

2. THE SPREAD OF CORRUPTION

The main tool used in the assessment of the spread of corruption in Bulgaria is the Corruption Monitoring System (CMS) run by *Coalition 2000*. In addition to an overall picture of the scale and dynamics of corruption, CMS offers concrete information about the intensity and the level of corruption as perceived by taxpayers. For the purposes of this study, we have conducted also a special survey of 699 Bulgarian tax officers at territorial tax directorates and local tax offices. The findings of other relevant surveys conducted in recent years have been taken into account,¹² and we have shown the corruption ratings of Bulgaria and of the Bulgarian tax administration according to various international sources on corruption and the business environment.

2.1. NATIONAL MONITORING

The corruption indices published by *Coalition 2000* are based on surveys of the general public and the business community reflecting respondents' perceptions of the scale and dynamics of corruption, and also, their shared corruption-related experience.¹³ As a comprehensive nationwide corruption monitoring system, CMS covers different institutions and corruption-related transactions, including the tax administration and tax corruption, but does not seek to diagnose the problem as it stands within each particular institution or field. In most general terms, CMS suggests that while tax corruption is a major issue, it is not the biggest challenge in the fight against corruption as such. In the taxpayers' opinion, tax corruption is second in scale to the corruption in customs, the police, and Parliament; and it also ranks below the corruption related to public procurement, building permits, imports, and judicial proceedings. For example, business places the tax administration among the most corrupt institutions in the country, but only after customs, the courts, the police, and the various permitting authorities (Appendix 3.1). The tax administration's ranking is similar in terms of actual corruption pressure put on businesses: tax officers follow customs and police officers, physicians, and municipal servants in the proportion (approx. 1 out of five) of businesses reporting instances of bribes being asked by any of these (Appendix 3.5).

The tax administration is not at the top of the list either in terms of bribes actually paid. According to respondents' shared personal experience, bribes related to the payment of taxes are less frequent than bribes paid to evade penalties from the various control authorities or in connection with the payment of customs duties or the issuance of licenses and permits (Appendix 3.3). In terms of average bribe levels for 2004, tax corruption follows corruption related to public procurement, building permits,

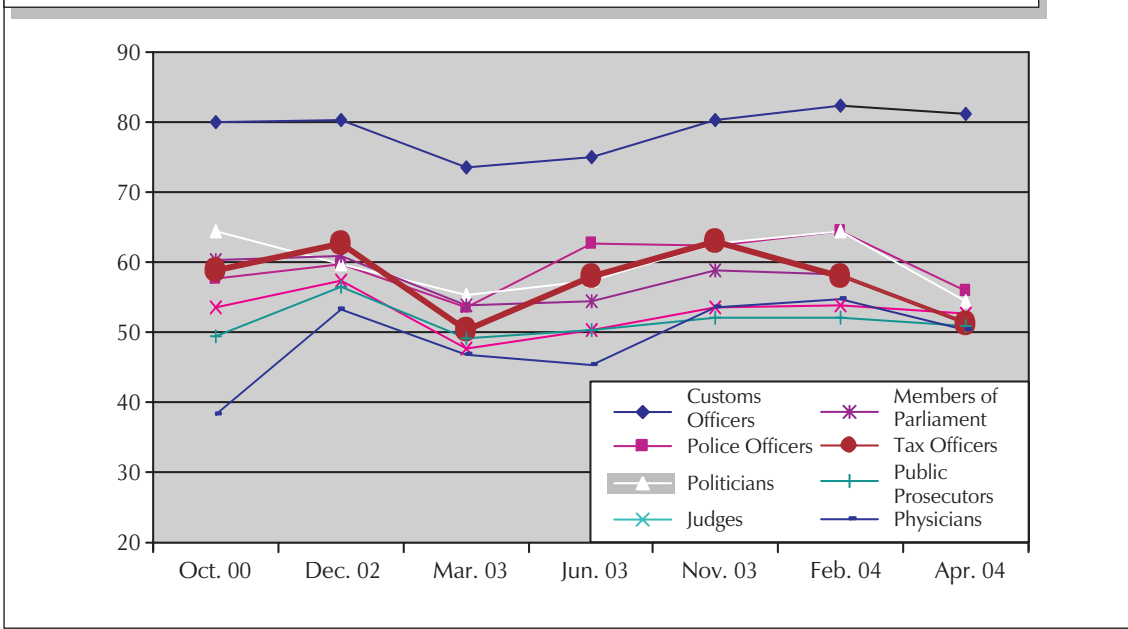
¹² Ангелова и др. [Angelova et al.] (2003); MBMD (2003); Скала [Skala] (2003).

