

1. ORGANIZED CRIME IN BULGARIA: TYPOLOGY AND TRENDS

The spread of organized crime as an extremely dangerous social phenomenon has marked the transition in nearly all of the post-communist countries. **Bulgaria was among the most hard-hit by the crime wave accompanying the transformation of the totalitarian state**¹ in the early 1990s. In fact, the term „transformation” hardly provides an adequate idea of the abrupt shift from total state control over the individual to the kind of freedom that combined a semi-criminal economy, legal and institutional chaos and insecurity for the citizens. As a result of the nihilism and incompetence, as well as the corruption of the new political elites, chaotic measures were undertaken in the guise of „liberal reform” which actually led to the practical dissolution of statehood and the expansion of organized crime.²

The problems related to the rise in crime in the early stages of the transition, however, were overshadowed by the ostensibly successful democratic reforms and, on account of various political considerations, were downplayed both by the local expert community and party elites and by the foreign partners of post-communist Bulgaria. It was not until the end of the past and start of the current decade when the ideas predominant up to then began to lose in influence and there appeared signs of deepening public mistrust in democratic institutions and the political class of the early transition, that the problems of organized crime and corruption acquired primary social and political salience and subsequently their monitoring and assessment came to be essential in shaping the attitude to Bulgaria of allies such as the European Union and the US.

The initial temptation to handle these issues exclusively with the political tools of traditional anticommunism is gradually being overcome. More and more politicians and analysts realize that organized crime is rather a beneficiary of the downfall of totalitarian statehood and cannot be interpreted and accounted for solely in terms of the „communist heritage”. It successfully legitimizes itself by identifying with the key categories of the democratic transition and has taken up the vacant niche of the „national capital” within the frames of the transition, which has had a great many adverse implications for the country (it is hardly

¹ In the late 1980s, the so called militia (the then police service) and the special services had an agent network of about 250 thousand people and kept files on 450 thousand people out of a population of 9 million. By number of agents per capita (roughly 3 agents per 100 persons) Bulgaria was only surpassed by East Germany and Romania.

² In the literature, such liberalization is commonly referred to as „reform by catastrophe”.

by chance that in the 1990s, terms such as „businessman” and „smartly-dressed businessmen” came to be popularly perceived as synonymous with banditism).³

From here, there is just one step to raising the issue of the legitimization of organized crime as an expected phenomenon in a transition that is marked by high crime rates.⁴ In the context of stagnant reform, with the corrupt exploitation of state property by the elites of the transition and with the dismantled or corrupt law-enforcement and justice administration institutions, the breaking of the law and economic crimes are becoming a political and economic necessity. In other words, **in countries like Bulgaria, organized crime is not so much a deviant phenomenon but actually has functional preconditions stemming from the specific characteristics of the transition.**⁵

What is certain is that the evolution of organized crime is a **complex socio-political process related to the radical changes in society and the far-reaching redistribution of the national wealth, as well as with the emergence of grey and black markets operating in parallel to the legal economy.** It is a transition from total control over society and one-hundred percent state ownership to a situation of an oligarchic type which suggests parallels with Latin American countries.

Box 1. Grey and black economy: a tentative definition

The **“grey economy”** comprises activities that in essence are not prohibited by national law but do not take place in compliance with the respective rules and/or institutional requirements (declaration, registration, licensing, etc.) and typically constitute administrative violations of some of these regulations.

The **“black economy”** covers activities prohibited and punishable by law.

Example: The trade in spirits is a legal activity. In the absence of excise bands, it turns grey yet only as long as the due excise is not paid. I.e., there exists a channel through which this activity can be “brought out into the light”. The drug trade, on the other hand, is a black market activity with no available options for legitimization within the existing legal framework.

What is characteristic of the Bulgarian transition is that several thousand „businessmen” found themselves in the position of owners of the country and its economy, with **a great many of the businesspersons in question fully meeting the criteria established by academic research and the basic textbook definitions of organized crime.**⁶ For the most part, control over the property is

³ Insofar as, up to the downfall of the communist system, there did not exist any know-how about a relatively painless transition from state socialism to market capitalism and pluralist political system, there may be endless speculations on this subject. In any case, they should be the object of a special study.

⁴ The well-known Russian sociologist and political scientist Vadim Volkov also considers this issue in the context of his study of organized crime in Russia; see Vadim Volkov, *Violent Entrepreneurs: The Use of Force in the Making of Russian Capitalism*, 2002.

⁵ In the political history of Eastern Europe, no country has been able to withstand this tendency. Even in East Germany, where the transition was carried out with the help of the most powerful economy in Europe and the political class of the Federal Republic of Germany, economic crime and political corruption proved inevitable.

⁶ There exist numerous definitions of organized crime. In the European literature there prevails the view that organized crime is an activity having at least six basic characteristics, of which the first four are indispensable: 1. collaboration between more than two persons; 2. occurs over a long

exercised through stable structures involving hundreds and even thousands of employees and companies in complex hierarchical relationships. Such mechanisms are used to secure monopolistic profits part of which are redistributed through corrupt networks among local bureaucrats, magistrates, MPs, and ministers. These mechanisms or models are universally applicable, regardless of whether in criminal privatization, bank crediting, illegal trafficking in goods, pilfering of natural resources, etc.

Three different forms of organized crime in this country can be distinguished:⁷

- **The first type** are the so-called „**violent entrepreneurs**” whose activity was initially largely based on violence.
- **The second type** is represented by the group of **the extreme-risk entrepreneurs**. They are more likely to be permanently involved in systematic criminal activity in view of the great competitive advantages of this type of entrepreneurship. So far their activity has tended to remain outside the focus of public attention.
- **The third type** constitute huge structures headed by so-called **oligarchs** (akin to the notorious Russian model) whose ambitions are aimed at monopolizing the most profitable activities and sectors in the state with the help of the methods of corruption and clientelism.

The common principle for all three groups is the aspiration to capture the markets regardless of the different structures and methods of operation. Moreover, entry into the various legal, grey, and black markets takes place within the context of the restructuring of the planned economy into a market economy and its liberalization accompanied by the arrival in the market of big international companies (*Table 1*).

or indefinite period of time; 3. the respective group is suspected of committing serious crimes punishable by at least 4 years” imprisonment; 4. the group in question is acting in the pursuit of material gain and/or power. To these four criteria should be added any two of the following characteristics: 5. there is division of labor among the members of the group; 6. measures are taken to reinforce discipline and control; 7. use of violence or other means of intimidation; 8. use of commercial and business structures; 9. involvement in money laundering; 10. the activity of the group is in part of transnational character; 11. exerts influence over legitimate social institutions (the political class, government, justice administration, the economy). See Michael Levi, *The Organization of Serious Crimes*, in: *The Oxford Handbook of Criminology*, ed. by Mike Maguire, Rod Morgan and Robert Reiner, 2002, p.882. It is worth noting the following definition of this phenomenon: “any organized group that has its leadership insulated from direct involvement in criminal acts and ensures organizational integrity in the event of a loss of leadership”. See www.iir.com/28cfr/sample_operating_Policies_definitions.htm

⁷ These general categories have been identified based on available studies, „grey literature”, investigative reports by journalists, analyses by special services in Bulgaria, as well as data about the related situation in other countries – in the Balkans, in Eastern Europe, and particularly in Russia.

Table 1. Sources, methods, and stages in the development of organized crime in the context of the Bulgarian transition

	Violent Entrepreneurs	Extreme-risk Entrepreneurs	Oligarchs
Sources	<ol style="list-style-type: none"> Former sportsmen in heavy athletics and highly physical sports such as weight-lifting, wrestling, etc. Former officers from the Ministry of Internal Affairs Former criminal convicts 	<ol style="list-style-type: none"> Representatives of occupations requiring no education degree but with a degree of entrepreneurship under socialism: taxi drivers, bartenders, warehouse managers, waiters, etc. Representatives of professional groups such as foreign trade specialists, accountants, jurists (mainly lawyers), as well as students in these subjects. Former criminal convicts 	<ol style="list-style-type: none"> Former high-ranking business executives Former communist-party functionaries Former officers from the special services
Method	Use and selling of violence through large groups	Using networks to execute criminal and semi-criminal operations, mostly involving import and trafficking of goods, as well as lease and purchase of state and municipal property; obtaining bank credits (the group of the so-called credit millionaires), and others.	National wealth redistribution through the use of the new political elites and establishment of holdings comprising dozens of companies. Gaining domination over financial institutions and taking control of state financial institutions (including the Central Bank) and the media.
Markets – initial emergence	<ol style="list-style-type: none"> Providing security for retail companies and outlets, and entertainment establishments. Debt collection, punitive actions, mediation in conflicts between businesses. Trafficking from and to the former Yugoslavia. Trafficking in excise goods – spirits, cigarettes, crude oil. Thefts, smuggling and trade in automobiles. 	<p><i>Gaining advantages from the unlawful entry into all possible markets:</i></p> <ol style="list-style-type: none"> Trade in scarce goods – starting with mass consumer goods such as cooking oil and sugar in the first months of the 1990 spring crisis. Ranging from the import of used cars and spare parts to car and registration fraud schemes. Ranging from trade in real estate to speculative operations such as buying up municipal and state-owned housing, including by eviction of tenants. 	<p><i>Conquering key markets by:</i></p> <ol style="list-style-type: none"> Setting up financial companies – financial houses, banks, etc. Controlling the input and output of state enterprises. Creating, gaining domination and control over mass-media. Controlling large shares of mass markets (cartels). Partnering with risk entrepreneurs and setting up holdings present in as many markets as possible.

Table 1. Sources, methods, and stages in the development of organized crime in the context of the Bulgarian transition (continued)

	Violent Entrepreneurs	Extreme-risk Entrepreneurs	Oligarchs
Markets – initial emergence		4. Trade in foreign currency, including currency speculations. 5. Participation in the black markets, including prostitution and drugs.	6. Establishing strategic alliances with big multinational corporations.
Markets – second stage	1. Insurance transforming the security and entering the mass insurance market – symbiosis with the stolen car market. 2. Pirated CD manufacturing, considerable investments in advanced technology. 3. After the end of the Yugoslav embargo, attempts to make up for the losses in income by taking control over the most profitable smuggling markets (including drugs).		
Cooperation between the three groups	The oligarchs’ role is to solve problems with law-enforcement and judiciary. Extreme risk entrepreneurs serve as advisors, trustees, and income and investment channels.	Using the structures of these groups to conquer market shares and to deal with problems with competitors or partners; joining up with the oligarchs to ensure access to markets, protection, and assistance against the state.	Intimidation and control over small businesses through extreme punitive action (including destruction of property and murder); using extreme-risk entrepreneurs (including through financing) in problematic operations.

