

## 2. THE RISK OF SYMBIOSIS BETWEEN THE SECURITY SECTOR AND ORGANIZED CRIME IN BULGARIA

### 2.1. THE TRANSFORMATION OF THE SECURITY SECTOR IN THE PERIOD OF TRANSITION

Bulgaria's political reform of November 10, 1989 was immediately followed by a transformation of the communist era Committee for State Security. The committee was dismantled within months (from January to May 1990). A serious structural makeover was undertaken after a series of decrees and decisions by the State Council and the Council of Ministers aiming to abolish the political police and decentralize the remainder of the security forces. A noteworthy fact, however, is that such pieces of secondary legislation were, again, not made public.

Detractors of the socialist government of Andrei Lukanov claimed, among other things, that the hastened reforms were aimed at pinning the crimes of the Bulgarian communist party solely to the State Security force.

#### *The transformation of the Committee for State Security*

- The political police (Main Directorate 6 of the Committee for State Security) was dismantled.<sup>10</sup>
- The intelligence service (Main Directorate 1) was placed under presidential command. It was renamed the National Intelligence Service (NIS).<sup>11</sup>
- Main Directorates 2 and 4 were transformed so as to preserve existing counterintelligence units and establish the National Service for Protection of the Constitution (NSPC). In July 1991, the latter was renamed the National Security Service (NSS).<sup>12</sup>
- Main Directorate 3 (i.e., military counterintelligence) was made part of the Ministry of Defense (MoD).

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<sup>10</sup> The Law on the Ministry of Interior of July 16, 1991 repealed Decree 1670 on the Committee for State Security of 1974 and the unpublished Decree 1474 on State Security Activities of 1974.

<sup>11</sup> State Council Decree 152 of 1990 and Presidential Decree 17 of 1990. Council of Ministers Decree 216 of November 4, 1991 regulates the position of NIS in the system of state institutions of the Republic of Bulgaria. In 1996 NIS was included in the Law on Defense and the Armed Forces; already in 2002 it was no longer part of the army, but remains in the transitional provisions of the Defense Law until a specific NIS law is elaborated.

<sup>12</sup> The Law on the Ministry of Interior of July 16, 1991, repealed with the Law on the Ministry of Interior of 1997. Main Directorate 2 was renamed National Service for the Protection of the Constitution, but already in 1991 the name National Security Service was in circulation.

- After internal restructuring, the State Security's Main Investigation Directorate (MID) became the National Investigation Service.<sup>13</sup>
- Main Directorate 5 (called the Directorate for Safety and Protection) was placed under presidential authority. Later on, it was renamed the National Bodyguard Service (NBS).<sup>14</sup>
- A new security service was established in July 1991—the Central Service for Combating Organized Crime (CSCOC), later renamed the National Service for Combating Organized Crime (NSCOC). The new service has mostly police functions.
- Two new services were formed in accordance with orders from the Minister of Interior: the Bureau for Outdoor Surveillance (BOS) and the Operational and Technical Information Service (ATIS).

Apart from structural reforms, substantial personnel cutbacks were made on all levels of the former State Security agency, from the managerial top to the operational bottom. Between 1989 and 1991, over half of its officers were made redundant, the bulk of them from the political police, (known as the Sixth Main Directorate) and the Technological and Scientific Intelligence (TSI). From the top or intermediate management level of the TSI, most officers with up to five years or over 20 years of service were dismissed. The government of Prime Minister Philip Dimitrov dismissed an equal number of State Security officers in the period of 1991-1992. According to Deputy Prime Minister Dimitar Ludzhev, a member of Dimitrov's cabinet, as a result of the two personnel reduction stages, between 12,000 and 14,000 people were made redundant.<sup>15</sup>

The services that were set up after structural and personnel transformations and the dissolution of State Security were placed under the authority of either the Ministry of Interior (Mol), the Ministry of Defense, or the President. In this way, a certain distribution of competencies was achieved, but coordination between them diminished. A reproduction of any totalitarian type of structure was no longer possible due to decentralization and staff cuts. At the same time, regular enforcement functions were nearly paralyzed by this institutional collapse.

<sup>13</sup> MID was established with Decree No. 1138 of 1979. The National Investigation Service was established with the Law on the Supreme Judicial Council of 1991.

<sup>14</sup> Council of Ministers Decree No. 101 of 1991 and Council of Ministers Decree No. 151 of August, 1992. The latter adopts Rules on the Organization and Activities of NBS.

<sup>15</sup> *Trud*, October 18, 1995. Gen. Atanas Semedzhiev, the first post-1989 Minister of Interior, commented on the principles on which the reforms underway at that time lay: "...We pinpointed strict criteria, according to which the officers subject to dismissal were those of retirement age, and sometimes officers who, even though younger, were entitled to retirement, as well as officers who had been recruited only recently...We were perfectly aware that the dismissal of professionals would disable the security services. It would also be unreasonable financially-wise, since the training costs for each officer had been indeed sizeable. ...Those between the ages of 45 and 55 suffered most from the cuts, though it was they who were most professional and experienced. Often, it was the better equipped instead of the more incompetent ones that were released under orders of biased superiors. The measure of most negative consequences was the instruction to satisfy the resignation of each officer who had submitted one. It was actually the best officers who resigned, which was a serious loss for the security forces." (see *Trud*, November 1, 1994).

Some of the officers made redundant were re-recruited by the police departments at the newly instituted Ministry of Interior, in particular by the National Service for Combating Organized Crime (NSCOC). Apart from the National Police Service and its 27 regional directorates, a National Border Police Service<sup>16</sup> was formed for protecting and keeping control of the state border<sup>17</sup>, as well as a National Gendarmerie Service.

In the early years of transition the police were not spared massive lay-offs, harsh rebukes by the media and the public, and political influence on recruitment policy. Thus, a large portion of laid-off or dissatisfied police officers joined the ranks of shadow economy structures.

## **2.2. THE INVOLVEMENT OF THE SECURITY SECTOR IN THE GREY AND BLACK ECONOMIES**

Corrupt officers in the security sector and former officers of the People's Militia (the Police equivalent in the Communist era) were among the key culprits in the crime-infested transition years. A distinction should be made, however, between the participation in criminal activities of the former militia officers and that of the State Security units. The People's Militia was responsible for curbing domestic crime and maintaining public order. Therefore, its officers and informers had a background in this particular field and were involved chiefly in low-level criminal schemes.

