

# Corruption Trends and Anti-Corruption in Bulgaria 1998 – 2006

Corruption in the forms it appears in present day Bulgarian society is a new phenomenon closely associated with the specific forms of transition in the period after 1990. The Bulgarian public identifies corruption as a negative phenomenon. However, Bulgarian society has been largely unprepared to properly identify corruption risks appearing in different social sectors. More importantly, it has not been prepared to effectively deal with corruption as a problem of governance at all levels. Governments have, in the period after 1990, constantly lagged behind the shifting balance between the public and the private spheres. The increased corruption risk associated with this shifting balance has found all governments of the country in shortage of proper mechanisms, rules, legislation and institutions to cope with existing and emerging forms of corruption and bad governance.

Practically the public debate on corruption and anticorruption policies started in 1998 when the first estimates of the levels of corruption in the country and the first comprehensive anticorruption Action Plan were presented by *Coalition 2000* at its first anticorruption Policy Forum<sup>1</sup>.

## Issues of methodology

In order to provide material for policy judgments and evaluations some basic concepts of measuring corruption levels should be defined. Data about corruption levels in Bulgaria have been gathered using the Corruption Monitoring System of *Coalition 2000* (CMS). The main concepts on which the CMS is based are:

**Administrative corruption.** This concept refers to the corruption transactions in which lower and middle level officials receive recourses (money, gifts, favors) from citizens either to provide a better service or to violate existing rules and laws. This type of corruption has been found to be characteristic for all post-socialist countries and is manifested in forms and sectors that are fairly unlikely for developed countries. The main systemic reason for the existence of this type of corruption is the nature of transition processes. More specifically this is the dynamically shifting balance between the public and the private spheres within a short period of time. Administrative corruption seems to be the negative byproduct of systemic adjustment to the new public-private balance in society.

**Political corruption.** This concept refers to corruption of high level officials in the executive, the legislative and the judiciary. In principle corruption transactions of this type involve manipulation of substantial

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<sup>1</sup> *Clean Future. Anti-Corruption Action Plan for Bulgaria. Monitoring. Corruption Assessment Indices.* Center for the Study of Democracy, Sofia, 1998.  
For a more comprehensive review of corruption trends, please refer to:  
*Anticorruption Reforms in Bulgaria.* Center for the Study of Democracy, Sofia, 2005.  
*On the Eve of EU Accession: Anticorruption Reforms in Bulgaria.* Center for the Study of Democracy, Sofia, 2006.

resources and are associated with more complicated corruption schemes (including political party financing).

**Perception based measures.** Perception based measures of corruption include accounts for the perceived spread of corruption in different social sectors (also institutions, professional groups, etc.). CMS research findings and other international research has shown that perception based measures reflect attitudes of different targets groups towards corruption and are not precise estimates of the actual level of corruption. In this respect perception based measures are dependent on situational factors and are strongly politically biased. However, they provide a fair account of public tolerance or intolerance of corruption practices in society.

**Experience based measures.** Experience based measures account for incidences of personal experience with corruption transactions. These measures are based on anonymously provided reports. The same approach is used in crime victimization research and experience accumulated since the 1960-ies has proved that obtained results are fairly accurate. Corruption transactions, which for the most part constitute criminal acts, are commonly referred to as corruption victimization<sup>2</sup>. The possibility of using sampling methods to gauge crime levels (in particular, the number of administrative corruption transactions) is based on the assumption that the incidence of such phenomena is sufficiently high; this allows a random sample to identify an adequate number of victims who can be subject to statistical analysis.

The CMS includes both perception and experience based indicators. Collecting of information started in mid 1998 and the last monitoring survey was conducted in November 2005. The main target groups addressed in CMS surveys are 1) general population (18+); 2) business sector representatives (managers of small, medium and large companies). In the period 1998-2005 a total of about 21,000 interviews have been carried out with the general public and about 4,000 interviews have been conducted with business sector representatives.

