

## ***“The price is different depending on whether you want a receipt or not”*: Examining the Purchasing of Goods and Services from the Informal Economy in South-East Europe**

### **Abstract**

Research on the informal economy has largely focussed on supply-side issues, addressing questions like what motivates individuals to work in the informal economy, and as a result how can governments tackle this phenomenon. To date, much less attention has been given to demand-side aspects of the informal economy, examining issues around who purchases goods and services from the informal economy, why, and to what extent there are variations according to demographic, socio-economic and geographic dimensions. This paper contributes towards addressing this imbalance by examining the purchasing of goods and services from the informal economy in South-East Europe. Firstly, this paper identifies the prevalence of such informal purchasing in South-East Europe as well as who undertakes such purchasing. Next, it examines the relative significance of cost factors, social factors, and failures in the formal economy, in motivating such purchasing. Finally, it explores variability in the significance of these motivators based on individual-level factors, within and across three South-East European countries.

**Key words:** Informal Economy; Services; Demand-side; South-East Europe.

## **Introduction**

It is estimated that transactions in the informal economy equate to 31.2% of global GDP (Buehn & Schneider, 2012). In the European Union (EU), the informal economy is equivalent to an average 18.3% of the GDP of member states (Schneider, 2015), with this frequently even higher in South-East European states. For example, in Croatia, the undeclared economy represents around a quarter of GDP (Williams & Franic, 2015), whilst in Bulgaria in 2009 it constituted almost a third of GDP (Williams et al 2016). Reflecting this significance of the informal economy globally, it has now been the subject of significant academic study (see for example Darbi et al, 2016; Godfrey, 2011; Schneider & Williams, 2013). Nevertheless, much existing work on the informal economy has focussed on the supply-side, and issues of employment and labour relations (e.g. Gialis & Leontidou, 2016; Loayza & Rigolini 2011), and/or self-employment through entrepreneurship (Gurtoo & Williams, 2009; Webb et al, 2009). Much less attention has been given to the demand-side of informal economy, on who purchases goods and services from the informal economy and why, with various scholars identifying this imbalance. Williams & Martinez-Perez (2014), for example, suggest that understanding the motives for and preventing illicit consumer behaviour has still received little attention in the literature. Meanwhile, Darbi et al (2016) identify marketing and consumer behaviours in the informal economy as significant areas for further study. Finally, Webb et al (2014) highlight the need for better understanding of how norms, values and beliefs influence consumer behaviour in informal markets.

This paper responds to this need for further research on the demand-side of the informal economy. It examines the purchasing of goods and services from the informal economy in South-East Europe. More specifically, it explores the prevalence of purchasing goods and services informally in South-East Europe, as well as identifying who undertakes such purchasing. It then assesses the significance of three different possible motivations for

purchasing goods and services from the informal economy. These motivations are identified from extant literature, and are: (1) cost based factors; (2) social factors; and (3) failures in the formal economy. Finally, the paper explores how the significance of these motivations varies depending on individual-level factors, including demographic factors, socio-economic factors, geographic factors and beliefs and values.

This paper draws upon quantitative research data, collected from a survey of 6019 individuals distributed across Bulgaria, Croatia and Former-Yugoslav Republic of Macedonia (hereafter Macedonia). Moreover, it also uses data collected from qualitative focus group research with citizens in the three countries, including three focus groups undertaken in each country. In so doing, it addresses the following research questions: (1) how prevalent is the purchasing of goods and services from the informal economy in South-East Europe, and who undertakes such purchasing? (2) What motivates people to purchase goods and services from the informal economy in South-East Europe? (3) How do individual-level factors affect these motivations?

This paper makes a number of contributions. It contributes to the relative paucity of work on the demand-side of the informal economy. Purchasing of goods and services from the informal economy is a significant phenomenon globally, yet who undertakes such purchasing and what motivates them remains poorly understood. Additionally, little research has hitherto been conducted at the intersection of informality, services and the service industries, with our research contributing towards addressing this gap. Work examining informal purchasing of goods and services at the regional level of South-East Europe also remains limited. Studies have largely focussed on single countries, with the in-depth cross-country comparative element of this research relatively novel. The more fine-grained analysis offered in this paper of how the significance of motivations for purchasing goods and services in the informal economy varies according to individual characteristics e.g. age, marital status, occupation etc. also provides valuable insights. Informal economy scholars have furthermore identified a need for

more empirical research on the purchasing of informal goods and services (see Darbi et al, 2016), and for exploration of the influence of norms and beliefs in this (Webb et al, 2014), both of which this work also provides. Finally, this paper responds to calls in the literature for the adoption of alternative research strategies (Godfrey, 2015; Webb et al, 2013), including use of mixed-method approaches, to enrich our understanding of informal economy phenomena.

The paper is structured as follows. We first review extant literature on the purchasing of goods and services from and in the informal economy. In this section, we also define key concepts. This is followed by explanation of the methodology, including data collection and analysis. The paper's findings are then presented and discussed. Finally, conclusions are made, as well as discussion of the paper's implications for practice, with areas for future study also identified.

## **Literature review**

The demand-side of the informal economy

The informal economy can be understood as monetary exchanges unregistered by or hidden from the state, for tax, social security and/or labour law purposes, but that are legal in all other respects (OECD, 2002). This understanding has achieved strong acceptance amongst academics, practitioners and policy makers. Importantly it delineates the informal economy from the illegal economy, where the goods and/or services purchased are illegal e.g. illicit drugs, firearms etc. In addition, it distinguishes it from subsistence economies where transactions are non-monetary, as well as from domestic economic activity, which comprises work done informally but where output is confined to use within the household and not the marketplace (Godfrey, 2011).