The primary transition goal of eliminating the repressive communist state apparatus and laying the groundwork for civil control of the police and security services was accomplished through heavy staff cuts. The adverse effect of these processes, however, was the increase in national security breaches and in violations of human rights in a number of East European states, not least in Bulgaria. The bond between present and former security officers and the criminal and quasi-criminal groups proliferating amid legal and institutional chaos (most pronounced at the start of the transition) has been one of the most ominous developments in post-1989 Bulgaria. This partnership was engendered by a number of circumstances, two of them of crucial importance:

- the involvement of security forces into the grey and black economy; and
- their role in the formation of a corruption-breeding public sector.

These two circumstances aided the formation of informal crime networks where political and economic interests intersect, and which, furthered by corruption, provide a political umbrella for the activities of criminal formations in post-communist states.

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<sup>16</sup> In the early 1990s border protection was still executed by the Border Troops.

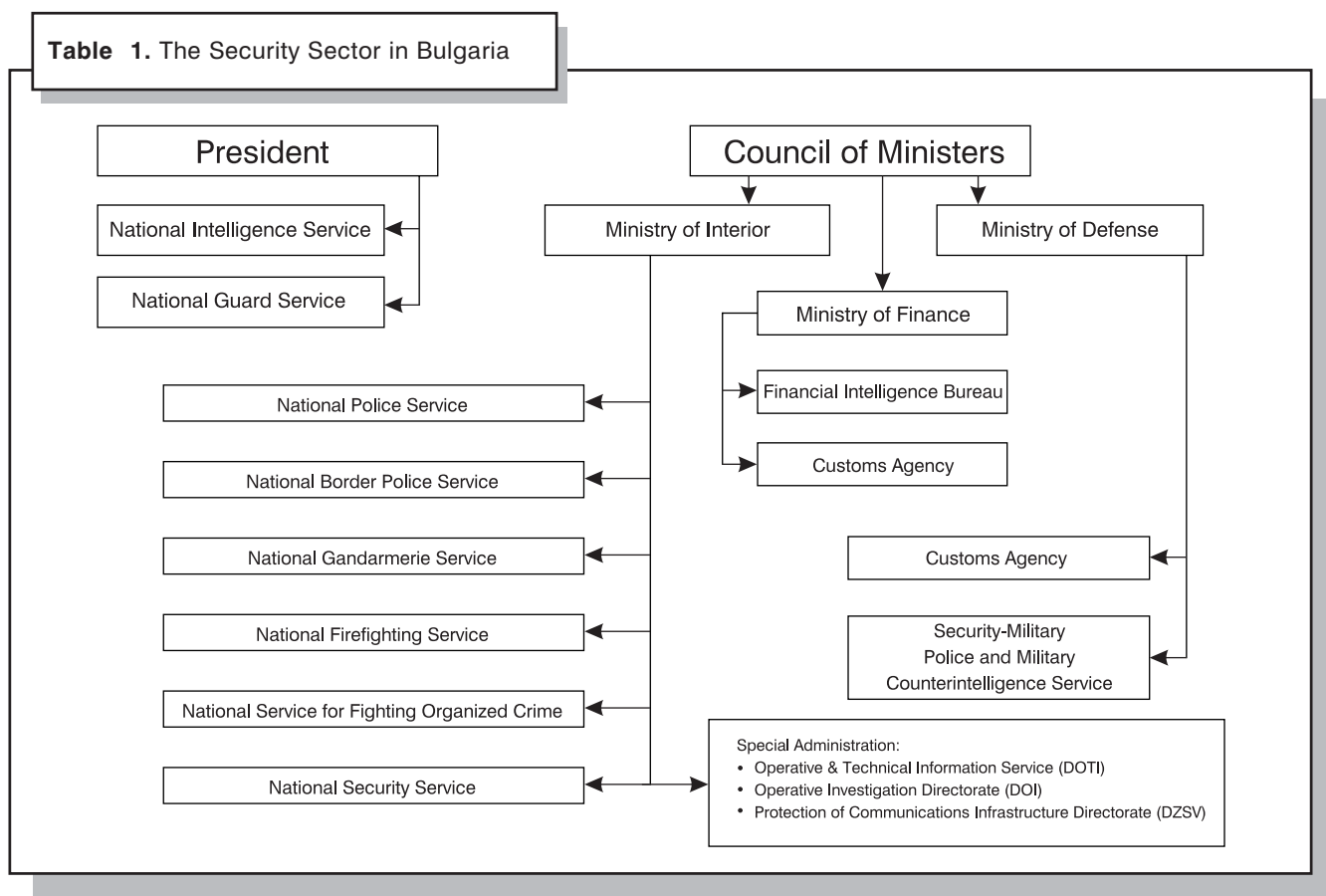
<sup>17</sup> According to the Law on the Ministry of Interior, the Border Police Service performs its functions in the border zone, border check point zones, international airports and sea-ports, internal seas, the territorial sea and its area, the continental shelf, the Bulgarian part of the Danube, and other border rivers and water basins. (See <http://www.mvr.bg/>).

### 2.2.1. State Security and Economic Crime

As evident from the example of Bulgaria, the course of the secret services' participation in the country's economy was predetermined even under communist rule. The Technological and Scientific Intelligence (TSI) agency was a principal means to this end.<sup>18</sup>

The two most well-known operations of the technological intelligence at that time were the Neva and Mont Blanc projects, designed for the illicit transfer of embargoed advanced technology. Later on, TSI was at the core of trade enterprises established abroad by State Security.

**Table 1.** The Security Sector in Bulgaria



<sup>18</sup> The Technological and Scientific Intelligence agency was set up in 1980 as the second division of State Security Main Directorate 1. In 1986, an economic division was formed within the counterintelligence Main Directorate 2 to tackle national economy matters. Apart from these two departments, an Economic Police unit was operating under the Ministry of Interior. Between 1975 and 1982, four economically-orientated departments were operating, namely the trade, economic, transport and state secret departments. Ministry of Interior Order K-2038 of April 13, 1982 instituted Department E as part of State Security Main Directorate 2 which was comprised of five units: one trade, two economic, a transport and a state secret unit. Order T-32 of March 23, 1986 established as a separate unit Main Directorate 4 made up of several departments: 2 economic, a trade, transport, state secret, information and analysis, active measures and military counterintelligence unit within the railway troops.

