

EXTORTION IN BULGARIA

Extortion racketeering in Bulgaria is usually associated with the early nineties and the rise of organised crime at the onset of transition from the communist regime to the market economy. The typical protection racket involving physical violence, destruction of property, arsons and bombings was the first and most profitable niche for organised crime groups in the country and remained an important source of criminal profits until the late nineties. The rackets were territorially based and systemic and were used to gain control over certain regions and infiltrate and monopolise businesses (Transcrime, 2009).

However, the first decade of the twenty-first century witnessed gradual decline in protection rackets and disappearance of the topic from the public agenda. Extortion did not disappear though, but rather transformed itself and evolved to new forms, distinguishable from the typical modus operandi and much ingrained in the various institutional capture practices that proliferated at the local level throughout the country. The new forms involve organised extortion of businesses perpetrated by public officials and corporate executives.

This evolution still remains largely unnoticed by law enforcement and criminal justice authorities in the country. This could be explained by the fact that systemic extortion of bribes by public officials tends to be interpreted and prosecuted as abuse of power, embezzlement or bribery. Although these extortion practices are often broadly classified as corruption, they are predominantly predatory in their nature and unlike other corruption transactions do not involve an exchange of benefits between the payer and the receiver of the bribe. Thus both media and government institutions fail to identify and address the systemic use of coercion applied towards a wide range of businesses, perpetrated by organised groups of public officials or in the corporate sector pursuing personal enrichment and control over a certain territory or business sector. The chapter on extortion in Bulgaria provides an insight in these new dynamics and in particular the new modus operandi, the victims and the perpetrators focusing on the sectors of agriculture and hospitality.

Extortion racketeering as organised crime was recognised and addressed by the Bulgarian legislators for the first time in 1993, when the *Criminal Code* was amended and supplemented in order to introduce provisions penalising protection racketeering. The new provisions were incorporated under the *Criminal Code* section on blackmail under the new article 213a.¹ The new provisions

¹ Bulgarian *Criminal Code*, Article 213a. (New, SG 62/97)27. "(1) Who, with the purpose of forcing another to administer a possession or his right, or undertake proprietary liability, threatens him by violence, divulging defamatory matter, damaging of property or other illegal act with serious consequences for him or his relatives, shall be punished by imprisonment of 1 to 6 years and a fine of BGN 1,000 to 3,000. (2) The punishment shall be imprisonment of two to eight years and a fine of three thousand to BGN 5,000 if the act was: 1. accompanied by a threat

introduced the key elements related to extortion racketeering: use of intimidation, use of violence, patrimonial damage to the victim; along with outlining a list of aggravating circumstances – evidence for the commitment of the act by an OCG or representatives of private protection or insurance companies and dangerous recidivism in committing the acts (i.e. continuity over time). Aggravating circumstances are also the act being accompanied by the use of explosives or arson, and perpetrated by or with the complicity of public official or when it is committed against a public official in relation to his office. Along with the incorporation of the new provisions in the *Criminal Code*, the legislators also supplemented the previous provisions on blackmail.²

In 2005, a *Law on Forfeiture of the Proceeds from Crime* was adopted, which introduced civil forfeiture in cases of extortion racketeering. The three key institutions tasked with countering extortion racketeering, along with other organised crime offences, are the General Directorate Combatting Organised Crime, the Specialised Prosecutor's Office and the Commission for Illegal Assets Forfeiture.

THE RISE AND DECLINE OF TYPICAL PROTECTION RACKET IN BULGARIA

The roots of extortion racketeering in Bulgaria can be traced back to the emergence of the first private security companies in the early nineties (Gounev, 2006; Tzvetkova, 2008). Both Gounev and Tzvetkova argue that the rise of the Bulgarian organised crime and its symbiosis with the private security companies have been largely determined by the influence of four socio-economic factors. Firstly, in the beginning of the nineties the state monopoly on the provision of security was undermined. The downsizing of the police force left numerous public and corporate properties, facilities and infrastructure without protection. Market reforms were

of murder or serious bodily harm; 2. accompanied by causing light body harm; 3. accompanied by seizure, destruction or damaging of property; 4. perpetrated by two or more persons; 5. perpetrated by a person under art. 142, para 2, item 6 and 828; 6. committed by an armed person; 7. repeated in non-minor cases.

² Article 214. (Amend., SG 10/93; amend. and suppl., SG 50/95)

(1) (Amend., SG 62/97) Who, with the purpose of obtaining for himself or for somebody else a property benefit compels somebody by force or threat to commit, to miss or sustain something against his will, thus causing him or somebody else a property damage, shall be punished for extortion by imprisonment of one to six years and a fine of one thousand to three thousand levs, whereas the court can impose a confiscation of up to half of the property of the perpetrator.

(2) (Amend., SG 62/97) The punishment for extortion under the conditions of art. 213a, para 2, 3 and 4 shall be: 1. under para 2 – imprisonment of two to ten years and a fine of four thousand to six thousand levs, whereas the court can rule confiscation of up to one second of the property of the perpetrator; 2. under para 3 – imprisonment of five to fifteen years, a fine of five thousand to ten thousand levs and confiscation of up to half of the property of the perpetrator; 3. (amend., SG 153/98) (Amend., SG 153/98) under para 4 – imprisonment of fifteen to twenty years, life imprisonment or life imprisonment without an option and confiscation of no less than half of the property of the perpetrator.

(3) The punishment for extortion shall be from five to fifteen years of imprisonment and a fine of up to five hundred levs, whereas the court can rule confiscation of up to half of the property of the culprit if: 1. it has been accompanied by a serious or average bodily harm; 2. the act represents a dangerous recidivism”.

often implemented by poor regulations, with the government institutions expected to enforce them being weak or inexistent. This was accompanied by doubling the rates of crime in the country and pervasive sense of impunity. Furthermore, most of the newly emerged businesses were in the grey economy and could not, therefore, resort to official law enforcement mechanisms, relying instead on private security services. These factors soon created demand for extra-judicial protection services, such as contract enforcement, debt collection, settling business disputes or protecting properties (Gounev, 2006; Tzvetkova, 2008).

Secondly, the beginning of the nineties was a time of large lay-offs of security personnel from the police and the army, when roughly 30,000 security officers were sacked. Similarly, the transition and the concomitant economic crisis marginalised a large army of former athletes and graduates from the sports schools, which until the end of the 1980s had been generously supported by government programmes for Olympic sports.³ Many of these unemployed former security officers and athletes started new careers in the then unregulated private security sector (Gounev, 2006). They created the backbone of the “violent entrepreneurs”, a term popularised by Volkov (2002) with reference to Russia.

This was the point when the abundant supply of unemployed men trained in the use of violence met the demand for security and order. Thus, the first years after the beginning of the transition to market economy the weakness of the institutions was soon made up by the mushrooming of numerous private security companies providing protection (Gounev, 2006; Tzvetkova, 2008). The complete absence of regulation of private security companies soon attracted many criminal actors that took advantage of the situation and under the disguise of providing private protection started to extort businesses through a variety of intimidation tactics, which included beating, mutilation, bombing and murder.

This was especially true for the private security companies established by ex-athletes also known as “the wrestlers”. The most infamous among these were VIS, SIC and Group 777. Unlike the former security officers who used their contacts and started providing services to big state-owned enterprises, public institutions and public infrastructure, the ex-athletes focused on small to medium private businesses, like night-life venues, restaurants, small hotels and shops, small to medium construction companies, kiosks and street vendors. Farmers and agricultural cooperatives were also targeted, as well as warehouse markets

³ Similarly to the former Soviet Union, Bulgaria had a very well developed system for training professional athletes in the Olympic sports. There was a network of sports schools where large 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, thus leaving tens of thousands of athletes to fend for themselves. The actual start of this process was set in 1991 when a group of well-known Bulgarian athletes (Olympic and world medallists) 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 promptly regulated private security 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 Defence employees, a large number of former athletes and even criminals who had been given amnesty (1990) not only obtained legal jobs but also the right to carry arms and demonstrate force in an environment of general insecurity. This was the emergence of an “army” of experienced armed people who actually served as a legal cover for the emerging organised crime.

for agricultural goods. The results soon followed – agricultural markets and tourist resorts fell under the control of certain criminal groups, which entailed bankruptcy of non-compliant businessmen, distortion of competition, price fixing and concentration of resources within the hands of few privileged entrepreneurs (Gounev, 2006; Tzvetkova, 2008).

In 1994, the decision of the government to step in and regulate the sector led to the dissolution of most of the notorious private security companies engaged in extortion, but only to see these re-emerge a year later as private insurance companies and thus transforming protection racket into insurance racket. Only in 1998, after the introduction of new stringent regulations in the insurance sector and a bigger commitment by the government to fight organised crime in the context of accession to the EU, typical extortion racketeering involving wide-spread use of violence was curbed and started to decline. Further steps in the same direction was the adoption of the new *Law on Private Security Services* in 2004 and the *Law on Private Enforcement Agents* in 2005, which further diminished demand for the kind of extra-judicial protection services that the violent entrepreneurs were providing. As a result, the majority of the notorious organised crime groups from the nineties preferred to launder their criminal profits by participating in the privatisation of state-owned assets and transformed themselves into companies with large and diverse holdings. Some of the violent entrepreneurs from the nineties decided to step in and get a grip over certain black markets such as smuggling of goods, drug trafficking, prostitution (CSD, 2007; Tzvetkova, 2008).

BACKGROUND OF ORGANISED CRIMINALITY IN THE COUNTRY

Bulgaria is one of the Eastern European countries which have undergone the most difficult transformations from its totalitarian regime. As a result, it was also among the states most hard-hit by the crime wave in the 1990s. In the context of stagnant reforms, with the corrupt exploitation of state property by the elites of the transition and with the dismantled or corrupt law enforcement and judicial institutions, the breaking of the law and economic crimes became a political and economic necessity. In other words, in countries like Bulgaria organised crime was not so much a deviant phenomenon but stemmed inexorably from the specific characteristics of the transition (see CSD, 2007).

A starting point in assessing the extortion in Bulgaria is the fact that violent entrepreneurs have been one of the many forms of manifestation of criminal structures in the country. CSD's (2007) conditional classification of three types enables a more precise and realistic description:

- **Violent entrepreneurs** whose activity was initially largely based on violence, providing protection in exchange for payments, collecting debts for a share of the collected amount and dispute settlement.
- **Extreme-risk entrepreneurs.** They were more likely to be permanently involved in continuous criminal activity in view of the competitive advantages of this type of "entrepreneurship".

- **The oligarchs** (akin to the notorious Russian model) – large business structures using central government, municipal or judicial power to redistribute and concentrate national wealth, to secure oligopoly and monopoly profit in various economic sectors, not only through corruption and clientelism but often by resorting to violence.

All three groups shared the aspiration to capture markets regardless of the methods of operation. Moreover, entry into the various legal, grey, and black markets took place within the context of the restructuring of the planned economy into a market economy and its liberalisation accompanied by the arrival of big international companies (Table 1).

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

Violent Entrepreneurs	Extreme-risk entrepreneurs	Oligarchs
Sources		
<ol style="list-style-type: none"> 1. Former sportsmen in heavy athletics and highly physical sports such as weight-lifting, wrestling, etc. 2. Former officers from the Ministry of Internal Affairs. 3. Former criminal convicts. 	<ol style="list-style-type: none"> 1. Representatives of occupations requiring no education degree but with a degree of entrepreneurship under socialism: taxi drivers, bartenders, warehouse managers, waiters, etc. 2. Representatives of professional groups such as foreign trade specialists, accountants, jurists (mainly lawyers), as well as students in these subjects. 3. Former criminal convicts. 	<ol style="list-style-type: none"> 1. Former high-ranking business executives. 2. Former communist-party functionaries. 3. 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.

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

Violent Entrepreneurs	Extreme-risk entrepreneurs	Oligarchs
Markets – initial emergence		
<ol style="list-style-type: none"> 1. Providing security for hospitality companies, retail companies and outlets, and entertainment establishments. 2. Debt collection, punitive actions, mediation in conflicts between businesses. 3. Trafficking from and to the former Yugoslavia. 4. Trafficking in excise goods – spirits, cigarettes, crude oil. 5. 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"> 1. Trade in scarce goods – starting with mass consumer goods such as cooking oil and sugar in the first months of the 1990 spring crisis. 2. Ranging from the import of used cars and spare parts to car and registration fraud schemes. 3. Ranging from trade in real estate to speculative operations such as buying up municipal and state-owned housing, including by eviction of tenants. 4. Trade in foreign currency, including currency speculations. 5. Participation in the black markets, including prostitution and drugs. 	<p><i>Conquering key markets by:</i></p> <ol style="list-style-type: none"> 1. Setting up financial companies – financial companies, banks, etc. 2. Controlling the input and output of state enterprises. 3. Creating, gaining domination and control over mass-media. 4. Controlling large shares of mass markets (cartels). 5. Partnering with risk entrepreneurs and setting up holdings present in as many markets as possible. 6. Establishing strategic alliances with big multinational corporations.
Markets – second stage		
<ol style="list-style-type: none"> 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). 		

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

Violent Entrepreneurs	Extreme-risk entrepreneurs	Oligarchs
<i>Cooperation between the three groups</i>		
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.

Source: CSD, 2007.

NOTES ON THE METHODOLOGY

The Bulgarian country report examine extortion practices in the period following the years of emerging and proliferation of extortion racketeering in Bulgaria, as apparently extortion practices in Bulgaria did not disappear with the consolidation of the rule of law in the country. The decision of the criminal leaders to launder their profits and move into the legitimate economy eventually led to transplanting their intimidation tactics in the legitimate sectors, where they started to operate and use these tactics to establish monopolies over certain regions or businesses (Tzvetkova, 2008).

The evolution of extortion racketeering in the last 10-15 years and its disappearance from the priorities of law enforcement institutions have turned it into a challenging research area. Not only is data on such crimes scarce but, as the analysis below would demonstrate, many forms of extortion are not regarded as such by law enforcement and judicial authorities, although they hold all characteristics of this type of crime. Problems with collecting data on extortion incidents are also related to the very low percentage of such incidents being investigated and eventually prosecuted. Therefore it is extremely difficult to identify judicial case files related to extortion from the last 10 years. The current study consulted the existing public statistics collected by the police and the judicial system. Additionally, a business victimisation survey among 1,000 Bulgarian companies was carried out in an attempt to collect statistical data on the extortion rates.

A substantive part of the current analysis relies on the case study method, which aims at identification of particular extortion incidents in the last 10 years in order

to capture in detail the characteristics of the victims, the perpetrators and the modus operandi of OCGs. The incidents were identified through search in the European Media Monitor database for media reports and in the Bulgarian case law repository APIS Practice for judicial case files related to extortion racketeering. The data was complemented with interviews conducted with law enforcement and judiciary officials and victims of extortion. A large part of the incidents analysed in the study have been identified through media reports and in-depth interviews, as part of them never made it to court and the rest were in the court trial stage. The analysis of the hospitality sector relied on information from case studies and interviews with magistrates with long experience with extortion and corruption, high-level officials from the Ministry of Interior and the tax administration.

Certainly various limitations are inherent in these data, such as lower reliability of the details provided in these reports or interviews, as well as various missing aspects related to the particular crime incidents. However, the recent proliferation of the new forms of extortion and its importance as an organised crime threat outweighs the risks associated with operating with lower reliability of data.

EXTORTION IN THE AGRICULTURAL SECTOR

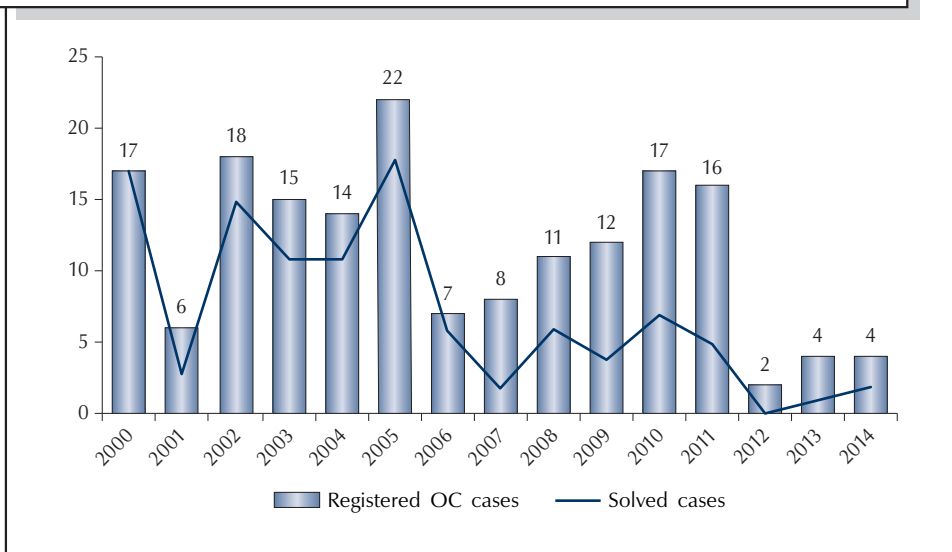
The analysis of extortion racketeering in the agricultural sector should take into account two important contexts – the criminal context in the country and the overall socio-economic context in the agricultural sector, as well as the role of the EU funding as an important catalyst. This section summarises the existing data on national and, where possible, regional level.