CMS monitoring surveys address mainly administrative corruption. While this is the most widespread form of corruption observed in Bulgaria, another important form of corruption - political corruption - remains out of the scope of the CMS. However, many aspects of political corruption have been analyzed in the Annual Corruption Assessment Reports published by *Coalition 2000*. The existence of political corruption is deduced largely based on indirect data: 1) high rates of administrative corruption usually exist, if they are implicitly or explicitly tolerated by the higher ranks of government; 2) the state of a number of socio-political and economic processes in the country (grey economy, organized crime, customs violations, VAT fraud schemes, drug traffic, controversial privatization transactions, political party financing, etc.) is impossible without the involvement of senior officials (legislature, the executive, and the

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<sup>2</sup> In general, the term victimization presupposes a perpetrator and a victim. In corruption-related crimes, however, both parties (the giver and the taker of the bribe or gain) are considered perpetrators. For the purposes of the present analysis, **the term victimization is used to refer to the initiation and carrying out of a corruption transaction.**

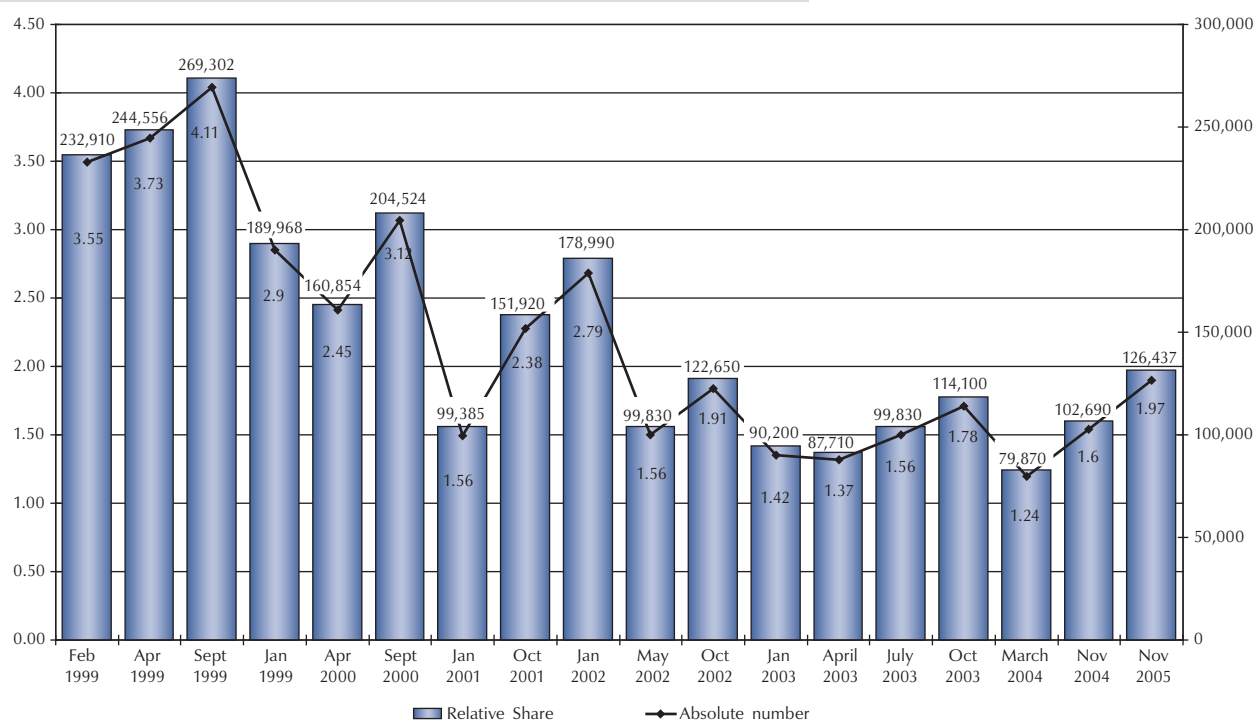
judiciary); 3) statements by numerous politicians and magistrates openly refer to a multitude of corruption transactions.

### Administrative Corruption Trends

**The main tendency of the 1998-2004 period was the gradual decline in administrative corruption in the country.** In the past year and a half, however, there have been some indications of an increase in the number of corruption deals. The level of administrative corruption rose between April 2004 and November 2005. This increase goes parallel to the increase of the number of corruption pressure cases (public sector employees exert pressure on citizens in order to engage them in corruption transactions).

In 2005, the incidence of pressure exerted by officials and of actually executed corruption deals reverted to the higher rates characteristic of the 1999-2001 period. In addition to other factors, the reversal of the trend reflects the fact that the public is decreasingly tolerant of corruption, as well as the prevalent public perceptions that corruption is widespread in all spheres of life, at all levels of state governance, and among various professional groups. It is further sustained by the public's low trust in state authorities and poor opinion of their effectiveness.