### *The Neva Project*

The secretive Neva Project (1984) aimed to supply Bulgaria and the Soviet Union with advanced technologies over which COCOM had imposed an embargo. The Mont Blanc Project (1986) supplemented the basic project by setting up clandestine companies abroad whose revenues were deposited into foreign bank accounts. The funds earned through technology acquisition are estimated at \$1 billion. The Technological and Scientific Intelligence agency was in charge of the projects' practical implementation, while State Security's First Main Directorate was responsible for managing the revenues. A practical outcome of these efforts was the building of Memory Disks Equipment company (known as DZU) of Stara Zagora (then a military computer research center). The Insist company was established as its outpost abroad and, later on, the company Inco joined in its business.

" ... According to our clients' estimates, between 1981 and 1986, the annual profit of technological and scientific intelligence activities was \$580 million, i.e., this would have been the price of technologies had we bought them... Similar estimates may be made for the period 1986-1989, when the value of technologies reached \$350 million."<sup>19</sup>

The double-dealing economic activities of the State Security services included control over the contraband channels for arms, excise goods, and prohibited medication. At the end of the 1970s a special directorate, popularly known as the "hidden transit" directorate, was set up within Kintex, the state-owned trading firm which was Bulgaria's only authorized weapons export company during the communist period. One of its main tasks was to smuggle arms into third countries. The operational management was entrusted to a group of officers from counterintelligence Main Directorate 2. Besides arms, the channels were used for illegal trafficking in people, mainly persons prosecuted in their own countries for communist or terrorist activities. The channels were even used for trafficking in objects of historical value.<sup>20</sup>

The exact number of State Security officers involved in this quasi-legal business is not known, but by 1989 a sizeable group of security officers had become part of legally-established businesses that, back in the communist era as well as under the present democratic government, conducted what could be categorized as trans-border criminal activity. Although at that time such enterprise was regarded as beneficial to society and was done by order of the state, this situation is now invariably interpreted as a major prerequisite for the nexus between security forces staff and organized crime, especially at the initial stage of transition.

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<sup>19</sup> Interview with former technological and scientific intelligence chief, Gen. Georgi Manchev, *Anteni* 26.

<sup>20</sup> The *Danov Report* (named after former interior minister Christo Danov) issued in 1991, says that a representative office of the Liechtenstein company Ikomev was opened in Sofia at the foreign trade firm Intercommerce. In fact, Ikomev took over the business of Directorate 3 of Kintex except for the hidden arms transit. Kintex's subsidiaries Alltrade and Sokotrade joined Ikomev. Simultaneously, Ikomev was partner in the Bulgarian-Austrian company Lotos Ltd. whose business was banking operations. Kintex created a company called Inar for the sale of surplus arms inventory worth \$20 million. The top executive positions of all of these companies were held by acting or former State Security servants that had dealt in similar foreign trade activities in the communist period.

### 2.2.2. *The Security Sector and Organized Crime*

Three processes directly impacting the links between the security services and organized crime were underway in the early 1990s, namely: the post-communist transformation of the Committee for State Security, the establishment of a private sector in Bulgaria (it was during this period that the first private companies were registered and commenced their business), and blossoming criminal activity (including the formation of the first organized crime groups).

There is an obvious interdependence between these three developments. With the dissolution of the police state, the public sector's powers of repression and control significantly deteriorated; on the other hand, the freedom given to private initiatives pushed many enterprising citizens into activities that skirted the border between business and crime. "Dirty" business opportunities also attracted a number of criminals who had been incarcerated under socialism, and then granted amnesty after the transition. However, the largest bank out of which organized crime drew its recruits were strength athletes, in particular wrestlers from clubs and schools all over the country. As the state withdrew its support from the sports establishment, those athletes lost all prospects of social or career advancement. The go-getters among them easily fit into the security guard business niche that later expanded to include insurance. Wrestlers were mostly involved in racketeering, especially in the early 1990s, applying physical coercion to secure contracts for guarding retail trade outlets and, later on, to compel their owners to sign insurance contracts as well. Wrestlers and other groups of former professional athletes also entered the black economy, i.e., industries such as prostitution, gambling, smuggling and drug trafficking.

#### *The Emergence of Organized Crime in the Transition Period*

The number of crimes in Bulgaria recorded by the Mol in 1989 was 59,642, or 663 per 100,000 persons. By 1992, this figure had soared to 224,196, or 2646 crimes per 100,000, displaying a four-fold increase in comparison to 1989. Crime hit peak rates in 1997, the total number reaching 241,732, or 2898 criminal acts per 100,000. At the same time, a negligible portion of these crimes was actually penalized. In 1989, one of every three crimes was penalized, while between 1992 and 1994 a mere one twentieth of crimes were punished.<sup>21</sup> Another feature of the crime boom was the significant increase in crimes committed by groups of people. These developments led to the emergence of organized crime. This process was also influenced by the integration and globalization of international crime. Any definition of organized crime, however, is inherently incomplete or imprecise due to the versatility, constant transformation and ingenuity in the behavior of criminal groups and in the perpetration of crimes.

As a result of the democratic transformations, the communist-era security officers felt they had been abandoned by their own kind (i.e., the reformed communist party). In addition, they feared political repercussions and lacked qualifications for any other profession.<sup>22</sup> This spurred their participation in business, which allowed them to apply their expertise, contacts and network

<sup>21</sup> Source: Ministry of Interior.

<sup>22</sup> *Trud*, February 12, 2001.



of agents for the benefit of economic groups that were often quasi-criminal. In this, they engaged in partnership with former managers from the communist elite who were in the best position to set up business at the dawn of private enterprise in Bulgaria.

The officers released from the ranks of the State Security service possessed specific professional skills, many personal contacts at home and abroad, and their own information networks and databases on individuals, companies and organizations. To put all this into practice they needed the financial support of the newly-established private companies. This is how the first private networks for gathering information about individuals, companies and organizations appeared. The owners of some of these companies had been connected to State Security either directly or indirectly. Between 1990 and 1996, some of them employed hundreds of people in their information units, many of whom came from State Security. These private information units were of invaluable support to their companies' aggressive market tactics. Forcing their way into certain market segments, they essentially entered into conflict with the state (i.e., corporate interests clashed with state interests).

The private information networks were not used only by big Bulgarian companies. Often smaller firms purporting to provide security services also offered certain information services, including the use of special means of surveillance. The unofficial fees for phone tapping were announced in the press; as it turned out, a one-hour-long tape cost between \$75 and \$100.<sup>23</sup> The absence of any legal regulations on the activities of private information networks (essentially units of corporate espionage) or on their relations with security services made this issue even graver. At the same time, there was a flow of some former State Security cadres—who had worked in ill-reputed private firms—back into the security services. Some of them were believed to have misused their positions at law-enforcement bodies by continuing to work for private corporate interests.

