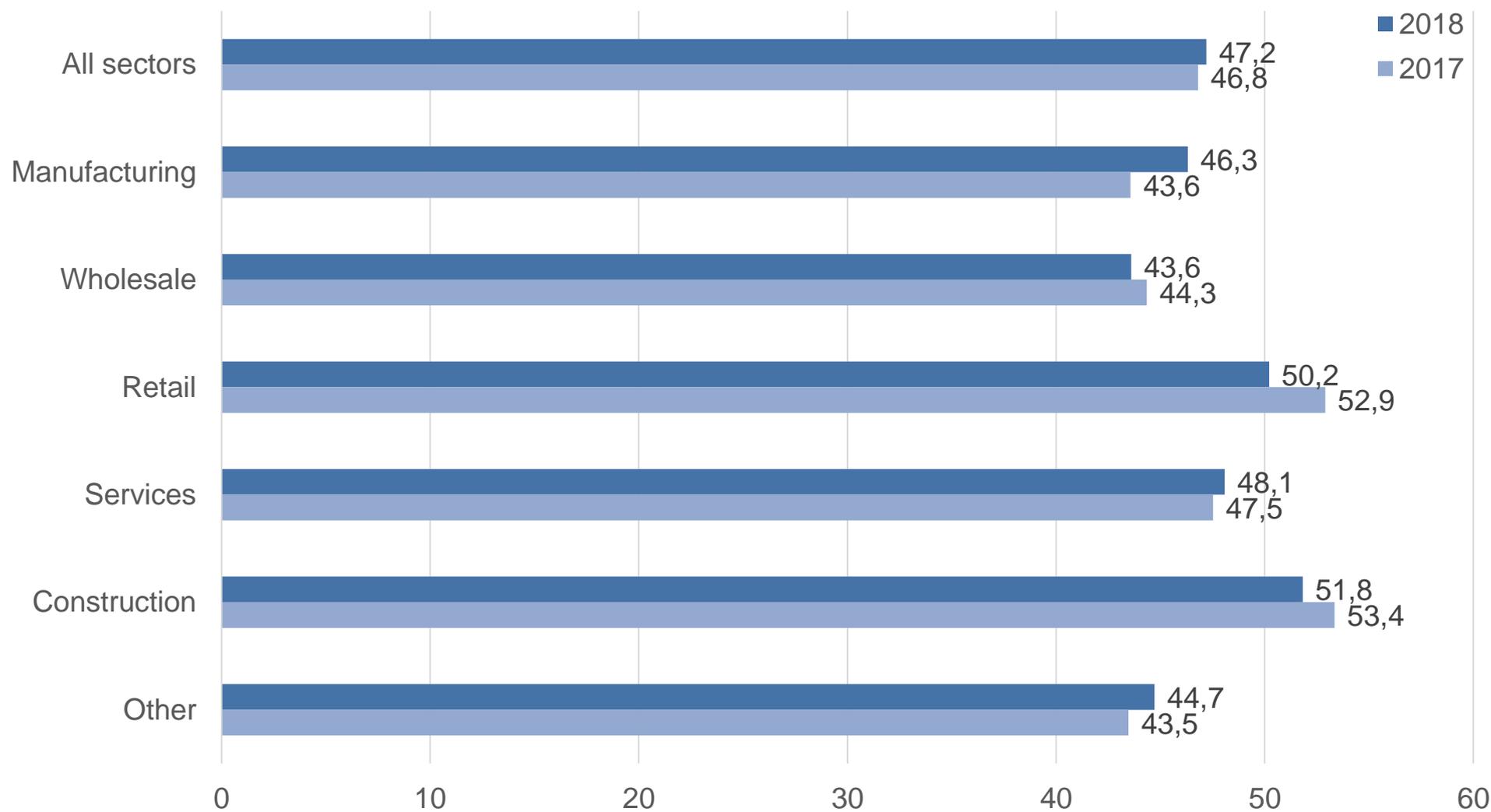
Questionnaire Structure

- 
- External influences;
 - Government policy and amount of informal business;
 - Company /Performance /Value Creation;
 - Attitudes /Tax moral /Barriers to business