There is long history of scholarship examining the informal economy globally (see for example Castells & Portes 1989; Hart, 1973), which offers competing explanations for its existence and persistence. In the management field, scholars have sought to theorise the informal economy

(see Godfrey, 2011; Webb et al 2009; Williams et al, 2015) and have also identified various gaps in our knowledge and areas for future research (see Darbi et al, 2016). One such area concerns the demand-side of the informal economy. To date, much of the literature on the informal economy has focussed on subjects related to its supply-side. Studies have identified varieties of undeclared work (Pfau-Effinger, 2009), the drivers for such work (Williams & Horodnic, 2015a), and how it might be tackled (Williams & Nadin, 2010). Scholars have also studied the supply-side phenomenon of envelope wages (Williams & Horodnic, 2015b), and entrepreneurship in the informal economy (Bruton et al, 2012; Webb et al, 2009, 2013, 2014).

In contrast, studies examining the demand-side of the informal economy remain few in number. Williams & Martinez (2014) consider why consumers might purchase goods and services from the informal economy utilising the results of the 2007 Eurobarometer Survey from across from the 27 EU member states. In this study, they find that consumers purchase goods or services from the informal economy for various reasons, with lower price significant but far from the only driver. Williams & Martinez (2014) also call for further research on consumer purchasing of goods and services from the informal economy in additional contexts, as well as in contemporary recession/post-recession Europe. Croatia and Macedonia, which are examined in our study, represent two additional country contexts. Post-recession Europe is also the setting for this research study. In a further work, Windebank et al (2016) suggest that purchasing goods and services from the informal economy needs to be theorised, understood and examined in more nuanced ways, appreciative of the multifarious logics and drivers present in different populations. Such a perspective is adopted in this research, which examines how purchasing is affected by individual-level characteristics.

Further demand-side perspectives are offered by marketing scholars who have explored the functioning of informal economy subsistence markets (see Chikweche & Fletcher, 2010; Viswanathan et al, 2010a, 2010b), as well as organisations operating in such markets. For

example, organisations engaging in base of the pyramid business activities (London et al, 2014). Nevertheless, as identified by Darbi et al (2016) there is still a need for more empirical marketing research on the informal economy as well as the role of norms and beliefs in such purchasing (Webb et al 2014). Our research aligns with this need. Additionally, it responds to the need identified by scholars for further research on the informal economy and services (Williams & Windebank, 2000). To date work examining the informal economy and services remains somewhat limited and fragmented (for examples see Sanchez-Barrios et al. 2015; Williams, 2007; Williams et al, 2011). Our study contributes towards developing the field of inquiry into services and the informal economy.

There is growing work examining the informal economy in South-East Europe (see Baric & Williams, 2013; Goev 2009; Williams & Franic, 2015; Williams et al, 2016). However, such work has often focussed on single rather than multiple countries and has concentrated mainly on supply-side issues. Analysis of the demand side at a broader regional level of South-East Europe has still to be undertaken. This paper's fine-grained examination of the interplay between motivations for purchasing goods and services in the informal economy and individual characteristics therefore represents a valuable contribution. To explain the purchasing of goods and services from the informal economy, three theoretical perspectives and associated motivations are identified from extant literature, these are outlined below.

#### Rational economy actor theory and cost based factors

Actors in the informal economy, whether those engaging in undeclared work, those employing them, or those purchasing goods and services informally, are often portrayed as rational economic actors doing so for the purposes of financial gain (Castells & Portes, 1989; Davis, 2006;). This perspective derives from Allingham & Sandmo (1972)'s work, which portrays informal workers, employers and consumers as rational actors weighing up the risks and

rewards of their actions, and disobeying the law when the expected penalty and probability of detection are smaller than profits. The dominance of this perspective has been linked to the significance of economics as a foundational social science discipline (see Godfrey, 2011). Indeed, scholars have identified varied circumstances in which working, operating and purchasing informally may be less costly than compliance. This may be particularly the case in conditions of institutional ‘*weakness*’ or insecurity (DeSoto, 2000, Dyer & Mortensen, 2005), and during periods of institutional change (Besley & Burgess, 2004; Zinnes, 2009). Such conditions are prevalent in South-East European states.

The dominance of this rational economic actor perspective has translated into policy approaches that seek to change the cost-benefit ratio for suppliers and purchasers when they come to make decisions as to whether or not to engage in informal economic activity. For example, by increasing the perceived costs or risks of engaging in informal activity by improving detection, or through harsher sanctions for those caught (Grabiner, 2000, Hasseldine & Li, 1999). In this paper, we examine the significance of this rational economic actor theory, and the perspective that consumers purchasing goods and services from the informal economy are motivated purely by cost based factors. However, whilst rational economic actor theory and cost based factors are still widely identified as important determinants of informal activity, there is now a growing body of work suggesting that other factors may come to bear in decision making around this (see Williams & Windebank, 2000; Williams & Martinez, 2014; Windebank et al 2016; Zinnes, 2009). Accordingly, two further potential motivations are identified.

#### Social actor theory and social factors

Social actor theory provides an alternative explanation why consumers may purchase goods and services from the informal economy. This theory challenges the perspective that those

participating in the informal economy are rational economic actors, and instead adopts a ‘thicker’ portrayal of monetary exchange, recognising the complex mix of logics, including social logics, often at work (see Gibson-Graham, 2006; Leyshon et al, 2003). The result of this social actor theorisation is that participants in informal markets are seen as social rather than rationale economic actors, with a growing body of informal economy scholarship recognising and engaging with this perspective (Nelson & Smith, 1999; Round et al. 2008). In such work, it is highlighted how consumers in the informal economy are often sourcing goods and services from those with whom they have social or even familial relationships. This may be because the consumer perceives that the supplier is in need of money but would not accept charity (Kempson, 1996). Alternatively, it may reflect some form of reciprocity, or be a favour amongst friends, colleagues, or relatives.