The semi-legal privatization of the material assets of the former technological intelligence service was another link between former State Security officers and the underworld. Since the technological intelligence department was one the first to be fully dismantled, control over its assets remained in the hands of a few individuals who were not legitimate economic entities. This paved the way for illegal privatization of resources from the Neva and Mont Blanc projects, which had been terminated by 1990. But the Memory Disks Equipment company of Stara Zagora (known as DZU) and its spin-offs *Insist* and *Inco* were still in operation and it was their assets that became privatized between 1990 and 1993. According to information in the media, the eight overseas trade companies related to DZU were sold to nominal buyers with the purpose of covering the tracks of the embezzled money. The remainder of the resources was deposited into the accounts of the rightful claimants.<sup>24</sup>

Thus, a number of former police officers took advantage of the hazy status

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<sup>23</sup> *Trud*, October 11, 2000.

<sup>24</sup> *Democracia*, December 6, 1994

of those companies (formerly controlled by State Security's First and Second Main Directorates) to circumvent the neo-COCOM<sup>25</sup> embargo restrictions, and, after the closure of the communist Ministry of Foreign Trade Relations, to clandestinely privatize all trade enterprises abroad.

The illicit privatization of technological intelligence assets also took an alternative route. As mentioned above, dozens of home- and overseas-based companies formed by State Security sprouted up between 1990 and 1991. Initially state-owned, they were later transformed into private companies. The media reported that there were at most 15 such firms in the country, yet it is believed that their number was much greater.<sup>26</sup> Alongside this, many channels and sections of the network of State Security and the People's Militia agents were privatized.

### **2.2.3. Participation in Security Companies**

Former State Security officers used two basic mechanisms of illegal privatization: cash loans to establish private companies, and the illicit makeover of SOEs (state-owned enterprises) into privately-owned firms. At the start of the 1990s a third privatization mechanism appeared—the establishment of private security and protection companies by former servicemen, in particular, laid-off militia officers. The fact that these companies made inroads into fields already captured by criminal enterprises made it easy for them to “integrate” into organized criminal activities.

The breakdown of public order created by the state's abdication of certain key responsibilities was crucial for the expansion of the private security industry. With the advance of privatization and due to budget shortages, the MoI pulled out from guarding industrial facilities (warehouses, plants, retail stores). A distinction could be made between criminal formations labeling themselves “security companies” and the firms trying to create niches for their business and keep them legal. Apart from that, there were functional and territorial differences between the separate “security companies”.

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<sup>25</sup> Neo-COCOM, or the New Forum was the temporary name that COCOM (see footnote 4) assumed before becoming the Wassenaar Arrangement. Its founders were the EU, Russia, and the Visegrad Group. Bulgaria joined later.

<sup>26</sup> An anonymous high official from State Security made the following statement to reporter Angelina Petrova: “ ... In 1989-1990, when the lay-offs started, we held several meetings. At the first three of them, all the senior staff, were invited since the broad issue of our survival as an agency was brought forth. Later on, those with greater experience convened and decided that we should set up firms and put them into operation. ... After the technological intelligence ceased to exist, these companies remained, so that that their employees could earn a living. But the intelligence service did by no means fund any of these companies. None, but three firms. According to the law on company registration they needed to deposit a BGL 10,000 registration fee. We decided to lend this sum as a loan, but the borrowers were obliged to restore it within three to six months. ...”. (See *24 Chasa*, August 13, 1994).



### *The Wrestlers and Other Similar Formation*

Initially, the enforcement industry was apportioned between three large criminal associations—wrestlers, martial arts practitioners, and boxers. Many of the current bosses of the underworld started their career in Central Europe, engaging in car thefts, currency frauds, pimping, and other quick-profit enterprises. The wrestlers created a strict hierarchy for securing large profits and ensuring a high level of control. At the top stood a boss entitled to a sizeable commission of the criminal gains, while at lower levels were the “brigadiers” who supervised grassroots brigade members, namely the ordinary fighters at the bottom of the ladder. Their main line of business was car theft and racketeering of fledgling private firms (i.e., selling protection services).

Schools for training athletes constituted a pool of potential recruits for such criminal activities. Apart from highway robberies, small cohesive groups of athletes took control of prostitution in hotels in Sofia.

The wrestlers strong-armed street gangs and taxed them for each crime they committed. They pocketed a portion of the loot in exchange for protection against police action or other criminal groups. This was achieved through buying off police officers and investigators, hiring lawyers, and securing political contacts.

After 1992, racketeering became a livelihood for boxers and other athletes, as well.

Whereas protection firms owned by athletes guarded entertainment establishments, tourist spots and smaller offices, ex-policemen procured contracts with large SOEs, private companies, and banks, as a result of their old bonds with the elite. The latter did not earn their money through small-scale rackets. This disparity was the cause of the first conflicts between the two types of security firms.

The companies that were formed by former security servants recruited their bodyguards from among retired or dismissed police or military officers. Until 1994 policemen often worked for both the state and a private employer. Thus, protection firms could rely both on guards who were much better trained than those in rival athletic firms, and, when necessary, on quick police intervention. Such patterns are still present nowadays, but on a much smaller scale. In pursuit of establishing a good reputation, former policemen employed officers from specialized police units trained to combat dangerous criminals. Among these were the berets from the anti-terrorist division, the special squads attached to each regional directorate of internal affairs, the riot police, and the marines in Varna. Many special combat officers left such MoI and MoD units to start their own security companies. Some such enforcement firms took precedence over the companies formed by athletes due to their cold-blooded and professional attitude in most situations, and because the criminals feared them. Later, as a result of their interaction with coercive protection firms and the rules which had been imposed by the firms, such companies also crossed the line into criminal activities. Some former rivals formed partnerships. The firms set up by officers from specialized security units mutated into insurance companies, as well. In 1993 there were several clashes between companies run by police and those run by former athletes. The conflicts were primarily rivalries over coastal resorts, with each side desiring power over hotel and entertainment site leaseholders, the supply of foodstuffs and alcohol, and the gambling and prostitution arenas.

After capturing the resort area, security firms started to lease hotels and night spots on a grand scale. In 1995, criminal groups started illegal construction all over the Black Sea coast. Thus, the 1993 clashes were the first signals of organized crime in the making. Although the seaside and mountain resorts are currently more or less firmly distributed among the athletes' groups and former security officers' firms, clashes for dominance tend to erupt at the eve of each new holiday season. The constant reshuffling of tourist sites' management, the disordered state of legislation, undetermined ownership, and belated privatization were factors that fostered corruption and symbiosis between crime groups, former security offices and the economic elite.