¹³ See *Coalition 2000* (1998) and *Coalition 2000* (2005) for the methodology of CMS indices. The latest surveys referred to here are of the general public and the business community for March and June 2004. See Vitosha Research (2004a), (2004b).

customs duties, judicial proceedings, and title recordation (Appendix 3.4a). The limited time range of these surveys and the small number of respondents prepared to admit having paid a bribe do not allow any final conclusions to be made yet about the dynamics of bribe levels. However, early indications are that the average level of tax-related bribes is rising (Appendix 3.4b). As already noted, in terms of demand-side drivers, the rising 'price' of corrupt services does not warrant any single interpretation. For example, it might not be such a bad news if it were accompanied with a decline in the number of businesses paying bribes and in the incidence of bribe payments. If this is indeed the case, the rise of average bribe levels can be interpreted as an indication of the effectiveness of anticorruption measures causing corrupt officers to charge a higher risk premium.

Despite the strong evidence of the relatively low proportion of tax corruption, business's assessment of its penetration rate in the tax administration remains high. Business respondents largely believe that most, if not all, tax officers are involved in corruption; the proportion of this perception has been steady at 50–60 per cent over the last five years. To qualify this statement, responses do not indicate much difference between tax officers and other members of the public administration, with the notable exception of customs officers, who are generally perceived as more corrupt by far (see Figure 1).

Figure 1. Business's Perceived Spread of Corruption Among the Following:
 (% of response „Almost all or most are involved in corruption“)



Source: Vitosha Research (2004b). Base: 478.

2.2. ARE TAX OFFICERS BEING 'WRONGLY ACCUSED'?

Even though tax officers are definitely not at the top of the corruption chart drawn up by taxpayers, the general public's and the business community's perceptions and shared experience indicate a much higher corruption level than the one assessed by the administration itself. The gap is wide indeed and suggests a divergence of views on tax corruption between the administration and its clients. This divergence is a measure of the administration's and civil society's capability of joining efforts against corruption and should be watched in future.

The tax officers' assessment of the level and spread of corruption in their midst is a composite of the following:

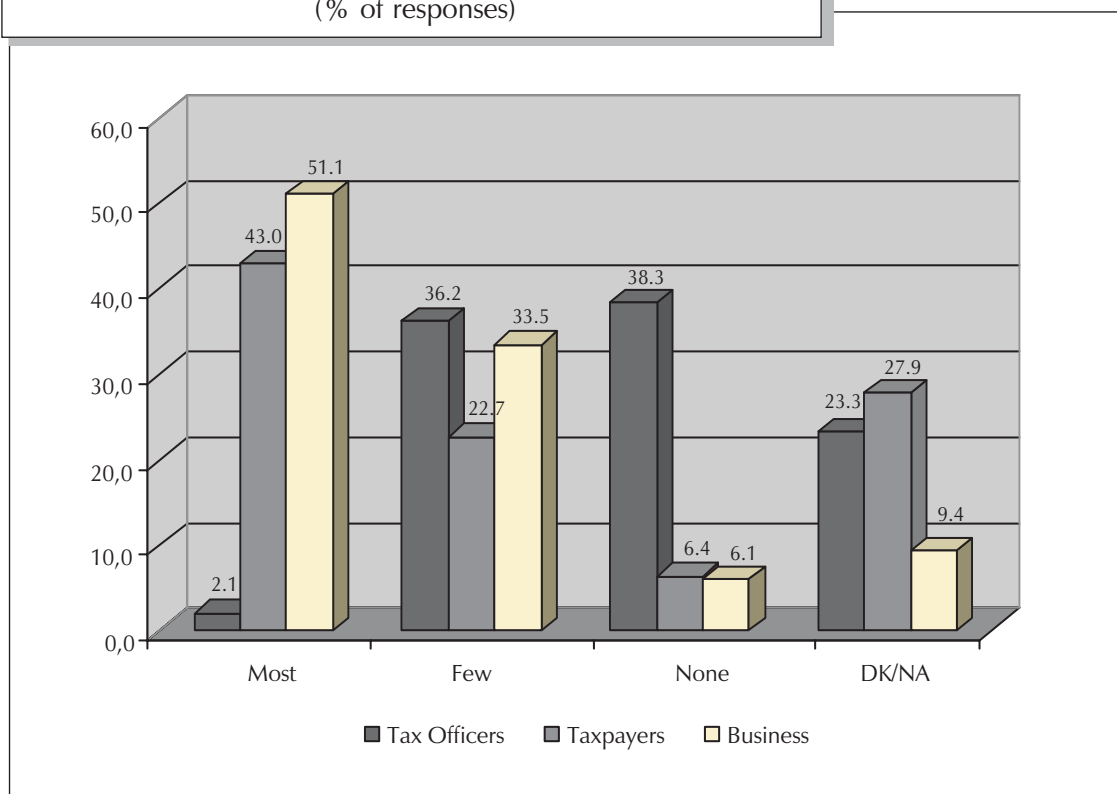
- (a) perceived justice of the allegations of widespread corruption in the tax administration (on a scale from 1, *Justified*, to 4, *Unjustified*);
- (b) corruption rating, in terms of bribe levels and incidence, by administrative level and functional area;
- (c) assessed spread of corruption in the respondent's own department, in terms of co-workers involved (on a scale from 1, *Almost All*, to 4, *None*);
- (d) personal experience: how often during the previous year did co-workers of the respondent, to the respondent's knowledge, receive money/gifts and of what approximate value;
- (e) personal experience: how often during the previous year did the respondent receive money/gifts and of what approximate value.

What do tax officers believe, and what do they know, about corruption in their midst?

The most striking divergence between taxpayers and tax officers concerns the proportion of tax officers involved in corrupt practices. According to 43 per cent of the general public and 51 per cent of business, almost all, or most, tax officers are involved, while a mere 2 per cent of the tax officers share this view about their own functional unit. Conversely, while 38.3 per cent of the tax officers deny any corruption in their midst, only 6.4 per cent of the general public and 6.1 per cent of business are prepared to believe this (see Figure 2).

Of course, all this does not mean that the tax authorities would rather turn a blind eye to corruption in their midst. Rather, they reject the allegations that it is widespread. According to 72 per cent of respondents, these allegations are unjustified. Still, one out of five tax officers believes they are partially or totally true. One interesting observation is that when asked about their own respective departments, the tax officers are divided right down the middle in their opinions: 38.3 per cent deny, but as many confirm, the existence of corruption, even though most describe it as sporadic. The highest percentages, by functional unit, of those who admit that corruption exists were reported in Tax Audit (46.5%) and in Taxpayers Registration and Services (35.8%), which, taken together, account for three quarters of GTD staff and of the survey sample.

Figure 2. The Spread of Corruption in the Tax Administration
(% of responses)



* Members of the general public and of the business community responded regarding the administration as a whole, while tax officers were asked about their respective departments. The general-public and business-community data were sourced from the relevant surveys of Vitoshka Research, *Coalition 2000 Corruption Monitoring*, for April-May 2004.