#### Failures in the formal economy

A third potential motivation for consumers purchasing goods and services from the informal economy is failures in the formal economy. It may be that certain goods and services are not available in the formal economy, or at least not reliably available. Alternatively, it may be that provision in the formal economy is slow, generic, or that the quality of goods and services available in the formal economy is lower. Such failures in the formal economy can be understood drawing upon institutional theory (North, 1990) as well as notions of institutional voids (Mair et al 2012, Parmigiani & Rivera-Santos 2015). There may be product market voids, where products are unavailable in the formal economy. There may also be an absence of functioning formal retailers and service providers – labour market voids – with these spaces then filled by informal ones. Meanwhile, if formal economy providers are unreliable and regularly fail to adhere to legal contracts – contracting voids – then again consumers will turn to the informal economy; especially, if regulators are unable or unwilling to address this – regulatory voids. Consumers will particularly turn to the informal economy in the event of



failures in the formal economy under conditions of ‘institutional incongruence’, where there is misalignment between what is considered legitimate by a society’s formal institutions (e.g., its laws and regulations), and its informal institutions (e.g., norms, values and beliefs). In the presence of such incongruence, customers perceive purchasing goods and services in the informal economy to be socially legitimate. Such institutional incongruence has been identified as prevalent in South-East European states (Williams et al 2016).

#### Individual level-factors

As identified above, scholars have called for more nuanced examination of the purchasing of goods and services in the informal economy (Windebank et al, 2016). Our research responds to this call by examining how individual-level factors first impact who purchases goods and services from the informal economy in South-East Europe, and secondly how such factors influence the significance of different motivations. The following individual-level factors are considered: Demographic factors - age, gender, marital status and household size; Socio-economic factors - financial situation, personal income and occupation; Geographical factors - rural or urban location, country; Beliefs and values - Tax morality. These factors are largely self-explanatory, and how they were measured is identified later in the methodology section. However, in the case of tax morality this relates to participants’ self-reported tolerance towards non-compliant behaviour (Williams & Horodnic, 2015c). In this study, tax morality is used as a wider proxy for participants’ attitudes and beliefs regarding the acceptability of engaging in informal economic activity – including purchasing goods and services informally.

Examination of these individual-level factors allows us to understand more precisely who purchases from the informal economy, and also what motivations for purchasing goods and services in the informal economy are most salient for different population segments across and within the three South European countries studied.

## **Methodology**

### Data collection

To answer our research questions we draw upon quantitative survey data and qualitative focus group research undertaken in 2015/2016 in Bulgaria, Croatia and Macedonia. These countries were selected due: to their varying levels of economic and human development; differences in their relationships with the EU, Bulgaria and Croatia are members joining in 2007 and 2013 respectively, whilst Macedonia is a candidate country for accession; institutional variations; and finally wider geographical differences e.g. size, population. Variations in these factors are useful for comparative purposes; they also enhance the generalisability and applicability of the research across the South-East Europe region.

The quantitative component of the research entailed a face-to-face administered survey across the three countries amongst citizens. This paper utilises data from this survey, particularly aspects pertaining to the demand side of the informal economy and the purchasing of goods and services therein. In total 6109 responses were collected, with a broadly even split across the three countries: Bulgaria 2,005 (33.31%); Croatia 2,000 (33.23%); and Macedonia 2,014 (33.46%). To ensure the dataset was representative of the populations of the three countries, our sampling approach in each country entailed first stratification by district and then settlement type, with the sample for each district proportional to its population. Sampling points were then identified randomly, starting at a random address. Finally, in each household a respondent was selected at random. A multiple imputation technique was used to address instances of missing data. Fifty imputations were simulated through a system of chained equations for each imputed variable. In addition, throughout our empirical analysis, we used household weights to ensure that our statistics are representative of the population.

Our first research question concerns the prevalence of purchasing goods and services from the informal economy, and who undertakes such purchasing. To assess first the prevalence of purchasing informally we asked respondents: whether in the last 12 months they had acquired any services that they had good reason to assume involved undeclared work (e.g., because there was no invoice or VAT receipt or they offered you a ‘price for cash’), or had purchased any goods which they had reason to believe embodied undeclared work. Then, to determine who is more or less likely to purchase goods and services from the informal economy we compared such purchasing amongst different socio-economic groups. Grouping variables were identified based on previous work, which has explored how participation in the informal economy varies according to socio-demographic factors (see for example Williams & Martinez, 2014). The variables and groupings used were:

- Gender (Male; Female)
- Age (15-24; 25-34;35-44; 45-54; 55-64; 65+)
- Marital Status (Married/Remarried; Cohabiting; Single)
- Household Size (One; Two; Three; Four or more)
- Occupation (Unemployed; Self-employed; Employed; Other [Retired, students, disabled, etc.]
- Financial situation (Comfortable; Maintaining; Struggling)
- Personal income (No income; Less than 350 euros; 350-700 euros; More than 700 euros)
- City size (Rural area; Small/medium town; City)
- Countries (Bulgaria; Croatia; Macedonia)

In addition to the above, the variable of tax morality was used to group the sample. Tax morality is a measure of respondents’ beliefs and values, and their attitude towards the acceptability or otherwise of informal economic activity, including the informal purchasing of goods and services. Tax morality provides a measure of the degree of asymmetry between state morality and civic morality (see Alm & Torgler, 2006; Williams & Horodnic, 2016 for further discussion). It is frequently suggested that those with low levels of tax morality are more likely to engage in informal activity than those with higher levels. Tax morality was assessed by

asking respondents to rate the acceptability of six types of informal economic activity using a 10-point Likert scale (1 equals absolutely unacceptable and 10 equals absolutely acceptable). Therefore, in our study a higher score equated to lower tax morality. Previous studies examining the acceptability of informal economic activity have tended to measure it using a single-item (Daude et al, 2013; Frey & Torgler, 2007). The multi-item measurement of tax morality adopted in this study, and which builds upon the work of Williams et al (2014), adds robustness to our assessment of participants' level of tax morality. A composite index of respondents' tax morality was constructed through factor analysis of their answers in relation to the six items.<sup>1</sup> Through this, respondents were then grouped into four quartiles.