1.1. EVOLUTION OF VIOLENT ENTREPRENEUR GROUPS

The violent entrepreneur groups are emblematic of Bulgarian organized crime and ever since the beginning of their activity have been synonymous with criminal business in this country. The different stages in their development over the two decades of the transition quite eloquently illustrate the ambivalent relationships between the criminal and the political elites, vacillating between antagonism and corrupt partnership.

The beginning (1990-1992)

The model of **entrepreneurship of violence** (also dubbed „selling protection“) has been well-documented in the criminological literature. In its Bulgarian version, group members were initially recruited from among **athletes**, whence the popular name „wrestler groups“ or „wrestlers“. Similarly to the former Soviet Union and the German Democratic Republic, Bulgaria had a very well developed system for training professional athletes in the Olympic sports. A network of sports schools was in place where huge numbers of children were trained to become professional athletes. At the time, the state ensured lifelong support for the elite athletes. With the end of communist rule, the system was deprived of financial support practically leaving tens of thousands of athletes out in the street. Some of them, and particularly the heavy sports athletes, joined the violent entrepreneur groups that guaranteed a new identity, good incomes, and prospects for quick prosperity in the chaos of the transition. The thus recruited members of these structures had the unique psychological and physical experience in using violence, winning combats, enduring pain, etc. Structurally, the sports schools themselves formed the backbone of the future structures of organized crime.

The second pool of recruits for the violent entrepreneur groups were **former officers from the police and special services**. In the period 1990-1992,⁸ 12-17 thousand employees were discharged from this system for ideological reasons. It is generally believed that the representatives of this group, whose names rarely become public, have played a key role in the choice of the activity of the violent entrepreneur structures. They further take on the critical function of mediators in the event of problems with the law enforcement authorities.

The third pool was made up of **criminals**, a great many of whom were given amnesty in the early 1990s. Their role, however, cannot be compared to countries with a long history of organized crime, such as Russia (the Soviet Union).

The successful establishment of the violent entrepreneur groups in the first half of the 1990s was related to the far-reaching political, economic, and institutional crisis that paralyzed the state and facilitated its usurpation by new elites involved in

⁸ The period January-May 1990 was marked by mass lay-offs of State Security – the former secret police of the communist regime - officers; it was followed by a second round of lay-offs in January-June 1991, and a third one in 1992.

semi-criminal networks. The grave economic crisis⁹ and the economic isolation¹⁰ produced a huge deficit of resources. As a result, it proved practically impossible to conduct a controlled policy of transition from planned centralized governance to market economy.

At the same time, the political processes led to instability of government. Over a period of seven years (November 1989 – June 1997) there was a succession of 2 interim and 8 elected governments. Upon each political change, one of the most affected systems was that of the Ministry of Interior (MoI). These changes also had extremely adverse implications for the judicial system. In the first period of the transition, the **law-enforcement agencies were practically paralyzed**, including with respect to organized crime. In the **security sector**, the processes of dismantling the old communist services placed a number of law-enforcement and control functions in a state of institutional vacuum. In fact, by the early 1990s the state had effectively lost its monopoly on violence which freed the hands of the violent entrepreneur groups. Law-enforcement authorities appeared particularly powerless to protect the proliferating, mostly small, businesses the very emergence of which actually gave the start to the transition from state-controlled to market economy. These new shops, restaurants, hotels, and other businesses, largely in the area of services, found themselves almost completely helpless in the face of the explosion of criminal activity. By official data, in three years alone (1990-1992), overall **street crime increased four times with the rate of some types increasing 10 to 20 times.**

The violent entrepreneur structures quickly filled the emerging vacuum and the **market for the sale of violence and protection** became critical to the survival of any business in the following 7-8 years. Similarly to the situation in the other East-European countries, in Bulgaria there evolved a market for „protection against violence“, in addition to racketeering.¹¹ The actual start of this process was set in 1991 when a group of well-known Bulgarian athletes (Olympic and world medalists) demanded that private security activity be licensed by the state. This was seen as a means of survival after the „drastic cuts in public spending on sports“. The Ministry of Interior rapidly regulated private security activity arguing that it would give the laid-off officers a chance to earn a living legitimately. As a result, tens of thousands of former MoI and Ministry of Defense employees, a large

⁹ During socialism, Bulgaria was a country with a remarkably open economy – foreign trade accounted for close to 60-70% of its domestic product. About 60% was with the Soviet Union, and another 15% with the remaining countries of the Eastern Bloc. The end of CMEA – the trade organizations of the communist countries - led to a dramatic drop in foreign trade and by 1990-91, Bulgaria had lost 2/3 of its markets. The onset of the war in Yugoslavia practically confined Western Europe's interest to the Central-European countries. In addition, Bulgaria lost its second most important market – the Arab countries – with the war in Iraq in 1990-1991. The biggest problem of the country's population is the drastic fall in the standard of living which used to be equivalent to (German Democratic Republic and Czechoslovakia) or higher than (Poland, Hungary and the Baltic republics) that in Central Europe.

¹⁰ Bulgaria had the largest foreign debt in Eastern Europe. Unlike countries such as Poland, indebted to other states, the bulk of the Bulgarian debt was owed to private institutions (the London Club). In early 1990, the creditors refused to extend payment deadlines and the country found itself incapable of servicing its debt. As a result, Andrey Lukanov's government declared a debt moratorium and Bulgaria was plunged into almost total financial isolation.

¹¹ See Philip Gounev. *Bulgaria's Private Security Industry in: Private Actors and Security Governance*, 2007, p.110

number of former athletes and even criminals who had been given amnesty not only obtained legal jobs but also the right to carry arms and demonstrate force in a situation of general insecurity. This was basically the start of the raising of an army of experienced armed people who actually served as a legal cover for the emerging organized crime.

From the very beginning, private security providers began offering protection not only to private, but also to state-owned enterprises. Subsequently, these essentially racket groups registered as security companies. The typical scheme involved taking over a specific territorial zone and defending it against rival racketeering groups. The gang's territory covered all newly opened offices, shops, warehouses, restaurants, and other commercial outlets. The owners were coerced to resort to the services of the security company, with physical violence and/or damaging or destruction of property ensuing from any refusal to do so.

Gradually, in addition to the simple protection racket paid by the companies, the owners were offered **extra services**. In the context of an ineffective judicial system and with annual inflation in the range of 30-40% - which benefited debtors - debt collection became the most commonly offered service. It is in this context that the first territorial clashes between competing security structures arose. However, they subsequently quickly merged together. By mid-1993, in Bulgaria there were security companies of the violent entrepreneur type that covered nearly half of the biggest cities in the country.

The Yugoslav embargo and the flourish of smuggling (1992-1995)

The Yugoslav embargo catalyzed the formation of the structures of organized crime. It was imposed in the summer of 1992, when the Bulgarian government adopted the UN restrictions on export to the countries of former Yugoslavia. This measure put in place favorable conditions for organized transborder crime. With its already established structures for executing various forms of coercion, including violence, organized crime had an exceptional advantage over all other participants in the smuggling business (residents of border regions and private companies). Over the next period there occurred a specialization of various organized crime structures depending on the schemes they employed to earn profits from illegal export to the former Yugoslavia. It was towards the end of the 1990s that the actual scope was revealed of this criminal activity, covering the export of crude oil by tankers and trains, as well as petty smuggling by individual persons crossing the border by car. The documents disclosed in this period also shed light on the particular system of contraband franchising where all participants in transborder trafficking paid special fees to the organized crime representatives in charge of the area and the border checkpoints. The impact of the embargo against Yugoslavia on Bulgarian organized crime is comparable to that of the US Prohibition on American organized crime in 1920-1933.

Immediately following the emergence of the violent entrepreneur groups, **contraband had an important place in their activity** and over the years they managed to organize more or less lasting trafficking channels for drugs, as well as for legal goods. One of the reasons for the involvement of the violent entrepreneur groups in transborder operations was the shortage of goods. The Soviet model of planned

economy provided for full state monopoly on the consumer market – the type of imported goods as well as their quantity and price were determined by state planning authorities. As a result of this policy, in Bulgaria, as well as in the rest of Eastern Europe, there was a constant and general shortage of goods that intensified in the first year of the transition. With the elimination of state monopoly of the consumer goods market, there was a staggering surge in imports – ranging from cheap Turkish goods to expensive electronics and luxury cars. The newly formed organized crime structures immediately captured the new trend. Unlike Russian organized crime, which specialized in obtaining a cut from the sales and profits of importing companies, the Bulgarian violent entrepreneur groups actually got involved in the import business themselves. Several types of involvement in this process could be outlined.

The first type is primarily associated with the riskiest type of import – contraband. The use of violence and the involvement of former security-service officials (maintaining contacts with officials in customs, the tax authorities, and most notably the Mol), allowed the structures of organized crime to take over the illegal trafficking in excise goods – imported cigarettes and spirits. Particularly profitable in this respect were some of the most basic consumer goods that became scarce in the country at different times (petrol products, sugar, cooking oil). The other group of products of interest to the import companies controlled by violent entrepreneur groups included consumer electronics, used cars, car spare parts, and others.

The second type of involvement is associated with **payment for the various services** provided by organized crime to business, starting with the clearance of the goods and processing of import documentation at customs; through securing police protection, to collecting from non-payers and dealing with the competition by violent means.

The third type is related to the **small-scale importer market**. In the early days of the transition, the so called „suitcase trade” with Turkey (which began in the autumn of 1989) was completely free, chaotic, and uncontrolled. This type of import and trade took place with the help of „import organizers” and go-betweens (dubbed „guides”).¹² The scheme typically used the former state-owned facilities which in addition to warehouse storage served as retail and wholesale outlets.¹³ The violent entrepreneur groups managed to place under their control a great many of the participants in the Turkish trade chain. Thus, at the entry point the guides charged an additional security fee while the distribution network was divided among the most powerful security providers. The regular clashes between the latter repeatedly led to turmoil and conflicts over control of the warehouses and the guides. In the periods of wars between the various national and regional structures of the groups involved, there were frequent burnings and destruction of goods, and the participants were fined, kidnapped, physically abused and even killed for their affiliation with a given group.