Table 1. Perceived Spread of Corruption in Respondents' Own Department
(% of responses by department)

Responses	TRS	Tax Audit	OC	Collection	FA	Appeals
Almost all	0.0	0.4	0.0	0.0	0.0	0.0
Most	2.1	1.7	4.5	3.7	0.0	0.0
Few	33.7	44.4	23.9	29.6	27.3	14.3
None	47.9	22.4	34.3	48.1	54.5	57.1
DK/NA	16.3	31.0	37.3	18.5	18.2	28.6
	100.0	100.0	100.0	100.0	100.0	100.0
Base	288.0	232.0	67.0	27.0	44.0	7.0

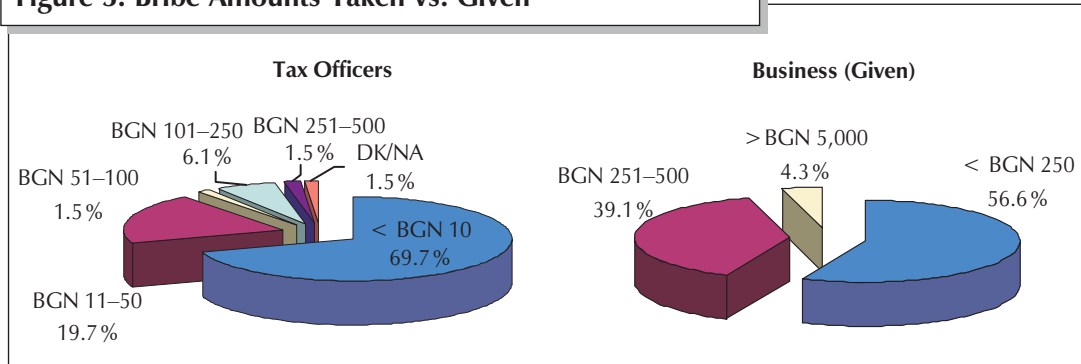
* TRS: Taxpayers Registration and Services; OC: Operational Control; FA: Finance and Accounting.

Source: Vitoshka Research, April 2004. Base: 699.

When it comes to *personal experience*, rather than just an assessment, in answer to the question whether, to their knowledge, any co-workers received bribes during the previous year, 36.8 per cent say 'Yes', even though, again, such occurrences are qualified as sporadic.¹⁴ Last but not least, asked about their own bribe-taking experience, 66 of the total of 669 respondents (9.4%) admitted having taken a bribe.¹⁵

The tax officers are however unconvincingly modest in their estimates of the value of bribe money/gifts received. Some 58 per cent chose not to answer the question, and 23 per cent said there was no such thing. Of the remaining 19 per cent, who did offer an estimate, most put the value of bribe money/gifts at fairly small amounts (up to BGN 10 and BGN 50, respectively). A mere 35 of the total of 699 respondents (5%) estimated bribe levels at above BGN 100. Among the 9.4 per cent, who admitted having taken a bribe themselves, small amounts, up to BGN 50, also prevail. Only five of the 699 admitted having taken a bribe bigger than BGN 100. Results such as these are difficult to reconcile with the considerable amounts involved in tax fraud, most of which could not have been committed without the aid of a tax officer. Above all, the tax officers' estimates of bribes taken are highly inconsistent with the taxpayers' estimates of bribes given. Of business respondents, 39 per cent report levels between BGN 250 and 500, and 4.3 per cent, above BGN 5,000.¹⁶

Figure 3. Bribe Amounts Taken vs. Given



Source: Coalition 2000 CMS: Business Sector, April 2004, Table 1.

What is the cause of these wide discrepancies? Is the public unfair to the tax officers? The question seems all the more warranted by the comparison of taxpayers' perceived versus their personally experienced corruptness of tax officers. For example,

¹⁴ A noteworthy observation is that a high percentage of respondents (45-60%) chose not to answer the questions about the spread of corruption. This alone is indicative of, either, widespread tolerance or the lack of transparency in the organisation of operations. That is to say, if anticorruption measures were effective, and the effect were properly communicated throughout the organisation, those who have no opinion on the question would hardly be as many as half of the staff. The more effective anticorruption measures are, and the broader support they enjoy, the lower should the proportion be of DK/NA responses.