The second research question concerned what motivates people to purchase goods and services from the informal economy in South-East Europe. As identified in the literature review section three potential motivations were identified from extant work: cost based factors, social factors, and failures in the formal economy. The significance of these motivations for informal purchasing amongst respondents was assessed by asking those who had stated previously that they had purchased goods or services informally in the last 12 months the question "what made you buy it informally instead of buying it on the regular market?". There were seven possible answers to this question: (1) Lower Price - cost based factors; (2) In order to help someone who is in need of money – social factors; (3) It was a favour amongst friends\ relatives\ colleagues – social factors; (4) Faster service – formal economy failure; (5) Better quality – formal economy failure; (6) Good\ service is not\ hardly available on the regular market – formal economy failure; (7) other. The third research question concerned the interplay between the salience of these different motivations and individual-level factors. To assess this we again drew upon the factors described above, so we do not repeat our explanation.

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<sup>1</sup> All main criteria for selecting the optimal number of factors, e.g. the Kaiser with eigenvalues, the Kaiser-Meyer-Olkin (KMO), loading suggests that there is only one main factor should be consider. Our results are robust to the use of each six items.

Finally, the qualitative element of the research entailed nine focus groups with citizens, three in each country. These were undertaken after the survey. There were eighty-three focus group participants in all, who were of varied ages, included males and females, and were drawn largely from urban areas. It is not suggested, and nor was it intended, that this sample was representative. Rather the focus groups were used to add richness and help explain quantitative elements of the research. The focus groups lasted between one and two hours, and were facilitated by members of the research team who would pose questions for discussion, including in relation to purchasing of goods and services informally. Best practice was adopted in managing the focus groups (see Kruegar & Casey, 2009).

#### Data analysis

To assess the prevalence of purchasing goods and services from the informal economy in South-East Europe, and also who undertakes such purchasing, we first performed a descriptive analysis identifying weighted percentages for different socio-economic and demographic groups, and across and within the three countries. This analysis included assessment of demand for informal goods, demand for informal services, and total demand for either informal goods or services. Next, logit modelling was undertaken to determine which individual factors were particularly associated with purchasing goods and services informally. To provide an understanding of magnitude in the findings we report average marginal effects<sup>2</sup> and standard errors. In this analysis demand for informal goods, demand for informal services, and overall demand for goods and services were deployed as dependent binary variables, whilst independent variables were the socio-economic, demographic and geographic factors, as well as tax morality.

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<sup>2</sup> The marginal effect reflects the change in the probability of  $y=1$  given a 1 unit change in the independent variable  $x$ . For categorical independent variables, the marginal effect is expressed in comparison to the base category ( $x=0$ ) e.g. gender. For continuous independent variables, the marginal effect is expressed for a one-unit change in  $x$ . e.g. tax morality.

To gauge the relative significance of different motivations for purchasing goods or services informally across the three countries, we performed a descriptive analysis focussing on the subset of respondents from the overall sample who had indicated that in the last 12 months they had purchased goods or services informally. Weighted percentages indicating the relative significance of cost based factors, social factors and formal economy failure, in each of the three countries and on average across them, were produced. In order to explore the interplay between these different motivations and individual-level factors (socio-economic, demographic, geographical and beliefs and values) weighted percentages were first produced indicating the distribution of motivations for purchasing goods and services informally across groups in the overall sample. Logit modelling was then performed to assess how the significance of different motivations varied between groups within the sample, in our findings we again report average marginal effects and standard errors to understand magnitude. In this analysis cost based factors (Cost Factors), social factors (Social Factors) and formal economy failure (Failure Factors) were the dependent variable and socio-economic, demographic and geographic factors, as well as tax morality the independent variables.

Finally, analysis of the focus group data entailed a thematic coding process relating to the study's research questions and informed by extant literature. During this coding we also remained cognisant of potential limitations associated with focus groups, for example group effects including self-censoring and conforming (see Sim, 1998).

## **Findings**

Our findings indicate that across the three countries the purchasing of goods and services from the informal economy is a significant phenomenon, especially allowing for potential unwillingness of some respondents to admit to such activity given its illegality. The purchasing of goods and services from the informal economy is most prevalent in Bulgaria, followed by

Croatia and then Macedonia. More specifically, in Bulgaria 22.1% of respondents indicated that they purchased services informally, 17.3% purchased goods informally, and 27.1% of the sample admitted to purchasing either goods or services. In Croatia, results are broadly similar albeit somewhat less with 20.4% of Croatian respondents indicating that they purchased services informally, 16.5% purchased goods informally, and 26.6% in total purchased goods or services informally. In Macedonia, percentages were slightly lower again, 13.3% indicated that they purchased services informally, 13.8% indicated they purchased goods informally, and 20.3% indicated that they purchased either goods or services informally. On average 24.7% of respondents across the countries indicated that they purchase goods or services informally. These results are presented in Table 1. This widespread informal purchasing of goods and services was also identifiable in the focus groups, where participants for example suggested that *“the majority of people have a habit to pay in cash for small maintaining services – like repairing the washing machine”* and *“If a plumber comes to your house, you won’t get a receipt. Also, at the hairdressers”*.

