



Report Summary

Crime without Punishment: Countering Corruption and Organised Crime in Bulgaria

The present corruption assessment report is the ninth consecutive annual analysis of the corruption situation and anticorruption reforms in Bulgaria, carried out by the Center for the Study of Democracy.

Against the backdrop of deepening economic crisis in the country, the report has registered **a slowdown in anticorruption efforts in the first two years of the country's full-fledged EU Membership**. Bulgarian society's high expectations with respect to tackling the serious challenges posed by corruption and organised crime have not been met due to the continual lack of capacity and political will in the judicial, executive and legislative branches of government. It has been emphasized that recent legislative and institutional reforms in the judiciary and law enforcement **have not led to the expected and hoped for reduction in impunity for corrupt practices and organized crime** in the country. The price for the lack of transparency in governance and for political corruption will become more and more conspicuous and painful for Bulgarian society with the sharp decline in the economic growth in 2009.

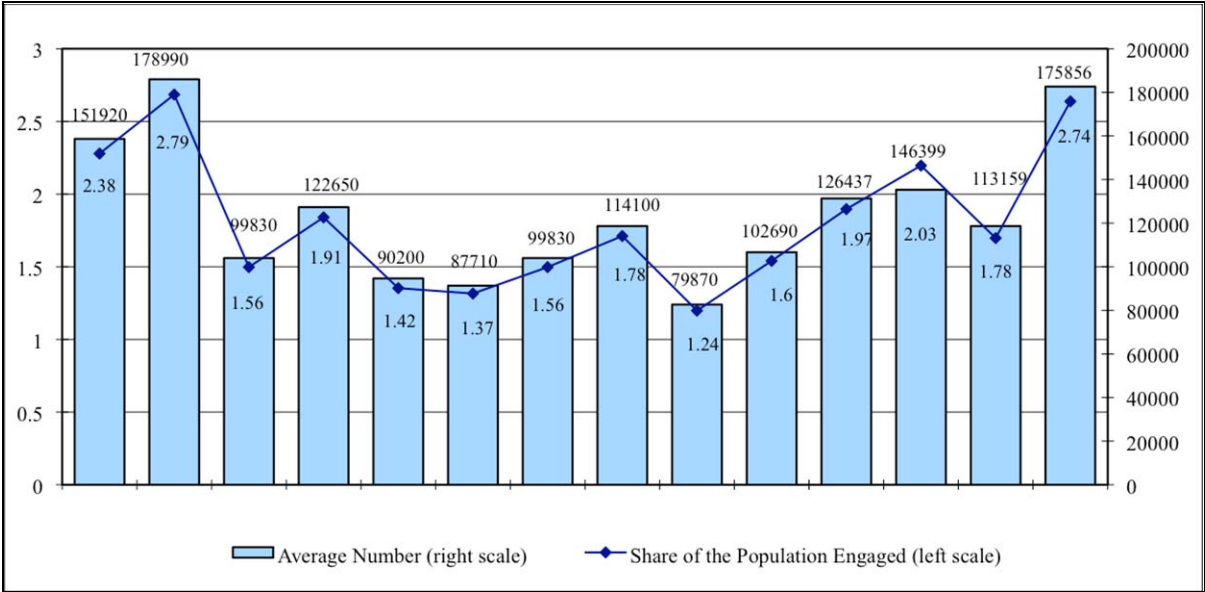
Several **positive trends** have been outlined as well: some resulting from EU Membership and continuous economic growth over the last ten years, while others being the result of concerted efforts on the part of the Bulgarian authorities. For instance, **administrative corruption in business has declined by 50%** since the country's EU accession. The level of grey economic activities (i.e. income, concealment, tax evasion and informal employment) gradually reduced over the past decade (in absolute terms, the gray economy is estimated at 10 billion levs for 2008). Moreover, recent **legislative and administrative reforms** aiming to prevent conflicts of interests as well as abuses in granting concessions undoubtedly represent steps in the right direction; their practical benefits will nevertheless be impossible to evaluate prior to the end of 2009. Finally, **the elimination of duty-free trade at Bulgaria's land borders** has had considerable anticorruption effects.

Two years following Bulgaria's entry into the EU, **the de facto impunity of corruption and organized crime at the highest echelons of power remains a major challenge for the country**. Over the period 2007 – 2008 we have witnessed **reductions in**

the levels of both corruption and organised crime cases filed in court. Effective sentences in corruption cases remain at proportionally insignificant levels against the background of estimates regarding the spread of corruption in the country. The majority of corruption-related investigations (80% for the period 2004 – 2007) have not led to court proceedings. On the other hand, a significant portion of the cases that have made it to court (over a third for the 2004 – 2007 period) have not resulted in a verdict stipulating any sort of sanctions. At the same time, Bulgarian civil society’s anticorruption initiatives have been severely hampered by insufficient or inefficiently utilized resources, as well as by attempts at civil society capture on the part of the state administration.