¹⁵ It is somewhat surprising that the percentage is higher than the percentage of businesses which admit having bribed tax officers (Appendix 3.3), even though, addressed to the tax officers, the question only covered one previous year. To compare, a similar survey of members of the judiciary conducted in May 2003 yielded a 2-3 times smaller percentage (from 13% in the judicial administration to 22% in the office of public prosecutions) of the respondents who confirmed their co-workers' involvement in corruption; and the percentage of those who admitted their own involvement was five times smaller (1.8%). See Vitosha Research, 2003, p. 11-12.

¹⁶ The direct comparison between the two surveys is limited by differences of scale and time horizon, but is nonetheless indicative.

while 51 per cent of business respondents believe that most, if not all, tax officers are involved in corruption, only one third say they have personally been asked to pay a bribe. Among the general public, this gap between perception and experience is more than 10 times wide.¹⁷ The perception vs. experience ratios concerning the corruptness of other professional groups¹⁸ also affect the tax officers' rating among other members of the public sector. In terms of bribes given, i.e., 'actual corruption', and bribes asked, i.e., 'potential corruption', the tax officers perform much better, compared with other public services, than in terms of public opinion. Thus, based on shared personal experience, they are less corrupt than physicians or municipal servants, but *in the eyes* of the general public and of the business community, they appear to be more corrupt than either of these. How much darker than reality is the picture painted by public opinion?

Admittedly, economic agents make their investment decisions on the strength of perceptions, regardless of how close to reality they are. To a Bulgarian's decision to start his or her own business, or to a foreign investor's choice between Bulgaria and another inward investment destination, their respective *assessment* of the level of corruption and of the related additional cost of doing business is much more relevant than the *actual* level of corruption in Bulgaria. Therefore, if the discrepancy between these two is large, anticorruption measures must be coupled with an open dialogue among all stakeholders and an active public communication effort to raise public awareness of the actual state of play in the fight against corruption.

In this particular instance however, the gap between perception and experience is only partially accounted for by communication impacts or the inertia of public opinion. Asked about the sources on which their perception builds, the respondents attribute 20-30 per cent to the mass media. In the remaining 70-80 per cent, perceptions are allegedly based on personal experience (possibly, not immediately related to one's own business), the experience of friends or relatives or the perceived discrepancy between tax officers' income and lifestyle. All of these are as relevant to the measurement of corruption in the tax administration as is personal experience. Therefore, the discrepancy between perception and experience is not an accurate measure of the extent to which corruption in the tax administration is overestimated, i.e., while it may be overestimated, it is certainly by less than would appear from this discrepancy.

If tax officers are indeed being 'wrongly accused', it is in another way: Public opinion is rather inclined to regard them as unilateral beneficiaries of corruption at the expense of taxpayers, who are perceived as mere 'victims'. This explains why the administration, unlike business, has traditionally been regarded as the primary generator of corruption pressure. The question, therefore, is not about the level of corruption but about its drivers, which we shall come to later, in Chapter Three.

Yet another pointer to the level of corruption in the tax administration is the proportion of the shadow economy, and in particular, taxes and social security contribu-

¹⁷ Vitoshka Research (2004a, Appendix 3, Tables 3 and 5).

¹⁸ For example, the perceived corruptness of politicians, Members of Parliament, and judges is higher than shared personal experience suggests, while physicians and municipal servants are perceived as less corrupt than the respondents have actually experienced. Given that the personal experience base, comprising only respondents who have come into contact with members of the group assessed for corruptness, is smaller than the perceived corruption base (comprising all respondents), the gap between perception and experience is even wider than it appears from the direct comparison of response percentages. Concerning the tax administration vis-a-vis business respondents, this qualification is less relevant as very few of the business respondents have not had to deal with tax officers. Vis-a-vis the general public, however, it is fully valid.

tions evaded. Given that, to succeed, tax evasion largely depends on cooperation from tax officers, unreported business activity is a good indirect indicator of the scale of tax corruption. Schneider (2004) estimates it at 38.3 per cent for 2002–2003. The World Economic Forum ranks Bulgaria 78th out of 102 countries.¹⁹ In 2002, the tax compliance gap amounted to some BGN 3,000 million or 25 per cent of potential tax revenues (*Пауеб* [Pashev], 2004). All of this suggests that the scale of tax corruption in Bulgaria is considerable.