**CHART 1. AVERAGE MONTHLY NUMBER AND RELATIVE SHARE OF CONCLUDED CORRUPTION TRANSACTIONS**

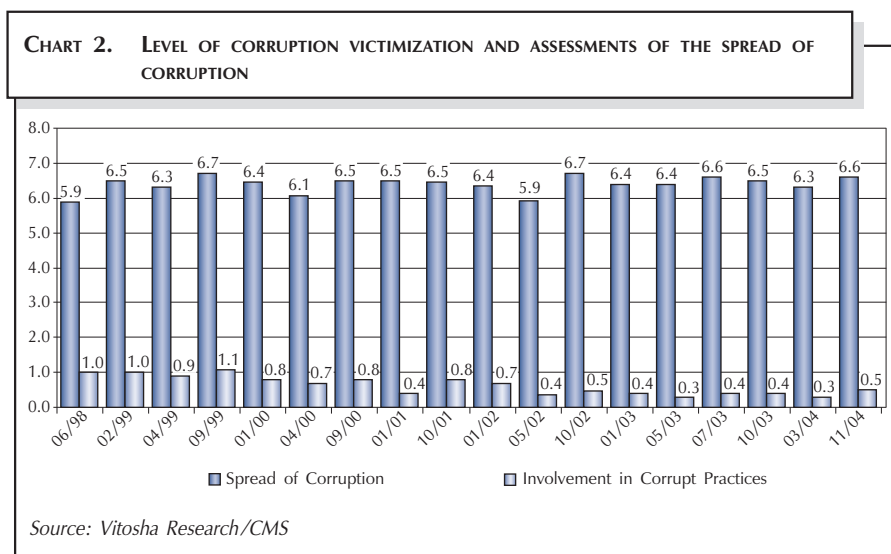


Notes: The calculations regarding the number of corruption transactions are based on the population census (March 2001), according to which the country's population aged 18 and over totals 6,417,869, and 1% of the sample corresponds to 64,180 people.

Source: Vitosha Research /CMS of Coalition 2000

In 1998-1999, the average monthly frequency of self-reported involvement in corruption transactions was fairly high; it ranged between 180,000-200,000 cases a month. In the period July 2003-March 2004 it reached its lowest level, dropping to 80,000-90,000 transactions per month (Chart 1). The lowest frequency of cases of corruption pressure by public officials was registered in March 2004.

Regardless of the fact that the overall level of corruption victimization in 2005 dropped nearly by half compared to 1998, public perceptions of the level of corruption in society practically have not improved (Chart 2).



Data since 1998 show that perceived spread of corruption by far exceeds the level of actual corruption victimization. This means that the subjective perceptions reflect **people's moral assessment of the observed levels of corruption**, showing whether observed corruption levels are perceived as too high or normal; i.e. perceptions are a qualitative assessment of the social and moral acceptability of the corruption situation in the country and not a measure of the number of corruption transactions.

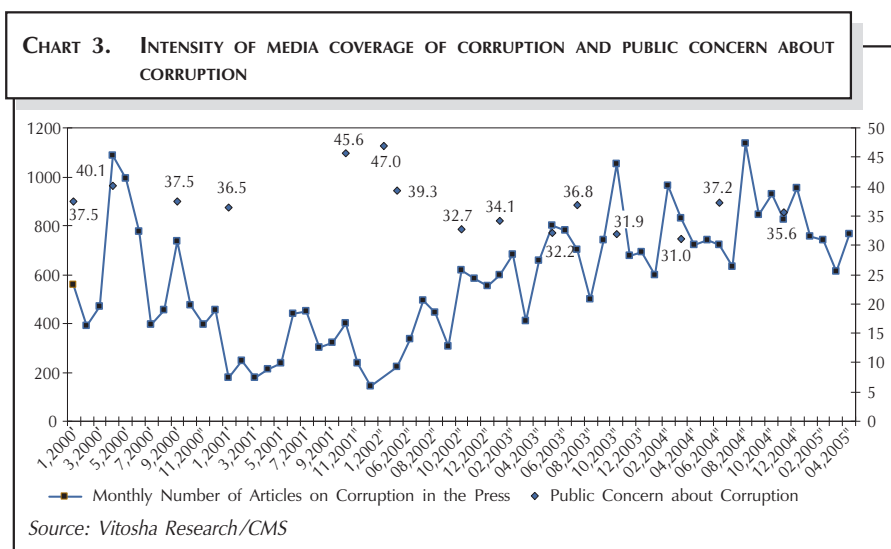
Perception indicators of the spread of corruption among different occupational groups show that perceptions differ substantially from the data about actual acts of corruption and corruption pressure exerted. For instance, despite the registered drop in corruption pressure exerted by magistrates and judiciary administrative staff this fails to find confirmation in citizens' subjective perceptions of the spread of corruption in those groups. **Politicians, MPs, ministers, and tax officials are perceived to be far more corrupt than data on corruption transactions and direct corruption pressure they exert actually show.** In terms of perceptions, the stable negative attitudes about these groups tend to intensify - perceptions of the spread of corruption marked a slight increase in late 2005.