#### **2.2.4. Security Sector Participation in the Financial Sector and the Banking Crisis**

Former policemen were also tempted by the financial sector. Thus, the managing boards of many of the newly-sprung, rapidly-bankrupt banks accommodated a number of former payroll and off-payroll State Security servants, including employees of First and Second Main Directorates (the foreign political intelligence and the counterintelligence), Sixth Main Directorate and the Fifth Main Directorate known as "Safety and Protection Directorate". The private banks of that time had well-staffed professional information and security departments, usually headed by one-time State Security and Ministry of Interior officers.

The Law on Banks and Crediting, which came into force in 1992, prohibited the appointment of former security officers or collaborators (in addition to other members of the ruling communist elite) to State Security. The law was attacked by 49 Members of Parliament from the Bulgarian Socialist Party in the 36th National Assembly. Decision No. 8 of July 27, 1992 ruled these provisions anti-constitutional.

Although no official information about the affiliation of certain bankrupt bank owners with State Security is available to the public, there are some "facts" that are widely—if unofficially—recognized in society. One such "fact" is that bank owners with no affiliation to communist-time security services are the exception, rather than the rule. Widespread bankruptcies and hyperinflation in 1996-97 helped solidify the economic standing of former State Security officers and confirmed the general impression that most of the banks were established with the sole purpose of becoming bankrupted afterwards.

Bankruptcies had been predicted by the National Investigation Service several years before they actually happened. Months before the bank loan schemes started to operate, the MoI described them in detail in a confidential report. It stated that public and private banks had exported 2811 kilograms of packages containing US dollars (one million dollars in 100-dollar notes weigh 8 kilograms) through Sofia Airport customs.<sup>27</sup> The banks' net losses

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<sup>27</sup> The report was quoted at a press conference, delivered by Edvin Sugarev in 1996.

as of May 31, 1996 exceeded BGL 33,6 billion, an amount much greater than their capital, and some of them reported negative capital of over 50 percent.<sup>28</sup>

The following conclusions can be drawn from the situation described above:

- The intent of many of the banks that went bankrupt in 1996 was to accumulate resources, obtain refinancing and ultimately drain their assets.
- Many of the banks were established by related persons and in many cases loans were administered to these same related persons—a vicious cycle of crediting which resulted in the bankruptcy of the banks. Thus, by lodging their stocks as security, supervisory board members received, in person or through related firms, loans amounting to millions of US dollars that they never intended to pay back.
- Some of these banks were established through credits or securities from DSK Bank, which makes it perfectly clear that they were never meant to survive and had no actual financial resources in stock.
- Most of these banks have employees, including at managerial positions, who were experts at the former Ministry of Interior or State Security officials
- A large share of the bad loans was granted to companies related to crime-groups belonging to former wrestlers and to security sector officers.
- Often, more than one bank was founded with the same starting capital. Also some companies used the same collateral to obtain identical million-dollar loans from several banks.
- The executive, the legislature and the judiciary all demonstrated conscious or unconscious indifference to developments in the financial system throughout the period of 1991-1997—regulations on bankruptcies were delayed, no appropriate penal provisions were adopted, the laws on banking were generally imperfect, utterly incompetent individuals were allowed into the banking system, and the Mol and the intelligence agencies took no responsibility or action to curb violations.
- High inflation, which struck in 1996, abetted the so-called bad-loan millionaires in their criminal endeavors, as the drastic devaluation of the Bulgarian *lev* devalued their huge debts to the banking system as well.

### *The Bad-Loan Crisis of the Bulgarian Banks in the 1990s*

The bad-loan crisis of Bulgaria's banks was reviewed in a special report drawn up by the Committee for Combating Crime and Corruption at the 38th National Assembly, known as the Anti-Mafia Committee. According to that report, bankruptcies caused damages to:

- The state budget, in correspondence with the Bank Deposit Guarantee Law,

<sup>28</sup> Petya Shopova and Yordan Tsonev. "Report on the Causes of the Collapse of the Banking System". *Parliamentary Committee for Combating Crime and Corruption* (published in *Banker*. No. 21. May 30, 1999).

amounting to BGL 108 billion or \$206 million.

- DSK Bank, amounting BGL 103.6 billion from the refinancing of commercial banks by DSK Bank (these data are only approximate since the refinancing was conducted during different periods and under varying BGL-USD ratios).

- The Bulgarian National Bank (BNB), amounting to BGL 143 billion just in principals. The report states that in the period of proliferation of private banks (1991-1994), there were no regulation-setting requirements for proof of the capital's origin before the bank was granted a license. The prohibition for founding banks with borrowed capital was only issued in 1994. There was no chance, therefore, for banks licensed after this restriction was enforced to avoid bankruptcy. The fact that they were created with borrowed capital is indicative of criminal purposes rather than of normal banking intentions. The consistent founding of such banks and the lax licensing on the part of BNB management lead to the conclusion that these were premeditated schemes designed by a few individuals. The parliamentary report mentioned that BNB had not exerted sufficient control, had permitted licensing of hollow structures and had been influenced by politicians in the granting of licenses. Other critiques regarded bank oversight and refinancing. The report estimated the amount of credits that had not been repaid at BGL 2.5 billion. After the law on credit millionaires was adopted, over 10,000 credit files with information about delinquent bank loans were made public. There were some attempts to incorporate a relevant penal text into the Criminal Code, but these were so delayed and inadequate that not a single credit millionaire of importance was actually punished. Finally, in 2002, the violation of "receiving bank credits without securities" was decriminalized and all hope of reimbursement of the stolen monies withered.<sup>29</sup>

### *The Credit Millionaires*

On October 21, 1997, the Law on Information about Nonperformance Loans was promulgated in the State Gazette. It revoked the bank secret on:

- Nonperformance loans granted by BNB and DSK Bank to commercial banks after July 1, 1991.