2.3. INTERNATIONAL COMPARISONS

What is the level of tax corruption in Bulgaria from an international comparison perspective? Corruption is an important component of most international indices of institutional development, the business environment, and investment risk. What do these surveys say about the level of corruption in Bulgaria, tax corruption in particular? What is Bulgaria's *relative position* among other countries, and above all, countries in transition and the new EU Member States? The answers are inconclusive and do not place Bulgaria with any particular precision among others, either in Europe or in the Balkans or in Central Asia. (See Appendix 4.) What is certain beyond doubt is that assessing corruption levels is no easy task.

The corruption perceptions index of Transparency International (TI CPI) brings together the various international indices and ratings. It covers at least four ratings per country, running at least three years back. Table 2, below, shows a steady upward trend of Bulgaria's international anticorruption rating over the last five years. Furthermore, Bulgaria alone, of the EU accession countries, has shown steady improvement year-on-year. As a result, in 2003, it came higher than Slovakia, Latvia, Poland, and Romania, on a par with the Czech Republic, and below the undoubted leaders in the Region, Slovenia and Estonia, and the fast improving Hungary and Lithuania. Still, Bulgaria is below the cut-off rating of 5, which, according to TI's standards, places it among relatively corrupt countries.

Table 2. Bulgaria's TI CPI Rating

	1998	1999	2000	2001	2002	2003	2004
Place (of Total #)	66 (85)	63 (99)	52 (90)	47 (91)	45 (102)	54 (133)	54 (145)
Of previous year totals	...	59 (85)	54 (99)	47 (90)	44 (91)	45 (102)	50 (133)
Change	...	7↑	9↑	5↑	3↑	0	4↑
Index ^a	2.9	3.3	3.5	3.9	4.0	3.9	4.1
Standard Deviation ^b	2.3	1.4	0.4	0.6	0.9	0.9	NA
Ratings Included in Index	4	8	6	6	7	10	10

^a Scale: from 1 (*Absolute Corruption*) to 10 (*No Corruption*).

^b Smaller values mean higher uniformity of response.

Source: The author's own calculations based on Transparency International data.

¹⁹ Global Competitiveness Report (2004).

Where are the Bulgarian tax officers in all this? Albeit limited and inconsistent, estimates of their corruptness do feature in indices, such as the Global Competitiveness Report, SELDI, and BEEPS.

The Global Competitiveness Report covers irregular payments in tax collection. In 2003, Bulgaria ranked 31st of 102 countries, on a par with France and higher than a number of EU Member States and accession countries, such as: Belgium (33), Lithuania (36), Portugal (37), Slovakia (38), Czech Republic (45), Poland (49), Latvia (50), Italy (53), Greece (75), and Croatia (54) and Romania (70).²⁰ In all fairness it must be said, this ranking, fairly good as it is, was a considerable setback (by 8 places) from 2002, when Bulgaria had ranked 21st of 80 countries, ahead of USA (22), Estonia (25), Spain (26), France (29), and Hungary (32).²¹

Table 3. Corruption in the Tax Administration, International Rating
(„How often do businesses in your sector pay bribes in connection with tax collection?": from 1, Often, to 7, Never)

	Place	Index	Average
2002	21 st of 80	6.0	5.0
2003	31 st of 102 29 th of the 80 in 2002	5.8	4.8

Source: Global Competitiveness Report, 2004, Table 7.03.

The regional corruption monitoring system in South-Eastern Europe includes a question about bribes asked by tax officers. On this, in 2001 and 2002, for the Balkans, Bulgaria only performed worse than Croatia. (SELDI, 2002 table 5.10)

According to the World Bank's surveys, Bulgaria does not compare so well with others in the Region. In terms of the incidence of bribes, its position is worse than that of all new EU Member States and accession countries, on a par with, or worse than, most of the former Soviet Republics.²² A somewhat redeeming fact is that, against the general trend of tax corruption rising in the Region, it has remained unchanged in Bulgaria.

²⁰ Global Competitiveness Report, 2004, p. 492, Table 7.03, Irregular Payments in Tax Collection.