The possible reasons for the divergence between registered levels of corruption victimization and the predominant negative public perceptions of the spread of corruption may be sought in several directions:

Firstly, the data on corruption victimization and citizens' subjective assessments refer to different social phenomena. **Perceptions of the spread of corruption** are strongly influenced by moral, ideological, and political factors. They **rather reflect citizens' trust in the institutions of the state and citizens' overall assessments of the effectiveness of governance**. Low levels of confidence in state institutions makes citizens' perceptions of the corruption situation more negative.

Secondly, the public exposure of corruption scandals without any tangible results (consequences) affects adversely public perceptions of the will of the government to counteract corruption. The lack of political will **does not influence** corruption victimization but has direct impact on the growing public mistrust in high-rank state officials and politicians. That is why, even **while the corrupt practices registered among MPs, members of government, top state officials, and political leaders are relatively few, the population's perceptions of the spread of corruption in the high ranks of state power and among the representatives of the political class are disturbingly unfavorable**.

Thirdly, the ranking of corruption among public concerns<sup>3</sup> is not influenced by the intensity of media exposure (number of corruption-related publications in the media). More intensive media coverage of corruption neither increases its perceived spread nor heightens concerns about corruption (Chart 3). The dynamics of this indicator is rather associated with changes in society's political agenda as set by the political class. Corruption tends to be high on people's minds not when the level of corruption victimization is high, but when public expectations about resolving of this problem are high.



<sup>3</sup> This indicator reflects the relative proportion of people citing corruption as one of the top three most important problems faced by Bulgarian society.

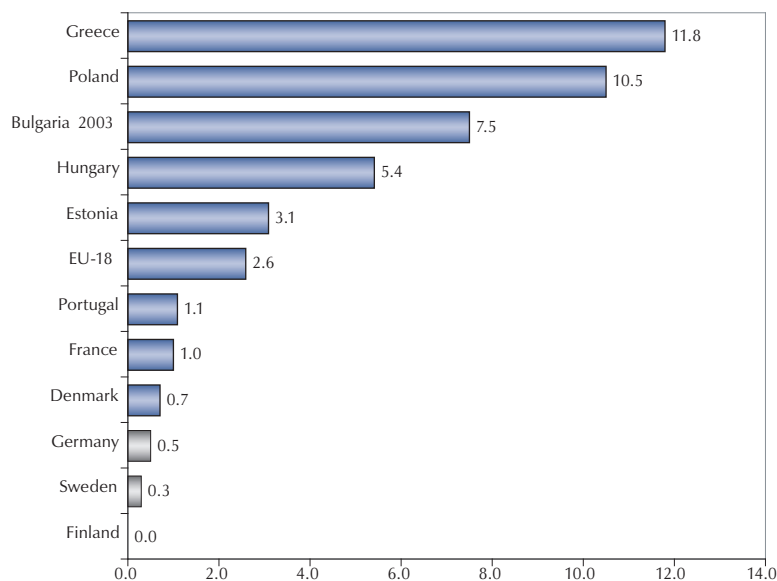
### International comparisons (administrative corruption)

All internationally recognized studies conducted since 1998 indicate that there has been a reduction in the level of administrative corruption in Bulgaria. Transparency International data show that in the period 1998-2005 Bulgaria progressed from a country of systemic corruption (an index value of less than 3) to a country of moderate corruption prevalence (an index of 4.0). This places the country in a position comparable to other old and new EU member states (Table 1). For example, Poland's 2005 index is 3.4 and Romania is 3.0, well below Bulgaria's rating. The index of Latvia, Slovakia, the Czech Republic and Greece is only better than Bulgaria's within the margin of error (0.2-0.3). The first three countries had a lower index rating before their accession in 2004 but their rapid integration has brought about a positive systemic change.