Table 1 also reports distributions of the purchasing of informal services (Demand informal services), goods (Demand informal goods), and good and services (Demand informal goods and services), across different groups. These distributions first suggest that respondents are in general more likely to purchase services informally than they are goods. There are also some evident differences within groups. For example, only 16.2% of respondents in the bottom quartile for tax morality (highest level) indicated that they had purchased goods or services informally, whilst in the top quartile on tax morality (lowest level) 32% of respondents indicated that they had. This suggests that the lower an individual’s tax morality the greater is the likelihood they will purchase goods and service from the informal economy. Meanwhile, respondents living in cities were markedly less likely to indicate that they purchased goods or services informally (21.1%) compared to those in small/medium towns (29.1%).

**Table 1: Demand for informal services and goods across groups**

	<b>Demand informal services</b>	<b>Demand informal goods</b>	<b>Demand informal goods and services</b>
<b>Tax morality</b>			
0-25%	12.1%	9.6%	16.2%
25-50%	16.9%	13.8%	23.3%
50-75%	20.5%	16.7%	27.4%
75-100%	25.3%	22.6%	32.0%
<b>Gender</b>			
Male	21.7%	18.3%	28.1%
Female	15.7%	13.6%	21.5%
<b>Age Groups</b>			
15 - 24 years	15.4%	17.2%	23.3%
25 - 34 years	22.8%	18.6%	28.8%
35 - 44 years	21.7%	16.7%	27.4%
45 - 54 years	20.3%	16.9%	26.6%
55 - 64 years	18.9%	15.6%	25.3%
65 years+	12.8%	11.1%	17.6%
<b>Marital status</b>			
Married/Remarried	18.9%	15.4%	24.7%
Cohabiting	24.2%	24.8%	33.1%
Single	16.7%	14.7%	22.9%
<b>Household Size</b>			
One	15.3%	12.1%	20.4%
Two	17.9%	15.6%	23.8%
Three	19.8%	15.7%	25.7%
Four or more	19.7%	17.6%	26.5%
<b>Occupation</b>			
Unemployed	18.7%	18.2%	25.9%
Self-employed	28.2%	27.2%	38.0%
Employed	21.9%	16.7%	27.7%
Other (Retired, students, disabled, etc.)	13.9%	12.6%	19.4%
<b>Financial situation</b>			
Comfortable	20.9%	17.5%	27.2%
Maintaining	17.9%	14.4%	23.3%
Struggling	18.0%	16.6%	24.8%
<b>Personal income</b>			
No income	15.9%	15.6%	21.7%
Less than 350 euros	17.6%	15.4%	23.2%
350-700 euros	18.5%	15.1%	24.2%
More than 700 euros	21.8%	17.6%	29.6%
<b>City size</b>			
Rural area	18.8%	17.4%	25.8%
Small/medium town	23.2%	17.6%	29.1%
City	15.7%	13.5%	21.1%
<b>Countries</b>			
Bulgaria	22.1%	17.3%	27.1%
Croatia	20.4%	16.5%	26.6%
Macedonia	13.3%	13.8%	20.3%



**Table 2: Demand for informal services and goods: Logit marginal effects**

	<b>Model 1</b> <b>Demand informal</b> <b>services</b>	<b>Model 2</b> <b>Demand informal</b> <b>goods</b>	<b>Model 3</b> <b>Demand informal</b> <b>goods and services</b>
Tax morality	0.025*** (0.003)	0.023*** (0.003)	0.027*** (0.003)
Female	-0.042*** (0.011)	-0.032*** (0.010)	-0.043*** (0.012)
Age	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
<b>Marital status: (BG: Married/Remarried)</b>			
- Cohabiting	0.013 (0.021)	0.050** (0.021)	0.038 (0.024)
- Single	0.010 (0.016)	0.016 (0.015)	0.023 (0.017)
<b>Household Size: (BG: One Person)</b>			
- Two	0.025 (0.020)	0.037* (0.019)	0.037 (0.022)
- Three	0.023 (0.022)	0.023 (0.020)	0.033 (0.024)
- Four or more	0.037* (0.021)	0.047** (0.020)	0.052** (0.024)
<b>Occupation (BG: Unemployed)</b>			
- Self-employed	0.051 (0.035)	0.059* (0.034)	0.060 (0.039)
- Employed	-0.012 (0.022)	-0.037* (0.021)	-0.033 (0.025)
- Other (Retired, students, disabled, etc.)	-0.058*** (0.019)	-0.051*** (0.018)	-0.074*** (0.022)
<b>Financial situation (BG: Comfortable)</b>			
- Maintaining	-0.022 (0.014)	-0.021 (0.013)	-0.022 (0.016)
- Struggling	0.002 (0.017)	0.010 (0.016)	0.016 (0.018)
<b>Personal income (BG: No income)</b>			
- Less than 350 euros	0.018 (0.019)	0.022 (0.018)	0.030 (0.022)
- 350-700 euros	0.020 (0.019)	0.021 (0.018)	0.037 (0.023)
- More than 1800 euros	0.075*** (0.023)	0.059*** (0.021)	0.111*** (0.026)
<b>City size (BG: Rural area)</b>			
- Small/medium town	0.022 (0.015)	-0.002 (0.014)	0.016 (0.017)
- City	-0.039*** (0.012)	-0.034*** (0.012)	-0.051*** (0.014)
<b>Countries (BG: Bulgaria)</b>			
- Croatia	-0.016 (0.015)	-0.010 (0.014)	-0.006 (0.016)
- Macedonia	-0.101*** (0.014)	-0.054*** (0.013)	-0.088*** (0.015)
Number of imputation	50	50	50
N	6019	6019	6019

Notes: This table reports marginal effects and standard errors (in parentheses).

\*\*\*, \*\*, and \* indicate significance at the 1, 5 and 10 percent level, respectively.

To determine whether differences within groups were statistically significant, and to estimate the magnitude of these differences, we used a logit model as discussed in the previous data analysis section. The results of this analysis are presented in Table 2.