- nonperformance loans granted by commercial banks and DSK Bank to physical and juridical persons after January 1, 1987 of an amount bigger than the par value of DM 5000 corresponding to BNB fixing on the date of the granting of the loan.<sup>30</sup>

A list of 10,762 bad loans and about 3000 private individuals and companies who had received such loans was made public. The total amount due was BGL 2,745,578,451,000. It was also announced that, for fear of being put up on the bad-loan list, companies and individuals paid back a total of BGL 547 billion.<sup>31</sup>

There were three types of bad loans:

1. Implicit subsidies as soft credits to loss-making or bankrupt SOEs, where the primary purpose of party leadership was to prevent social tension.
2. Bad credits given out to friends or in exchange for bribes. Everyone was aware from the start that these loans would not be repaid. "Commissions" were set in tête-a-tête meetings between the creditor and the borrower. False credit projects, pledges and securities were made.
3. Loans made for actual bankruptcies. In actuality, there were very few of these type of loans. According to certain bankers much of the money from these loans was spent on luxury items.

<sup>29</sup> Shopova and Tsonev. "Report on the Causes of the Collapse of the Banking System". May 24-30, 1999.

<sup>30</sup> Art 1.1 and 1.2 of the Law on Information about Nonperformance Loans, SG 95/1997

<sup>31</sup> Shopova and Tsonev. "Report on the Causes of the Collapse of the Banking System". May 24-30, 1999.

Penal provisions against unscrupulous borrowers were adopted as late as 1996-7, yet the number of credit millionaires penalized so far is negligible.

Later, another problem surfaced which involved assignees in bankruptcy claims. Evidence that the bad loans crisis had begun anew came to light. Information was spread indicating that the same companies or individuals were simultaneously assignees and consultants to bankrupt banks. Large sums were paid to consultants while the assets of bankrupt banks were sold at a price considerably lower than their actual value. Some of the assignees reportedly admitted to covering up the traces of both bankers granting non-secured loans and of those who availed themselves to them, mainly by means of multiple transfers of the same loan.

The emphasis on the risks and trends in the symbiosis between former State Security staff and the old enforcement officers and the underworld does not mean that corruption has not infected the newly-employed security staff members. Indirect evidence of this is the fact that nearly half of all security officers penalized for corrupt practices were junior officers.<sup>32</sup>

### 2.3. THE SECURITY SECTOR AND TRANS-BORDER CRIME

In the transition years contraband became the chief source of dirty money in Bulgaria. Since the Bulgarian economy opened, up to 80 percent of the GDP has passed through state borders (via import or export). The soaring import of Asian and Turkish goods in the 1990s had a negative effect on Bulgarian industry and agriculture, while at the same time helping to build up the shadow economy in the country.

Both organized crime groups and corrupt security servants aspire to control the trans-border traffic of goods. One reason is that such goods smuggling channels run by local and foreign criminal groups are also used to illicitly transfer drugs, people, arms and so on. In other words, smuggling and corruption are threats to both the economy and the security of the country. The 1992-96 embargo of Yugoslavia gave a forward thrust to the mutually beneficial relationship between the security sector and criminal and quasi-criminal trafficking and smuggling groups. Regular, organized contraventions of the law led to a huge influx of dirty money allowing criminal groups to capture sizeable shares of the country's economy. Security reports from that time list numerous cases of embargo violations on the part of economic groups led by former police officers and nomenklatura members, who generated extravagant profits by exporting fuel, metals and military produce to the warring countries.

Criminal organizations had a strict division of labor: corrupt enterprise managers allocated fuel and other strategic raw materials; former policemen and agents secured contacts in the customs and border security administration; and contract enforcers acted as haulers and guards of embargoed freight. The latter grew to be key players in the business. At first, they were only employed by larger companies as escorts to their vehicles, but eventually the security companies themselves started transiting fuel and cigarettes along old and new channels into Serbia.

<sup>32</sup> Analysis of MoI corruption-related crimes in 2001.

In order to breach the embargo without problems, the border state officials had to be corrupt. This is how customs, security and police officers, and other state officials became engaged with the criminal world. Such alliances were easily made due to the fact that, in the mid-1990s, many such officers worked extra hours as private guards to businessmen. Thus, companies with illegal business were informally provided with information from the Ministry of Interior. In a sense, it was the Yugoslav embargo that catalyzed the formation of Bulgarian organized crime. In an analogy to the Prohibition that gave impetus to the US mafia in the 1930s, the embargo bred the triple liaison between criminals, ex-policemen and the economic elite.

### *The Albanian Arms Deal*

An arms deal during the embargo of Yugoslavia suggested that weapons may very well have been smuggled from Bulgaria into Yugoslavia. In the fall of 1993 six tractor-trailer trucks carrying 100 mortars, 1000 mines and 250 Dragunov snipers for a total price of \$670,000 crossed the Gyueshevo border crossing with Macedonia. According to the cargo documentation, the destination country was Albania. Later, the arms freight disappeared in Skopje and the six trucks returned to Bulgaria empty. Available documents indicate that there was a contract signed by the head of the Trade and Supplies Directorate of the Bulgarian Ministry of Defense and the Albanian counterpart ministry represented by the Meiko company. The parties executing the deal on the Bulgarian side were the MoD Directorate and the private hauler Videomax. In the incident's aftermath, it was revealed that "no one representative of the Albanian government was ever mandated to come to Bulgaria with the task of concluding contracts or making commitments in arms purchases" and that no arms ever reached Albania. Certain other facts slowly came to light: that the arms were unloaded at Petrovac Airport in Skopje, loaded onto a plane and carried in an unknown direction. Finally, it became clear that the plane had "broken" over Bosnian territory, where it unloaded its freight. All evidence indicates that it was definitely a Bulgarian-Serbian deal. Information and documents kept at the military prosecutor's office contain evidence of the Serbian secret services thanking their Bulgarian colleagues and urging them to collect their remuneration. The hauler remains in anonymity even today, and the money has not been heard of again. Several top Bulgarian military officers have been arrested in places like Kiev and Moscow. Meanwhile, it turned out that, while still on Bulgarian territory, the cargo was escorted by an Mol official and a National Security Service officer. An action has been brought against them and the case is before the court.<sup>33</sup>

In 1999 a commission set up by the Council of Ministers concluded in a report that the "Mol and Finance Ministry bodies have registered over 400 cases of large-scale illicit export of cigarettes and tobacco products, robbing the state of revenues that exceed \$250 million." The commission also announced that there were "hundreds of instances of large-scale contraband of petrol products worth hundreds of millions of US dollars, as well as contraband of sugar and confectionery, etc."<sup>34</sup> The report said that "cases of 'state contraband' presented a particular menace, i.e., the import and export of goods to Yugoslavia in violation of international agreements and domestic regulations and with not only the silent consent of state authorities

<sup>33</sup> *Corruption and Trafficking: Monitoring and Prevention* (Sofia: Center for the Study of Democracy, 2000), p. 15.