TABLE 1: TRANSPARENCY INTERNATIONAL CPI SCORES

Country	1998	1999	2000	2001	2002	2003	2004	2005
Bulgaria	2,9	3,3	3,5	3,9	4,0	3,9	4,1	4,0
Poland	4,6	4,2	4,1	4,1	4,0	3,6	3,5	3,4
Czech Republic	4,8	4,6	4,3	3,9	3,7	3,9	4,2	4,3
Romania	3,0	3,3	2,9	2,8	2,6	2,8	2,9	3,0
Slovakia	3,9	3,7	3,5	3,7	3,7	3,7	4,0	4,3
Greece	4,9	4,9	4,9	4,2	4,2	4,3	4,3	4,3

CHART 4: VICTIMS OF CORRUPTION PRESSURE FROM GOVERNMENT EMPLOYEES (%)



Source: ICVS 2004-2005.

Results of the International Crime Victim Survey (ICVS), which is based on the experience of the general public, show that the level of corruption pressure in Bulgaria is higher than the EU average but is lower than in countries such as Greece or Poland (Chart 4).

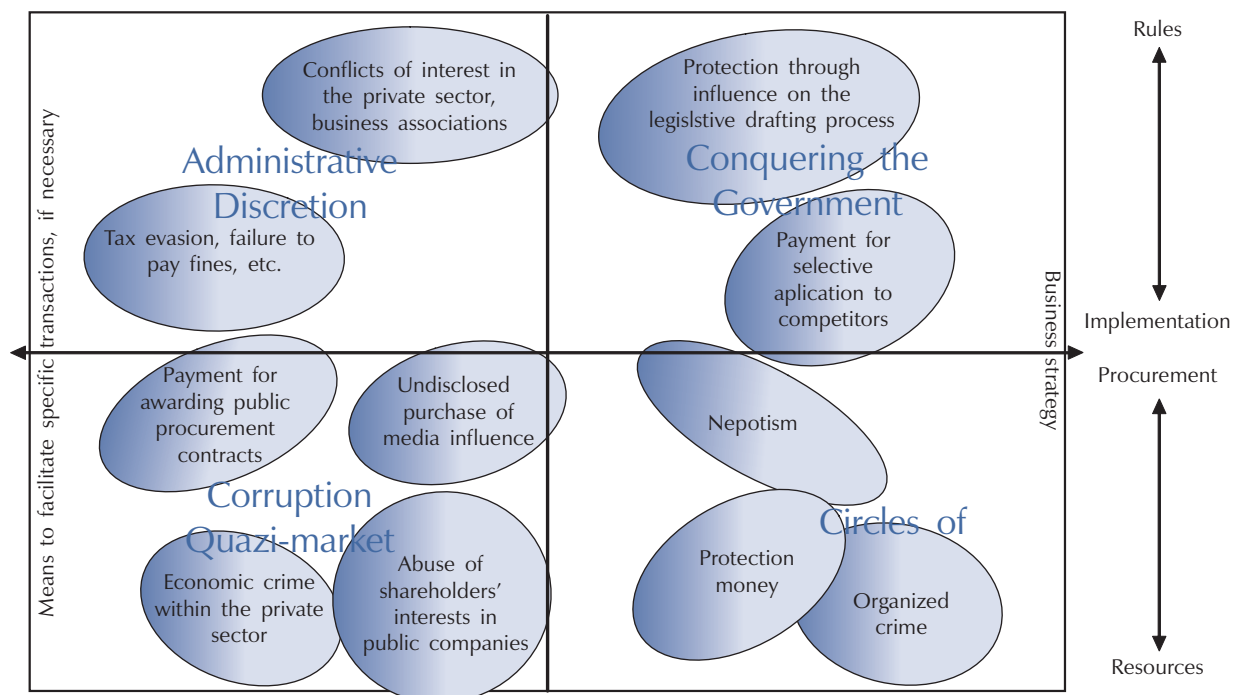
These facts are acknowledged by the European Commission. In its latest comprehensive monitoring report on Bulgaria it assesses positively the progress in curbing administrative corruption. The Commission's concern is primarily about the shortcomings in the application of anti-corruption laws, and specifically about the lack of effective prosecutions of politicians and senior magistrates.