THE CRIMINAL CONTEXT

Data availability

Statistics on organised crime in Bulgaria and specifically on extortion racketeering targeting businesses appear to be quite scarce and unreliable. The only institution that currently provides data on extortion racketeering as organised crime is the Ministry of Interior. However, these statistics should be analysed with caution, as police statistics are much influenced by factors such as trust in the police and police priorities in countering crime over time. The available data covers the period from 2000 to 2014, whereas for the violent period in the 1990s proper statistics are missing (see Figure 1). The available judicial statistics do not

Figure 1. Annual number of OC related cases of extortion registered by the police in Bulgaria

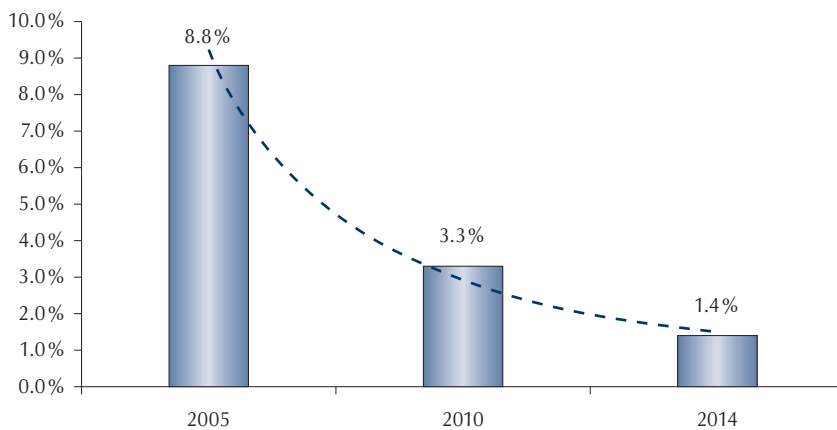


Source: Ministry of Interior, Police Statistics 2000 – 2014.

discriminate between blackmail of individuals and extortion against businesses, neither do they indicate which part of the offences is related to organised crime. Thus, the statistics could not be indicative of the trends in this type of organised crime. The trend for reporting extortion incidents from 2000 to 2014 indicates an overall decrease, save for a short resurgence in the years of the financial crisis 2008 – 2011.

This trend is also corroborated by data from the National Business Victimization Surveys carried out by CSD in 2006, 2011 and 2015 (see Figure 2). There is a steep decline in the share of companies that report intimidation and threats. About one third of the companies that admit being victims of extortion in 2014 filed reports to the police (37 % of the cases registered in the full sample). The comparison with the extremely small number of extortions registered by the Mol in 2014 suggests that there may be some police filter with respect to this crime. The survey results from 2014 indicate that companies in four economic sectors reported extortion – hospitality, agriculture, construction and repair of motor vehicles. Notwithstanding the small number of reported cases within the survey sample, it could be tentatively concluded that these are the 4 major economic sectors where extortion takes place in Bulgaria.

Figure 2. Companies that reported being victims of intimidations and threats



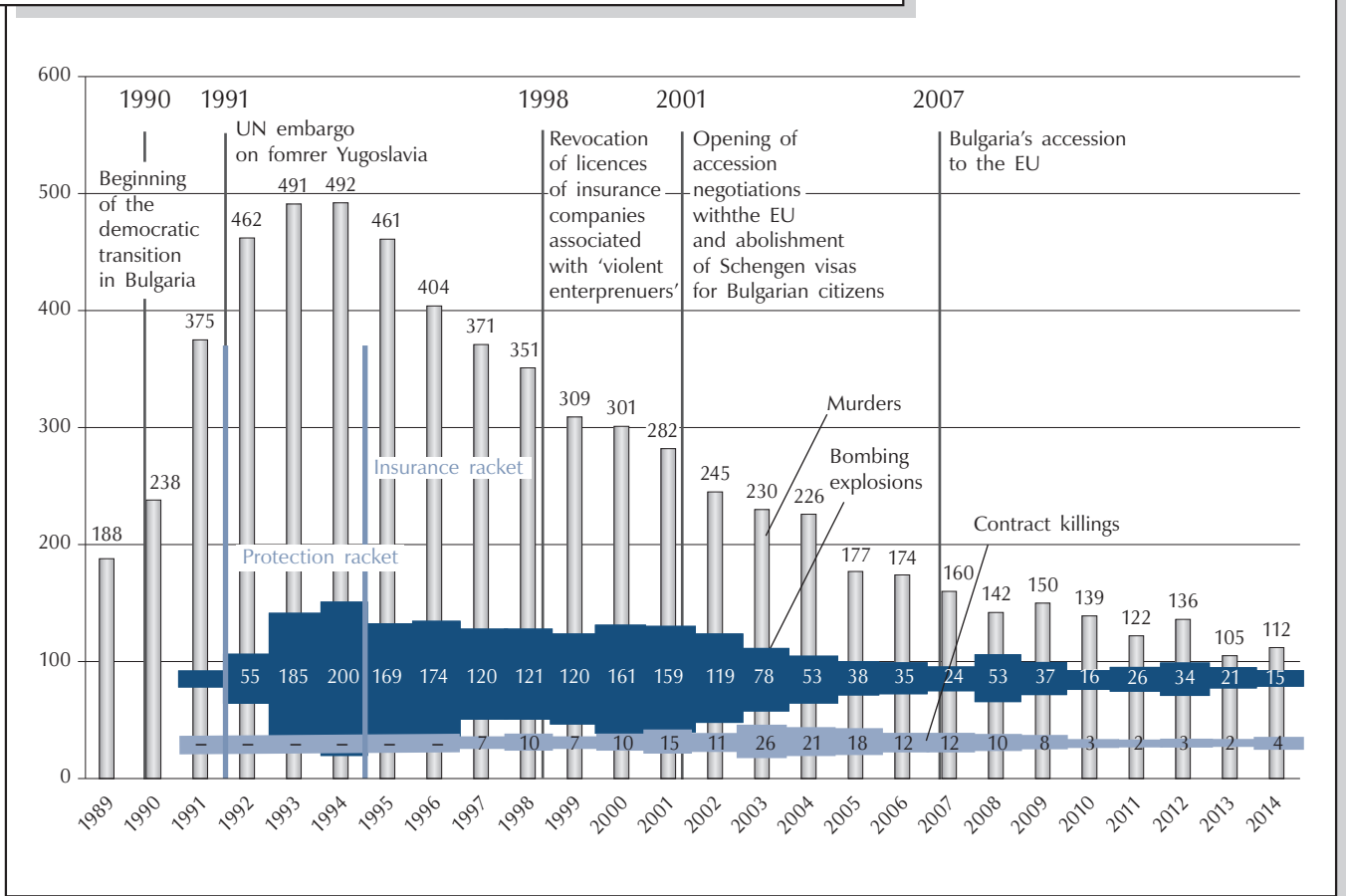
Source: CSD, National Business Victimization Surveys 2006, 2011, 2015.

The number of registered offenses related to establishing or participating in OCGs seems to be a poor proxy indicator, inasmuch as before EU accession the police registered between two and seven such offences per year. Some idea on the current levels of organised crime in the country provides a recent announcement of the Chief Commissioner of the General Directorate Combating Organised Crime, who stated that in 2015 280 organised crime groups comprising of 1,200 offenders were identified in Bulgaria. The main crime areas identified by the

Directorate included smuggling of goods, human trafficking, drugs trafficking and trafficking in antiques (Михова, 2015).

As an additional form of assessment, Gounev (2006) and CSD (2012) have also used police statistics on bombings as a proxy indicator for the levels of violence in the country and inter alia the levels of extortion racketeering (Figure 3).

Figure 3. Police registered cases of murders, explosions and CSD assessment of murders of public figures and criminals



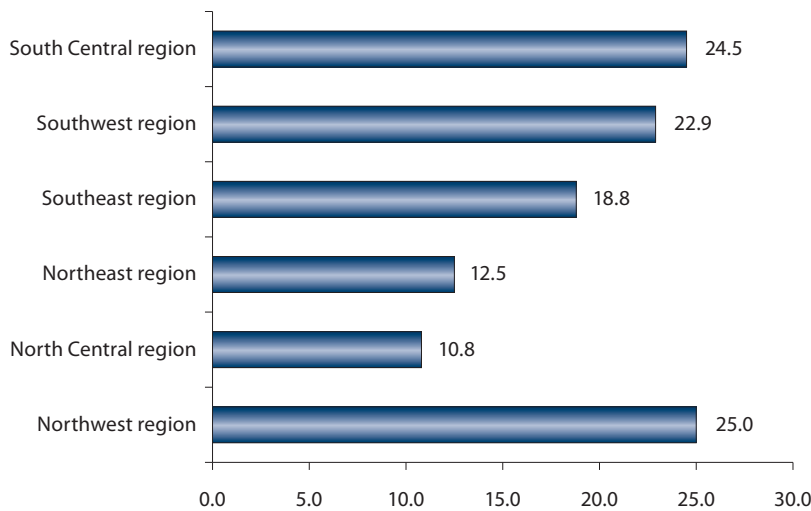
Source: Calculated on the basis of CSD, 2012 and Mol data.

The assumption behind this choice is that such data could be difficult to filter and reduce when registered by the police. The number of registered offenses related to establishing or participating in organised crime groups also seem not to be a useful indicator, inasmuch as the available statistics are rather indicative of the changes of police priorities over time than of actual levels of organised crime (for example, for the first half of the 2000s Bulgarian police registered 17 such crimes in total).

Police statistics on corruption crimes also show very low level of this type of offence. For example, in 2014 only 97 acts of bribery were registered.

However, according to the latest Eurobarometer the levels of corruption in the country remain very high – 27 % of the companies reported being asked to pay bribes, compared to the average 5 % for EU-27 (European Commission, 2014). A more recent business corruption survey that was carried out by CSD in 2015 indicated that on average 20.7 % of Bulgarian companies report corruption pressure from the public administration. The survey also captured certain regional differences in terms of corruption pressure on businesses – the most affected regions appeared to be the North-western region and the South Central region (Figure 4).

Figure 4. Share (%) of companies reporting corruption pressure from the administration by NUTS-2 regions



Source: CSD, National Business Victimisation Survey, 2015.

Companies operating in the shadow economy are considered to be in high risk of extortion (CSD, 2010; Gounev, 2006), so its size could also be indicative of the level of extortion in the country. The size of shadow economy in Bulgaria reached 31 % of the GDP in 2015 and is the highest in the EU, given that the average share for EU-28 is only 18.3 % (Schneider, 2015).

SOCIAL AND ECONOMIC CONTEXT IN THE AGRICULTURAL SECTOR

The study of extortion in the agricultural sector should also take into account the socio-economic processes related to the major transformations of the land and farm structure in Bulgaria. The annual statistics collected by Eurostat on agriculture and rural development allow for detailed overview and analysis of these processes.

Agriculture is a typical economic activity for the predominantly rural regions⁴ and Bulgaria still preserves a large share of population living in such regions – according to Eurostat 37.3 % of Bulgarians reside in such regions. This share is above the average of 22.6 % for EU-28, but still below the average of 40.1 % for the EU-N13 (DG AGRI, 2014). There is a steady tendency of decline in rural population and in the period 2000 – 2014 the inhabitants of rural areas decreased by 3.5 %. This is partly due to the fact that unemployment rates in these regions are almost twice as high as in urban areas of the country – 18.0 % in rural areas compared to 10.2 % in urban ones. Unemployment rates in Bulgarian rural regions are also twice as high compared to the average rates in rural areas for EU-28 and steadily increasing since 2009 (DG AGRI, 2014).

The Bulgarian agricultural sector in socialist times was mostly composed of large state-owned farms following the Soviet *kolhoz* model, where the average size of the farmed land was typically 2,000-3,000 ha (Hubbard & Hubbard, 2008). However, in the transition period after 1989 the state-owned collective farms were dissolved as part of the comprehensive land reform and the land was restituted to its previous owners or their heirs. The reform resulted in a large fragmentation and dispersion of the land estates and the average estate became 0.58 ha for arable land and 0.32 ha for pastures. Furthermore, there were on average 3-4 inheritors of each estate (Yanakieva, 2007). The economic crisis in the beginning of nineties also had a significantly negative impact on the sector due to a number of negative tendencies: the collapse of the old Comecom⁵ markets; the decline of the purchasing power of households; the instabilities accompanying the privatisation and the concomitant instabilities in the food supply chains (Hubbard & Hubbard, 2008).

Currently, the primary sector⁶ in Bulgaria accounts for 4.9 % of the GVA in the country, which ranks Bulgaria second after Romania among EU-28 and indicates the importance of agriculture in the economy of the country. Member states with similar structure of the economy include Croatia, Latvia and Hungary (DG AGRI, 2014). The primary sector of the country provides for 19.2 % of the employment, which again ranks Bulgaria second after Romania in this regard. The biggest share of the labour force engaged in agriculture are sole holders and family members working in the farms – 92.2 % of all engaged in the sector. Somewhat similar importance of the primary sector for the employment rates is observed also in Greece, Portugal and Poland, although in these countries primary sector provided for half of the employment rate present in Bulgaria (DG AGRI, 2014). However, for the period 2007 – 2012 the primary sector has faced a steady negative annual average growth by 2.2 %, despite that GVA marked a steady increase by 2.8 % annual average growth for the same period (DG AGRI, 2013).

⁴ According to Eurostat terminology 'predominantly rural' are regions with 50 % or more of the total population living in rural areas.

⁵ Comecon – Council for Mutual Economic Assistance – an economic bloc comprising the then communist countries from Eastern Europe, which existed from 1949 to 1991.

⁶ According to Eurostat classification the primary sector comprises Agriculture, Forestry and Fishing.

The total agricultural lands are 4,475, 530 ha of which 69.8 % are arable land, 27.7 % are permanent grassland and meadows, 2.2 % are permanent crops and 0.2 % are kitchen gardens. The access to EU funding for the agricultural sector in Bulgaria contributed to a steep rise of utilised agricultural land by 47 % in the period 2007 – 2010, which includes a significant increase of the arable land by 460,000 ha and a massive increase of the permanent pastures by 961,000 ha at the expense of registering common lands as permanent pastures (DG AGRI, 2013). This led to a major restructuring of utilised agricultural lands and tripling of the share of the permanent pastures from 9.2 percent in 2007 up to 27.7 % in 2010.

According to the latest data reported by DG AGRI, there are 370,490 agricultural holdings (farms) in the country with average utilised agricultural area of 12.1 ha per farm, reflecting the legacy of the land reform and the restitution in the beginning of nineties. However the distribution of the existing agricultural holdings according to the average size of the farms is quite skewed, as 91.4 % of them manage less than 5 ha, whereas 6.4 % manage between 5 and 50 ha and 2.1 % – 50 or more hectares (DG AGRI, 2014). It should also be noted that between 2007 and 2010, the average physical farm size has increased by 95 % from 6.2 ha/farm to 12.1 ha/farm. This was accompanied by a drastic reduction of the number of farm holdings by 25 % and clearly marks the gradual concentration of the agricultural land in a few extra-large farm holdings that cultivate thousands of hectares.

There are quite a few difficulties in determining the most affected regions in terms of extortion incidence, as the current study employed convenience sampling and the results should be carefully interpreted. However, a notable fact is that 7 out of 15 cases identified in total were in the North-western region. The region is known as the least economically developed not only in Bulgaria, but also in EU-28 as a whole. The population density according to the last national census is 44.4 persons per square kilometre, which is the lowest in the country. According to the National Statistics Institute the region contributes 7 % to the GDP of the country, with unemployment rates reaching 14.2 % compared to 11.2 % for the country. The North-western region has the largest share of agriculture in the GVA with 13 % compared with the average 5 % for the country. There were 28,520 farm holdings registered in the region for 2013 and 4 % of these were managing 100 ha or more thus covering 89 % of all utilised agricultural area. The share of large farm holdings is the highest in the country.

LAND CONSOLIDATION AND ITS SOCIAL AND ECONOMIC CONSEQUENCES

The annual statistics of Eurostat clearly indicate that during the last 15 years land in the Bulgarian agricultural sector has been consolidated in the hands of a few large-scale agriholdings – a process often described in literature as land-grabbing (Franco & Borrás, 2013; Visser, Mamonova, & Spoor, 2012). The available data indicates that these land-grab processes were further accelerated by the introduction of the pre-accession EU funds in 2001 and the EU CAP subsidies

in 2007, since the state adopted a regulation framework that favoured the big agricultural holdings over the numerous small farmers, which largely remained cut from EU funding.