<sup>34</sup> Announcement of the Government Information Service, May 13, 1999.



and services, but sometimes even with their outright complicity or following secret instructions by government bodies or high government officials.”<sup>35</sup> A characteristic example was “the transaction of Neftochim EAD in 1995 and 1996 where petrol products for Yugoslavia were bartered for grain, flour and forage. The deal was set off after a secretive decision by the then-government and instructions issued by the ministers of finance and agriculture.”<sup>36</sup>

The same report claimed that “despite the great number of unambiguous crimes of contraband, serious financial and tax frauds and evidence for grand corruption, the verification and curbing of crime schemes was done in a rather incoherent manner, thus barring the full access to and the blocking of smuggling mechanisms.”<sup>37</sup> Regrettably, no individual or company has been punished so far. This has given latitude to criminals, also providing them with time to launder their loot from the embargo period. The main consequences of these trans-border criminal activities were:

- The financial and organizational boosting of Bulgarian organized crime, including shadow business groups (it is hard, however, to make an estimate of revenues from the embargo regime, but they were certainly not below several hundred million dollars).
- the participation of former and acting security officers (from counterintelligence, the specialized service for combating organized crime, the police and customs services and the border troops) in criminal trans-border operations.
- that even after the embargo was lifted in 1996, the smuggling channels and the schemes for money laundering, racketeering, and illicit control over the consumer goods trade that had been formed by then continued to serve as a source of enrichment for legal or shadow economic groups and for the administration, both then and now.<sup>38</sup>

It was at the time of the Yugoslav embargo that the convergence of communist-time security services, banks, protection firms owned by athletes, and the state security-controlled smuggling channels (as the latter were described in Christo Danov’s report in 1991)<sup>39</sup> took place. The key role of security officers in the channels is sometimes explained by the fact that until 1997, border control was executed by the National Security Service (the successor to State Security Main Directorate 2). This changed with the adoption of the new Law on the Ministry of Interior in 1997. Passport control was transferred to the National Border Police Service. These institutional transformations also affected the operation of smuggling channels between 1997 and 2002.

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<sup>35</sup> *Ibid.*

<sup>36</sup> *Ibid.*

<sup>37</sup> *Ibid.*

<sup>38</sup> *Corruption and Trafficking: Monitoring and Prevention*, p. 11.

<sup>39</sup> Report of the Mol Central Group on State Security Activities, 1991.

### *The Khan Kubrat Case*

One of the notorious embargo breaches was an incident that took place on the night of March 3, 1994, when the ship Khan Kubrat crossed into Serbian territory tugging six barges loaded with 5000 tons of diesel and 1000 tons of machine oil. In order to transfer the fuel across the country's border an armed hijack of the vessel was staged before the very eyes of Western European Union patrols guarding the Danube. A day later, the fuel was unloaded in the Serbian port of Prahovo and the empty boat returned to Bulgaria. Roumen Stoykov, director of the Petrich company Rutoplast, was at the bottom of the affair. After numerous attempts on the part of Interpol to track him, he was detained in Sofia on September 24, 1997. His associate, Dimitar Shoutov, had been caught earlier, in May, 1995 in Petrich. For years, the case against them was transferred between different prosecution offices and courts. Finally, it was decided that the trial would be held in Vidin. Meanwhile, Khan Kubrat's captain Kostadin Stoyanov and his mates, Kercho Abrashev and Atanas Penchev, received probationary sentences.<sup>40</sup>

Despite the lifting of the embargo and the partial decline of smuggling along Bulgaria's western border, the networks of cooperation between criminal and shadow economic groups and security sector representatives went on in the late 1990s, as well. Although law enforcement bodies conducted some successful operations both before and after the year 2000, managing to spoil the functions and plans of criminal groups in control of illicit imports, some of the smuggling channels are still in operation. There are several facts supporting this:

- The division of labor between criminal players specializing either in illicit import or customs frauds has been kept.
- Despite some reshuffles, most of their accomplices in the customs and border police administration, as well as in other enforcement bodies, have kept their offices.
- The fixed "fees" for illicit import and customs frauds, which are a public secret, testify to an existing market for smuggling services.
- Market research shows that the actual amount of imported commodities considerably exceeds official figures on imports.

An analysis of contraband and corruption should take into consideration the fact that corrupt civil servants from the security sector take advantage of an intrinsically weak internal control, the technical overcomplexity of customs procedures, the deliberately delayed introduction of a unified customs information system, the high document turnover and a number of other factors allowing temporary concealment of violations and crimes. In addition, the excessive volume of customs legislation, as well as the contradictions between certain regulations, encourage individual customs officials to interpret them to the benefit of their private interests.

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<sup>40</sup> News report of the *Bulgarian News Agency BTA* of April 28, 1999.

Customs officials take bribes when doing one-time “favors” or when involved in long-term cooperation with particular trade or other import-export operators. In some cases, customs officials commit violations under the influence of particular representatives of the central or local government, influential economic structures and criminal organizations.<sup>41</sup> When customs officials receive bribes, they are aware of the amount of money the persons involved in illegal activities have saved, so they can demand the corresponding commission. The amount depends on the level of risk involved, or on the need for a corrupt customs official to coordinate his or her actions with other officials from the customs administration. Usually, the bribe is around 30 percent of the unpaid customs duties and other fees. Apart from receiving money, some customs officials are allowed to buy certain goods at reduced prices, receive long-term loans or are offered free service in restaurants and similar places.<sup>42</sup>

The most wide-spread forms of contraband are:

- Abuse of the “time” factor (deliberate delay of customs clearance of perishable goods or promises to speed up the process).
- Falsification of the documents accompanying goods or replacement of the genuine set of documents with a different one.
- Abuse of certain customs regimes (the duty-free zones, in particular).
- Violations of the procedure for destruction of goods.
- Sale of goods prior to importation.

Criminal partnership between security officers and smugglers has a variety of manifestations and involves representatives of all border law-enforcement bodies. The customs administration is the body most entrenched in corruption, and officials on all levels are involved.<sup>43</sup>

The Center for the Study of Democracy has published a report on the typical corruption and smuggling schemes according to the scope of their destructive impact on the economy and security of Bulgaria (see Table 2).<sup>44</sup>

Associations between corrupt security servants and organized crime have been detected by the MoI Inspectorate Unit. One of their reports states that the bulk of investigated violations are cases of abuse of office for personal gains in one of the following ways:

- Supporting criminal activities.
- Participation in illicit trafficking of people across the state borders.
- Participation in smuggling channels for goods or stolen cars through border crossing points.