### Political Corruption

The involvement of the government in the economy generates a number of points of potential conflicts of public and private interests in the business sphere. The legal and institutional deficits in the beginning of the transition, coupled with the lack of traditions for openness and transparency and the unstable situation in Southeastern Europe, created broad opportunities for corruption and spread of organized crime in Bulgaria. Conversely, **the progress of the country in the EU accession process and the related legal and administrative harmonization restrict and narrow the available channels for corruption and crime.**

As service delivery gradually improves and the income level of Bulgarian citizens grows, **administrative corruption** in the business sphere connected with regulatory inefficiency **tends to decrease.** However, in order for the general corruption potential in the country to be reduced on a

CHART 5. FORMS OF CORRUPTION IN THE BULGARIAN ECONOMY



Source: Center for the Study of Democracy

sustainable basis, special attention should be paid to the manifestations and remaining opportunities for **political corruption** in the economy.

**The informal political and economic networks** which evolved over the years in Bulgaria (commonly referred to as “friendly circles” and/or “loops of companies”) and the existing criminal networks and capital will seek to continue their economic and/or political monopoly under the new conditions of EU membership. This is particularly relevant to the sphere of political corruption. In the beginning of Bulgaria’s transition, political and economic corruption networks and organized criminal groups had numerous opportunities to redistribute national wealth, by siphoning state-owned enterprises and banks, bogus privatization, tapping into smuggling channels, etc. As these channels are gradually drying off, **the efforts of these networks currently refocus on control over public procurement, concessions, EU funds, VAT fraud and appointments to the executive and the judiciary intended to facilitate corruption schemes and to ensure their impunity from prosecution.**

**Politically favored companies and organizations** in Bulgaria are typically financed through public procurement contracts and concession agreements. In return, they reward their patrons through direct or indirect financing of party activities, hiring of party functionaries or their associates, payment of scholarships for overseas studies to children of senior party leaders, etc. The fact that on the eve of the 2005 general parliamentary elections the leader of one of the governing political parties admitted that such practices are commonplace corroborated the multitude of journalist investigations and NGO analyses of their existence and **reinforced the Bulgarian public’s conviction that political corruption and impunity were rampant.**

It is difficult to make an accurate assessment of the operations of the loops of companies in the absence of judicial prosecution and punishment of their actions; moreover, the transfer of resources between the public and private sector within such rings is typically carried out through perfectly legitimate channels. Nevertheless, on the basis of the available data on parties’ election campaign spending, sociological surveys and official statistics, the conservative estimates of the Center for the Study of Democracy of the **rent, - i.e. the resources deviated from the public procurement process by all parties’ loops of companies, ranges between 320 million and 370 million Bulgarian leva<sup>4</sup> in 2005.** The total direct rent is much greater, taking into account also other possible payment channels such as concession agreements. Considerably larger, much more negative and difficult to calculate are the indirect effects on the Bulgarian economy of the existence of the clientele companies – unfair competition, discouraging of entrepreneurship, brain-drain of the best and brightest young people, low corporate citizenship standards, etc.

The phase of the political cycle in Bulgaria and the nature of the government majority determine the time and amount of rent received and the number of loops of companies in operation. Although available data

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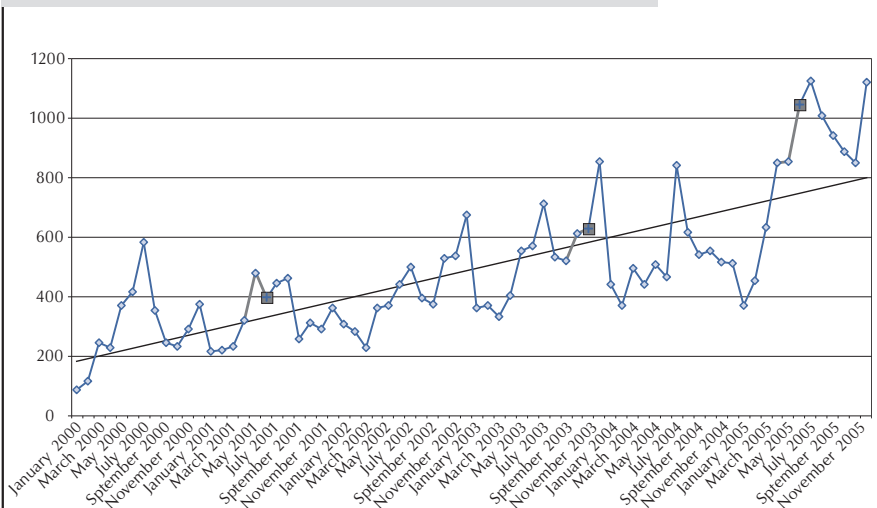
<sup>4</sup> €164 mln and €190 mln respectively.



do not allow for any firm conclusions, usually the rent is received at the end of the political cycle and its amount increases as the chances for a defeat of the governing majority in upcoming elections grow. In a strong government with one or two centers of political power, there is a limited number of “mega-loops of friends/companies”, while in coalition governments, such as the incumbent with a host of centers of political power, the number of loops is greater. For instance, the 2003 local elections were accompanied by a substantial increase of the number of companies which believed that corruption in party financing was widely spread. That growth was likely to be partially generated by the real pressure exerted on businesses by newly emerged local political interests.