Unlike land grabbing in developing countries from Africa, Latin America and Asia, which is usually associated by large multinational holdings, the process in Bulgaria was driven by domestic companies and, as the analysis below will show, often involved issues like embezzlements and extortion by corrupt local officials and shady businessmen. A comprehensive study by the World Bank had summarised the negative impacts of such rapid large-scale acquisitions of land as follows: “[...] displacement of local people from their land without proper compensation, land being given away well below its potential value, approval of projects that were only feasible because of additional subsidies, generation of negative environmental or social externalities, or encroachment on areas not transferred to the investor to make a poorly performing project economically viable” (Deininger & Byerlee, 2010).

Some of these impacts could be observed in Bulgaria as well. A recent study commissioned by the European Parliament alarmed about such “creeping” land-grab tendencies, albeit on a different scale, taking place in the EU. The study indicated that specifically affected are the EU-N13 countries including Bulgaria (TNI, 2015). The driving forces behind the processes of land grabbing are the relatively low land price in the new member states compared to the prices in the old ones, the food market concentration in EU-N13, the existing national policies in EU-N13 in support of land consolidation, the regulatory framework of the CAP funds in EU, as well as some of the recently introduced EU renewable energy policies (Ibid.).

The concentration of farmland use in the hands of the large agricultural holdings appears to be accompanied by several negative tendencies on a national and EU level. Firstly, the large agricultural enterprises tend to focus on industrialised monoculture farming that is less labour intensive and allows for economy of scale. Because of that they easily outperform in terms of profitability the small family farms, which tend to be more focused on horticulture, fruit-growing or other labour intensive cultures. Drawing on their superior market and competitive power, large corporate holdings could afford to pay higher land tenancy rents and invest in land purchases, thus steadily pushing out the small and medium farms from the agricultural markets (TNI, 2015). The decline of the family farming is further accelerated by the employment of various semi-legal and even criminal methods against the small farmers, which are analysed in more detail in the next sections of the report.

The consolidation of land use in the hands of the large agricultural producers could be deemed as a natural and even desired outcome considering their superior competitiveness and efficiency. However, EU level data show that although large in size these enterprises actually turn out to be particularly financially fragile. Many large agricultural holdings rely on external credit and their economic performance is quite dependent on global commodity markets – e.g. the price of wheat grain on world stock exchange markets. Therefore these enterprises are much more vulnerable to economic and financial shocks and much more likely to become

insolvent. This was the case in Denmark and the Netherlands during the economic crisis in 2008 – 2009, when many large-scale farms went bankrupt (TNI, 2015).

Land concentration and monoculture farming also appear to be associated with a number of environmental problems resulting in land degradation. The extensive industrialised type of farming, which is practiced by the large agricultural producers, is often accompanied with intensive use of agrichemicals and mechanised deep ploughing. These practices have a number of negative environmental impacts such as destruction of soil structure and increased risk of soil erosion, pollution of groundwater resources, loss of biodiversity (Ibid.).

Furthermore land grab practices and the decline and marginalisation of family farming appear to strongly correlate with the soaring of rural unemployment, which usually is shortly followed by increase in outbound migration towards the big cities and abroad (Ibid.). These negative tendencies typically result in permanent depopulation of rural areas, which is a harsh reality already largely observed in some regions in Bulgaria. In the long term, these tendencies are also associated with irreversible loss of local agricultural traditions, undermining of the national food security and increasing dependency on import of foods.

The irreversible negative long-term impacts of rural economic decline and depopulation driven by land use consolidation in the hands of few large land owners is not something new for Europe. A classic example from the eighteenth century is the case with the highland pastures in Scotland, which were consolidated to large land tracts and handed over to a handful of big landlords for sheep rearing. Sixty years later when the price of wool collapsed due to the cheap import from Australia, most of the local population left these areas as the labour requirements drastically decreased. Thus, the Scottish Highlands permanently turned into beautiful empty landscapes (TNI, 2015).

EU SUBSIDIES AS A CATALYST OF RECENT ECONOMIC AND CRIMINAL DYNAMICS

The accession of Bulgaria to the European Union and the opportunities for access to EU agricultural subsidies turned the agricultural sector especially attractive to both licit and illicit entrepreneurs. The entering of large-scale commercial farm holdings in the sector was soon followed by local oligarchs and criminals looking for opportunities to launder illicit funds or gain easy profits. The generous agricultural subsidies also attracted the interest of many white-collar criminals – unscrupulous local politicians and civil servants involved in abuse of office, bribery, etc. (CSD, 2012; Petrunov, 2010). The increasing interest in investing in the sector was accompanied by major changes both in land and farm structure.

The changes in farm and land structure was largely driven by the economic recovery after 1998 and the access to EU pre-accession funding and subsequently to the CAP funding instruments in the beginning of twentieth century. The agricultural sector started to attract the interest of big commercial shareholder

companies and by 2003 they already managed 16 % of the utilised agricultural land (Meurs & Bogushev, 2008). Since 2001, Bulgaria has had access to SAPARD⁷ funding, which was devised as a specific financial instrument to aid the structural adjustment of the agricultural sector to the Common Agricultural Policy in EU. However, from the very beginning the selection criteria of the potential beneficiaries and hence the implementation of this instrument favoured a few medium to big agricultural holdings over the numerous small holders. Thus, it further exacerbated the imbalances in the sector, where the big producers got even bigger, while small holdings remained small and uncompetitive (Metis, 2013). This triggered the process of further consolidation of the land use by a relatively small number of large producers, which later with the introduction of the Single Area Payment Scheme (SAPS) in 2007 expanded exponentially.

SAPS in Bulgaria envisaged flat-rate, per-hectare payments irrespective of what the land is used for, as long as it is kept in good agricultural condition. Furthermore, the Bulgarian government opted for a minimum threshold of 1 hectare of utilised land per farm holding in order that it would be eligible for subsidising. This excluded about half of the small farm holdings from the payment scheme. Secondly, the mechanism provided incentives for further consolidation of the land use, since there was no upper threshold for receiving subsidies; in addition, the large-scale farm holdings already had a competitive advantage because of the economies of scale (Hubbard & Hubbard, 2008).

As a result in 2013, five years after the introduction of SAPS direct payments, 84 % of the utilised agricultural land (3,890 thousand hectares) was cultivated by only 3 % of all farm holdings (6,160 farms) managing 100 ha or more. At the same time, for the period 2005 – 2013 the overall number of registered farms plummeted by 47 %, which was largely due to reduction of the small semi-subsistence farms tilling less than 1 ha (Eurostat, 2016). An illustration of the distortion driven by the CAP payments is that in 2014 there were 33 beneficiary companies that each received over €1 million in subsidies. Moreover, there were reports that some of the beneficiaries controlled more than one companies and, for example, a single beneficiary received €15 million from EU subsidies in 2014 only (Fermera.bg, 2014). The rapid increase of the lands used for pastures and meadows was also driven by the interest of big farming holdings operating 100 ha or more, because of a similar to SAPS payment scheme for subsidising management of pastures and meadows. The data shows that while in 2005 only 26 % of the pastures were managed by farm holdings operating 100 ha or more, in 2013 the share of the pastures managed by large farm holdings reached 84 % (Eurostat, 2016).

These processes are not unique to Bulgaria. Existing data shows that CAP regulations have had similar negative impacts across a number of EU member states, but are particularly striking in Central and Southeast Europe. Bulgaria appears to be one of the most affected, since the SAPS mechanism has brought to 1.1 % of all CAP beneficiaries receiving 45.6 % of all paid subsidies. Such levels of concentration of subsidies in the hands of the largest beneficiaries are comparable only to Romania (Table 2).

⁷ Special Accession Programme for Agriculture and Rural Development.

Table 2. Distribution of CAP Direct Payments in 2013, for selected MS

Member state	The top x% of beneficiaries	Received x% of the CAP direct payments
Romania	1.1	51.7
Bulgaria	1.1	45.6
Hungary	0.9	38.5
Poland	2.0	28.5
Germany	1.2	28.4
Italy	0.8	26.3
Spain	1.3	23.4
UK	0.9	14.4
France	1.2	9.0

Source: TNI, 2015: 36.

The introduction of the new regulatory framework for the period 2014 – 2020, including the new rules for upper threshold cap for the direct payments are promising with regards to curbing or offsetting the structural deformations observed in the previous period. Certainly, the big agricultural holdings would not give up easily the guaranteed steady incomes stemming from CAP funding. As it was already pointed out, many of the big CAP beneficiaries have embraced the strategy to channel their activities through a number of related companies. Thus, the subsidies are divided among several enterprises, although the beneficial owner is one and the same.⁸ This business strategy was completely legitimate according to the previous 2007 – 2013 CAP regulatory framework. However, with the adoption of the new framework and the new upper threshold cap, such practices could be deemed an unlawful bending of rules. Therefore, if the beneficial owners do not notify the affiliation of the companies they controlled to the State Fund Agriculture, they could be prosecuted for EU funds' fraud.

THE PERPETRATORS

Several diverse profiles and modi operandi of the extortion racketeering perpetrators in the agricultural sector were identified in the course of the study. Their analysis suggests that although the protection racket method of the 1990s is still practiced,

⁸ An investigative report by the weekly *Capital*, drawing on data from the Bulgarian Commercial Register reveals that *Oktopod Invest Holding* controls 5 companies, which are beneficiaries of SAPS direct payments – i.e. Troya-avto EOOD, ET Desi-Svetla Simeonova, Resen EOOD, Sortovi semena Vadim EAD, ET Svetlozar Dichevski. The report also provides examples for other owners controlling a number of big beneficiaries (Иванова & Ватева, 2014).

it has been largely overtaken by extortion exercised by corrupt local officials and shady businessmen employing criminal methods. The section below outlines the key characteristics of the criminal groups or networks involved in these extortion cases and provides a basic typology of the extortion racketeering models.

Types of extortion

Extortion racketeering in the academic literature is usually referred to as a defining activity of organised and mafia-type crime, where organised crime is either considered as a competitor to the state in the field of providing protection and enforcement of contracts or a pure predator that thrives on the weakness of the state (Čábelková, 2001; Konrad & Skaperdas, 1998; Reuter, 1982; Transcrime, 2009; Volkov, 1999). However, systemic extortion perpetrated as predatory activity by white-collar criminals from the corporate world or by public officials has largely remained outside the scope of extortion research.

Extortion by politicians and public officials – also known in common law as “extortion under colour of office” (Lindgren, 1993) – has long been criminalised in some national legislations including the Bulgarian *Criminal Code*, where the involvement of a public official is considered an aggravating circumstance. Extortion by perpetrators in official capacity has been addressed in the research on corruption, although authors have either referred to it as “institutionalized corruption” (Charap & Harm, 1999), “predatory corruption” (Khan, 2006), or “bribery” (Rose-Ackerman, 2010), which in many cases have been used interchangeably with extortion. However, analysis of law practice with regards to the offences of bribery and extortion has shown that the legal distinction between these two offences is not only far from straightforward, but also hard to justify in court (Lindgren, 1993).

Public choice theorists have also coined the term “rent extraction” to describe such kind of extortion behaviour by public officials, where they abuse their vested powers in order to extract rents from businesses (McChesney, 1988). Rent extraction as concept has probably tapped most precisely the predatory and coercive nature of this type of official misconduct. Extortion perpetrated by public officials has also been outlined as a particular form of corruption, which is spread not only in developing countries, but also in the post-communist societies (Sajó, 2003). UNODC have also listed extortion as one of the forms of corruption (UNODC, 2004).

The current analysis will argue that extortion perpetrated “under colour of office” is different from bribery for the following reasons:

- **It is systemic** – i.e. it is targeting more than one victim and it is enduring in time;
- It is perpetrated by loosely structured networks including public officials and often – local businessmen – i.e. **it is organised**;
- **It is predatory** in nature, i.e. the victim does not receive payoffs from the corrupt transaction, but rather pays to the public official in order not to suffer patrimonial damages.

Less examined remains the extortion perpetrated by business entities, although extortion is occasionally discussed as a form of corporate crime (Green, 2007; Shichor & Geis, 2007). However, in the literature on land grabbing, some authors have referred to extortion as an intimidation tactic employed by some large companies (Visser, Mamonova, & Spoor, 2012).

General characteristics of the perpetrators

The organisations that have been identified in the case files can be classified under four distinct types – loosely joined corruption networks, family-based organisations, legitimate companies employing criminal methods and hierarchical OCGs. This classification is rather provisional, as many common characteristics are shared between all four types. For example, the networks are most often comprised of corrupt public officials, but in many cases they collaborated and acted in favour of local businessmen, who were owners of legitimate companies. Overall, most of the perpetrators match the profile of white-collar criminals and only in a few cases the perpetrators were organised crime figures. All identified cases involved perpetrators of Bulgarian ethnicity and only in 2 of the cases the perpetrators were Bulgarian citizens of Turkish ethnicity.

In the majority of the cases the perpetrators were operating in **loosely joined corruption networks** comprising of three to five core members (BG-A1, BG-A5, BG-A6, BG-A8, BG-A10, BG-A13). The network type was observed in cases where the perpetrators were mainly corrupt public officials abusing their position of power to extract bribes (BG-A1, BG-A8) or monopolise access to agricultural subsidies at the expense of other legitimate beneficiaries (BG-A5, BG-A6, BG-A10, BG-A13). The identified perpetrators include a member of parliament (BG-A8), municipal mayors (BG-A10, BG-A13), mayoralty mayors (BG-A10), a local political leader (BG-A5), representatives of the State Fund Agriculture (BG-A1, BG-A8), municipal councillors (BG-A6, BG-A8, BG-A13), municipal clerks (BG-A13). Members of these corruption networks were also involved in other criminal activities such as rigging public procurement bids and concessions (BG-A10, BG-A13), embezzlement of public funds (BG-A13), bribery and trade of influence (BG-A8), illegal logging and illegal extraction of inert materials (BG-A5).

Three of the cases involved **family-based organisations** that comprised of close and extended family members (BG-A2, BG-A3, BG-A12). These organisations to a large extent resemble the corruption networks, except for the family bonds between the members. In all three cases the leading figure was a public official (mayor or municipal councillor) who abused his position of power in favour of some family members, typically engaged in agriculture (crop growing, livestock breeding). For example, the first case (BG-A2) involved a municipal mayor and her lifetime partner (also a local political figure), who abused their position of power in order to monopolise the use of the municipal pastures and thus the access to agriculture subsidies for livestock breeders. The second case was related to a mayoralty mayor, who abused his vested powers and through document frauds, coercion and extortion managed to appropriate land estates from their owners or to force the owners to sign land-sale or land-tenant agreements. Thus, his family became the largest beneficiary of agricultural subsidies in the municipality (BG-A3).

There were also two cases, where owners of **completely legitimate companies** extorted other small farmers, cooperatives and land owners. The perpetrators were big tenant farmers who resorted to extortion in order to force small farmers and cooperatives to sign land-sale or land-tenancy contracts (BG-A7, BG-A11). The companies used various intimidation tactics in order to increase their profits and share of agricultural subsidies and get rid of their local competitors. Thus, these legitimate business structures in practice acted as hierarchical OCGs led by the owners; the latter were also involved in other criminal activities such as bankruptcy fraud (BG-A7), and electoral vote buying (BG-A11).

Some of the cases involved **typical hierarchical OCGs** with notorious local organised crime figures known for usury, drug trafficking, frauds, etc. For some of these groups there was also information about involvement in electoral vote buying (BG-14, BG-A15) and collusion with corrupt officials (BG-A9). Two of these groups exercised protection racketeering and forced local farmers to sign contracts with specific private security companies (BG-A14, BG-A15). The leaders of the other two groups have decided to invest in the agricultural business and intimidated local farmers and landowners in order to force them sell their lands or take over their tenant contracts (BG-A4, BG-A9). The groups comprised of 5-13 members.

Table 3. Main characteristics of perpetrators in the Bulgarian case studies on extortion racketeering in the agricultural sector

Case ID	Type of organisation	No. of identified perpetrators	Involvement of public servants	Occupation/core business of key figures
BG-A1	Network	3	Yes	Inspectors at Regional Directorate of the State Fund Agriculture
BG-A2	Family-based	More than 3	Yes	Mayor of municipality and local political figure, life partners
BG-A3	Family-based	4	Yes	Mayoralty mayor and his family, tenant farmer
BG-A4	Hierarchical	More than 3	No	Drug trafficking, prostitution, extortion, loan-sharking, money laundering. Licit businesses in livestock breeding, tourism, construction, transport
BG-A5	Legitimate company	More than 3	Yes	Local political leader, with licit businesses related to timber processing, construction, tourism, etc.
BG-A6	Network	4	Yes	Local political leader, municipal councillor

Table 3. Main characteristics of perpetrators in the Bulgarian case studies on extortion racketeering in the agricultural sector (continued)

Case ID	Type of organisation	No. of identified perpetrators	Involvement of public servants	Occupation/core business of key figures
BG-A7	Legitimate company	More than 3	No	Two brothers owning agricultural companies, among the biggest tenant farmers in the province
BG-A8	Network	3	Yes	Member of parliament, municipal councillor, director of a Regional Office Agriculture
BG-A9	Hierarchical	5	No	Fraud, extortion, appropriation of agricultural produce
BG-A10	Network	More than 5	Yes	Officials in the municipal authorities (mayor, mayoralty mayor, clerks)
BG-A11	Legitimate company	More than 3	No	Tenant farming, grain producer
BG-A12	Family-based	More than 3	Yes	Local tobacco trader and his extended family members. The son of the trader is a local political leader
BG-A13	Network	More than 5	Yes	Local political figures, representatives of the municipal authorities and a local businessman
BG-A14	Hierarchical	13	No	Usury and debt collection and more recently protection racketeering
BG-A15	Hierarchical	10	No	Extortion racketeering

Source: Author's elaboration on the case studies.