¹² See *Transport, Contraband, and Organized Crime*, Center for the Study of Democracy, 2004, Sofia, p.50.

¹³ *Ibid.*, p.51.

The golden era of violent entrepreneur groups: capturing the insurance market

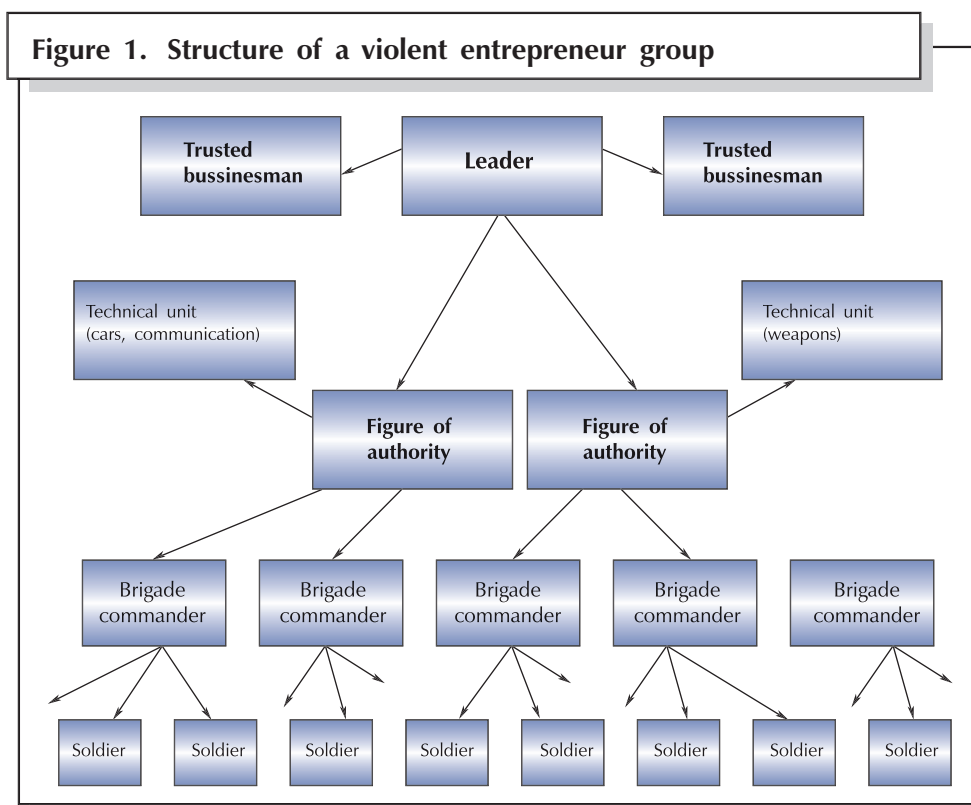
By mid-1993, the chaotic occupation of free territories allowing the sale of violent services, the participation in illegal trafficking of goods, and control over the black markets such as car theft, drug trafficking, prostitution, illegal gambling, etc, had already come to an end. In the process of redistribution and amalgamation of these markets, **one violent entrepreneur structure of nationwide coverage came out with monopoly positions – VIS-1.**¹⁴ Its principal activity was the provision of „violence-related services“. The model created and successfully developed by VIS-1 functioned through affiliation of local „security companies“ with the main organization in Sofia. The goal was for VIS-1 to be represented in all of the big towns of the country and the local companies started presenting themselves as its subsidiaries. Any newly joining structure preserved its territory (town, region, clients, etc) and could count on assistance against the competition, and respectively, was obliged to assist the members of VIS-1.¹⁵

At that time, the state made no attempt whatsoever to restrain the activity of the company. According to some analyses, the Mol even intervened and took sides in some of the most fiercely competitive markets such as Sofia. Thus, for instance, in the clashes with competitors such as „the Karate Fighters“ - the structure associated with Ivo Karamanski - and „the Sevens“ [the 777 security company], the Mol representatives often intervened in favor of VIS-1. By mid-2004, VIS-1 employed about 2,000 people assigned to „brigades“ of varying size. The analysis of the structure of VIS-1 and of other similar groups suggests that in many respects they borrowed from and copied their counterparts in the countries of the former Soviet Union. The larger structures as a rule had at least a three-tier hierarchy and many of the designations literally reproduced the Russian ones (see *Figure 1*).¹⁶

¹⁴ The name derives from the Bulgarian abbreviation for Loyalty, Investments, Security.

¹⁵ For instance, if a problem should arise for a representative of VIS-1 in a given town (region) he may request and would receive assistance from the headquarters and from structures of the organization in neighboring towns. Within one year the organization had grown immensely and the firms under its umbrella managed to assimilate, drive out, or destroy the local competition. This applied in equal measure to ordinary security companies and to rival criminal groups operating in their area. VIS-1 thus managed to achieve nationwide coverage. Nevertheless, they failed to establish a monopoly on the „security business“ in the bigger towns. In the largest ones such as Sofia, Plovdiv, Varna, and Bourgas, and some smaller towns, various local racketeering structures such as TIM, 777, and others preserved their influence and even held the largest share of the market. It should be noted that legally VIS-1 was a registered as a legitimate company offering security services.

¹⁶ The reasons for this similarity are uncertain. The most popular explanation accounts for it with the clash between the Bulgarian violent entrepreneur structures and their counterparts from the former Soviet Union (mainly Russian, Ukrainian, and Caucasian) upon their attempt to establish themselves in Bulgaria. Another hypothesis is related mainly to the involvement of Bulgarian violent entrepreneur structures in the activity of trade companies exporting and importing to and from the countries of the former Soviet Union and Russia in particular. It is well-known that after 1991-92, the Russian criminal structures became the guarantors of trade deals with Bulgarian counterparts. At the time, in order to conduct a deal with a Russian cigarette importer, for instance, the exporter had to approach a similar violent entrepreneur structure in Bulgaria to guarantee the payment.



Source: Vadim Volkov, *Violent Entrepreneurs: The Use of Force in the Making of Russian Capitalism*, 2002

By the mid-1990s, however, the widespread practice of racketeering and the many incidents involving the use of physical violence had created **extremely negative public attitudes against the racketeers**. The political change that took place at the time¹⁷ led to undertaking a series of government measures to put a check on the activities of private security providers. In the summer of 1994 the Mol had its the first tentative plans to rein in private security activity, in some cases even proposing to ban it altogether. The requirement was introduced for licensing of security companies by Mol and they were banned from having nationwide coverage.¹⁸ As a result, many of the racketeers lost their authorizations and had to leave the market.

In order to get around the new restrictions, in 1995 VIS-1 re-registered under a new name and area of activity. The new **VIS-2** identified **insurance** as its principal activity. In practice, however, clients were offered a whole package, as it were: should the clients decline the proposed insurance plan, they not only lost their protection but were subjected to physical coercion until they capitulated. Officially, however, the contract proposed by VIS-2 concerned insurance of the site rather than security provision. This insurance racket in fact followed logic contrary to that of the normal insurance business: instead of the client paying

¹⁷ In the summer of 1994, after the withdrawal of BSP support for Lyuben Berov's government, snap parliamentary elections were held and a new government was formed as a result.

¹⁸ See Ordinance No 14/25.03.1994 on the Issuing of Permits for Provision of Security of Sites and Individuals by Legal Entities and Natural Persons (Issued by the Minister of Internal Affairs, prom. SG No 28/01.04.1994, amend. No 99/02.12.1994, No 18/28.02.1997, abolished No 19/02.03.1999.)

for compensation in the event of an insurance incident, in this case they were paying protection racket to prevent damages by the racketeer.

Car insurance became the main sector of insurance-related activity of VIS-2. In the mid-1990s, about 70-100,000 automobiles were brought into this country, mainly from Western Europe, each year (90% of which were second hand). Owing to the huge demand in Eastern Europe and the Near East there grew an enormous market for stolen cars. As a result, in Bulgaria car theft reached several hundred vehicles a month. In terms of the scale of the country, this meant one in three-four households or companies with a newly purchased car was likely to have it stolen. Traditional insurers were unable to cope with this surge in car theft, delayed or were incapable of paying claims.

It was this very market that became the target of insurance racketeers. In the new situation, the vehicles insured with VIS-2 received protection against theft by the organization's own structures, but also the guarantee that independent criminal perpetrators would be pursued if they should steal a car insured by VIS-2. Thus, a new service was added to the provision for commercial sites (shops, restaurants, warehouses, etc) – recovering stolen property and even paying compensation in the event of a criminal incident. In the course of time, clients realized that the services of this new type of insurer and the acquisition of the VIS-2 sticker minimized the risk of theft or damage to their vehicles. The rapid development of VIS-2, however, gave rise to **internal organizational problems**. Its local competitors began to join up against the company's national headquarters. Similarly to legitimate corporations, any attempt to reinforce centralized management created tension inside the organization. As a result, the first two leaders who refused to acknowledge the authority of Vassil Iliev left the VIS-2 system. They formed the core of the **new violent entrepreneur structure, SIK** [Sofia Insurance Company]. Unlike VIS, the new company did not have a single dominating leader. Throughout its existence, the company and, subsequently, its various spin-offs were managed by eight publicly known figures. The newly established organization was soon joined by local rival to VIS across the country, as well as by discontented former VIS members. Similarly to VIS-2, the newly-established SIK went into the violent insurance business.

Thus, in 1995, there emerged the basic structures of organized crime in this country. Over the next period, all criminal and semi-criminal economic groups identified with either one of the two leading structures. Although there soon emerged other violent insurance companies, such as Apollo Balkan, Korona Ins, Levski Spartak, Zora Ins, and others, which successfully imitated the scheme of the dominating insurers and managed to gain some market share, to this day the division among criminal and economic groups is still consistent with their initial allegiance to either VIS-2 or SIK.