The results presented in Table 2 indicate a number of statistically significant differences within groups in the prevalence of purchasing goods and services informally. In line with the most of statistics in Table 1, strong statistically significant differences at the 1 percent level were first found between those with personal incomes above 1800 euros per month compared to those with no income. Somewhat surprisingly, it was found that those with higher incomes were 11.1%<sup>3</sup> more likely to purchase goods and services informally compared to those with no income, holding all others equal. Secondly, and also statistically significant at the 1% level, it was found that respondents within cities were 5.1% less likely to purchase goods and services informally than those in rural areas. Other strongly significant differences at the 1% level included: that respondents of Macedonia were significantly (8.8%) less likely than those in Bulgaria to report purchasing goods and services in the informal economy, holding all others equal; that women across the countries were (4.3%) less likely to purchase informally than men; and that the retired, students and disabled were (7.4%) less likely to purchase informally, holding all others equal, than the unemployed. Finally, it was found that a 1% increase in scores for tax morality (a higher score indicating lower tax morality) resulted in a 2.7% increase in the likelihood of purchasing goods and services informally. At the 5% level of significance, differences were also found between those with large households (four or more) who were 5.2% more likely than households of one person to purchase goods and services informally.

Turning now to the subject of motivations for purchasing goods and services informally. As is shown in Table 3, across the three countries cost based factors in the form of lower price are

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<sup>3</sup> This percentage is calculated by multiplying the marginal effect score by 100.

the most significant driver of informal purchasing, followed by failure factors and then social factors. More specifically, 52% of respondents identified cost based factors as a reason for their informal purchasing, with this highest in Macedonia (57.2%) compared to Croatia (50.1%) and Bulgaria (51.4%). Social factors were identified as a motivator by on average 17.5% of the sample, with the highest levels again in Macedonia (24.4%), compared to lower levels in Bulgaria (16.6%) and lowest in Croatia (13.5%). Finally, failures in the formal economy were identified as motivating informal purchasing by respondents across the three countries, and on average by 39.6% of respondents. Interestingly, failures in the formal economy were especially cited by respondents in Bulgaria (56.6%) as driving informal purchasing of goods and services compared to those in Croatia (31.2%) and Macedonia (29.6%). More than 25% of Bulgarian respondents who purchase goods and services informally suggest they do so for reasons of faster service and better quality in the informal economy. Indeed, across the three countries these two reasons were more important than unavailability of products or services on the regular market.

**Table 3: Country Statistics – Informal purchasing of goods and services (% of respondents admitting the participation from the demand side)**

	<b>Bulgaria</b>	<b>Croatia</b>	<b>Macedonia</b>	<b>Average</b>
<b>Cost Factors</b>				
Lower price	51.4%	50.1%	57.2%	52.5%
<b>Social Factors</b>	16.6%	13.5%	24.4%	17.5%
In order to help someone who is in need of money	6.6%	6.6%	14.1%	8.6%
It was a favour amongst friends\ relatives\ colleagues	11.1%	6.9%	13.0%	10.0%
<b>Failure Factors</b>	56.6%	31.2%	29.6%	39.6%
Faster service	28.3%	15.2%	16.1%	20.0%
Better quality	29.2%	10.8%	12.7%	17.7%
Good\ service is not\ hardly available on the regular market	13.7%	5.2%	5.6%	8.3%
Other/DK	10.1%	5.2%	11.4%	8.6%

The relevance of these different motivations was also evident in the focus groups. For example, participants discussed asking for services to be provided “*without a receipt*, as it is much *cheaper*” and stated, “*if you want to buy it cheaper, it doesn’t go with a receipt*”. Interestingly, there was in general strong normative acceptability for such practices amongst focus group participants with it regarded as legitimate and understandable, especially if individuals and businesses were perceived to be struggling. This is evidenced in statements like “*I do not ask for a receipt from them because mechanics do not earn much money*” and “*I think it is ok. People are trying to survive, to make ends meet*”. These quotations particularly speak to the significance of social factors in motivating informal purchasing of goods and services.

Finally, our analysis of the interplay between these motivations and individual-level factors provides a number of interesting findings. These results are presented in Table 4. Statistically significant at the 1% level it is first found that women are less likely to be motivated to purchase goods and services informally than men. Significant at the 1% level women are 2.9% less likely to be motivated by cost-based factors. Significant at the 5% level women are also 1.2% and 2% less likely to be motivated by social factors and formal economy failure respectively, than men holding all others equal. Meanwhile, in relation to personal income it seems that social factors and failures in the formal economy are especially significant in explaining why those with incomes over 1800 Euros purchase informally compared to those with no income. Failures in the formal economy are also significant and 4% more likely to be the reason why those with incomes of 350-700 Euros purchase informally.