MODUS OPERANDI OF THE CRIMINAL GROUPS AND NETWORKS

All fifteen cases involved territorially based extortion, since the extortion was perpetrated exclusively against farmers from a specific municipality or province. Two general types of extortion could be distinguished – monopolistic racket and extortion-protection, which match a classification suggested by Monzini (Transcrime, 2009: 22-23). According to Transcrime, the extortion-protection “consists in taxation on a regular basis imposed by violent means”, whereas monopolistic racketeering “is a specific market strategy enforced by violent means and aimed at the physical elimination of the competitor, or at the creation of monopolistic coalitions.”

Monopolistic racketeering

Most of the cases identified are linked to monopolistic racketeering, where the perpetrators employed a variety of means and tactics in order to monopolise the access to agricultural subsidies in a given region and eliminate the competitors. Through intimidation, the perpetrators usually pursued two main goals: 1) To force landowners and farmers to sell their land or sign tenant agreements (BG-A3, BG-A4, BG-A7, BG-A11); 2) To force potential beneficiaries (usually other small farmers) to concede their legally established rights for access to agricultural subsidies in favour of the perpetrators (BG-A2, BG-A5, BG-A6, BG-A10, BG-A12, BG-A13).

Extortion in order force land sale or land tenancy contracts is generally perpetrated by big tenant farmers. Two of the cases identified were linked to legitimate companies, whereas the third one was related to a family-based group. The motivation of the perpetrators was two-fold. Firstly, their business model revolved around farming extensive cultures such as cereals, rapeseed and sunflower, which requires larger size of the farmed land. Secondly, the implementation of the SAPS model for decoupled payments per hectare without upper threshold functioned as a key driver for seeking increase of the farmed lands in order to obtain larger subsidies.

The first case was related to a legitimate company, which is one of the biggest tenant farmers in the Bourgas province (*oblast*) in Southeast Bulgaria (BG-A11) and the second one – one of the biggest tenant farmers in the Pleven province in Northwest Bulgaria (BG-A7). Both owners of the legitimate companies initiated the extortion with verbal threats and triggered administrative inspections against the victims. Since the victims resisted, the perpetrators escalated the intimidation by destroying property. For example, in BG-A7 the extortionists started with verbal threats and initiated an inspection by the State Fund Agriculture for alleged farm subsidy fraud by the victim. Later employees of the extortionists sprayed with herbicides large areas of the crops (maze, sunflower, etc.) cultivated by the victimised farmers, thus entirely destroying the yield.

Somewhat different is the case BG-A3, where the extortionists were part of a family-based group and the leader was a notorious long-standing mayor of a village in the Vratsa province in Northwest Bulgaria. Currently, the mayor and his life-partner manage the majority of the arable land in the vicinities of their village. However, the secret to their success was mostly extortion. The modus operandi of this family enterprise included a plethora of criminal tools – the mayor directly threatened landowners with both physical violence and various administrative sanctions in order to force them to sell their land sale or sign tenancy contracts in favour of him or his life-partner. The mayor also abused his powers in order to forge property documents and thus appropriate land estates from his fellow villagers. The few who decided to file reports to the police and the prosecution about this were persecuted with destruction of property and physical violence.

In the majority of cases related to monopolistic racketeering, **the major aim of the perpetrators was to force potential beneficiaries (usually other small farmers) to concede their legally established rights for access to agricultural subsidies.** Most typical in this regard are the cases related to access of pastureland subsidies

for livestock breeders and access to decoupled payments for tobacco growers. This study focuses on five such cases, although many more were identified. Usually the modus operandi of the criminal groups and networks in these cases involved a two-stage process. At the first stage, the perpetrators secure monopolistic access to the subsidies in a given municipality or mayoralty using corruption or abuse of office. At the second stage, they threaten and intimidate the small farmers not to pursue claims or file reports to the police. It should be noted here that in the low income rural regions, the municipality is usually the biggest employer and it also provides or controls a number of administrative and social services. These vested powers provide substantial leverage to corrupt local politicians for administrative pressure and harassment of local farmers.

Pastureland subsidies appear to be particularly attractive for all kinds of criminal groups and networks, since the subsidy payments start from €150/ha and increase twice for high-altitude pastures and meadows. For comparison, in 2014 under the SAPS scheme for decoupled payments, the subsidies per hectare of arable land were €140 (Ministry of Agriculture and Foods, 2015). Although the pastureland subsidies were intended for livestock breeders, there were no requirements for the subsidy beneficiaries to present to the State Fund Agriculture proof for breeding any livestock. The poor regulation soon attracted many opportunists seeking easy money with minimum investment and at the expense of the local livestock breeders. Livestock breeders in mountainous regions appear to be particularly vulnerable to extortion, as the agricultural land there is limited and thus pastureland subsidies are among the few affluent sources of guaranteed steady income. Furthermore, pasturelands are mostly municipal property, so their use is determined by the local authorities, which creates large opportunities for abuse of powers by the local politicians.

The current study identified five cases related to extortion of livestock breeders, which took place in different geographical locations of the country (BG-A2, BG-A4, BG-A5, BG-A6, BG-A13), although four of them were in mountainous municipalities. The majority of the perpetrators were corrupt local politicians either acting as part of networks in favour of local businessmen (BG-A5, BG-A6, BG-A13) or as part of family-based groups (BG-A2). Only in one of the cases, the perpetrators were leaders of notorious local OCG which decided to invest in livestock breeding (BG-A4).

The close examination of the cases revealed that in three of the cases the extortion was preceded by malfeasance and embezzlement of public property. The perpetrators were public officials (municipality mayors or local political figures) who abused their position of power and transferred exclusive rights over some or all municipal or mayoralty pasturelands to a member of their criminal group or network. In two of the cases this was achieved through rigging municipal tender procedures for tenancy of the pasturelands in favour of a member of the criminal network (BG-A2, BG-A5). In one of the cases (BG-A13), the municipality mayor with the assistance from his fellow-party municipal councillors blatantly abused his powers and illegally sold all the municipal pasturelands to his business partner, thus precluding all local livestock breeders from their legally established right of access to the pastures and therefore subsidies. The resistance of the local farmers and their attempts to contest the rigged procedures and instigate

investigations against the perpetrators triggered the extortion. There were also two cases where there is no information that the extortion was preceded by any embezzlement of public property or other unlawful acts of the perpetrators (BG-A4, BG-A6).

The actual extortion of the livestock breeders included mostly verbal threats and intimidation through administrative sanctions. In two of the cases (BG-A2, BG-A4), the groups resorted only to verbal threats, as they already had a notorious reputation which they leveraged to create fear of retaliation in the victimised farmers. The first group was family-based and involved local political leaders, one of them being the mayor of the municipality (BG-A2). The second was an OCG involved in drug trafficking, prostitution, usury and a number of violent acts; this case was an expansion of their territorial control from their criminal activities into the legal economy (the agricultural sector) (BG-A4).

The rest of the cases involved loosely structured corruption networks comprising of local shady businessmen, municipal mayors, municipal councillors and officials of the municipal administration (BG-A5, BG-A6, BG-A13). They employed both verbal threats and imposition of administrative sanctions. For example, in BG-A13 the corrupt mayor of the municipality instigated an inspection by the Regional Directorate of the Construction Control Agency against one of the defiant farmers. The Regional Directorate subsequently issued an order for immediate removal of two barns belonging to the farmer, declaring that they had been built on municipal terrain and without any construction permits. The order was immediately enforced by the mayor, although the farmer appealed to the administrative court. The buildings were demolished and the farmer lost part of his cattle. In one of the cases there was also intentional damage to property (BG-A6) – the pastures managed by the farmer were ploughed and thus turned unfit for grazing. This criminal act was followed by reporting the farmer to the State Agency Agriculture for not keeping properly the pastures, which in turn led to administrative sanctions to the farmer.

Practices related to monopolistic racketeering have also been identified with regards to **subsidies for tobacco growers**. Unlike pastureland subsidies, tobacco subsidies are provided by the national budget. Tobacco growing in Bulgaria has always been subsidised and up to 2010 subsidies had been quota-based payments coupled with the amounts produced. The sector is quite important as it provides subsistence to 50,000 farmers from low-income regions with few alternatives for employment. With the accession to the European Union the country had to transpose the EU legislation that provided for phasing out of coupled payments for tobacco growing. Thus, since 2009 Bulgaria has applied new regulations for tobacco growers, which introduced decoupled payments to the farmers. The purpose was to provide a guaranteed minimum income for these farmers, who would otherwise face harsh economic difficulties, instead of supporting tobacco growing itself. The scheme for the decoupled payments was intended for a period of three years, so that the farmers could adapt to the new situation and find alternatives to tobacco growing. The size of the subsidy for each farmer was determined on the basis of the quantities of tobacco produced in three reference years – 2007, 2008, 2009. Consequently the scheme was extended for seven years and is expected to expire in 2020 (NovaTV, 2015).

However, the new scheme for decoupled payments soon appeared to be quite vulnerable to fraud, which left thousands of farmers without any subsidies. Subsidy fraud has accompanied the payment schemes to tobacco growers for quite some years. Under the old regulation the swindlers mainly targeted the quota distribution, aiming to unjustly increase the amount of subsidies for certain farmers or companies. The inflated quotas were then used to claim larger subsidies, without actually producing the amounts of tobacco declared (Соколова & Николов, 2009). However, the new scheme for decoupled payments further exacerbated the problem, as it became evident that some people receive subsidies without even growing tobacco, whereas the small farmers were left to deal with the low purchase prices of tobacco without any support from the government or viable alternative for other employment. Moreover, the process of development and adoption of the new tobacco subsidy regulations by the Ministry of Agriculture has largely been opaque and no proper awareness campaign has been carried out among the farmers. This led to numerous protests of farmers in some municipalities in the years following the introduction of the new payments scheme and racketeering by fraudsters (who, as a rule, appeared to be corrupt local politicians) in order to force farmers to concede their rights to subsidies. Two such cases have been identified – one in the northeast region and one in southwest region of Bulgaria (BG-A10, BF-A12).

Similarly to the extortion of livestock breeders related to pastureland subsidies, the two cases involving tobacco growers were preceded by malfeasance of officials in the local government. Although one of the groups could be classified as a family based group and the second one as a corruption network, both groups involved local political leaders and representatives of the municipal authorities (municipal mayor and municipal councillor). Apparently, these local politicians abused their access to insider information and colluded with the licensed raw tobacco wholesalers in order to manipulate the quotas in the three reference years. Thus, they managed to secure for fellow party leaders or extended family members particularly large quotas for tobacco production at the expense of the numerous small farmers. As a result, when the new decoupled payment system was introduced in 2010 many small farmers realised that they have been left with minimum or no subsidies, whereas the members of these family-based groups or corruption networks enjoyed high payments without any need to grow tobacco (BG-A10, BG-A12).

The attempts of the small farmers to file reports to the police or go public in the media have been met with systemic reprisals through verbal threats for administrative penalties and in one of the examined cases – by violence. For the case from Southwest Bulgaria (BG-A10), the interviewed police officer commented on the extent of the social control that the corruption networks exerted – some of the members of the network were functionaries of a political party or/and held positions in the local administration (mayoral mayors, municipal councillors, public servants in the municipality, local police officers, local forest guards, etc.). The family-based group in Northeast Bulgaria (BG-A12) had comparable social control span – the father was owner of the major raw tobacco wholesaler in the region, whereas his son a municipal councillor. Thus, they possessed both economic and administrative leverage over the small farmers. Furthermore, in this particular case the verbal threats were followed by the use of violence towards

one of the most vocal farmers. He was initially physically assaulted and later on the perpetrators arranged for a car accident, where the car of the farmer was pulled out of the road.

Protection extortion

Along with monopolistic racketeering, protection extortion (typical during the 1990s) is also quite spread in the agricultural sector. Five of the identified extortion incidents involved criminal groups that resorted to protection racket. Roughly half of the cases were perpetrated by loose networks of white-collar criminals. These white-collar criminals were typically also involved in other graft and malfeasance practices such as rigging public procurement tenders (BG-A1, BG-A8). In the rest of the cases, the perpetrators were typical hierarchically structured OCGs, which had extortion, usury and debt collection as their core business (BG-A9, BG-A14, BG-A15).

The modus operandi of **the corruption networks** included abuse of vested official powers as a means to intimidate local farmers. They managed to force victims to pay them protection fees in exchange of promises for lenient administrative control. For example, one of the groups consisted of public officials from the State Fund Agriculture, who targeted beneficiaries of SAPS subsidies. They used excessive inspections, administrative penalties and revocation of rights to receive SAPS subsidies in order to convince the victims that they should pay monthly fees (BG-A1). The group used a former expert from the same agency, who acted as an intermediary and approached the beneficiaries with the extortion demands. The demands involved monthly fees of €300-400 per farmer and at some point they succeeded in forcing about twenty farmers to comply with their demands.

Similar methods were employed in the case BG-A8. The corrupt networks threatened and manipulated a big tenant farmer with imposition of administrative sanctions from the Regional Directorate of State Fund Agriculture, excessive time to process or approve straightforward requests, and revocation of the right to receive subsidies. They chose the victim because his company was a large beneficiary of SAPS direct payments and had substantial economic capacity. The extortion demands were conveyed to the victim by a municipal councillor, who acted as an intermediary. The corruption network demanded protection money and gratuitous transfer of property rights over 300 ha of land in exchange of slack oversight, swift transfer of the subsidies and administrative support in case of disputes with other competitors. The extortion was initially successful, since in the beginning the victim complied and paid them €25,000. However, since the extortion demands continued he filed a report to the police.

The modus operandi of **the criminal groups** resembles the typical protection racketeering from the beginning of the 1990s. The extortion is territorially based and all the victimised farmers were targeted, because they operated in the same municipality as the perpetrators. The three cases identified involved a plethora of intimidation tactics typical for the insurance racketeers from the 1990s – verbal threats, arson, theft of agricultural produce, damage of property, poisoned cattle, kidnapping, physical violence against farmers and their workers (BG-A9, BG-A14,

BG-A15). There were no intermediaries involved in the extortion incidents and the farmers were openly intimidated by the “muscle squad” of the group. The typical purpose of the extortion was to force the farmers to sign contracts with specific private security companies and thus pay monthly protection fee (BG-A14, BG-A15). One of the groups also extorted landowners with the purpose of forcing them to sell their lands (BG-A15). The third identified case was related to debt collection and the purpose of the extortion was to force the victim into acting as a “straw man” in a fraud scheme, as well as to use his business as a front company (BG-A9).

THE VICTIMS

Along with the characteristics of the perpetrators, the current study also analysed the main characteristics of the victims of extortion in the agricultural sector. The section below provides the main profiles of the victims in terms of geographical location, socio-demographic and economic characteristics, as well as behavioural patterns.

Main regions affected

Keeping in mind the limitations of the data-collection methodology, the analysis of the cases suggest that extortion racketeering is not constrained to one or more specific regions in the country. However, most cases were identified in the Northwest region and more specifically in Vratsa province (see Table 3). As already explained in the overview of the agricultural sector, the Northwest region is the least developed, with highest rates of unemployment and highest weight of agriculture in the GVA of the regional economy. The scarcity of viable economic opportunities in the region seems to contribute to the particularly high importance of farm land and agricultural subsidies as an economic resource. Both local households and larger commercial agricultural holdings rely on land as a source of guaranteed income or profit. This imminently leads to collision of interests between the groups with political or economic leverage and the small farmers and landowners over this limited resource, which could provide a plausible explanation on the intensity of extortion activities in the region.

Similar collision over land resources seems to take place in the mountainous municipalities with regards to pastureland, insofar as the analysis of the cases collected also suggests higher incidence of extortion episodes in such areas (BG-A4, BG-A5, BG-A6, BG-A13). Such cases were identified in several mountainous municipalities across different NUTS-2 regions – 1 in Southwest region, 2 in Southeast region and 1 in South Central region. Typically, the size of the utilised agricultural area in such municipalities is limited and mostly in the form of pastures and meadows. Thus, grazing livestock breeding is among the few viable economic activities, which inter alia provides access to generous agricultural subsidies. Achieving monopolistic control over this resource in a given municipality ensures substantial and steady income, which few other businesses could provide.