The **insurance period (1994-1997)** can be defined as **the golden age of Bulgarian organized crime**. Although the embargo against Yugoslavia was lifted in 1995 and the revenues from illegal trafficking to and from the countries of former Yugoslavia declined, this was the period when the violent entrepreneur groups secured a sphere of influence including over the government, legislature, and the judiciary. Indicative of the scope of this phenomenon is the fact that the SIK and

VIS-2 insurance stickers at one point became mandatory attributes of any decent-looking car, shop, office, restaurant, etc. The cars or commercial outlets that did not display such stickers were likely to become the object of a crime within 24 hours. At that time, the violent insurers claimed they, rather than the police, were the ones helping to eliminate crime.¹⁹

Restructuring of violent entrepreneur groups

After the change of government in 1997, it was evident that the large structures of organized crime would have to seek new areas of activity. **The process of driving violent entrepreneur groups out of the insurance market** first started with the introduction of licensing the following year²⁰ when all insurance companies had to be licensed by the National Insurance Council and the Insurance Supervision Directorate was authorized to supervise the activity of insurers. After the first round of licensing in 1998, there remained 27 out of the roughly 100 insurance companies operating in the market up to then. Licenses were denied to Union Ins (the then name of SIK), Planeta Ins (allegedly the successor of VIS-2), Zora Ins, Korona Ins, the companies associated with Multigroup – Sofia Ins and Sofia-Life, as well as Apollo&Balkan and others created by former security officials.

In the late 1990s, the decisive factor for the restructuring of organized crime was the **readiness of the government to arrive at a compromise with both the oligarchic and the violent entrepreneur groups**. An agreement was reached with the leaders of the various groups – the government would legalize their grey business on the condition that they gave up their criminal activity. In fact, similarly to the oligarchic structures,²¹ violent entrepreneur groups were given the opportunity to largely continue their activities undisturbed by the tax and police authorities or the prosecution. This process of distancing of the violent entrepreneur groups from outright criminal activities found metaphoric expression in Ilia Pavlov's²² call for "the lizard to shed its tail".

With the beginning of political stabilization (February 1997) and the adoption of the currency board (in the summer of 1997) there began a process of **gradual legalization of the domestic retail market and foreign trade alike**. There was a gradual shift from the „lifted-barrier“ type of contraband of goods (i.e. without any customs clearance of the goods) towards more refined forms of customs violations, such as taxing the imports based on a lower value, declaring smaller quantities or declaring them under a different product category. With some consumer goods, import became almost completely legal – e.g. spirits and washing powder. With others, e.g. foods and apparel, notwithstanding the practice of under-invoicing, outright contraband almost disappeared. The transition from

¹⁹ At the time, violent insurance companies were making much of their stand against crime, including by PR in the media about how they exposed under-aged thieves and pursued drug-dealers.

²⁰ The Law on Insurance was adopted in 1996 and introduced state supervision through the Insurance Supervisory Directorate with the Ministry of Finance. In fact, the Directorate did not start operating until the end of 1997.

²¹ Mostly those associated with the so called credit millionaires, bankrupt banks, and liquidated state-owned enterprises.

²² Ilia Pavlov was the founder and president of Multigroup, declared the richest Bulgarian in a ranking of the Polish Vpost magazine in 2002; murdered in 2003.

black-and-criminal to grey activities was related to the import and trade largely in spirits and fuels.²³

Along with that, however, particular groups continued to be active players in the black markets. **The trafficking and distribution of drugs remained a major criminal market in the period under consideration.** A new niche of criminal activity was the forgery of money and documents, where Bulgarian organized crime managed to gain a competitive edge over the other Balkan mafias. Probably the largest black market in that period was the **export of prostitution.** In many respects this was a matter of expanding into Western Europe the existing domestic market controlled by violent entrepreneurs and bringing in larger profits to the procurer networks than drug trafficking.

The incentives to get into the black and grey markets were easily understandable. In view of the grey market in the late 1990s amounting to 30-35% of GDP, it was hard even for legitimate businesses to remain entirely within the bounds of the law without losing their competitive edge. This was only feasible for the big multinational companies. With Bulgarian companies, any attempt to reduce grey business activities below a certain proportion led to loss in competitiveness since profits in the legal business were 30-50% lower than in grey markets and several hundred percent lower than in black markets.

Structurally, the elimination of the main sources of income of the violent entrepreneur groups (insurance and contraband) led to the dismantling of the old structures. At the same time, on the local level in particular, fragmenting their structures and creating networks, the groups managed to preserve the provision of security of the warehouses and the routes. The respective local authoritative figures from the former violent entrepreneur groups managed to retain control over the key contraband zones along the Turkish and Greek borders, as well as

²³ In 1991-96, imported cigarettes, which accounted for close to 50% of the domestic market, were almost entirely of contraband origin. A similar situation was in place regarding imported spirits (Scotch whisky and popular vodka brands). Due to the economic crisis of 1996-97, the national cigarette monopolist Bulgartabak managed to recover about 80% of the market since imported cigarettes were too expensive to Bulgarian consumers. After the political stabilization and with the improved customs control, the basic channels of import of cigarettes remained the duty-free shops at the borders while outright contraband declined drastically. According to estimates by the Center for the Study of Democracy, in 1998-2001, the volumes of this semi-legal, i.e. grey, import amounted to about \$45 million a year. The scheme consisted in reselling about 70-80% of the cigarette turnover of the duty-free outlets in the domestic retail sector. Such trends were observable with regard to alcohol imports as well. In 1998-99, all major multinational companies chose to sell legally in Bulgaria, renouncing their former partners who used to import largely illegally. Customs statistics from the period are quite revealing. Whereas in 1998, imported spirits amounted to 4.1 million leva, in 2000 the figure was 20 million. The problem was that by the year 2000 the same contraband dealers started buying from duty-free outlets across the world the alcohol brands popular in Bulgaria and sold them at prices undercutting those offered by the multinational companies. Although they did pay excise duties and taxes, their prices were still lower since they had no expenditures for advertising, offices, distribution, etc. The so-called „parallel import“ is defined as grey by brand owners since it causes losses to the official distributors as well as to the budget. In this particular case, the former contraband dealers who took up this type of import managed to take advantage of an existing legal loophole. The situation is similar with respect to alcohol from the duty-free shops. It became common practice for restaurants, nightclubs and other establishments in the big cities to buy their spirits from the duty-free outlets, thus saving on the unpaid excise duties and VAT.

over some of the big cities, although the old hierarchy and subordination were gone. The fragmented structures gradually started entering into new relationships – former competitors took part in common channels securing various components of the system, while old partners turned into rivals and even enemies because of the redistribution of former clients.

At that time there began to emerge a **new type of organization of organized crime – network structures** whose members provided a variety of services: bank credits, transport and shipping services, customs, fiscal, and police protection. Various forms of influence were used – from reactivation of yearlong stable relationships among companies to ad hoc criminal projects where the criminal group fell apart immediately after the execution of the operation. Unlike the old structures of VIS and SIK, whose more prominent members were familiar not only to the special services and the police but also to the general public, with the new network organization, public exposure only occurred in the event of accidents.

The period after 1998 was **successful for the new, smaller and more flexible structures of organized crime** despite the end of many of the most profitable activities related to the provision of violence and the contraband in goods. These losses were made up by the broad opportunities for investment of illegal capital in the privatization of state-owned enterprises and sites that boomed in that period. The assets of the banks and the mass privatization funds also provided extremely favorable opportunities for dirty money laundering. Various trade companies and production enterprises became the priority. Within a period of 2-3 years, investments were made in markets associated with a relatively simple technological cycle and maintenance of the price of the assets. The reorientation towards legal businesses in many respects copied the investment policy of the Italian-American organized crime, largely focused on fast-moving and high-profit sectors (tourism, food establishments, the entertainment industry, fashion stores, auto garages, wholesale warehouses, transport, etc.).

1.2. OLIGARCHIC STRUCTURES

Emergence and structuring of the oligarchic corporations

Along with the development of violent entrepreneur groups, already at the outset of the transition there emerged an **essentially different kind of economic structures that obtained access to resources not by means of violence but through their access to the political elites.**²⁴ With the assistance of politicians

²⁴ There has been significant research and analysis of the oligarchic structures in Eastern Europe: Ganev, V. *Preying on the State: The Transformation of Bulgaria after 1989*. Lengyel, G. (ed.). *Cohesion and division of economic elites in central and eastern Europe: contains chapters on the economic elite in most East European countries*; Barnes, A. "Comparative theft: context and choice in the Hungarian, Czech, and Russian transformations, 1989–2000", *East European Politics & Societies*, Summer 2003, v 17 i3, p. 533 (565); Miklos, I. *Economic Transition and the Emergence of Clientelist Structures in Slovakia*; Schwartz, A. *The politics of greed: how privatization structured politics in Central and Eastern Europe*; Gould, J. *Beyond Creating Owners: Privatization and Democratization in the Slovak and Czech Republics, 1990–1998*; Darden. "Blackmail as a Tool of State Domination: Ukraine under Kuchma." – *East European Constitutional Review*, Vol. 10, Nos. 2/3 (Spring/Summer 2001), pp. 67–71. Albats, Y. *Bureaucrats and the Russian transition: the politics of accommodation, 1991–2003, etc.*, 2004.

from various formations, several dozen economic groups managed to establish themselves and to benefit from the process of property redistribution. In many respects, their leaders resemble the Russian oligarchs. There is a „genetic“ difference between them and the violent entrepreneurs. The latter emerged progressed **from the bottom up**: they resorted to violence to take over the respective assets and to obtain financial resources from small and medium business owners; then they established partnerships with the local government structures and mid-level representatives of law-enforcement; ultimately, they entered into corruption-based relationships with the politicians on the national level. With the oligarchs, development took place **from the top down**: they gained control of the country's government by „enrolling“ key politicians and by capturing the leaderships of political parties. This type of symbiosis subsequently allowed them to replace unaccommodating managers of enterprises; to obtain unlimited bank financing; to import or export goods without customs control; to avoid tax inspections, etc.