Size of the Shadow Economy in Ukraine (% of GDP): by Regions

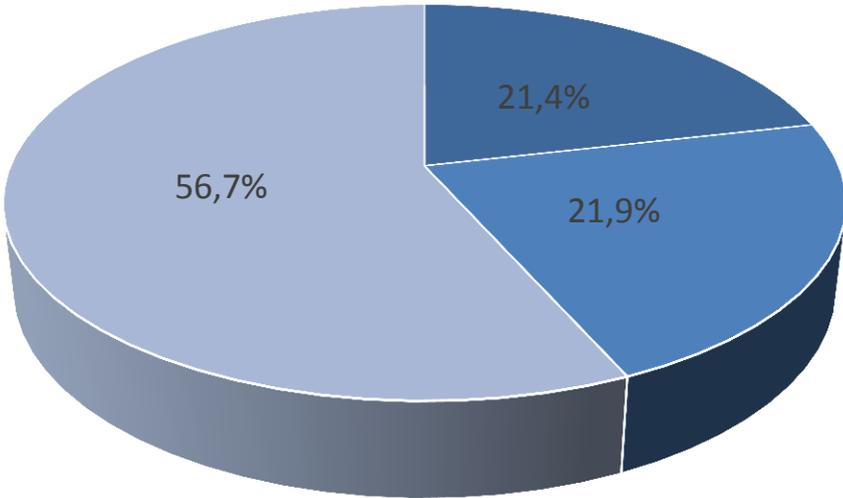


Size of the Shadow Economy in Ukraine (% of GDP): by Sectors



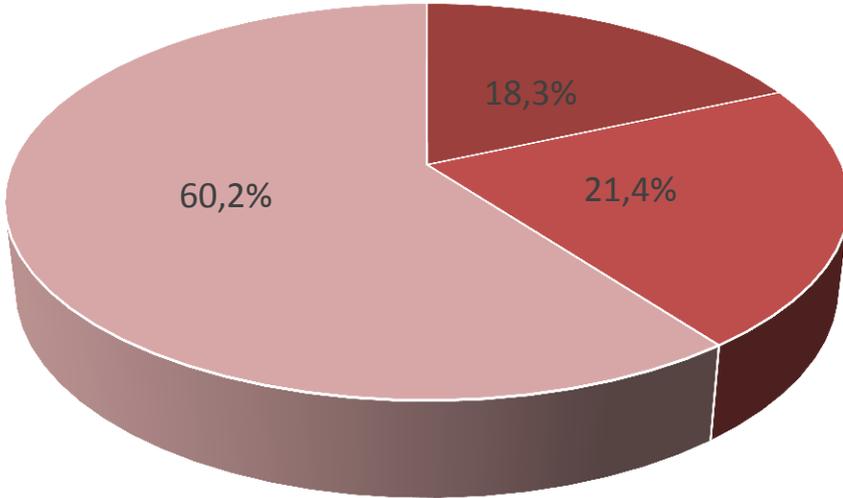
Components of the Shadow Economy

2018



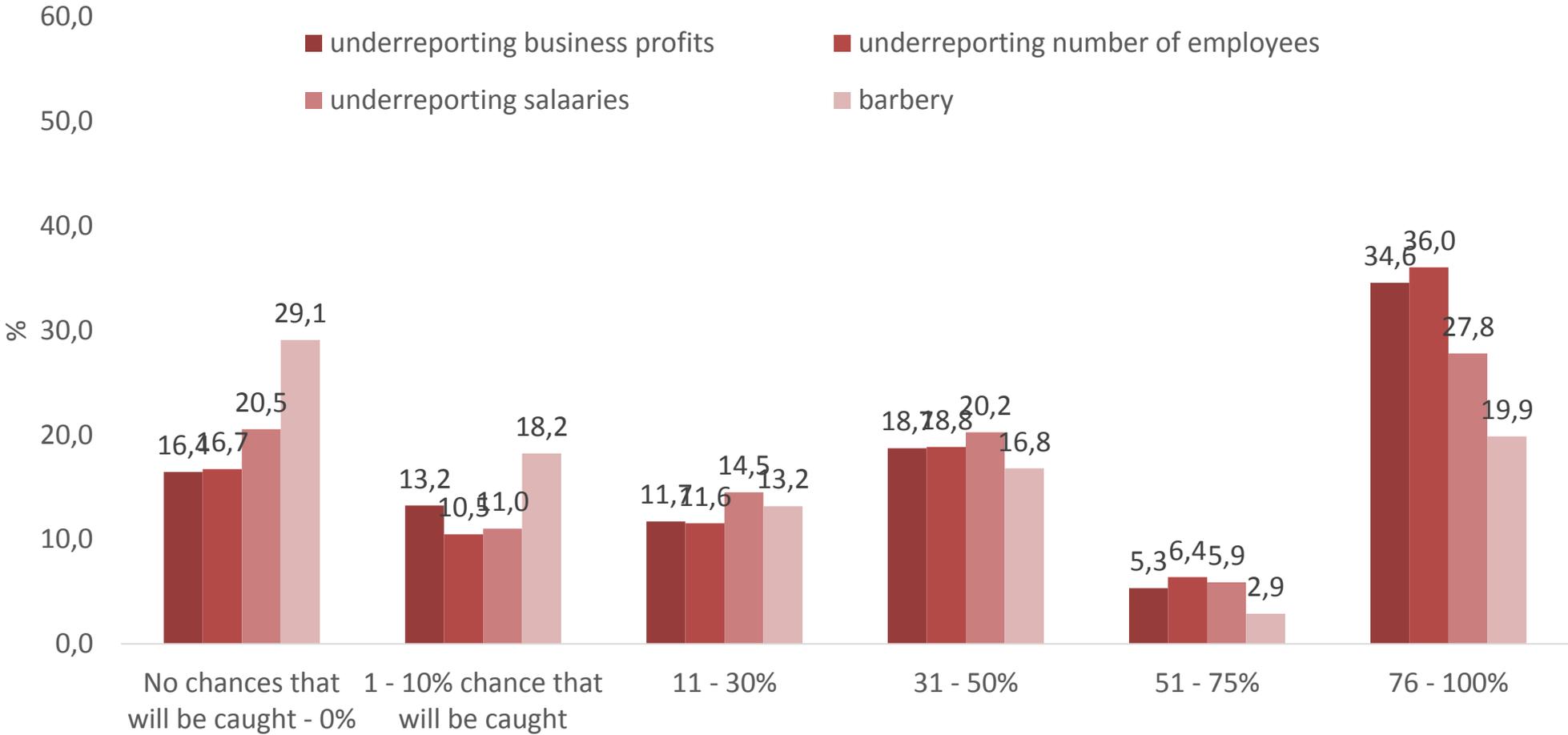
- Envelope wages
- Unreported employees
- Unreported business income