²¹ In 2004, two of the new countries which joined the rating that year, Luxembourg and Malta, ranked higher than Bulgaria, which means that, based on the 2003 total, a year later, Bulgaria would have ranked 29th. Global Competitiveness Report, 2003, p. 405, Table 7.03, Irregular Payments in Tax Collection.

²² The World Bank's BEEPS surveys (see Appendix 4) for 1999 and 2002 are presented in *Gray et al* (2004). These surveys measure the spread of tax corruption by the percentage of respondents who, asked about the frequency with which 'firms like yours' make irregular payments or gifts to tax officers, gave any answer, on a six-point scale, other than 'Never'. The findings for Bulgaria were largely behind the Government's decision to launch a radical reform of the budget revenue administration in the framework of an investment project to set up a single National Revenue Agency, worth €63 million, of which 34 million came as a loan from the Bank. Implementation started in 2003 and expectations are that the relevant indicators will soon begin to show some improvement.

2.4. SPREAD OF CORRUPTION BY STRUCTURAL LEVEL AND FUNCTIONAL AREA

The effective targeting of anticorruption policies requires a closer look, behind the general national or international corruption ratings, to identify the most vulnerable structural elements. Decisive in this regard is the 'inside' perspective, i.e., the information that a survey of tax officers can provide. The respondents in this survey have ranked structural levels and functional areas within the administration by bribe level and incidence (see Appendix 5).

Half of the respondents either could not, or did not wish to, identify the structural levels at which corrupt transactions are the largest or the most frequent; another 11-12 per cent did not see corruption anywhere; and according to 8 per cent of the respondents corruption is equally common at all levels. Of the remaining 30 per cent, who localised corruption *along vertical lines* in the administration, some two thirds (19 % of all respondents) tend to see it above their level in the hierarchy, i.e., at RTDs, at the Large Taxpayers Directorate or at the GTD. A mere 12 per cent of all 699 TTD and local-office staff believe that the *greatest number* of corrupt transactions take place at their respective structural levels. There is apparently the tendency of laying the blame at someone else's door and seeing corruption mostly in higher administrative echelons.

The distribution of corruption by *functional area* is relatively more straightforward, even though, here again, 40-45 per cent of the respondents could not, or did not wish to, identify the area in which corruption is biggest or most frequent. According to more than half of the remaining respondents, worst hit by corruption are Tax Audit and Operational Control (see Appendix 5). In all functional areas, including Tax Audit itself, the prevailing opinion is that corruption is *biggest* in Tax Audit, followed by Operational Control. Quite a few of the representatives of Tax Audit and of Collection believe that the Appeals area is worst hit. In terms of the *incidence* of corrupt dealings, Operational Control ranks first according to most of the respondents, bearing in mind that auditors accounted for one third of the sample. For their part, the officers from other functional areas claimed that corruption is not only biggest, but also most frequent, in Tax Audit.

In summary, national and international indices show that the tax administration presents the Bulgarian society with a major challenge in its fight against corruption. On the other hand, as perceived by both the general public and the business community, the tax administration is relatively less corrupt than other public institutions, and in particular, customs, the police, and the judiciary. And even though no definitive conclusions can yet be made, there are signs that corruption is on the decrease in the tax administration. International comparisons reveal a mixed picture. Some sources, such as the World Economic Forum, give the Bulgarian tax administration a fairly positive assessment in the context of the enlarged EU. Others, such as the World Bank, place it among the worst performers, below others, even in the Balkans and among the former Soviet Republics.

Outside the comparative context however, and despite some positive changes, corruption in the Bulgarian tax administration remains widespread according to both national and international indices. The business community largely believes that most, if not all, tax officers are involved in corruption. Approximately one out of five busi-

nesses has come, from time to time, under corruption pressure from tax officers. The tax officers themselves, while they do not share the taxpayers' perception of its scale, do not deny the existence of corruption. They see the administration's functional areas for Tax Audit and Operational Control as worst affected in terms of, respectively, the amounts of money changing hands and the frequency of such transactions.