The leaders of these proto-oligarchic organizations were largely **ex-officers from State Security and former officials with the country's foreign-trade missions (a great many of whom connected to State Security)**. They typically established information departments which is indicative of their more serious business ambitions. Their arsenal equally comprised the more active use of offshore companies as part of their structurally supranational corporations. This niche of relatively legitimate business also presupposed subcontracting violent operations. A case in point was the use of the violent entrepreneur group VIS-1 as subcontractor to the oligarchic structure Multigroup.²⁵

Along with the control over political levers, of no less importance for the oligarchic model is to secure **influence in public administration**. A fundamental characteristic of this approach was to employ competent senior public officials in the oligarchs' private companies— from heads of ministry departments to managers of state-owned enterprises many of whom found themselves unemployed due to the constant political upheavals in the 1990s. The process is bilateral with the oligarchs often turning into a kind of placement officers for the high-ranking administration. Gaining control over key positions in state institutions and enterprises is of strategic importance. Unlike politicians, who typically have a limited time-span of influence, it is not uncommon for public officials or managers to stay in their job for years. As a consequence, there emerges a unique symbiotic model in which it is essentially impossible to tell where private property begins and public property ends.

Since, in the early 1990s, state-owned property in industry and finances still made up close to 90% and privatization proceeded, for various reasons, at an extremely slow pace, the aspiring oligarchs employed special techniques to **siphon off public assets and resources**. Unlike the other countries of Eastern Europe where their counterparts concentrated on acquiring property (establishing mass privatization funds, buying up vouchers, participation in management privatization schemes, etc), in Bulgaria up to 1996, the chief opportunity concerned the

²⁵ The various oligarchic structures went through different stages in their development and mutual relations. For instance, by 1994, relations between VIS and Multigroup had deteriorated into an open conflict, leading Ilia Pavlov to create his own internal security structures.

exploitation of state-owned assets. Particularly popular was the practice of establishing control over the „entry and exit points” of big state-owned enterprises. For the purpose, all deliveries to the enterprises (raw materials, supplies, spare parts, equipment, etc) were monopolized while the output was marketed (sales, export) through private companies. Thus, without taking on any payroll, tax, and other expenses, the large private groups privatized the profit-making activities of state-owned enterprises. As a result, vast industrial structures, such as metallurgical plants, chemical plants, machine-engineering holdings, military plants, etc, ended up operating at a loss; there would ensue protest actions and the state covered their losses and granted the credits needed (mainly for payroll purposes) through the state-owned banks, which only put off the consecutive crisis.

Another popular scheme among aspiring oligarchs in the 1990s involved **siphoning off state-owned bank funds** and even financing through the Bulgarian National Bank (BNB). Their financial structures (banks and financial houses) obtained credits from state-owned banks on which they paid extremely low interest rates, delayed paying them off, or simply did not pay them back by bankrupting the companies that had taken out the credits. As a result, the largest state-owned banks turned into hollow structures which was the underlying cause of the crisis of 1996-97. A similar situation was in place with regard to private banks. With few exceptions, they were not functioning as financial institutions but instead became organizations that accumulated property at the expense of increasing outstanding liabilities. The bank crisis led to the closure of nearly 90% of the private banks and the losses (direct and indirect) in national wealth as a result of this crisis are estimated at approximately \$10 billion.

In addition to the various forms of national wealth redistribution and destruction through the transformation of state-owned into private property, these operators also established themselves in **contraband schemes of export and import of goods**. The markets where the violent entrepreneur groups were involved were equally used by the oligarchic structures though they developed far more complex and wide-ranging systems. However, unlike the violent entrepreneurs, they were reluctant to use mass violence and preferred to operate by corrupting public officials and with state institutions as their basic tool. The outcomes of such partnership are evident from an analysis of the contraband export of oil products to Serbia. Whereas violent entrepreneurs would content themselves with trafficking a few auto-cisterns through companies of theirs or with small business protection racket, the oligarchic corporations exported whole tankers and trainloads. The oligarchs were the only ones in position to run and sustain operations on a national scale – from the import of tankers of crude oil, through its processing at Bulgarian oil refineries and transportation across the country by state railways to its controlled export to former Yugoslavia during the embargo. The same scheme was employed with the contraband import of other quick-selling consumer goods such as spirits, cigarettes, and sugar.

In the late 1990s, the most typical form of involvement of oligarchs in the redistribution of national wealth was by participation in the privatization of state-owned property. This was most commonly done through the so-called **manager-and-worker buyouts**, as well as by using the bankruptcy trustees to take over the bankrupt enterprises and financial institutions. Other common forms were

participation in privatization funds in mass privatization, and participation in cash privatization through offshore companies. All of these gave the oligarchs and their counterparts in the field of violent insurance the opportunity to launder the dirty money accumulated from criminal activities in the 1990s. stealth

It is worth noting that with oligarchic structures in Bulgaria it is possible to distinguish between **two types of communication strategies**. The first one is **secrecy** – the ownership of companies and assets is covered up by a variety of techniques through Bulgarian and foreign legal entities and natural persons. This involves the use of offshore registrations, companies, and funds with anonymous owners, and even paying royalty and franchise fees to big multinational corporations. New companies and holdings were created, assets were purchased, and privatization transactions were carried out through trustees hired by close intermediaries.

The second strategy was the **aggressive PR**. In this case various techniques of self-promotion and lobbying were used – from media campaigns to outright buying of politicians and parties. The adherents of this type of strategy create or buy means of mass communication (and individual representatives), thus buying freedom from media. This is in fact the well-known Russian scheme of turning media power into political one and in turn transforming it into economic power. In order to follow the Russian model, the Bulgarian oligarchs needed to reach a certain scale of their business activities. Although this group of entrepreneurs received initial financial impetus from political sponsors, their resources remained significantly more modest than those of their Russian counterparts. In order to achieve greater public influence, the Bulgarian oligarchs were inclined to set up associations to provide them with additional legitimacy. It was the members of this group that tended to be perceived by the public and the political elite as the legitimate representatives of national capital.

The **Citizens' Business Enterprise Union** was the first attempt at such an association. It was followed by the **Patronat Club** that paved the way for the **best known organization – G-13**. Founded in 1993, the latter brought together disparate members, including the largest economic groups at the time (Multigroup, Tourist Bank, Nove Holding, Tron, Agrobiznesbank, Kapitalbank, Orel, Bulvarenterprises, Lex-Georgi Avramov, Slavyani Bank, Citizens' Business Enterprise Union, 168 Chassa Press Group, the state-owned arms company Teraton²⁶). Safeguarding

²⁶ Because of the varying fate of the G-13 members referred to later in the text, some background information will be provided already at this point:

Up to 2003, *Multigroup* was considered the largest Bulgarian economic group with vast assets ranging from tourism to machine-engineering and the energy sector. After the death of its president, Ilia Pavlov, on March 7 2003 (see below), the group restructured and sold much of its assets.

The *Tron* group managed to turn into a major rival to Multigroup through triangular debt operations between Bulgaria, Russia, and Poland. It created the *Standart* daily newspaper and obtained the first GSM license without tender allowing it to subsequently establish the first GSM operator, Mobiltel. The owner of Tron, Krassimir Stoychev, later sold the GSM operator to Russian billionaire Michael Chorny.

The Plovdiv-based group *Agrobiznesbank* owned various trade companies, financial houses, the *Maritsa* newspaper, KOM radio broadcast network, Trakia cable television, and others. The Bank was closed down by BNB in 1996 and later declared insolvent. A number of charges of financial crimes were brought against the Chairman, Hristo Alexandrov, who was convicted in November 2005 of dereliction of duty.

Bulgarian national wealth against the „invasion” of foreign capital was laid down as the principal task of this structure. The „patriotism” of G-13, however, did not exclude the provision of intermediary services to these foreign corporations.

The conflicts among the members of G-13 were so deep-seated that the Club can hardly be said to have functioned at all and was dissolved in about two years. It should be noted that a number of large business groups of national influence, which preferred to avoid unnecessary media attention though without resorting to conspiratorial techniques, had remained outside G-13. So had several smaller structures of regional scope.

1.3. EXTREME-RISK ENTREPRENEURS

The analysis of Bulgarian organized crime would identify another relatively well differentiated **intermediate group of criminal entrepreneurs** who meet all of the criteria of organized crime. It can provisionally be called the group of „black entrepreneurs” and be situated between violent entrepreneurs and the „oligarchs”. To black or extreme-risk entrepreneurs the primary source of income was the grey and the black-and-criminal market. The difference between them and violent entrepreneurs and oligarchs was that the latter initially began their activity by non-market means – by sale of violence and protection and corruption-based partnerships with the political elites.

In terms of their occupational background, extreme-risk entrepreneurs were people who under socialism had had well-earning service sector jobs as bartend-

Kapitalbank, with president Angel Purvanov, financed the Tron group and went into insolvency on account of that. The license of the Bank was withdrawn in 1997.

Orel Insurance Company is still among the top ten insurance companies in this country. The company's president, Dobromir Gushterov, is currently an MP from BSP.

Tourist Bank was the second largest private bank in that period and was represented by Emil Kyulev (killed on October 26, 2005). The Bank was closed down in 1996. Emil Kyulev had left earlier to found Roseximbank, which largely worked with Russia. Emil Kyulev subsequently took part in the privatization of the State Insurance Institute (DZI) and created DZI Group (the largest insurance company and one of the ten largest Bulgarian banks).

168 Chassa Press Group owned the then largest daily, *24 Chassa*, and largest weekly, *168 Chassa*. In G-13 the Group was represented by Petyo Bluskov. During the crisis of 1996-97 the press group was bought by the German media company WAZ. Petyo Bluskov later created another daily – *Monitor*.

Nove Holding, chaired by Vassil Bozhkov, was one of the most inconspicuous economic entities at the time when G-13 was established. Nowadays most analysts consider it the most successful economic structure, comprising more than 350 companies operating in various markets in this country.

Teraton is a state-owned company specializing in the arms trade and its Chairman, Mladen Mutafchiyski, is a public official. Since the change of the management, Mladen Mutafchiyski has been involved in various private structures investing in sectors ranging from tourism to home electronics.

Bulvarenterprises, headed by Borislav Dionisiev, specializes in trade and is popularly known as the official dealer of Opel. It has not been as successful as Multigroup, Nove, or DZI. Borislav Dionisiev has managed to expand his personal wealth through companies such as Bulvaria Holding and Elektromachinari Holding. He became well-known in connection with the privatization of Elektroimpex.

Lex, with Georgi Avramov as its President, proved one of the financial pyramids that crashed in 1995, leaving the stage permanently.

ers, waiters, and taxi drivers (some of them had worked for the secret police at the same time) and who even before 1990 had been active in the Bulgarian grey markets, supplying scarce goods to the local elites. A number of foreign nationals from the Middle East (some of whom also connected to the former secret services) can also be referred to this group. It is only possible to estimate the number of these black entrepreneurs based on the various lists that MoI attempted to draw up after 1995, as well as the list published by BNB in 1997 with the names of 5,000 credit millionaires.