**Table 4: Motivations for purchasing goods and services in the informal economy in groups**

	<b>Cost Factors</b>	<b>Social Factors</b>	<b>Failure Factors</b>
<b>Tax morality</b>	0.016*** (0.003)	0.006*** (0.002)	0.011*** (0.002)
<b>Female</b>	-0.029*** (0.010)	-0.012** (0.006)	-0.020** (0.009)
<b>Age</b>	-0.000 (0.000)	-0.000 (0.000)	0.001 (0.000)
<b>Marital status: (BG: Married/Remarried)</b>			
- Cohabiting	0.033* (0.019)	0.006 (0.012)	0.022 (0.016)
- Single	-0.010 (0.013)	0.005 (0.009)	0.023* (0.012)
<b>Household Size: (BG: One Person)</b>			
- Two	0.002 (0.019)	0.009 (0.011)	0.019 (0.014)
- Three	0.003 (0.020)	0.007 (0.011)	0.015 (0.016)
- Four or more	0.014 (0.020)	0.011 (0.011)	0.033** (0.016)
<b>Occupation (BG: Unemployed)</b>			
- Self-employed	0.028 (0.031)	-0.031** (0.016)	0.044 (0.028)
- Employed	-0.020 (0.020)	-0.023* (0.013)	-0.002 (0.018)
- Other (Retired, students, disabled, etc.)	-0.054*** (0.017)	-0.025** (0.012)	-0.024 (0.016)
<b>Financial situation (BG: Comfortable)</b>			
- Maintaining	-0.004 (0.012)	-0.013 (0.008)	-0.024** (0.012)
- Struggling	0.023 (0.014)	-0.005 (0.009)	-0.015 (0.014)
<b>Personal income (BG: No income)</b>			
- Less than 350 euros	-0.002 (0.018)	0.009 (0.010)	0.033** (0.013)
- 350-700 euros	-0.013 (0.018)	0.007 (0.009)	0.040*** (0.014)
- More than 1800 euros	0.023 (0.021)	0.040*** (0.012)	0.076*** (0.018)
<b>City size (BG: Rural area)</b>			
- Small/medium town	0.019 (0.013)	0.003 (0.008)	0.013 (0.012)
- City	-0.015 (0.011)	-0.010 (0.007)	-0.023** (0.010)
<b>Countries (BG: Bulgaria)</b>			
- Croatia	-0.003 (0.012)	-0.011 (0.008)	-0.071*** (0.012)
- Macedonia	-0.031** (0.012)	-0.005 (0.008)	-0.099*** (0.012)
Number of imputation	50	50	50
N	6019	6019	6019

Notes: This table reports marginal effects and standard errors (in parentheses)

\*\*\*, \*\*, and \* indicate significance at the 1, 5 and 10 percent level, respectively.

In addition to the above, formal economy failures are 7.1% less likely to be given by respondents in Croatia as an explanation for their informal purchasing than those in Bulgaria, and similarly 9.9% less likely to be given by those in Macedonia compared to Bulgarian respondents. A perceived failure of the formal economy in Bulgaria was observable in the focus groups. For example, in participant statements like *“businesses and individuals in Bulgaria are hampered financially, extremely restricted. We are at the bottom of all the rankings”*. Finally, a statistically significant relationship was found between tax morality and all three factors at the 1% level. It was found that for every 1% increase in respondent scores for tax morality (a higher score indicating lower tax morality) the likelihood of identifying cost based factors as motivating informal purchasing of goods and services increased by 1.6%. Meanwhile, the likelihood of identifying social factors increased by 0.6%. Finally, the likelihood of identifying formal market failures increased by 1.1%.

## **Discussion**

These findings demonstrate that the purchasing of goods and services informally is widespread in South-East Europe. This aligns with previous studies, which have identified the significance of the informal economy across the region (see Williams & Franic, 2015; and Williams et al 2016). As discussed previously, scholars have also called for more nuanced examination of the purchasing of goods and services in the informal economy (Windebank et al, 2016). Accordingly, our analysis has shown that individual factors affect the likelihood of purchasing goods and services informally, including occupation, gender, income, city location, country, and tax morality.

In relation to occupation, it is understandable that those who are unemployed would be more likely to engage in informal purchasing of goods and services than other groups as their finances may be more constrained. This is supported by later analysis identifying that

unemployed individuals are more likely to identify cost-based factors as motivating their informal purchasing than other groups. In relation to income, the results suggest those with higher incomes are more likely to purchase goods and services informally. It may be that those with higher incomes have cash more readily available to pay for services informally than those on low incomes. Later analysis also reveals that those in higher income groups that do purchase goods and services informally are more likely to do so for social reasons and reasons of formal market failure than other groups. This suggests that they have more options than other groups, that they may feel socially obligated to support others through providing them with work, or that they see benefits in operating in an economy based on 'favours' and reciprocity. The finding that tax morality impacts the likelihood of purchasing goods and services informally, with those with higher tax morality less likely to engage in such purchasing, aligns with extant studies (see Williams et al, 2014; Alm & Torgler, 2006; Williams & Horodnic, 2016). It also supports institutional asymmetry (Williams et al 2014) and incongruence (Webb et al, 2009, Williams et al 2015) perspectives and explanations for participation in the informal economy. Individuals with low tax morality view informal activity as more normatively and cognitively acceptable than those with higher tax morality and who value regulatory compliance.

The finding that women are less likely than men to purchase goods and services informally is interesting because it is widely suggested in the literature that globally at least in relation to the supply side of the informal economy, and undeclared working, that women predominate (see for example Bertulfo, 2011; ILO 2013). This predominance is often attributed to the widespread marginalisation of women, particularly in developing economies. One possible explanation for our finding is that at a generalised level, there may be differences in the norms and morals of women compared to men, for example, that on average women have higher tax morality than men, which makes them more likely to comply with regulations where they are not pushed into informal activity through marginalisation. This notion has some support in the

literature, for example in studies of criminality scholars explain the lower rates of criminality amongst women compared to men with reference to a range of factors including different gender norms and moral and relationship concerns (Steffensmeier & Allan, 1996). Another explanation might be that informal purchasing of goods and service by women respondents may be particularly around the domestic sphere, which female respondents might have chosen to exclude from their answers to this question, perceiving them to be part of the domestic rather than informal economy.