Quite similar is the situation in the tobacco-growing regions (BG-A10, BG-A12), especially in the mountainous municipalities in Southern Bulgaria. The climate and soil characteristics in these areas do not allow for growing alternative crops and at the same time there are no viable economic alternatives. The tobacco growing sector has always relied on state subsidies in order to secure the subsistence of the farmers. This has turned tobacco subsidies into a valuable resource and has attracted the interest of corruption networks to capture and redistribute this income flow at the expense of small farmers.

Demographic, social and economic characteristics

The available sources for most of the identified cases provided scarce or limited information on the profile of the victims. The majority of the identified victims of extortion have been small family farms that are entitled to receive EU or national subsidies (self-employed individuals) and landowners. There were only three victims that do not fit into this general pattern – one big tenant farmer who operated as a sole proprietor (BG-A8), one cooperative (BG-A7) and one limited liability company (BG-A9). There was no information on the number of employees working for any of these farm holdings. However, the small family farms usually employ 2-4 persons, which typically are family members.

Five of the cases were related to farm holdings growing mainly cereal (i.e. wheat, maize) or technical cultures (e.g. sunflower, rapeseed) and in two of the cases the victims were tobacco growers. There were also six cases where the victims were livestock breeders. Less common targets were land owners (three cases), a wholesaler of agricultural produce and a concessionaire of irrigation dams. Extortionists targeted mostly the manager of the farm holding or the landowner. The typical profile of the targeted person is male, Bulgarian citizen, aged between 40-50 years. Only one of the identified victims was female. The age of the targeted landowners was 60 or over (see Table 4).

Table 4. Demographic and economic characteristics of the victims of extortion

Case ID	Location (province)	Gender	Age	Main activity	Role of person in the farm holding
BG-A1	Dobrich	n/a	n/a	Crop growing (cereal)	Most likely sole holders
BG-A2	Vratsa	Male	~50	Livestock breeding	Sole holder (family farm)
BG-A3	Vratsa	Male	~60	Land owners/ Crop growing	Land owners/sole holders (family farm)
BG-A4	Blagoevgrad	n/a	n/a	Land owners/ Livestock breeding	Land owners/sole holders (family farm)
BG-A5	Sofia	Male	~40	Livestock breeding	Sole holder (family farm)

Table 4. Demographic and economic characteristics of the victims of extortion (continued)

Case ID	Location (province)	Gender	Age	Main activity	Role of person in the farm holding
BG-A6	Bourgas	Male	~30	Livestock breeding	Sole holder (family farm)
BG-A7	Vratsa	Male	~60	Crop growing (maze, sunflower)	Chair of cooperative
BG-A8	Pleven	Male	~40	Crop growing (cereals, technical cultures)	Owner & executive director
BG-A9	Vratsa	Male	32	Trade in agricultural produce	Owner & executive director
BG-A10	Blagoevgrad	Male	n/a	Tobacco growing	Sole holder (family farm)
BG-A11	Bourgas	Male/Male	65/45	Land owner/fish farming & irrigation	Land owner/Owner & executive director
BG-A12	Shumen	Female	47	Tobacco growing	Sole holder (family farm)
BG-A13	Pazardzhik	Male	~40	Livestock breeding	Sole holder (family farm)
BG-A14	Vratsa	Male/Male	~50/~50	Livestock breeding	Sole holder (family farm)
BG-A15	Montana	n/a	n/a	Land owner/ Crop growing	Land owners/sole holders (family farm)

Source: Author's elaboration on the case studies.

Protective measures adopted by the government, business associations and owners themselves

The majority of the victims were small farmers and therefore none of them had invested in any specific security measures against crime such as buying insurance or signing a contract with a security company. Moreover, in most of the cases there was no information about victims being members of some business or farmers association that could protect their rights. Only two of the victims were part of such associations and in both cases they did receive some support from their organisation. One of the victims was a local coordinator of the National Association of the Tobacco Growers (BG-A12), whereas the second one was member of the National Association of the Grain Producers (BG-A8). The National Association of the Grain Producers is one of the very influential business organisations, as it is a representative body for most medium and large-scale grain producers, and undoubtedly their support helped the victimised person counter more effectively the extortion demands.

In the light of the recent scandals surrounding the EU subsidies under the SAPS direct payment scheme and the pastureland subsidies, the government

was pressured to adopt certain amendments to the existing regulation, which are expected to protect and support the small and medium farmers against the blatant land grabbing practices employed by big tenant farming companies and networks of political corruption. In 2015, the Ministry of Agriculture and Foods amended the *Act on Ownership and Use of Agricultural Land* and replaced the tender procedure with a procedure for distribution of the pastures between all registered livestock breeders based on the number of livestock units owned and tightened the requirements for proof of these numbers. The amendments were supposed to tackle embezzlement of pastureland by local authorities, which on a numerous occasions assigned municipal pastureland plots to favoured companies that did not have any livestock. The scale of the problem was illustrated by the Minister, who stated that in 2015 only half of the 265 municipalities were in compliance with the new regulations and have distributed the pastureland fairly (Gospodari.com, 2015). Similarly, the Ministry of Agriculture and Foods adopted new regulations with regards to SAPS direct payments for the period 2015 – 2020 and introduced an upper threshold for the beneficiaries under the scheme. The new regulations imposed a €300,000 cap on the annual amount of the SAPS direct payments per beneficiary and a progressive decrease in the amount of subsidies by 5 % for sums of €150,000-€300,000 (Agronovinite.com, 2015).

Behavioural patterns of the victims of extortion

The majority of the victims identified within the study resisted the extortion demands. However, it would be wrong to conclude that the majority of the victims of extortion in agriculture are not inclined to comply with the extortion demands. In some of the cases, the victims initially acquiesced but as the demands escalated, they decided to resist (BG-A6, BG-A8, BG-A10, BG-A12, and BG-A14). The prevalence of resistance in the studied cases should rather take into account the fact that only such cases have been prosecuted or have been exposed in the media. In other words, this is rather a result from the limitations of the sources of data used, as the majority of the cases have been identified through media reports. Moreover, the very same reports claim that the victims in a given extortion incident are much more, but are afraid of exposing themselves as this could trigger reprisals against them. The interviews with representatives of the police and prosecutors also suggested that extortion, especially when it is linked to corrupt local politicians is rarely investigated and even more rarely indicted and put on trial. Out of the fifteen identified cases none of the perpetrators has been convicted, five groups have been indicted and their trial was still ongoing at the time of writing, six are in the phase of pre-trial investigation and the rest have not been investigated.

However, it should be noted that in most cases the victims of extortion by corruption networks do not perceive these practices as extortion per se. The interviewed victims in the cases related to monopolistic racketeering for pastureland subsidies, described the events as abuse of position of power and a political issue (e.g. BG-A13). Therefore, when they decided to resist, they did not reported the incident to the police. Instead, they attempted to seek support from political party leaders, members of parliament and the minister of agriculture and foods. They also decided to expose the incidents in the media in order to attract public

attention to their situation. Such responses from victims seem to be common, considering the large disparities between extortion incidents reported in media and the statistics of Mol.

According to the information available, the average duration of the extortion was between six months and two years. Some of the victims dissolved their business (BG-A11) or decided to sell or lease their lands (BG-A3, BG-A4, BG-A11). However, in most cases the business of the farmers remained intact and operational, although they suffered property damage and financial losses. On the other hand, in many of the cases, especially the ones involving corrupt networks, the perpetrators have not been convicted and some of them are still in the local government (e.g. BG-A2, BG-A10, BG-A13). Therefore, many of the extorted farmers could very well go bankrupt or dissolve their business in the near future. The lack of access to subsidies also bears the risk that farmers – despite continuing to operate – could become impoverished due to low incomes.

CONCLUSION

The concentration of the agricultural lands and consolidation of the business in a few large-scale agricultural holdings, which has peaked in Bulgaria in the last 7-8 years, most probably will continue to exert various market, non-market or even criminal pressures on the small and medium farmers. The lucrative EU subsidies only exacerbate these tendencies. The changes introduced in the European regulation framework for the new Common Agricultural Policy instruments for 2014 – 2020, as well as the related changes in the national legal framework, have attempted to reverse the focus and enhance support for small and medium farmers. However, the implementation of these rules remains in the hands of the national and local authorities and thus the incentives for *mala fide* corporate and public actors to bend or circumvent these rules also remain. This fact is of particular concern given that in the majority of the cases extortion in the agricultural sector involved malfeasance and graft of public officials from the local government.

The analysis shows that in the majority of the extortion incidents the targets were small and medium farm holdings. The victimised farmers were typically from less developed regions such as the municipalities in Northwest Bulgaria, as well as in mountainous and traditional tobacco-growing areas. Extortion is undoubtedly a hidden phenomenon and in many instances victims do not file reports to the police and prosecution. However, the analysed cases suggest that even when victimised farmers reported extortion against them or malfeasance of the local authorities, effective and timely investigations and indictments rarely follow. Furthermore, in none of the analysed cases the pre-trial investigations or court trials led to a conviction of the perpetrators, as the cases were protracted over time without any definitive results. Awareness of this most likely further undermines the willingness of victims to report such incidents, because of fear of reprisals. The legislative framework does not provide for effective protection and compensation for the victims of extortion. The lack of established and pro-active associations of small and medium farmers is also a major constraint for this group to effectively resist the pressure from corrupt officials and criminals.

Drawing on the identified profiles and characteristics of the perpetrators and victims of extortion in the agricultural sector, several general recommendations for countering the extortion could be outlined. Firstly, there is a need to strengthen the fight against corruption in local authorities, as well as in the regional offices of State Fund Agriculture. Secondly, there is a need of better monitoring and enforcement of the rules for CAP payments in order to curb possible embezzlement and fraud. Thirdly, there is a need to introduce better protection and compensation mechanisms for victims in order to improve reporting and collaboration. Fourthly, there is a need to empower small and medium farmers through supporting the establishment and development of associations and networks of small farmers.

EXTORTION IN THE HOSPITALITY SECTOR

HISTORICAL DEVELOPMENTS

Organised crime in the hospitality sector

Extortion in the hospitality sector in Bulgaria has changed significantly over the years of transition. Four major phases of development can be identified, each marked by different manifestations and influence of organised crime. In the first one – the early transition years – organised crime established control over a number of publicly owned hotels, restaurants, cafes, bars, etc., as well as over the newly established private ones. This was followed by a boom of the private companies in the hospitality industry, as well as in commerce and transport.⁹ The second phase was marked by the privatisation of the mid-1990s and the considerable participation of all three forms of Bulgarian organised crime (see Table 1), with the particularly strong involvement of the group of oligarchs. The third phase encompasses the pre-accession period and the boom in the real-estate sector, when extortion and political corruption enabled OCGs to enjoy competitive advantage. The latest period came with the start of the economic crisis at the end of 2007 and is still ongoing.

Almost all of the notorious groups of violent entrepreneurs started their operations as local restaurants, motels, bars and hotels. Some of the smaller groups even originated in neighbourhood pubs and fast-food pavilions. The expansion of the “firms” was related to the expansion of territory which was marked by new restaurants, bars, etc., brought under control. The clashes and wars between these groups were usually the result of a struggle for the most popular restaurants and hotels (the seizing of the “headquarters” in a particular restaurant was the symbolic end of a power group).

In contrast to Russia, Ukraine and some of the other former Soviet republics, the violent entrepreneurs in Bulgaria did not limit their activities to getting rent for their forced services, but also created and ran their own companies. One particular aspect of this model was when successful managers of legitimate companies were made partners of the violent entrepreneurs (in many cases the partnership was not voluntary but forced). Gradually, these entrepreneurs and the oligarchs came to dominate night clubs, bars and gambling establishments, and took control of large state-owned companies – mostly hotels and restaurants – in popular winter and sea resorts.

⁹ Earlier, in the beginning of the 1980s, as a result of the efforts of the communist government to develop the tourist industry in the country, legislative changes were introduced for the controlled establishment of small private entities to ensure better quality service for foreign and Bulgarian tourists.

Privatisation of the hospitality sector

As noted in the introduction, the end of the insurance racket coincided with the start of the mass privatisation in the country, which set the stage for a new era for organised crime in the hospitality sector.

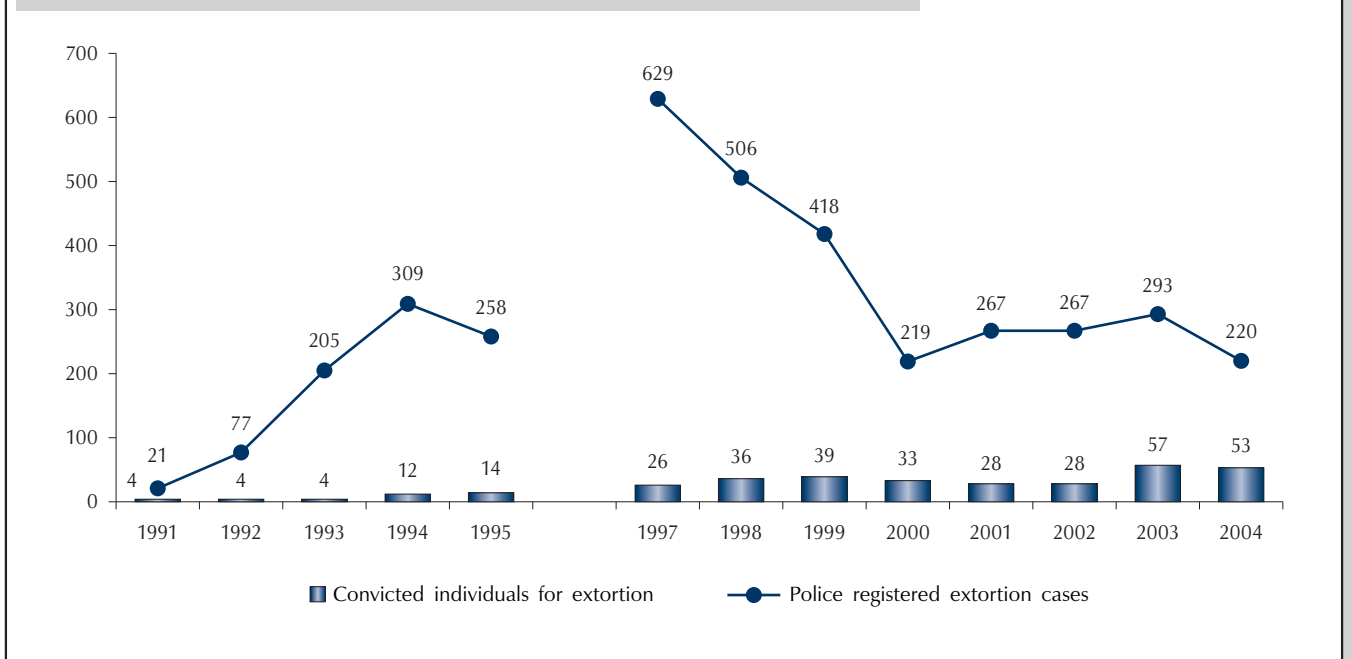
During this period, oligarchic structures such as Mutligroup, Nove Holding, Lyudmil Stojkov (tried for fraud and money laundering), Georgi Gergov (now chairman of BSP-Plovdiv), bankers Emil Kyulev (assassinated), Slavcho Hristov, Tsvetelina Borislavova, Tseko Minev, Petya Slavova among others (E-vestnik, 2012a; 2012b) had participated in the privatisation of hospitality facilities in the summer and winter resorts (Бъчварова & Василева, 2004). Companies related to the already closed insurance racketeers VIS-2 and SIC had taken ownership of multiple hotels in Sunny Beach and Golden Sands at the Black Sea, whereas TIM¹⁰ took ownership over almost the entire resort St. St. Konstantin and Elena. The mass privatisation process gave a chance for the group of extreme-risk entrepreneurs to participate in acquiring ownership in the hospitality sector separately or in a coalition with the other two groups (see Table 1). The main difference from the first attempt in the mid-1990s was that violence did not come back under a new, legal form. The opportunities for criminal entrepreneurs to enter the legal economy made the transition to a mode of operation with less violence irreversible. The end of the privatisation in the hospitality sector in 2001 – 2002 placed most companies under different management and resulted in new types of extortion. Companies belonging to oligarchic conglomerates appropriated hotels, restaurants and establishments in the big resorts and cities. Small and middle-sized companies were driven out of the market as their contracts with the former state-owned companies were cancelled or they were forced to pay different rents around the big hotels and establishments. According to interviews of police officers and prosecutors, the sector easily maintained the old model – paying rent for territory and time. The establishment of hundreds of new companies allowed staff of the former insurance racketeers to be employed in the hospitality sector after its privatisation. The positive side of this process was that a large number of people experienced in violence did not go back to common criminality. Their leaders from the higher and middle ranks had become the new owners who could provide them with legal employment. Those leaders retained their old role of enforcers of protection racket against the “others” or of arbitrators in dispute settlement.