This type of organized crime followed the entrepreneurship model of classic supply and demand. They largely focused on addressing the most severe shortages and market deformations which in the beginning of the transition reflected the inherited deficiencies of the socialist economy. **The black entrepreneurs created and controlled black and grey channels of import, export, and distribution.** Unlike the majority of private entrepreneurs in the first stage of the transition, they not only evaded paying some of the due customs duties, taxes, and fees, but actually preferred entirely criminal transactions. Black entrepreneurs largely specialized in the trade in scarce staple goods such as sugar, cooking oil, meat, milk, auto spare parts, textile, footwear, consumer electronics. They were also the first to engage in cash corruption of public officials (customs officers, police officers, tax and other officials). The extreme-risk entrepreneurs set up companies, student cooperatives and foundations as sham structures in order to evade financial control. A common practice was to take out unsecured loans in the full realization that they would not repay them. Their victims included both state entities and private business partners.

Unlike the oligarchs and the violent entrepreneurs, their criminal organizations were far smaller and operated in networks already at the outset of the transition. At the same time, black entrepreneurs sought the support of the violent entrepreneurs and the oligarchs. They often joined the oligarchic holdings, worked for, and did favors to them. At certain times they even identified themselves as part of the big violent entrepreneur or oligarchic structures. Towards the end of the 1990s they increasingly operated independently.

In the first few years following the democratic transition, the black entrepreneurs were usually the first to identify the most profitable markets – regardless of whether import of contraband cigarettes, fictitious or real export of Bulgarian cigarettes, smuggling of premium spirits or production and sale of cheap alcohol. Once they had developed the market, they often lost their market share or were pushed into partnerships dominated by the more powerful violent entrepreneur or oligarchic structures, or at the very least had to pay a cut to them. The same happened with the contraband across the Yugoslav border although far larger revenues were at stake in this case.

In addition to their pioneering role in developing the domestic grey and black markets, the extreme-risk entrepreneurs were also the first business structures to start dealing with **the big Western companies**. They tried to make some room for themselves in the legal business, paying for rights to represent international brands and franchises in the awareness that this would initially be a loss-making business yet a worthwhile investment for the future when the domestic market would grow big enough and legal enough.

1.4. THE NEW SYMBIOSIS: ORGANIZED CRIME ON THE DOORSTEP OF EUROPE

With the completion of the basic processes of initial capital accumulation and national wealth redistribution, at the dawn of the current decade there began to emerge the present-day configuration of organized crime in this country. It is characterized by a **symbiotic structure** comprising all three types of organized crime from the early days of the transition – **violent entrepreneurs, the oligarchs, and black entrepreneurs**. As a result, a new type of universal structure of organized crime gradually began to be established, which is active not only in the black and grey markets, but also in legitimate business.

Figure 2 constitutes an attempt to visualize the share of criminal capital in the retail networks and their positioning in the various markets – white, grey, and black.²⁷

Combining legal and illegal business activities requires a successful **strategy of survival and expansion**. It essentially boils down to the mechanism of transferring „dirty operations” over to subordinate structures and subcontractors dependent on the bosses. At the same time, the leaders of the criminal groups own perfectly legal companies and avoid an involvement in practices associated with even minimal risk. The bulk of the revenues of a given criminal group are secured by companies whose operations include grey business activities. These white-and-grey companies are the largest and most typical ones of the oligarchic holdings and the former violent entrepreneur groups.

Another important characteristic of the activity of the companies of criminal groups is their tendency to mushroom in number – i.e. they grow in number but not in terms of staff, capital, assets, or sales. It is common practice for the

²⁷ A cut across this three-layer model of markets, regions and structures of organized crime reveals several more notable characteristics. Above all, it is the size of each market. Secondly, it is possible to determine the structure of the particular market by the correlation of the layers – legal, grey, and black. For instance, in the largest market in this country – that of real estate – the important question is what proportion of the turnover is legal, i.e. all due taxes and fees have been paid, registrations have been done in full compliance with the law, etc; also, what part of the volumes are in the grey zone, i.e. the actual price of the property was not reported and consequently, the due taxes and fees have not been paid in full; some of the required authorizations (concerning construction, zoning, etc) may not have been properly issued; finally, in the black market, there are outright criminal fraud schemes, including document forgery, appropriation of property by violence, etc. A vertical analysis can also be made regarding oil products where, unlike the 1990s, there is hardly any black segment at all. In the third largest market – of new and used cars – the grey market has shrunk significantly since the lifting of the various restrictions in the process of the country's accession to the EU, while the black market is in the process of serious restructuring. A similar structure is discernible in each market, bearing in mind that in some cases (e.g. illegal drugs) there are no legal or grey markets and in the market for sexual services there is no legal segment in this country but there are many opportunities in the countries of the European Union. In Bulgaria, there have already emerged fully legal consumer markets such as those of beer, washing powder, banking services, etc. There may be organized crime structures in any one of the three layers – legal, grey, and black. The markets can also be analyzed horizontally, exploring their size and structure in the respective regions. Sometimes two or three regional structures are in position to control the economy of an average-sized town and the surrounding municipalities.

Figure 2a. Share of criminal capital in various markets

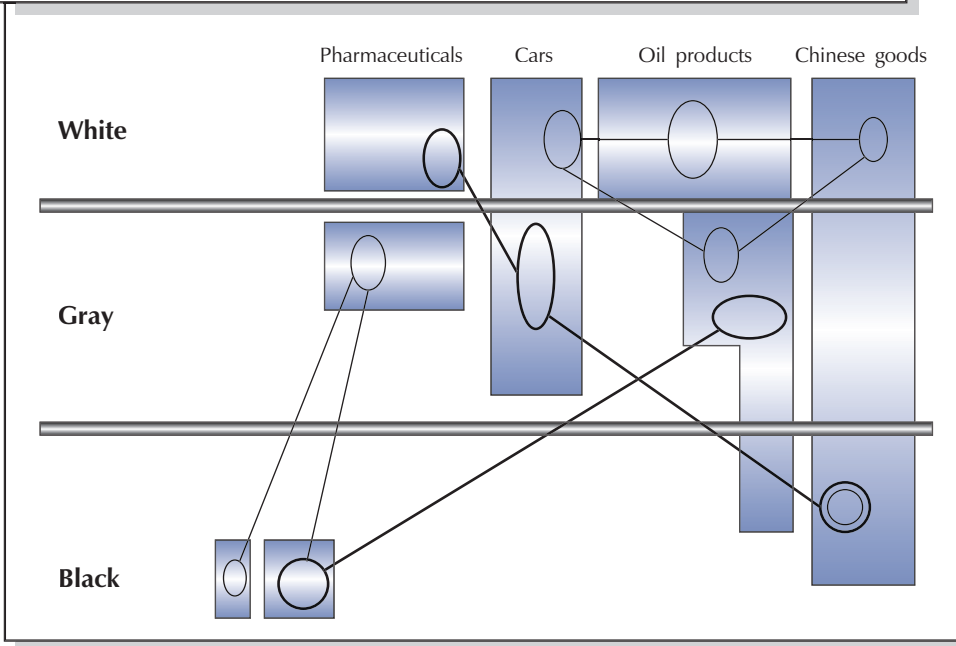
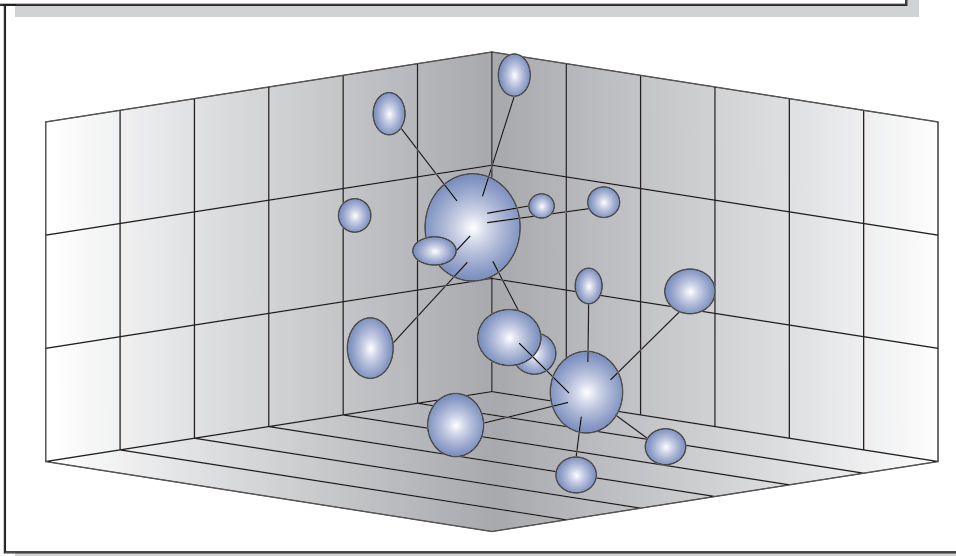


Figure 2b. Share of criminal capital in various markets



bosses of large legal companies to make their long-time employees register firms in their names. If any problems should arise with state institutions, these volatile companies terminate their activity and the responsibility for their activity is obscured. In illustration, one of the largest grey networks in this country comprises more than 350 legal companies operating in all kinds of areas – from the import of cars to a nationwide sports betting network.

Cooperation with the violent players is resorted to when necessary, with the latter selling their services in order to close the chain and not allow access to any outsiders.

The riskiest activities related to the black markets, such as siphoning off VAT, concealing gambling turnover, crimes involving objects of cultural value, contraband of cigarettes, etc., pass through 5-6 companies, at the least. As a rule, these structures are very small, with a core of 2-3 people. Their existence only continues until the execution of the respective criminal operation; they resemble legitimate **projects whose teams fall apart once their work is done**. Such tactics make it easier to cover up the traces of criminal business. For instance, upon apprehension of mid-level participants in the drug market, trade is relayed to the remaining unaffected units so that within no more than 24 hours any disruptions in supply are overcome. Another example is the restoration of contraband channels mere days after their exposure by the law-enforcement authorities.