Finally, differences in the prevalence of purchasing goods and services informally along geographical dimensions can be explained as follows. Respondents in urban areas may be less likely to purchase goods and services informally than their rural counterparts due to better-developed formal markets, and a greater number of formal market actors, in urban areas. This explanation finds support in later analysis indicating that formal market failure is less likely to be identified as a reason for purchasing goods and services informally by urban versus rural respondents. In rural areas, respondents may have little choice but to purchase goods or services informally if for example the local hairdresser or car repair shop operates informally. At a national level, respondents in Macedonia (20.3%) were less likely to report that they purchased goods or services informally than those in Bulgaria (27.1%) or Croatia (26.6%), with this difference significant at the 1% compared to Bulgaria. In some respects, this is surprising. Macedonia sits below both Bulgaria and Croatia in indexes like Transparency International's Corruption Perception Index - Macedonia is 90<sup>th</sup> whilst Bulgaria is 75<sup>th</sup> and Croatia 55<sup>th</sup> respectively (Transparency International, 2017). It is also below both in the UN's Human Development Index – Macedonia is 82<sup>nd</sup> whilst Bulgaria is 56<sup>th</sup> and Croatia 45<sup>th</sup> (UNDP, 2017), with lower human development often associated with higher levels of informality. However, in other indices Macedonia is performing better than either Bulgaria or Croatia. For example, in the World Economic Forum's latest global competitiveness report Macedonia ranks



relatively highly on the strength of its institutions (67<sup>th</sup>), compared to Bulgaria ranked (97<sup>th</sup>) where corruption is identified as the no.1 problematic factor for business, and also Croatia ranked (89<sup>th</sup>) for institutions and with bureaucracy and corruption also significant concerns for business (WEF, 2017). In the World Bank Ease of Doing Business Surveys Macedonia (10<sup>th</sup>) also outperforms Bulgaria (39<sup>th</sup>) or Croatia (43<sup>rd</sup>) and almost all other South-East European states (World Bank, 2017a). This suggested strength of Macedonia's institutions may have translated into better policies and actions to discourage the informal economy and purchasing of goods and services from it. However, an alternative explanation might be that more authoritarian tendencies in Macedonia discouraged respondents from answering honestly. Additional research is clearly needed on this subject.

The findings have furthermore shown that individuals may be motivated to purchase goods or services informally due to varied factors. Whilst the data suggests that cost based factors are most important, social factors and failures in formal markets are also relevant. Decision-making on whether to purchase goods or services informally may also entail simultaneous consideration of cost-based factors, social factors and formal market failure. This finding aligns with growing recognition in wider literature that informal economic activity is motivated by multifarious interacting factors (see Webb et al, 2013; Windebank et al, 2016).

Finally, our findings identify that the significance of different motivations varies depending on individual-level factors. Women are less likely than men to be motivated by all of the factors, raising the question of whether there may be other women specific motivations not assessed in this research for purchasing goods and services informally, or ways of framing these factors to be more salient for women. Findings that the unemployed were more likely to use cost-based factors than other groups to explain their purchasing of goods and services informally, and that higher income groups are more likely to explain their purchasing of goods and services

informally in reference to social factors and formal economy failures both intuitively make sense, and were discussed earlier. The finding that respondents in Bulgaria are more likely to identify formal market failures to explain their purchasing of goods and services informally has also been discussed earlier, with a particularly strong narrative around economic failure emerging in the Bulgarian focus groups, more so than in the other countries. Even though this negative narrative might not necessarily reflect reality, for example, Bulgaria's current GDP growth rates (3.4%) are higher than either Croatia's (2.9%) or Macedonia (2.4%) (World Bank, 2017b). Bulgaria was badly affected by the 2008 Financial Crisis, especially compared to Macedonia, and it may be attributable to this.

### **Conclusions and implications**

This paper has examined the phenomenon of the purchasing of goods and services from the informal economy in South-East Europe, drawing upon data from a quantitative survey and focus group research conducted in three countries. It has provided insight on the prevalence of such purchasing in South-East Europe, on who undertakes such purchasing, and has shown how individual-level factors may influence informal purchasing. The paper has also examined the relative significance of different motivations in the purchasing of informal goods and services, identifying how the salience of such motivations varies according to individual-level factors.

This paper has therefore contributed to informal economy scholarship in a number of respects. It adds to hitherto limited work on the demand-side of the informal economy. It furthermore provides insights on informality and services. Studies examining informal activity, including the purchasing of goods and services, at the level of the South-East Europe region also remain limited, with existing work often focussing on single countries. The detailed cross-country comparison of Bulgaria, Croatia and Macedonia undertaken here is therefore relatively novel.

In demonstrating the significance of individual-level factors in influencing the prevalence of, and motivations for, informal purchasing of goods and services in South-East Europe, this research also both affirms and responds to scholars calling for more nuanced understandings of varied forms of informal economic activity. Finally, this study demonstrates the insights and ‘added value’ of a mixed method research strategy.

This work has implications for practice. First, through demonstrating how individual-level factors influence the prevalence of informal purchasing of goods and services it highlights the need for smarter more targeted policy interventions tailored for particular demographic and socio-economic groups. Furthermore, in highlighting that such purchasing may be variously motivated it encourages policy makers to be creative and to look beyond instruments that focus on deterrence and making the costs of transacting informally higher e.g. raising fines for those caught. Interventions need to recognise and respond to these other motivations, which may be especially salient for particular groups.

Finally, based upon our work there is significant scope for further enquiry. First, this study could be replicated in other South-East European states to develop a more complete regional picture. Qualitative research to investigate more deeply and explain why demographic and socio-economic groups may be more or less likely to purchase goods and services informally, and how they may be differently motivated would also be welcome. Three main types of motivation for informal purchasing of goods and services were considered in this study, but there may be others. Meanwhile consideration of the role of individual-level factors could be extended to consider wider dimensions, including more psychological ones. Whilst this study focuses on the purchasing of goods and services from the informal economy by individuals, firms also undertake such purchasing. Future research could examine the drivers of this, its dynamics, and its benefits and costs. Lastly, there is potential for more fine-grained studies

around the actual transacting of goods and services in the informal economy, by individuals or firms, in South-East Europe and further afield.

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