The *Corruption Monitoring System* of the Center for the Study of Democracy has registered a sustained **tendency towards increasing levels of corruption** among the population in the country and a return to the highs of the early years of the decade. In 2008, the number of corruption transactions has risen to around 175 000 monthly or 2 100 000 on an annual basis. For Bulgarian citizens, **corruption has definitely stood out as the most serious problem that the country faces**. The share of the population ranking corruption as one of the top concerns to Bulgarian society has increased twice for last four years (jumping from 31% in 2004 to 64.7% in 2008)

Corruption Transactions of the Population: Average Number per Month and Share of the Population Engaged in Corruption Transactions



Source: Vitosha Research/Center for the Study of Democracy/Corruption Monitoring System

Bulgaria has many of the characteristics of a state plagued by political corruption. The clearest signs for this are: the lack of political morality and responsibility – necessary preconditions for counteracting political corruption; the toleration of oligarchic organised crime, which prevents progress with respect to tackling other types of organised crime as well; the monopolization of whole business sectors by oligarchic cliques; the misuse of concessions and other state resources for private and party purposes, primarily in sectors such as energy and infrastructure development; and sustained efforts at the capture of NGOs – one

of the most important elements of external political responsibility – by creating quasi-NGOs or co-opting existing NGOs in an attempt to soften critical voices in society.

One practice clearly signaling the worrying extent of political corruption in the country has **been the justification of government officials' actions by reference to existing laws and regulations, coupled with the deliberate use of the regulatory framework in order to purposely benefit private cliques close to those in power.** The political will to favor certain private interests has been repeatedly and unambiguously expressed, while the officials favoring such interests have simultaneously firmly resisted political and civil society pressures (including at the international level) to discontinue such practices. A case in point and one of the symbols of political corruption in the country over the past two years has been the practice of **swapping state and municipal lands and forests** in prime locations for private lands and forests in distant, fragmented, or unattractive (from an investment point of view) locations, in flagrant violation of principles of economic efficiency as well as in disregard of the public interest. According to conservative estimates, revenue losses for the state budget resulting from similar land and forest swaps for 2008 only amount in 1.5 billion levs. Overall losses for society – in terms of damage to the environment, or the privatization of pristine lands and forests and the loss of access to the latter on the part of the wider public – can hardly be quantified.

A new element in the report is the analysis of the inroads of corrupt practices into civil society structures (NGOs), which have traditionally been considered the least corrupt compared to other spheres of socio-economic activity in Bulgaria. For the period 2000 – 2007, the number of NGOs has increased fivefold, with most new organizations having been established by high-ranking state officials as instruments for **ostensibly legitimate extra income, as tools for establishing political and personal circles of cronies, and as a safeguard against the loss of political power.** Just over three quarters of MPs and the same proportion of ministers and heads of executive agencies, and over 90% of municipal mayors in Bulgaria are represented on NGO boards of directors.

With the gradual withdrawal of foreign public and private donors, **the Bulgarian government has become a determining factor in the financing of NGOs in the country.** The financial resources controlled by the government (whether budget or EU funds) allocated to NGOs in 2008 constitute nearly 40% of the total project funding available in 2006. **All weaknesses and corruption risks** related to strategic target-setting and public procurement **have thus been transferred to this sector as well.**

Organised crime remains a major source of political corruption. Three broad types of criminal structures could be distinguished: **violent entrepreneurs** (violent entrepreneurship is the most visible type of organised criminal activity and attracts the most public attention); **deviant entrepreneurs**, who ensure their competitive advantage in markets by means of evading taxes and import duties, as well as by means of criminal transactions; and **political investors** (oligarchs), who currently enjoy the greatest influence in Bulgaria and are most frequently associated with political corruption. **It is at the local level** that the control over public resources exercised by small groups of business persons is **at its most striking.** Groups of two to six individuals (or families) have often acquired control not just over local

authorities but also over representatives of the institutions of central government, such as the police, tax authorities, construction licensing services, as well as local courts and prosecution offices.

In addition to capturing the top echelons of the executive power and the leadership of political parties, the oligarchs assign no lesser value on **maintaining control over Members of Parliament, the state administration, and the court system**. Such a nefarious symbiosis subsequently allows oligarchs to control state enterprises, to have access to unlimited lines of bank credit, to evade tax inspections, to “win” all their cases in court, to become beneficiaries of specially designed clauses in laws, etc. **The model also entails a vicious cycle, whereby oligarchs have become a recruitment factor for the high-level administration.**

This year will be extraordinarily difficult for Bulgaria’s economy. The fact that **sharp declines in state revenues are expected in 2009**, while the levels of planned budgetary expenditures have not been adjusted downwards accordingly, implies that Bulgaria can no longer afford to manage state resources in an inefficient manner. The country therefore needs to undertake decisive steps to overcome the two fundamental deficits in its anticorruption reforms identified by the report: namely, of political will as well as of administrative capacity.