The legal/illegal differentiation takes place even inside the groups themselves along the lines of young/old. In recent years, there has been a tendency for the **older and more powerful members of organized crime to take up fully legal businesses²⁸ while the young and unknown members take the control of the grey and black structures**. As an additional safeguard, the leaders of the respective structure buy assets abroad (in a Western European, Asian, or American country). This allows the respective boss to demonstrate he is a recognized businessman in an advanced country, as well as to spend extended period of time in that country in the event of a threat to him personally or to his business in Bulgaria (whether coming from rivals or from law-enforcement).

The three types of markets (white/grey/black) the networks use the **strategy of market mobility** to adjust to the changing environment. Thus, for instance, in the event of a government crack-down on a particular group, its activity in the black market is greatly reduced or suspended altogether for a time (a case in point was the temporary suspension of the sale of spirits without excise bands). Respectively, once the inquiries and inspections by the authorities are over, the old schemes resume.

The ultimate goal of a criminal group having at its disposal advanced networks of companies and individuals is the **establishment of a monopoly or cartel over certain markets**. This is done by using clientelist contacts with the political elites, employing corruption techniques to secure public procurement contracts, profiting from non-market competitive advantages (evading taxes, excise and customs duties, social security contributions), and others. The various structures tend to act differently depending on their level. Sometimes, 2-3 extended families may control a town or region. On the city level, one or even all of them may be engaged in grey and black operations. This model is reproduced on the national level, with a few dozen large structures/networks covering the whole country.

This **universal symbiotic structure** constitutes an **independent network of individuals owning dozens of legal companies** that tend to mushroom in number or are closed down upon exhaustion of the corruption resources in a particular

²⁸ In 2003, the top 50 best-known persons associated with organized crime (according to the media) for the first time paid record-high taxes for Bulgaria.

sector. The successful balancing between the three types of markets is measured by the actual immunity of the „smartly dressed businessmen” with regard to the law, the lasting corrupt partnerships with the political class, and the creation of business branches abroad that confer additional legitimacy on their owners. Achieving this task is a process that may metaphorically be referred to as „investing in risk”.²⁹

One of the more notable questions is **how Bulgarian organized crime is adapting to the opening up of the Schengen space and Bulgaria’s subsequent accession to the EU**. Initially the access to West-European countries created exceptional expansion opportunities for the Bulgarian criminal networks. In some cases, more than half of the staff of violent entrepreneur structures moved to Western Europe and more specifically, to the South-European EU member states. This accounted for the active involvement of Bulgarian criminal groups in the European grey and black markets and above all, the market for sexual services, car theft, and drug distribution, particularly in 2001-2003.

On the whole, however, Western Europe’s apprehensions about an invasion of Bulgarian organized crime proved exaggerated and there is presently a noticeable trend towards stabilization of such transborder export of crime. On the other hand, Bulgaria’s EU accession led to the **gradual curbing of the most drastic forms of organized criminal activity in the country itself**. This is largely due to the increasing pressure on Bulgarian institutions from Brussels which in turn has resulted in the taking of more resolute action against organized crime in this country. In the course of time, progress has also been made as regards the interaction between law-enforcement authorities within the EU which increasingly crack down on Bulgarian criminal groups, as well.

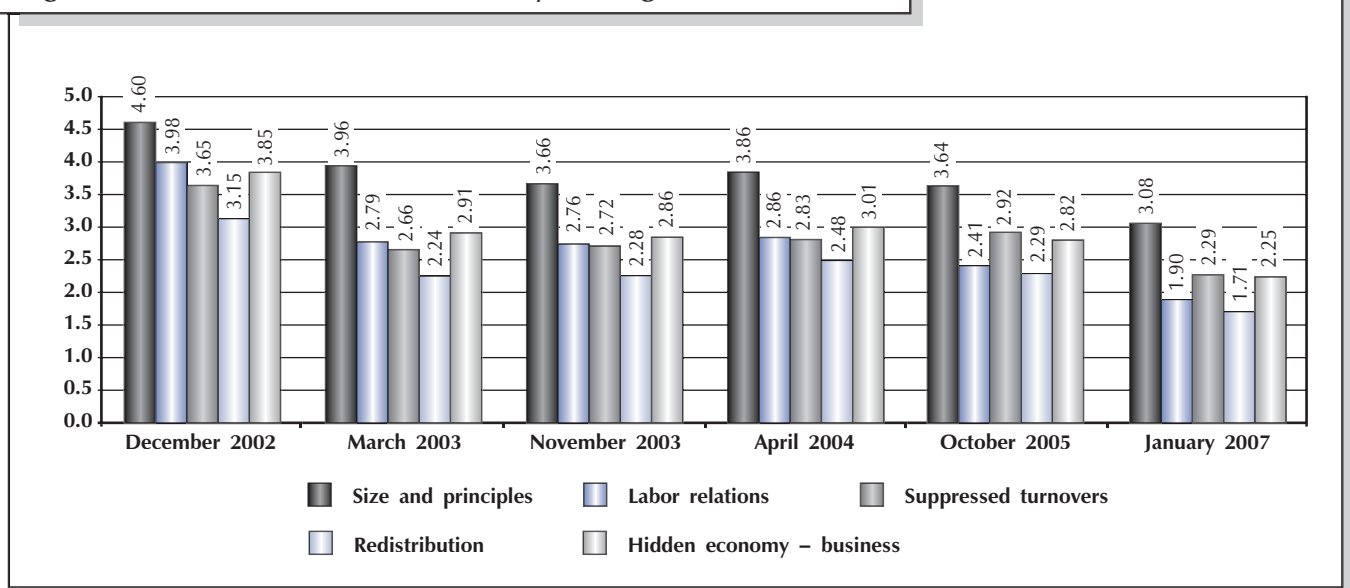
Box 2. The duty-free shops as a case apart

The duty-free shops constitute an important, moreover formally legal, infrastructure of the contraband largely of cigarettes and spirits, as well as of oil products from the duty-free filling stations (consisting in fictitious export of these goods which are then resold in the domestic market). Unlike some other corruption-related schemes under the control of organized crime, this has been a rare instance of concerted lobbying efforts by members of nearly all of the parties represented in parliament, blocking any attempt to close them down. Even when, on the eve of the country’s accession to the EU, the duty-free outlets on the Greek and Romanian borders (which became internal EU borders) had to be closed, the authorities agreed to have new ones open at the remaining external EU borders. Bulgaria is one of the few countries that have duty-free filling stations, with turnover that is an object of envy even to the big oil distribution networks. Faced with the joint interests of politicians, criminals, and corrupt officials, it would seem that even the European Union is powerless - despite insistence by Brussels, Bulgaria continues to claim its right to “extraterritorial trade”, from which the only ones who stand to gain are the anonymous beneficiaries of this officialized contraband.

²⁹ Along with this universal symbiotic structure, since 2003 there has been a new trend towards emergence and coexistence of purely criminal networks with small structures active largely in the black markets of drugs, procuring, money forgery, car thefts, etc. Typically, these criminal formations are loosely connected to the established old structures, mainly on market terms, and are more likely to be apprehended by law-enforcement authorities.

In addition to these external factors we should note the latest marked trend of sustained growth of the Bulgarian economy,³⁰ further characterized by improved business environment, reinforced market institutions in the process of EU accession, and the presence of foreign investors, which together have helped reduce the share of the grey economy in this country.³¹ The latter constitutes an additional incentive for the structures of organized crime to speed up the legalization of their activities and to seek monopoly positions in the official economy through legislative capture – amending laws and regulations in their favor.³²

Figure 3. Index of the hidden economy in Bulgaria*



* The Index is a synthetic indicator of the various forms of hidden economy activity. Its value ranges from 0 (absence of hidden economy) to 10 (total domination of the hidden economy). For more see Valentin Goev, Valentin Boshnakov, "Assessment of the Hidden Economy in Bulgaria", in: *The Informal Economy in the EU Accession Countries*, Center for the Study of Democracy, 2003, pp. 57-93.

Source: Vitosha Research/CMS (*Corruption Surveys of Bulgarian Business*), 2007

Since 2001, an essential factor for improving the economic environment, along with political stabilization, has been the **modernization of public administration**. This has no doubt been facilitated by the drastic drop in the cost of key technologies in the information industry. With the gradual adoption of the customs

³⁰ In the last 9 years, GDP has been growing at a rate of nearly 5%, and by more than 6% since 2003.

³¹ In 2002-2007, the share of the grey economy in Bulgaria declined from 29% to 17.1% of the total turnover of the enterprises operating in the economy. The decline is observable with regard to all of the components of the hidden economy measured by the business index of hidden economy in Bulgaria – unreported employment, turnover, covert redistribution. Further see *The Grey Economy in Bulgaria*, Center for the Study of Democracy, 2004 (in Bulgarian only); *The Informal Economy in the EU Accession Countries: Size, Scope, Trends and Challenges in the Process of EU Enlargement*, Center for the Study of Democracy, 2003.

³² Nevertheless, in absolute terms, the grey economy in this country has remained relatively large and stable over time and may actually increase in volume in some years, depending on how effectively the institutional environment is functioning. Yet, its growth rate lags behind that of the official economy, resulting in its declining share in the business turnover.

information system (Bulgarian Integrated Customs Information System), the border police information system and those of the tax administration, as well as some other systems of financial information and internal security, there has also been a stepping up of the processes of shrinking of the grey and black markets in this country.³³

The analysis of the activity of organized crime in the period 2001-2007 finds several more **notable new tendencies**:

- There has been a noticeable **shrinking of volumes and profits in the three major black markets** in this country (drugs, stolen cars, prostitution);
- There has been a similar **trend towards declining share of the grey markets** controlled by organized crime. This is due both to the improved performance of the customs and tax administrations, and the growing presence of multinational companies in the field of retail.
- The shrinking of black and grey markets is symptomatic of the **more active involvement of organized crime in the legal markets**. With the real estate boom since 2001, investments in construction, construction sites and land have become the number one market for organized criminal groups.