The significant change in that period was related to the opportunity for the new owners to use the institutions of government. Interviewees for this study described many cases of a typical scheme when owners of small restaurants, coffee shops, fast-food restaurants, etc., sought protection of bigger owners (e.g. controlling several hotels in a resort), former leaders of national and local power structures. Consequently, the old criminal bosses started acting as intermediaries. They would turn to local police chiefs or prosecutors when finding a solution to a problem,

¹⁰ TIM, Varna-based group, is an interesting example of borderline violent entrepreneurs – they continued functioning as a security company, but did not enter the insurance racket business. Later, they managed to turn into one of the biggest oligarchic structures in the country which is currently the only one possessing banks, an insurance company, the national airliner and over 100 companies.

thus sustaining their reputation. As a result of all these changes, the forms of extortion typical for the second period (1997 – 2000) declined dramatically (see Figure 5).

Figure 5. Police registered extortion cases and convictions



Source: Mol, *Police Statistics*; NSI as quoted in Gounev, 2006: 113.

The new forms of extortion emerging in their place involved the use of various government enforcement agencies against those who failed to pay up. A suitable description for the dynamics and characteristics of the period is the popular Russian anecdote: “Why set his restaurant on fire when you could simply send the fire inspector?”¹¹ (Volkov, 2002).

EU accession and the real-estate boom

The deregulation of the banking sector, the entry of foreign financial institutions, a steady economic growth and the prospects for EU accession fuelled the third wave of development of the hospitality sector. This included new investment and construction on a mass scale, making the sector highly lucrative and suitable for laundering the proceeds of organised crime. With easily available funds from foreign investors and banks, and prospects for quick return acquiring and building hospitality facilities became one the most favoured sectors for integrating dirty money into the legitimate economy (Petrunov, 2008: 88). Analysis of money laundering by OCGs has revealed that hotels and restaurants (including clubs and

¹¹ In Russia and Ukraine the same process of restricting the violent entrepreneurs took place at around the same time.

bars) represent 15 % of the legal businesses of OCGs (CSD, 2012: 65). In 2010, investing money of illicit origin was mainly focused on four sectors: trade (including dealing in real estate property) – 31 %; construction – 27 %; gambling – 18 %; tourism – 10 % (CSD, 2012: 64).

The developments in the hospitality sector have shaped two distinct groups of investors/owners with regards to their political and business standing, respectively their risk or susceptibility of being a victim of extortion and/or racketeering. The first group includes larger economic and financial entities which had acquired ownership of previous state-owned facilities and land through privatisation. This group has a solid financial and political backing and are often related to shady financial schemes and transactions on a larger scale. Because of strong political ties, among other factors, the risk of racketeering and extortion for this group may be assessed as minimal. The second group is of investors and owners, including foreign investors, who became active after the deregulation of the financial sector and the real-estate and construction boom of the early 2000s. It must be noted that this subset of hospitality operators also included politically connected businesses which made a quick profit through land swaps – a widespread practice, particularly in the period 2007 – 2009 (see Лещарска, 2015), whereby lucrative state-owned plots along the Black Sea coast were swapped for other less economically viable plots. Nevertheless, this second group of investors included a large number of risk-taking entrepreneurs in the construction business, who built small hotels and apartment buildings with the intention of selling them to larger investors. These are represented in the hundreds of properties, including hotels, apartments and food and drink establishments advertised for sale due to inactivity and indebtedness, in addition to the ones who continue to operate on the verge of profitability. These may be deemed to be at higher risk of extortion pressure, including unwarranted inspections from government supervisory bodies.

In the environment, violence still had its functions. At the lower and middle levels it fell to comparatively low levels (Figure 5) and was used marginally. At higher levels, it was used predominantly in the presence of sufficient political and – more frequently after the end of the 1990s – magistrate protection.¹² A new type of violence which made up for the loss of old ones were the so-called “contract assassinations.” They were a kind of sublimation of the previous mass violence and directed towards the owners and managers of the companies, mostly representatives of one of the three forms of organized crime from the 1990s (see Table 1). Contract assassinations were an instrument used in the 1990s, but following 2001 they also served as a substitute for symbolic violence at a lower level.

According to various sources, during this period, another acute form of violence grew out of the old extortion mechanisms – deliberately unsuccessful assassination attempts, a kind of warning shots. There have been many cases of shooting without the aim of hurting the owners, managers, their families, security guards, etc. In addition, there have also been token attempts at arson (sometimes hard to

¹² Violence is used against the victims when the criminal entrepreneurs can ensure that the local law enforcement agencies would not intervene, or that they would arrange investigations to be discontinued, court trials delayed, etc.

be differentiated from vandalism), demonstrative vandal acts (smashing picks into cars), deliberate car crashes, severing of the lines of car breaks, damaging security systems in offices, etc. These accidents are not reported to the police and they avoid registering them.

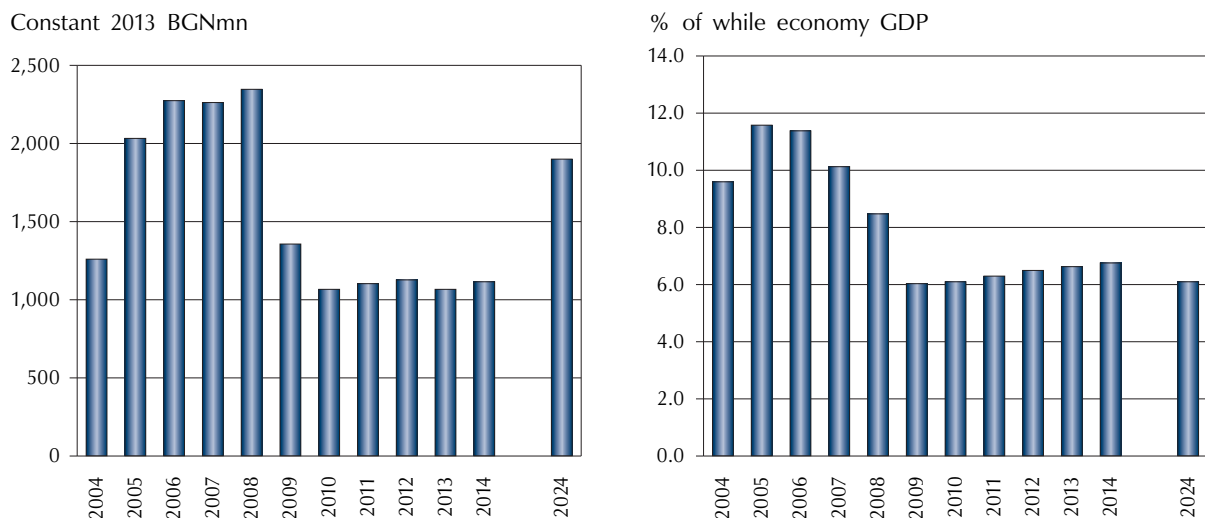
THE HOSPITALITY SECTOR

Social and economic data

Tourism in Bulgaria is a leading sector in the national economy. The sector has been relatively stable, has a 12-18 % contribution to GDP and high rates of employment at 300,000 persons employed on labour contracts and 500,000 temporary contracts (Ministry of Economy and Energy, 2014: 7). Revenue from tourism in 2012 amounted to €2,916.6 mln, which was a 2.2 % growth on 2011. Bulgaria’s accession to the EU has been a major catalyst for the growth of tourism as in 2007 alone (the year of accession) revenue increased by 25 % compared with the previous year (Ministry of Economy and Energy, 2014: 21). As of 2010, Bulgaria had 148 designated resort areas – 58 spa resorts, 56 mountain resorts and 28 seaside resorts (Ministry of Economy and Energy, 2012).

The total contribution of travel and tourism to GDP was BGN 10,670.6 mln (13.3 % of GDP) in 2013, and is forecast to rise by 3.7 % in 2014, and to rise by 2.6 % to BGN 14,295.3 mn (11.9 % of GDP) in 2024 (World Travel and

Figure 6. Capital investment in travel and tourism



Source: World Travel and Tourism Council, 2014.

Tourism Council, 2014). Tourism revenue is disproportionately dependent on foreign visitors, as domestic tourism has been lagging. With the exception of the Black Sea region, the major winter resorts and largest cities, most regions in Bulgaria have not been able to create and offer quality tourist services. This has caused an over-saturation of development in the traditionally popular summer and winter resorts, which may stifle growth rates in the future. A significant portion of the over-development in these areas has also been attributed to lax regulation and a highly speculative market in expecting quick and high profitability. In the meantime, the tourist potential in the rest of the country remains largely untapped (Ministry of Economy and Energy, 2014).

The hotel and restaurant business has developed unevenly both over time and across the country. From the beginning of the 2000s until the financial and economic crisis in 2008 hotel construction experienced an unprecedented boom. It is estimated that between 2002 and 2008 hotel capacity grew on average with 12 % annually, well surpassing leading western European destination countries (Ministry of Economy and Energy, 2012).

Table 5. Main economic indicators in sector “Hotels and Restaurants”

Indicator	2008	2009	2010	2011	2012	2013	2014
Number of active facilities (incl. food and drink, accommodation, entertainment etc.)	22,172	25,962	26,073	26,071	26,540	26,056	26,312
Turnover (in thousands BGN)	2,916,145	2,826,352	2,831,185	3,133,917	3,349,435	3,503,427	3,624,806
Production (in thousands BGN)	2,400,258	2,306,582	2,231,105	2,433,743	2,687,312	2,814,299	2,928,532
Number of personnel	128,922	140,467	138,118	142,524	140,011	137,586	136,459

Source: National Statistical Institute.

In 2012, the number of accommodation facilities was 2,758, 27 % less than in 2011. The majority of accommodation businesses operate in North and Southeast Bulgaria (1,709) and especially in the Southeast of the country, where their share was 27 % of all active facilities. In 2011, the number of active accommodation facilities reached a peak at 3,776 (Ministry of Economy and Energy, 2012: 31).

The financial crisis and the collapse of the credit and real estate market caused an unprecedented slump in the sector. Many hotel construction sites were halted

due to lack of financing and/or potential buyers. The popular financing scheme – selling properties before construction was complete in order to acquire a fresh and constant flow of cash – was swiftly abandoned. Particularly hard hit were developers looking for quick profit by investing in the construction of smaller hotels and vacation apartments. This segment of the sector is still recovering from the crisis, as hundreds of hotels and vacation properties along the Black Sea coast and in the winter resorts are advertised for sale. Analysis for 2011 shows that 300-400 hotels in the country had been put up for sale by their investors. Over 85 % of these had been built during the construction boom prior to 2008/9 and were mostly located in the periphery of summer and winter resorts. Around 70 % were located along the southern coast in the Bourgas province (GVA Sollers Solutions, 2011). These figures indicate an immense financial strain on many owners and investors, as many facilities remained unfinished and/or non-operational, while their investors heavily indebted. Such conditions potentially put investors in a position of high susceptibility to external pressures, such as extortion. It must be noted that 4 out of the 10 identified extortion cases have also occurred in the Bourgas province.

Regulatory bodies and business associations

The association with the widest representation of hospitality businesses is the Bulgarian Hotel and Restaurant Association (BHRA) established in 1993 as a non-profit organisation. It has 35 regional structures in most of the country: Sofia, Varna, Veliko Tarnovo, Stara Zagora, Rousse, Asenovgrad, Bansko and others. It is among the largest business associations in Bulgaria and is also a member of the International Hotel & Restaurant Association. Cooperation with institutions such as the Ministry of Economy, the Ministry of Finance, the Ministry of Regional Development and Public Works, the Ministry of Culture, the National Tourism Council, allows BHRA to influence policy-making in the tourism sector in Bulgaria (BHRA, 2009).

The regulatory bodies responsible for the hospitality sector in Bulgaria may be separated in two different types – normative and market ones (Institute for Market Economics, 2012). The broader institutional framework includes the National Tourism Council and the Expert Commission for Rating and Certification of Tourist Sites and Facilities. Bulgarian hotels and restaurants can only operate at sites which have been rated as suitable according to the standards of the *Tourism Law* (Ministry of Tourism, 2015). At present, the General Directorate for Tourism Policies and the Department for the Regulation of Tourism at the Ministry of Tourism are the key government bodies responsible for the regulation of the hospitality sector in Bulgaria. In addition, the Bulgarian Food Safety Agency has a remit to control the quality of the food products served in hotels and restaurants throughout the whole country (Bulgarian Food Safety Agency, 2016). The agency operates through a comprehensive regional structure, but its previous directors have arguably compromised its public standing and role, due to accusations of extortion and abuse of office (Герасимов & Радославова, 2015; see also Box 1).

The sector as a grey zone

There are three general aspects of the hospitality sector that make it vulnerable to becoming a grey zone and hence vulnerable to extortion practices.

The first is related to the position of the sector in the economy. Given its contribution to the GDP (12-18 %) and employment (14-16 %), the sector is assessed as a fairly sustainable one, with considerable presence of big Bulgarian and foreign companies. At the same time, statistical data and studies indicate that the sector contains a comparatively large number of small and middle-sized companies in parallel with the other main sectors in the country. Another important feature are the low entry barriers for new actors in the sector. Because of the specifics of the services provided through the real estate and the high levels of employment, there is a constant rise in newly-established small and middle-sized companies in the sector.

The second group of characteristics is the criminal environment which – besides the above-mentioned tradition and adaptation – continues to exert considerable influence. Low institutional capacity and a large grey sector create a space in which criminal structures manage to position their businesses, such as prostitution and drugs. This criminal environment and tradition reassure established companies in the sector to continue using criminal instruments against their competitors.

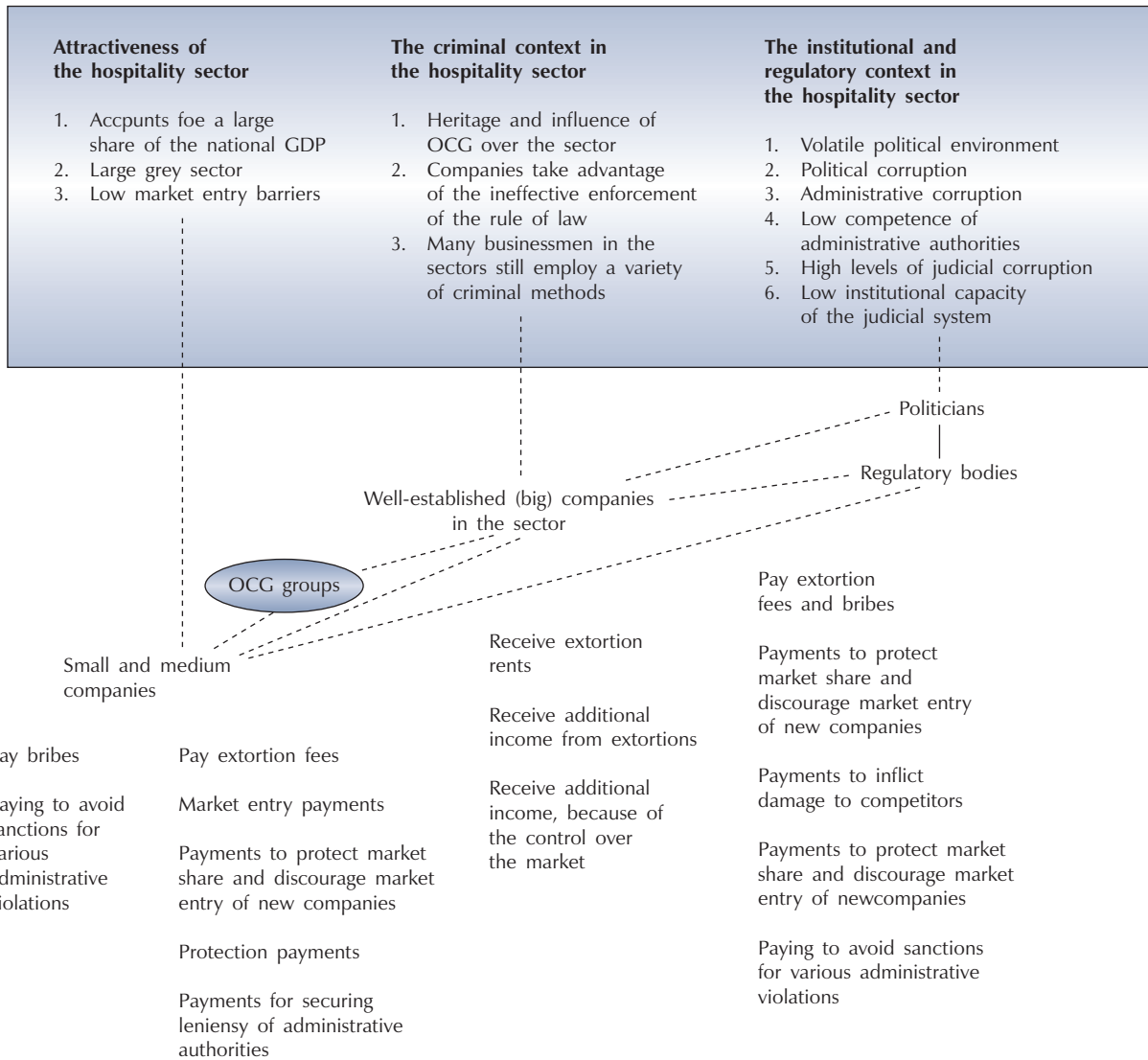
The third group of characteristics relate the institutional environment. A key role here plays the prolonged political instability. Although it has improved since the 1990s, the absence of a stable system of democratic parties creates considerable corruption risks, as the comparative studies among EU countries indicate. Political corruption “trickles down” as administrative corruption at the lower levels. As a consequence, systemic corruption affects the entire public administration – from the Ministry of Interior to the tax administration and the different ministries, agencies and local government bodies related to the regulation of the hospitality sector. Political uncertainty and corruption further undermine the administrative capacity of government services. In the hospitality sector, as in other important economic sectors, there is a paradox of the harmonisation with European legislation and standards being abusing for corruption purposes. Particularly vulnerable in this regard are small and middle-sized companies. In addition, independent assessments by EU institutions show that the judiciary is in a poor shape and blame it for inefficiency and corruption which prevent it from handling the conflicts in the sector.¹³ Furthermore, many of the victims and experts interviewed for this study believe that EU legislation is increasingly abused by big companies and the public administration as an instrument for corruption pressure and unfair competition.