The linkage between the political cycle and the distribution of rents among the party rings of companies is confirmed also by the statistically significant correlation between the peaks in awarding public procurement contracts and elections in Bulgaria in 2001, 2003 and 2005. It was particularly pronounced **in 2005 when the number of public procurement contracts signed by state institutions rose disproportionately high on a year-to-year basis** without any specific underlying reasons. The ostentatious government discretion in the allocation of a part of the substantial budget surplus accumulated in 2004 and 2005 without prior endorsement of the Bulgarian Parliament and in violation of the existing fiscal policy agreements with the International Monetary Fund creates a favorable environment for the nourishment of party rings of companies. Examples to this effect are the establishment of the state-owned Public Investment Projects company, the election raffles intended to boost voter participation, the non-transparent functioning of the Agricultural Fund and the Tobacco Fund, the national grain reserve, etc.

**CHART 6. DYNAMICS OF PUBLIC PROCUREMENT CONTRACTS AND ELECTIONS IN BULGARIA (I)**



Source: Public Procurement Agency

Whereas the formation of rings of companies is seen primarily as a strategy of politicians, the second manifestation of political corruption –

**state capture – is a strategy of the business.** Generally, it takes three forms:

**First**, lobbying for the adoption of laws and enforcement of specific regulations to the benefit of certain market players, in which neither lobbyists nor Members of Parliament disclose their interests;

**Second**, leaving deliberate loopholes in the legislation to benefit certain businesses whose lobbyists have taken part in the legislative drafting process; and

**Third**, “purchase” of selective application of certain laws to the detriment of competitors. The third type (although almost invariably complemented with the first two types) is often characteristic of the strategies of organized crime and is particularly difficult to counter.

Examples of such practices can be found in many grey sectors of the Bulgarian economy like the import of and trade in excise goods (oil products, cigarettes, etc.), the trade in antiques, gambling, etc. They are also employed by organized crime to gain political protection for continuing its illicit operations. In this sense, the rings of companies create opportunities for legitimization of criminal business activities and for “cleansing” of the public image of persons associated with corruption and crime. **These are some of the services, which politicians provide in return for the financing they get.** In fact, criminal business cannot thrive in Bulgaria without political protection and organizational and technical support coming from legitimate business structures and public administration officials. Thus racketeering groups, which sprung to life in the beginning of Bulgarian transition, have gradually merged or transformed into political and economic networks.

Another widely spread practice in Bulgaria, which is closely related to political corruption and state capture is the transition of senior administrative and political appointees (ministers, deputy ministers, chairs of independent regulatory committees, etc.) to businesses in the private sector directly or immediately after they have taken important decisions concerning the development of these companies. This practice is most common in telecommunications, the energy sector, and defense in Bulgaria. **In advanced democracies, such practices invariably attract the attention of the prosecution and the conflict of interests is strictly regulated in the legislation.**

It is extremely difficult to counter political corruption because it requires active measures to be undertaken precisely by representatives of those political elites which benefit from it. EU membership and the related pressure for political and economic reforms make it easier to move against political corruption in Bulgaria.

### Anticorruption policies

The analysis of anti-corruption efforts in Bulgaria in 2005 and first half of 2006 leads to a number of conclusions about anti-corruption policies:

(1) **The potential of the “soft” measures against corruption is being exhausted** (awareness campaigns, training public sector employees, codes of ethics, etc). These are appropriate and indispensable for success in the early stages of an anti-corruption drive. Currently, there is a need for more effective and consistent political and institutional mechanisms to curb corruption. These should be complemented by a national system for monitoring and assessment covering not only the legislative and institutional measures adopted, but also the results achieved.