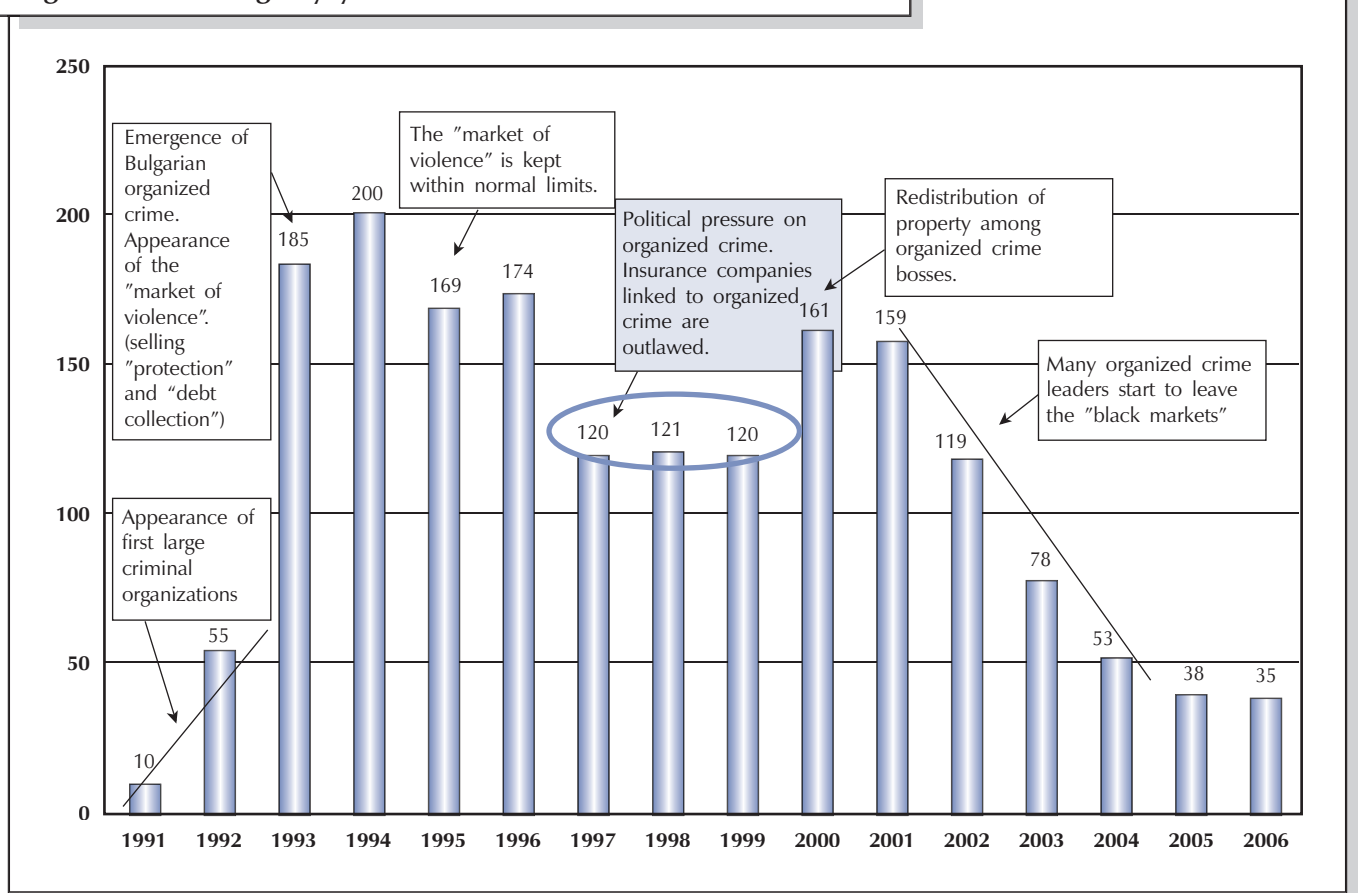
Under the changed conditions, even when resorting to violent means in dealing with their legal competition, the representatives of the groups strive to keep up appearances of law-abiding conduct. There has been tendency towards **decline in violence by organized crime**. It has been equally observable with regard to bomb attacks as the chief instrument of racketeering, and in conflicts between different groups. The following figure provides an idea of the proportions and tendencies in the use of bomb-planting by the criminal world:

More refined means of paralyzing the business of a rival began to be employed over the period under consideration. It has become common practice to file a claim against a competitor and possibly win the case with the help of corrupt magistrates. Considering the slow pace of Bulgarian justice administration, even if the claim is rejected, the freezing of the activities of the respective firms by court order is likely to lead to enormous losses and even the financial ruin of the competitor. On the other hand, the use of market instruments has been on the rise even in entirely criminal activities (drug trafficking, contraband of cigarettes, etc).

Violent methods in their pure classical form are demonstrated by the so-called **contract murders**, oftentimes deliberately committed in public places in order to

³³ There are several notable examples of the positive impact of modernization. Regarding customs fraud in 1997-2000, mirror statistics have shown that the disparities in the case of import and export to the European Union alone, in 1998 for example, amounted to \$850 million with a trade turnover of \$5,240 million. This means that 16.37% of this amount were not reported or involved siphoning off of VAT. The disparities are of even larger proportions concerning imports from Turkey, China, and other Asian countries. With the introduction of customs data exchange, the grey import (underreporting the value of the goods) and in part, VAT siphoning off, particularly with the EU countries has visibly begun to shrink.

Figure 4. Bombings by year

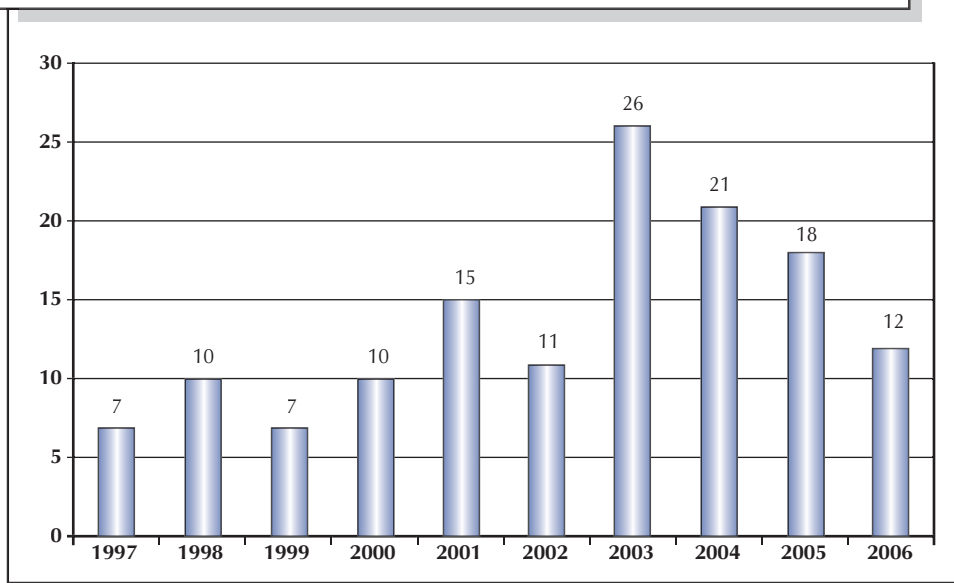


Source: Ministry of Interior

intimidate all potential competitors in addition to eliminating the particular rival. Even though - after escalating in the 1990s - they have been on the decline since the start of the current decade, contract murders still make up a significant proportion of all homicides in this country – 13%. In the period from 2000 to 2005, there were 156 such murders (including attempted murders and those not specifically identified as contract killings). The low clear up rate³⁴ makes contract killing relatively low risk. Furthermore, to the criminal groups, they are probably the most efficient and inexpensive instrument to solve serious economic problems. They allow them to eliminate major rivals in the pursuit of monopoly control and the conquest of high-profit activities/sectors. The experience of the past years indicates that killing the leader of a large group (whether an oligarchic or violent entrepreneur structure) usually leads to the disintegration of his empire and the redistribution of the black and grey markets previously under his control.

³⁴ To this day, only 17 contract murders have been reported solved. It should be noted that the main problem in intercepting and investigating contract killings is the lack of competent professionals at the MoI. There is no specialized unit with the necessary expertise and experience. Notwithstanding their relatively good motivation, most of the officers currently working on these cases are young people lacking the necessary experience. At the same time, the prosecution and MoI are forced to provide evidence of activity and to report definite volumes of work done (formally). This leads to conducting hundreds of interrogations in connection with each killing which are ultimately of little use. Thus, for instance, in the case of the murder of the VIS boss Georgi Iliev, the police in Bourgas held more than 2000 interrogations, yet the killer was never identified.

Figure 5. Contract murders by year*



* In the first six months of 2007 there were 4 contract killings.

Source: Mol and NIS

An essential condition for the existence of organized crime is the presence of **enduring corrupt links between the criminal groups and the state** (politicians, MPs, magistrates, and representatives of the administration on the local and central levels). All of the branches of power in this country are the object of most attention by organized crime. Thus, for instance, the **formation of lobbies in the legislature** is typical of the influence of the groups. By an expert estimate, within the past two parliaments (39th and 40th National Assemblies) it is possible to identify about 20 MPs on average who have actively advocated legislation in the interest of economic structures related to organized crime. Such legislative acts include a number of draft laws and amendments to the laws on gambling, insurance, electronic media, spirits production, etc.

The **corruption-based collaboration between criminal groups and the judiciary** assumes even greater proportions. This is hardly surprising given that whereas until the end of the 1990s the national wealth used to be redistributed by the government, in recent years this has largely been a prerogative of the judiciary. There have been particularly flagrant cases of corruption links between prosecutors and bosses of criminal groups. The most common method is by direct payment of bribes to corrupt prosecutors so as to refrain from pressing charges against organized crime representatives. The corruption methods of violent entrepreneurs used in the court stage of the proceedings usually involve the intermediation of **lawyers**.

One of the most widespread and destructive **corruption networks link the criminal groups with local government representatives – mayors, municipal council members, as well as the local divisions of central government**. The intertwinement of public authority and criminal private agendas poses a particularly serious problem along the Black Sea coast and in the large resorts where real

estate prices reach European levels. A case in point was the murder of the Chair of the Municipal Council of the town of Nessebar, widely reported by the media to be running a shady business with tourist sites and facilities. **The corruption networks linking municipal officials and mayors and the bosses of criminal groups are most extensive in the capital.** Sofia could in fact serve as a model in the analysis of the criminal plot concerning the exploitation for private gain of some of the most profitable sectors in the city economy: waste collection, water supply, central heating, etc.