¹³ An example for the problems in the judicial system is the levels of trust in the prosecution and the courts, which are the least trusted public institutions. For the period between 2008 and 2015 these institutions have had 8-10 % of trust and 60 % of distrust (Alpha Research, 2016).

TYPOLOGY OF EXTORTION SCHEMES AND PERPETRATORS

The cases on which the typology below is based are representative of the current period of development of extortion practices in the hospitality sector, which started in 2007 – 2008. The characteristics of the sector outlined in the preceding section make it vulnerable to predatory groups and by and large determine the types of extortion practiced. Figure 7 attempts to demonstrate how the three groups of characteristics interact with each other and how extortion and corruption schemes typical of previous periods coexist with their contemporary manifestations.

Figure 7. Schemes of corruption and extortion in the hospitality sector



Source: Author's elaboration, based on in-depth interviews.

The first type of scheme was common in the 1990s when a given criminal structure would racketeer companies in the hospitality sector. The second type is related to large private companies, which have a completely legal business and occupy a dominant market position (national or local) but use corrupt public officials and/or criminal structures in order to obtain extortion rent from smaller companies. The third scheme is in the public administration – by using the hierarchy in different public institutions, a group of individuals develops a criminal organisation (sometimes more than one). Consequently, it could extort companies in the sector using the powers of a given government body. This third scheme is applied in two modes: through closed structures working at the local level and through a large organisation at the national level (in one of the cases reviewed here, the national-level organisation allowed its local structures to do their own extortion).

As regards the perpetrators, two main types of actors implementing the new forms of extortion can be derived from these schemes. The first one is related to established companies in the sector using criminal methods, while the second are public officials. The companies using criminal “tools” can also cooperate with criminal groups, as well as the public administration as a way for extracting extortion rent. There are many mixed forms and even a case where the same company was simultaneously subjected to extortion and exercising protection racket itself.

Extortion by typical crime groups

Five cases were observed involving typical criminal organisations, falling into two groups. The first is related to small criminal organisations which find suitable victims to pressure for a particular sum of money; these had not previously established a sustainable extortion model (BG-H5, BG-H6 and BG-H7). The second group (BG-H1 and BG-H8) is more specific, as there are two criminal structures operating in a broader criminal context – it is believed that these two groups use the “infrastructure” of OCGs which have dissolved under pressure from law enforcement.

In the first group, although each case is positioned in a specific context, some typical features can be distinguished. For example, in BG-H5 the modus operandi was reminiscent of the practices in the 1990s. It involved a restaurant in a small town, where officials from a security company racketeer the owner and pressure him not to end his “subscription” for their security services. The background of this type of extortion is related to the state of the security companies in the country. The town where BG-H5 took place is located near Bourgas, where the business of security companies offering shady services in the tourist industry has traditionally been well developed. According to the testimony of a high level police officer and media reports, there was a conflict between two security companies. One of them had reportedly been trying to retain its territory, whereas the other had been attempting to enter a territory it considers its own. This is characteristic of this type of extortion – the company protecting its territory and market share demonstrates symbolic violence against the other company expecting that “its clients” would not risk leaving its territory.

In the case BG-H7, again there is the “traditional” model of extortion – the perpetrators were related to the so-called usurious business which was particularly popular in the 1990s when the banks practically did not credit small and medium businesses, and the interests on loans exceeded 20 % on an annual basis. In the second period of Bulgaria’s organised crime development, borrowing money from OCGs was an opportunity for both those giving and those receiving the money. The criminal leaders had the chance to continue controlling legally the business of the companies which had previously paid protection rent. To this end, the loans they provided had to comply with the applicable legislation. These new credit deals initially appeared just and even favourable to the victims, especially as such loans ensured a quick entry in the hospitality sector. The location where extortion in the BG-H7 took place was a small village at the Southern coast of the Black Sea which is one of the hot-spots of economic growth in the tourist industry. It began in the end of the 1990s and lasted until 2011, with the beginning of the next crisis in bank crediting. Borrowing towards the end of the 1990s was important, because the competition was particularly tough and after the established companies consolidated their market positions, the entry of new actors became a difficult task. With the start of the crisis, the “tolerable extortion” became too expensive and the victim decided to seek support and assistance.

In case BG-H7, the two perpetrators charged with the crime relied on the cooperation of a criminal network, but also used various illegal services of notaries and lawyers. It has not become clear, however, whether the criminal structure acted independently or with the protection of local criminal leaders.

The case BG-H6 is typical for the 1990s – a small criminal group demanded a monthly extortion rent amounting to €5,000 from a successful restaurant owner. Following his refusal, the perpetrators hired two martial arts’ fighters to assault him. The case could be described as a part of the “normal” development and the perpetrators were part of the new generation of criminal groups, which entered the market with the onset of the economic crisis in 2008. The group operated in Sofia, predominantly in a specific neighbourhood, and the media reports and interviews indicate that the group also had other victims of extortion.

In the second group of cases of OCG-type extortion, case study BG-H1 represents a systematic extortion of small business owners, small restaurants and night-life venues and pubs. The criminal structure operated in one of the biggest Black Sea resorts. It is believed that the group was subordinated to a criminal leader who had for years monopolised this business in the Bourgas area. After the dismantling of his hierarchical OCG and his imprisonment, his subordinates tried to adapt to the new conditions and created new criminal structures. The group in case study BG-H1 was involved in prostitution markets, but also parts of the local drug market; its victims of extortion were small businesses, taxi drivers, etc. It is telling that the criminal group was not trying to extort the larger companies operating in that area. From the interviews with police officials and prosecutors it became clear that the chief of the regional police department, as well as a considerable number of officers and prosecutors had corrupt relations with the criminal boss, and in some cases even had a joint criminal business

with him. While his imprisonment limited his influence to a certain extent, it did not end it completely. Case study BG-H8 is similar as it took place in a middle-sized town regarded as “the town of the two brothers”. In fact, the “brothers” were former police officials from the national service for combatting organised crime. They managed to gain notoriety by seizing control over the entire town, and even created their own political party which quickly won elections and control over the police, the prosecution and the courts. Consequently, their notoriety attracted the attention of both Bulgarian and European media. As a result, the law enforcement authorities started investigating them, but for a long time failed to track any witnesses of the huge local extortion system. Following years of investigations, the brothers were finally convicted but managed to leave the country. In any case, there is plenty of evidence indicating that the criminal structure involved in case study BG-H8 operated under the control of the two “brothers”.

Monopolistic racketeering

One type of perpetrator which was frequently mentioned in the interviews with sources from the hospitality sector and law enforcement institutions was the big company which uses its national or local market domination to force smaller companies into paying them rent for access to territory and services (infrastructure such as electricity and water). In the two cases BG-H3 and BG-H9 reviewed here the companies used external individuals and institutions (intermediaries) to extort victims, although there is information to suggest that companies have used groups of their own officials or even entire departments as criminal structures generating additional illegal income.

Case BG-H3 involves a representative of the oligarchs (see Table 1). The perpetrator possesses one of the largest pharmacy chains, is a former boss of a popular football club and created his own local political party before running for a mayor of his city. Although his reputation links him to extortion against owners of other pharmacies, there have not been any charges against him. While he has been blamed for VAT fraud and the tax authorities have tried to investigate him, yet again there have been no court charges. In addition to this, the same oligarch has been blamed for electoral fraud at local and national elections. In his case study, the role of a perpetrator overlapped with the functions of a patron. He demanded that the owner of a pizza restaurant pay a monthly rent of €5,000 to an individual pretending to be an owner of the premises hosting the pizza restaurant. The oligarch has threatened consistently the owner of the pizza restaurant, but failed to force him paying a rent. As a result, the perpetrator tried to use the fact that he had built an additional building on the land where the restaurant was located, thus trying to prove that he owned the land as well. By using his influence of an influential businessman, local politician and town councillor he forced the local municipal administration to apply the law in his favour. As a result, the electricity of the restaurant was cut off and its summer garden was demolished. The restaurant owner filed a report to the police and the prosecution initiated an investigation against the perpetrator. According to the victim, however, the perpetrator sent representatives of the local criminal world to threaten him.

In case BG-H9, the perpetrator – owner of a big company producing food components for fast-food Arab restaurants – was also a victim in another case – BG-H2 (see Box 1). Acting as a patron for the restaurants he supplied, the perpetrator received a complaint from fast-food Arab restaurants in a large city that a new competitor had entered the market, thus siphoning off their customers. The victim developed his restaurant successfully and was planning to open a second one and expand his business. The perpetrator, who had built and sold a shopping mall in the city, used his good contacts among the organised criminal groups at the local level and turned to one of its leaders. Although the exact method used is unknown, the owner of the premises hosting the victim's restaurant was forced to cancel the tenant contract with the fast-food restaurant. The victim tried to approach and talk to the criminal leader, but he refused negotiating with him. As a result, the restaurant was shut down and the company bankrupted.

Racketeering by public officials

Racketeering of small and medium companies by public officials occurs most frequently at the local level. These are usually senior officials in the municipal administration or the local branches of central government agencies. The latter are somewhat independent, allowing officials to find suitable victims. For the racketeering model to function successfully, however, those same senior officials need to find subordinate officials to create and participate in a structure ensuring the extortion rent. This criminal structure inside the public administration can ensure income from corrupt practices, but in the case of administrative racketeering, the model presupposes that the victims would pay to avoid harassment and damages. The colloquial term for this levy is “let live fee” – the extorted person/company pays up in order to be allowed to operate without being subjected to multiple and protracted checks, inspections, investigations, etc. Case study BG-H10 developed in one of the municipalities in Sofia and serves as a good example for an analysis of the administrative racketeering which has also been taking place in other municipalities of big cities, as well as in the local departments of central government institutions. The resource used by the mayor of the municipality and her “criminal network” for the purposes of racketeering was the municipal property of several key junctions. Temporary facilities were built up there to host fast-food pavilions. Because of their very good strategic location, they all had a considerable daily profit. Given the complicated legal case, the facilities had a “pending” status for years. The municipality did not want to sell them because of the unclear status of the land on which they were located. At the same time, it made temporary contracts with the owners of the fast-food pavilions, which contained a clause for a short notice cancelation. To avoid the latter scenario, the owners of the pavilions were forced to pay a monthly rent to the mayor and her group. The group's organisation has been constantly changing – besides the mayor, it comprised of almost all of the key officials from the municipality – the lawyer, the architect, the accountant and officials employed as a result of their friendship with someone from the group. The group also had other “channels for illegal income” related to corrupt services, public procurement, etc. The rest of the municipal officials had some general information about the developments, but preferred not to report to the relevant authorities

because the mayor's management provided them with a sense of security and a chance for additional privileges; hence, they would not risk raising questions about the corrupt practices. The mayor and her criminal network were enjoying the protection of parties political (as a result of clientelist services) and entrepreneurs who had influence over the political parties in the municipal council. At the end, the administration of the city's mayor (to whom the municipality mayor is subordinated) initiated a revision which led to the temporary removal of the mayor of the local municipality, and later to her permanent resignation, although no charges were pressed against her.

Cases and schemes of administrative racketeering similar to the one in BG-H10 have also occurred at the lower level in few other places, although in different modifications. A case in point is the tax administration of a big city, which covers several regions in North-western Bulgaria. The administrative director used several of his trusted officials to identify companies, restaurants and hotels at risk. They initiated tax audits and – as expected – managed to find various violations and tax evasions. When companies are small and cannot afford large sums for corrupt payments, they learn their lesson and in the future try to keep their operation entirely legitimate so that inspection cannot find any pretext for extortion. As a result, the public officials would offer them to simply pay a “let live” tax. Depending on the type of violation, the extortion rent could be paid either monthly or quarterly. It would usually be agreed that future tax audits would only find minor violations. The checks would be done to manifest that the system is working and the rents need to be paid regularly. In the case of a food safety agency (see Box 1) in a big city at the South coast of the Black Sea, the local department of the agency applied the “let live” fee in addition to other typical corrupt practices. If a new competitor emerges, those paying would signal to their patrons, so that the latter could start inspections and find or fabricate violations. The aim is to deny the company a share in the market before it could establish and consolidate itself by generating sufficient income.

In addition to this, a market monopoly method is also used. An example is provided by the so-called animal waste, mostly discarded products of meat processing. The regulatory standards require that the enterprises manufacturing food destroy all animal waste in a specific manner. A local department of the government supervisory agency started to apply this requirement to all restaurants in the area. The aim was to enable the only regional company destroying animal waste to receive several hundreds of restaurants as its clients. The model of the criminal group inside the local government institution is similar to the one observed in case study BG-H10, as once again there has been evident protection from political parties. Besides the leader of the scheme, there could also be his deputy or other senior officials included in the “criminal network” for political reasons.

Box 1. BG-H2: the gamekeeper turned poacher

The case BG-H2 gained notoriety after a big media and political scandal in May 2015, thus showing the various aspects of the new system of racketeering and extortion. According to the sources, the rent had been distributed first to the leaders of a political party in government and – following the start of the term of a new government – to another political party supporting the government.

Perpetrators

The Bulgarian Food Safety Agency (BFSA) was created in 2011 and turned into a mega-agency controlling 650,000 facilities, 25,000 restaurants and fast-food establishments, 22,000 bars, cafes, pastry shops, etc. According to media publications and interviews with various sources (officials, policemen, prosecutors), in the local and national level inspection agencies which were merged into BFSA there had been various schemes ensuring income from extortion and corruption but there was no evidence of coordination of these practices. These practices were remained in the new mega-agency but because of political shocks, they constituted systematic corruption rather than a system of extortion. The organisation for creating a system for regular extortion rents started developing with the change in management in the autumn of 2013.

According to the victim from case BG-H10, the newly appointed director of BFSA and his team created a centralised system for racketeering amounting to “approximately BGN10 million (approx. €5 mln) on a monthly basis”. In his view, the ones who avoided paying either enjoyed political protection themselves, or were “in the process of being forced”, or – similarly to him – “are below the radar screen”. The victim’s claims were later confirmed by business associations, such as the National Association of the Dairy Producers (Actualno.com, 2015), as well as by interviews with their representatives.

According to information provided by the victim and unsigned media sources, the big companies have acknowledged that they had paid the Agency’s new management. A big restaurant chain would pay approximately BGN 100,000 on a monthly basis only for its restaurants in Sofia. Another chain delivering meat and pastry as semi-manufactured goods to restaurants had to pay an annual sum of 1 million leva. The BFSA management created a centralised system for racketeering of big companies, but let its local departments enjoy their own income from corruption and extortion. As a result, the Agency enjoyed their loyalty and cooperation in more complicated cases, such as BG-H2.

In order to implement the system for extortion, the new director constructed a new “instrument” by creating two new departments – Risk Analysis and Mobile Groups – which were directly subordinated to him, and he handpicked the senior officials appointed there. Prior to this, the usual practice was to make a certain number of inspections on an annual basis. Through the Risk Analysis Department it could focus on a specific company or facility outside of the annual plan, and instead of the regional BFSA inspectors, the director himself could form and send a mobile group. The argument in favour of the new structure was that it would bypass local collusions between corrupt officials and business but in fact the establishment of the mechanism for extortion of big companies did not affect the interests of the already existing local mechanisms for corrupt income.

Box 1. BG-H2: the gamekeeper turned poacher (continued)**Victims**

The BG-H2 case involves a holding group whose two companies became subjected to monthly extortion. The specifics of the case are related to the profile of the victim – a well established Arab entrepreneur living and working in Bulgaria since the start of the 1990s.¹⁴ His first business initiatives were related to import and sale of consumer electronics, and for this reason he was well aware of the racketeering mechanisms for border crossing, taxation, and the mechanisms of corruption related to the complex powers of Bulgarian government institutions. Following his bankruptcy in 2009, in 2010 the businessman created a new company which used a specific market niche in Bulgaria – the fast-food kebab restaurants. He started two enterprises – his own chain of 30 Arab fast-food restaurants and a company for the delivery of the basic products for the kebab shops in the country – a poultry factory, a bakery for Arab bread, workshops for the sauce and potatoes. Because of his experience in the 1990s and his involvement in the real estate and construction businesses, his new companies were completely legal and he invested considerable resources in the maximum hygiene of his facilities.¹⁵ His initial investment amounted to €5 million and he employed 800 people. Both companies were particularly successful and their sales rose by 70 % annually within three years, thus managing to deliver products to more than 500 Arab fast-food outlets in Bulgaria (70 % of the market). However, as case study BG-H9 has shown, the victim here was obviously a perpetrator of racketeering in other instances.