(2) Reforms have thus far affected mostly administrative graft but not large-scale, political corruption. A particular challenge to anti-corruption policy in Bulgaria is posed by the **institutionalization of political-cum-business networks**. Their public flaunting by leaders of governing political parties further erode the already low public confidence in democratic institutions. The “loops” monopolize important markets in the Bulgarian economy and the opportunities arising from the country’s accession to the EU. The political and institutional checks against this type of corruption remain inadequate. Further, the institutionalization of political corruption makes it easier for criminal interests to capture state institutions thus allowing organized crime to enter the legal economy of Bulgaria and the EU with impunity.

(3) An alarming trend over the past year has been the effort by government institutions to mask reluctance and incapability for coherent action against political corruption behind **“high-visibility” operations**. Such an approach risks, however, damaging the reputation of innocent people and organizations at the expense of continuing impunity of corruption. It does not allow the consistent and proper use of the enforcement and preventive potential of penal policy. The first steps of the new prosecutor general provide an opportunity for urgently needed reform in one of the weakest links in the enforcement of criminal justice – the prosecution. Reinforcing accountability, impartiality, and professionalism, as well as the will and resolve of prosecutors are indispensable for a breakthrough in the fight against corruption and crime. These developments would open up the way for further reforms in the remaining bodies of the judiciary and law-enforcement agencies and in the longer term, for greater transparency of the political process in general.

Prevention and countering administrative and political corruption require **closer coordination among public institutions and effective anti-corruption bodies**. In this respect a step forward is the government strategy and action plan adopted in the beginning of 2006. The *Strategy for Transparent Governance, Prevention and Countering of Corruption 2006-2008* adopted by the government on January 12, 2006, replaced the Anti-Corruption Coordination Commission (ACCC) with a new Commission for Prevention and Countering of Corruption (CPCC) to coordinate the implementation of the strategy.

The main functions of the Commission are be **“the preparation of the government anti-corruption policy, Strategy implementation control, and the monitoring of basic parameters of corruption dynamics in the country”**. For the first time the Strategy points out that the prevail-

ing practice so far was to mainly direct activities at limiting petty corruption, and to a lesser extent at **corruption at the highest levels of government**, an intention to shift away from this approach being clearly declared.

The practical implementation of the Commission's decisions shall be carried out by the heads of inspectorates within the administrative structures of the executive. The heads of inspectorates within individual ministries as well as the directors of competent directorates of the Council of Ministers shall meet as a task force with the Commission, chaired by the Director of the Chief Inspectorate Directorate of the Council of Ministers. The Commission shall report for its activities before the Council of Ministers.

The following measures against **corruption at the highest levels of government** are envisaged: first, introduce mechanisms for accountability and control of persons at high positions of state, and second, guarantee accountability and transparency for political parties financing mechanisms.

A number of guarantees for transparency and accountability in the activity of public administration at central and local level are envisaged to counter corruption in **the public sphere**, as well as an increase in transparency of decision making at government level.

A priority in the government's anti-corruption policy would be the prevention and counteraction of corruption practices in the areas of **public health and education**, where major public finances are concentrated and which are of great importance for the social development of the country.

Anti-corruption measures related to the economy are quite detailed and are aimed at promoting **transparent government and control of public revenues and expenditures** at the central and local level (including European Union funds) in public procurement, concessions, tax and customs services, public-private partnership projects, as well as of mechanisms for transparency in the private sector, etc.

With a view to ensuring effectiveness of Commission operations, it is of utmost importance that the latter works in cooperation with civil society and other specialized anti-corruption commissions - at the National Assembly and the Supreme Judicial Council. Currently, there is lack of sufficient coordination among different anti-corruption institutions and organizations. The Strategy itself declares the intention to improve the dialogue with **the legislative and judicial branches of government** in carrying out criminal policy against corruption, and a closer cooperation and coordination of efforts among **anti-corruption units in all three branches of power**, to institutionalize civic control, and step up civil society cooperation in the evaluation of trends in the evolution of corruption practices, as well as the effectiveness of anti-corruption policies implemented.

The Center for the Study of Democracy took part in the preparation of the Strategy and its Program for Implementation and will be involved in the monitoring their implementation. On the regular session of May 2006 the Commission adopted a **system of indicators** for monitoring and evaluation of the implementation of the Strategy and the Program developed by the Center for the Study of Democracy<sup>5</sup>.

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**Center for the Study of Democracy**

5 Alexander Zhendov Str., 1113 Sofia

Telephone: (+359 2) 971 3000

Fax: (+359 2) 971 2233

csd@online.bg

www.csd.bg

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<sup>5</sup> *Monitoring of Anti-Corruption Reforms in Bulgaria*. Center for the Study of Democracy, Sofia, 2006.