2017

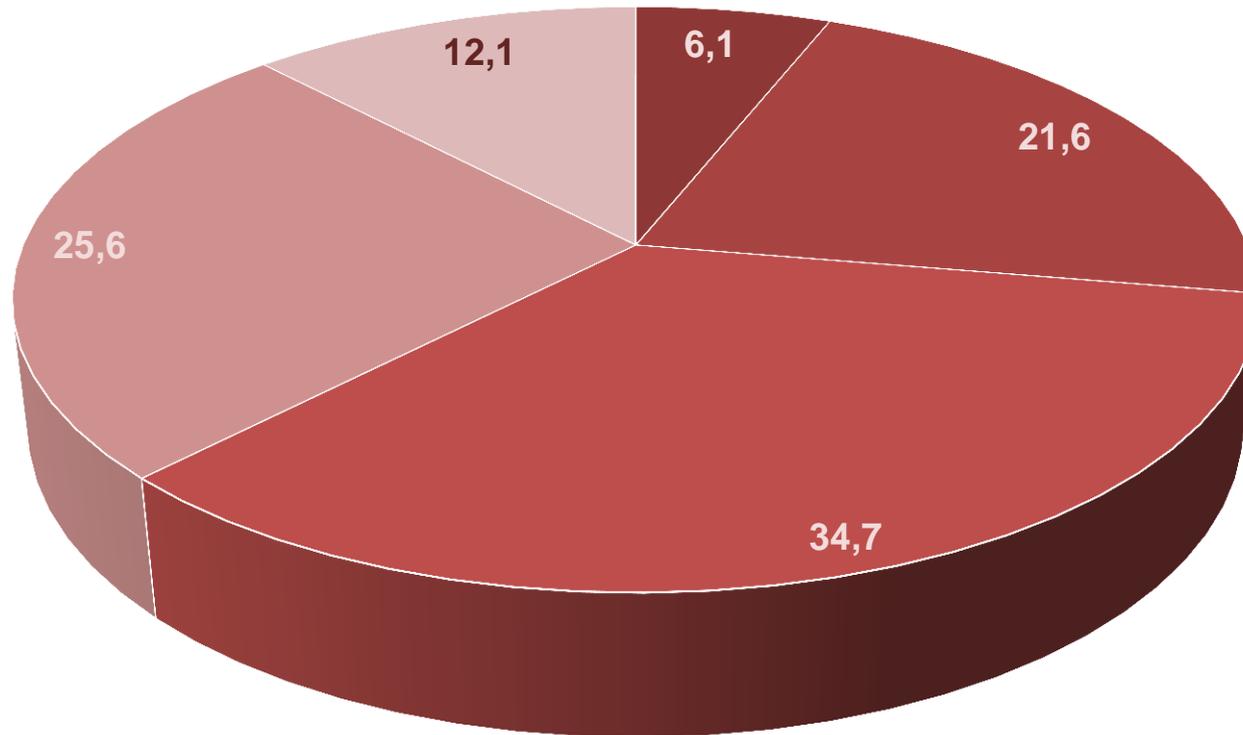


- Envelope wages
- Unreported employees
- Unreported business income

Probability to Being Caught for Underreporting and Bribery



Expected Penalties for Deliberate Misreporting



- Nothing serious
- A small fine
- A serious fine that would affect the competitiveness of the company
- A serious fine that would put the company at risk of insolvency
- The company would be forced to cease operations

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