The shakedown

From the media publications and the interviews with the victim, it became clear that several months after the appointment of the new director (at the start of 2014) the victim was approached by an intermediary (a high-level official from BFSA in Sofia). The intermediary stated that the Agency was aware of the big market share of the Arab food and made “an offer” to help the businessman become a “monopolist of the kebabs in Sofia”. The victim, however, did not agree to pay the suggested amount for that support. From the interviews with police officials it became clear that the victim relied on his political protection and did not regard “the offer” as an actual threat (Blitz.bg, 2015).

The victim’s poultry factory was examined by BFSA in detail because it was known that it processes chilled chicken meat imported from Poland. The meat’s durability was 7 days, whereas its route to Bulgaria would usually last 3-4 days. At the end of March 2014, three months after the offer, a special inspection of the enterprise was initiated and its refrigeration storage facilities were shut down. The Agency demanded €5,000, while the value of all the meat in the storage amounted to €350,000. Thus, only in a few days the meat costing €3.50 per kilogram would have to be scrapped and only used as a dog food for the value of 10 cents per kilogram. The victim accepted to pay the “let live fee”,

¹⁴ Initially, the entrepreneur established and developed his companies in Bulgaria, and then in other Balkan countries, and eventually created a big company for electrical devices and electronics, with markets in the Balkans and in North Africa. During the real estate boom in Bulgaria, he made investments amounting to €100 million as of 2008. As a result of the crisis, he bankrupted, as the banks crediting him took the larger share of his international company and its real estate assets.

¹⁵ The victim in case study BG-H2 tried to retain the specifics of the Arab fast-food, but simultaneously change its image of insufficient hygiene. For that reason, his investments were considerably higher compared to those for hygiene standards in other EU countries.

Box 1. BG-H2: the gamekeeper turned poacher (continued)

but the next day the extorters came up with a new demand of a €10,000 monthly rent – in other words, a sum worth half the annual revenue of the company. The victim refused and the chilled meat remained in the sealed storages. As a result, he realised that the damage done would eventually result in a huge annual loss which would in turn lead to problems with the banks crediting him. The director of the BFSA and the others involved in the operation knew that the meat they were inspecting would turn out to be normal in the laboratory analysis, as a result of which they would be sued. However, they were also aware of another problem in the company of which the victim claimed he had not known, but admitted his fault. It turned out that a group of workers had consistently stolen parts of the meat and smuggled it out. After the stores had been sealed, the meat quickly went bad and was found by the inspectors. The violation was documented, but not announced. The victim's refusal to pay also led to a series of actions against his fast-food restaurants. The local structures of BFSA also started pressuring other Arab fast-food restaurants, while trying to convince their owners and managers to cancel the contracts and deliveries from the company of the victim.

The exposure

The victim tried to achieve a sort of agreement with the BFSA management but its director offered him to meet with his subordinates and negotiate. In this very period, it became clear that new parliamentary elections were coming. The victim decided to try and make the most of the situation and filed a report to the police and the prosecution. An investigation soon started, but the BFSA negotiator had apparently been tipped off and foiled the attempt to use surveillance techniques in the negotiations and the money exchange. After the election of the new government, the victim thought that he would not face any more trouble with the BFSA's director, although the latter retained his position. Only a week after the prosecution's investigation ended, however, a new team from the Agency entered the victim's enterprise. This time he was told that their aim was not to make him pay, but to use him as an example of punishment for all those who were paying. According to the victim, the actual goal was to bankrupt him; as a result, he declared that would fight back with the support of the media. Soon after this he started giving a lot of interviews, thus attracting the interest of national media. At the end, the BFSA's director was changed, despite protests of the political party which supported the government and opposed his dismissal.

THE VICTIMS

Most of the victims in the analysed cases were in some way related to the grey market and had previously established relations with the perpetrators.

The analysed media reports reveal high concentration of extortion cases in the coastal regions of Bourgas – 4 and Varna – 1, as well as in the city of Sofia – 3; two cases occurred in Pleven and Dupnitsa. Most of the cases occurred in large cities and resorts – Sofia, Bourgas, Varna and Pleven. The two exceptions are the towns of Aytos and Dupnitsa. The prevalence of extortion in large cities and resort areas may be explained by higher concentration of companies in the hospitality sector. Most of the analysed cases reported extortion-related incidents where one particular entity and/or person has been identified as the prime

target and victim. However, two cases involved multiple victims who had suffered systematic extortion – in the resort Sunny Beach (Bourgas) and in Sofia (BG-H10; BG-H1). In Sunny Beach, Nessebar and Sveti Vlas an OCG had targeted small retailers, mostly single-owner businesses, while in Sofia municipal administration officials extorted more than 50 retailers who had been renting their place of business from the city administration. Both cases involved continuous and systematic extortion practices; the ad hoc extortion incidents took place mostly in the Sofia and Bourgas regions. This indicates that victims are concentrated in areas within cities and resorts with high profile retail areas such as marketplaces, downtown pedestrian areas, etc.

Most identified victims were Bulgarian males. In one case (BG-H2) the victim had a dual citizenship and in another the victim was female (BG-H5). In seven of the cases the victims had been owners of small to medium-sized limited liability companies in the food and hospitality sector. One case involved a larger company in the meat processing and fast-food sector with considerable presence in Sofia and some coastal regions (BG-H4; BG-H2). However, in two of the cases involving multiple victims (more than 50) they have been identified as sole proprietors/merchants. With some caution, this indicates that the majority of extortion victims were small businesses. In all but one case, the owners of the businesses had been the target of extortion practices. In the extortion case involving a larger fast-food chain company, regional offices and production facilities were also targeted, in this case by public officials (BG-H2; BG-H4).

The analysis of the collected data suggests that small sole proprietor businesses tend to comply with extortion demands. In the cases involving multiple small businesses in Sofia and Sunny Beach almost all have complied with the demands and have sustained systematic harassment (BG-H1; BG-H10). Out of the remaining eight individual cases, however, only two have initially complied only to report to the police and/or media after circumstances had escalated either through increased demands by extortionists or physical assault (BG-H8; BG-H7; BG-H9). In these cases the victims lost their business and/or related properties. In the rest of the cases the businesses of the victims remained operational. In one case the victim neither complied with extortionist demands nor initially alerted the authorities but rather attempted to resolve the issue by negotiating with the stakeholders (BG-H9). Still, where extortion demands were resisted it is not clear whether compliance had been refused from the onset or due to rising extortionist demands. It is noteworthy that the likelihood of victims reporting to the authorities does not seem to depend on the type of offender. In both cases of mass systematic extortion by an OCG (BG-H1) and by representatives of a public administration (BG-H10), the small business victims remained mostly compliant. This indicates that size of business may play a role in the decision-making process to report or not the extortion to the authorities.

In most cases the extortionists were clients of the facilities of the extorted or, where public officials were involved, government oversight agencies. In one case there appears to have been a personal relation between victim and perpetrator (BG-H3), while in another (BG-H6) no apparent connection has been established. In a noteworthy instance the extortionist of a hospitality facility owner was the private security company hired by the victim (BG-H5).

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APPENDIX 1. LIST OF CASES FOR THE STUDY OF EXTORTION IN THE AGRICULTURAL SECTOR

ID	Location/Period	Description	Source
BG-A1	Dobrich province, 2014	Two inspectors from a Regional Directorate of State Fund Agriculture in complicity with a former expert from the same institution extorted more than 20 farmers receiving subsidies from the fund. The farmers were threaten with excessive inspections and sanctions, if they did not comply with the demands.	Media
BG-A2	Vratsa province, 2014 – 2015	The mayor of a small municipality, the life partner of the mayor and accomplices from the municipal council rigged a concession tender for municipal pastures (500 ha) in order to obtain subsidies. Subsequently, the beneficiary denied the local livestock breeders the right to use the pastures, thus effectively pushing them into bankruptcy. The group abused their position of power to silence the farmers and suppress any claims from them.	Media
BG-A3	Vratsa province, 2014 – 2015	The mayor of a village, his wife and sons in complicity with the local political leader, have been extorting and racketeering farmers and landowners in their village in order to force them to sign land-sale/land-tenancy contracts. When a victim of the extortion filed a report to the police they systematically threatened him and arranged so that his house was vandalised and pillaged.	Interviews with police, media
BG-A4	Blagoevgrad province, 2014 – 2015	A notorious OCG from a mountainous municipality in the Blagoevgrad province decided to move into cattle breeding in order to get access to EU subsidies. They managed to rig the tender for the concession of the municipal pastures and forced a number of landowners to sign sale/tenant contracts for their private land suitable for pastures in order to increase the acreage of pastures tended.	Interviews with police
BG-A5	Sofia province, 2014 – 2015	Infamous shady businessman and a local political leader in a mountainous municipality of Sofia Province, in complicity with municipality councillors and the mayor (fellow party members) rigged a concession over part of the municipality pastures with the ultimate goal to receive European subsidies. The businessman attempted to extort 2 local livestock breeders in order to take over their pastureland using verbal threats for physical assault and threats for imposition of administrative sanctions.	Media

ID	Location/Period	Description	Source
BG-A6	Bourgas province, 2014 – 2015	Two shady businessmen harassed a local sheep breeder in the Strandzha mountain in an attempt to take over his pastureland. He was the only farmer tending most of the pastures in the village and receiving European subsidies. They tried to threaten him, tried to convince the villagers to terminate their land tenancy contracts with him, intentionally ploughed the pastures and triggered administrative inspections against the farmer in order to make him give up the pastures.	Interview with victim
BG-A7	Vratsa province, 2013 – 2015	Two brothers – shady businessmen from a small town in the Pleven province – were extorting small farmers and cooperatives in the Vratsa province. The aim of the extortion was to force the small farmers and cooperatives to cede their land tenancy contracts and give up the lands cultivated by them along with the rights to receive EU subsidies for those lands. The extortion started in 2013 with administrative claims and disputes over the lands cultivated by the cooperative and attempts by the extortionists to block the EU subsidies for the cooperative. In 2015, employees of the extortionists sprayed with herbicides large areas of the victims' crops (maze, sunflower, etc.), thus destroying the entire yield of a local cooperative.	Interviews with police, media
BG-A8	Pleven province, 2012	A member of parliament in complicity with a municipal councilor from Pleven and the Director of the Regional Office of State Fund Agriculture in Montana extorted a big tenant farmer cultivating a hundred thousand hectares in the provinces of Montana, Pleven and Vratsa. They requested protection money in exchange for lenient administrative control, swift disbursement of the subsidies and administrative support in case of disputes with competitors. In the beginning the victim complied, but as the extortion continued he filed a report to the police.	Media
BG-A9	Vratsa province, 2010	An OCG involving notorious figures from the town of Montana kidnapped a trader in agricultural produce from Vratsa and extorted him to participate in fraud schemes in order to pay back his debts. The leader of the extortionists was an infamous businessman and big tenant farmer known for involvement in numerous incidents related to extortion, theft or damage of property, VAT tax frauds.	Interviews with police, media
BG-A10	Blagoevgrad province, 2014 – 2015	A number of tobacco growers were deceived, defrauded and thus deprived of their legitimate right to receive agricultural subsidies. The fraudulent scheme was implemented by a group of municipal and other local officials (fellow party members) – mayoral mayors, municipal councilors, public servants in the municipality, local police officers, local forest guards, etc. Subsequently the group extorted the farmers to not pursue or cede claims for their right to receive the subsidies.	Interviews with police, media

ID	Location/Period	Description	Source
BG-A11	Bourgas province, 2013	A big tenant farmer extorted local land owners to sell or lease their lands. In one of the cases he ordered a physical assault on a local landowner who resisted. In a previous incident he extorted a local concessionaire of the irrigation dams in the municipality to transfer his concession to a company controlled by the tenant farmer. In order to overcome the resistance of the concessionaire, he ordered the fish in one of the dams to be poisoned and the other dam to be drained out.	Interviews with police, media
BG-A12	Shoumen province, 2007 – 2011	A well-established tobacco grower and tobacco trader (also a local political leader) deceived and defrauded a number of tobacco growers in the municipality and thus deprived them of the right to receive agricultural subsidies. He continuously extorted the local farmers not to file complaints and cede claims for their rights to receive subsidies. When the tobacco growers attempted to organise protests, the perpetrator intimidated the local coordinator of the National Association of Tobacco Growers, eventually organised a physical assault and arranged a road incident, where his car was pulled out of the road.	Interviews with victim, media
BG-A13	Pazardjik province, 2014 – 2015	The mayor of a municipality in the Pazardjik province in complicity with an infamous local businessman, the head of the municipal office “Agriculture” (his intimate partner) embezzled municipal property through forging documents and selling the municipal pastures to a company allegedly controlled by the mayor and the businessman with the ultimate goal to obtain the right for agricultural subsidies from them. When the local livestock breeders filed complaints to the police and the prosecution, brought the case in the media and organised protests, the mayor and his accomplices started to intimidate and extort them through threats and administrative penalties. The purpose of the extortion was to persuade the livestock breeders to cede claims for the pastures and concede their right to receive agricultural subsidies for them.	Interviews with victims and prosecutor, media
BG-A14	Vratsa province, 2013 – 2014	Farmers and stockbreeders have been subject to protection racketeering from an OCG consisting of at least 13 people. The farmers had to pay monthly fees for access to and protection of their lands and pastures.	Prosecution, media
BG-A15	Montana province, 2012 – 2014	An OCG involving notorious figures extorted local farmers to sign contracts for private security services or to sign contracts for sale of lands. The group used verbal threats and intimidated the victims through various tactics – beatings, arson, damage of property and kidnappings.	Prosecution, media

APPENDIX 2. LIST OF CASES FOR THE STUDY OF EXTORTION IN THE HOSPITALITY SECTOR

ID	Location/Period	Description	Source
BG-H1	Bourgas province, 2012	A local crime boss was involved in systematic extortion of small owners of tourist attraction facilities, kiosks, restaurants and pubs in Nessebar and Sunny Beach. His group was also involved in drugs trafficking and prostitution. It has been reported that the group was also subordinated to the popular criminal leader Mityo "The Eyes".	Interviews with police, media
BG-H2	Sofia, 2014 – 2015	The Bulgarian Food Safety Agency – an oversight body – has been involved in the extortion of popular fast-food chains in Bulgaria. The case revealed several networks for long standing extortion, which in some periods was centrally managed and politically protected.	Interviews with victim, media
BG-H3	Varna, 2014	The case involves a large economic holding, the core of which is trading in pharmaceuticals and petrol, as well construction. Being a large property owner in the city, in cases of conflict it would protect one side and extort the other.	Media
BG-H4	Bourgas province, 2014	Representatives of the Regional Directorate of the Bulgarian Food Safety Agency were accused of extortionist practices in the province of Bourgas. These were more or less stable groups of public officials extorting restaurant owners and meat producers.	Interview with BFSA former employee, media
BG-H5	Bourgas province, 2014	A private security company tried to force the owner of a club/restaurant (conflicting reports) to renew his contract with them. The same company used violence against other victims and against its competition.	Interviews with police, media
BG-H6	Sofia, 2011	A prominent restaurant in the capital city was extorted by a local OCG.	Media
BG-H7	Bourgas, 2011	Loansharks had long been extorting the owner of a guest house and a restaurant because of a loan. The owner did not report it to the police but the case surfaced after a lost court battle and violence.	Media

ID	Location/Period	Description	Source
BG-H8	Kyustendil province, 2006 – 2012	The restaurant owner became a victim of systematic extortion and harassment. The group perpetrating it is linked to two men known as the biggest criminal entrepreneurs in the region. Large huge sums of money and a villa were taken from the victim, after which he bankrupted. The police and prosecution, however, have not initiated any legal proceedings despite the physical abuse suffered by the victim and the damage done to his property.	Media
BG-H9	Pleven, 2014	The victim was a young manager of a successful small fast-food restaurant, who was extorted by a powerful entrepreneur supplying semi-processed products. The latter hired a local criminal boss who pressured the victim's landlord to default on their rent contract and expel him from the premises. The victim efforts tried to negotiate with the criminal boss but failed and, as a result, lost his business.	Interview with victim
BG-H10	Sofia, 2012 – 2015	The mayor of a Sofia municipality and her administrative officers have been accused of extortion by small restaurant and shop owners. The restaurants and shops are located at places of significant footfall. Because they were erected on municipal land, the mayor and accomplices extorted the victims threatening a cancellation of their rent contracts.	Interviews with victims