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<sup>41</sup> *Corruption, Trafficking and Institutional Reform*, p. 13.

<sup>42</sup> *Ibid.*, p. 16.

<sup>43</sup> *Ibid.*, pp. 14-15.

<sup>44</sup> *Ibid.*, p. 18.

- Extortion of citizens.
- Contacts with shadowy personalities.<sup>45</sup>

**Table 2.** Basic Schemes of Smuggling/Corruption

Mode	Corruption Scheme	Type of Violation	Amount of Bribes
1. Large organized crime group operating on a national level.	<ul style="list-style-type: none"> <li>• Importer(s). ↘</li> <li>• Border police/customs officials. ↘</li> <li>• Officials from MoI administration supervising the safe transit of goods to inland customs bureaus and the inspections there. ↘</li> <li>• Inland customs bureau. ↘</li> <li>• Political and administrative protection at the central level.</li> </ul>	Various document frauds, violation of customs regimes, etc.	From \$10,000 to 50,000 per organized group. <i>Losses to the state budget:</i> up to 50%, depending on the type of goods.
2. Small organized crime group operating in a particular region or in one or two regional customs directorates.	<ul style="list-style-type: none"> <li>• Importer + former or acting customs officer. ↘</li> <li>• A customs bureau chief + former or acting MoI official (keeps at bay potentially troublesome officers or forewarns about pending inspections). ↘</li> <li>• Operational inspector(s).</li> </ul>	Most forms of document frauds/offenses.	Up to \$5,000 monthly per group. <i>Losses to the state budget:</i> up to 30% of the overall value of goods.
3. Twosomes	Corrupt partnership between a customs official and any border checkpoint officer.	The so-called "outright smuggling" where goods pass through border customs without registration.	<i>Losses to the state budget:</i> Conditions are created to traffic controlled goods (drugs, arms, etc.).
4. Individual corruption.	Individual customs officers let their people in or feign a stricter-than-normal observation of procedures, bordering on extortion.	Abuse of the "time" factor.	Between BGL 100 and 200 per month or material "gifts".

## 2.4. THE INVOLVEMENT OF THE SECURITY SECTOR IN SMEAR CAMPAIGNS

Along with the influx of State Security cadres and material assets, a revival of the political involvement of the security services took place in the 1990s, chiefly through their participation in smear campaigns and corruption at the highest levels of government. The general perception at the start of the transition period was that the security services had been expelled from the political and party systems for good. In 1991, a decision on their

<sup>45</sup> Information as of July 16, 2002.

depoliticization was officially taken and political party membership was banned for security servants. Each individual security staff member was asked to sign a declaration that they would refrain from membership in any political party. Those that refused to sign the declaration were discharged. Thus, in compliance with regulations, depoliticization was accomplished. Yet in recent years several revival campaigns have pushed security services back into the realm of politics.

In Bulgaria, such relapses into the political realm involve clean-ups of the security sector of communist-time cadres. These purges, however, were often used to place new political appointees in their positions. A primary example is the office of the Secretary General of the Ministry of Interior. Over the course of 13 years, this senior position has been occupied by eight different persons, the tenure being shorter than two years per term of office. Apart from the attempts of successive ruling parties and coalitions to capture the security sector through politically-loyal staff, the reform was stalled on numerous occasions between 1990 and 2003 by the necessity to dislodge former State Security agents.

During communist rule, the State Security network of agents comprised over half a million Bulgarian citizens.<sup>46</sup> Shortly after the democratic changes of 1989, various solutions to the problem of old State Security agents and their personal files were proposed in the media, in parliament and at a national round table of all political parties and formations at the time. In early 1990, the task of record destruction was accomplished. Yet, the personal file purge was done selectively, to cover mainly the files of acting agents and individuals under investigation. A certain portion of the archived records were also pruned, depending, however, solely on the discretionary power of several commissions and security officers. A total of 144,235 files were completely destroyed, of which 130,978 were taken from the archives and only 13,357 came from operational records. Another 18,695 files were partially “cleansed” and portions of them were retained on microfilm.<sup>47</sup> Apparently, the bulk of the State Security records was privatized by certain security officers and was used to discredit political opponents or blackmail former State Security notables for personal gains. In the former case, State Security archives that were retained were exploited, while in the latter, the sections retained after the supposed destruction of the file were used.

The efforts of the alternating ruling majorities to finalize the issue of State Security records were contradictory and for a long time managed only to place security services at the center of political strife and make them an arena where diverse political interests clashed. All through the period between 1990 and 1997, a number of solutions were offered for dealing with State Security archives, from the partial opening of political police archives that had been preserved, through divulgence, to complete destruction. In 1991,

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<sup>46</sup> Under communist rule, the “security complex” in Bulgaria comprised over 300,000 collaborators (informers and agents) and 100,000 payroll officers employed at the services. However, the latter’s family members should also be counted (at least two per officer) (see *Monitor*, September 14, 2001).

<sup>47</sup> Elena Encheva, “Who Did the Dossiers Sentence?”. *Sega*, April 13, 2002.

the Grand National Assembly decided that State Security archives should neither be taken out of secrecy nor destroyed. Meanwhile, a provision for civilian access to those archives was adopted.

Between 1990 and 1993, pieces of information revealing links between individual politicians and the former Committee for State Security were made public. This period was generally known as the “smear campaign” and it was this particular war that provoked amendments to the Criminal Code at the start of 1993, stipulating that the use of any information whatsoever connected to the operation of security and police services should be considered a crime. They also allowed persons possessing documents related to the former State Security to restore them without penalty. These measures were targeted at curbing abuse of State Security files.

In 1997, the Law on Access to the Documents of the Former State Security was adopted. It was the Bulgarian counterpart of lustration laws adopted in the rest of the East European countries. The law was designed to guarantee that no one involved with State Security would be allowed to hold a public office.

Constitutional Court Decision 10 of September 22, 1997, however, limited the scope of the lustration law by posing the requirement of undisputable evidence proving a person’s affiliation to State Security or its network of agents.<sup>48</sup> The limits that this law and the Constitutional Court decision imposed on the publication of information were based on considerations of national security, but they severed the act from its original intention of revealing to the public State Security collaborators as thoroughly as possible. This is why the first attempt at lustration was not successful.<sup>49</sup>

The law’s application has been of primary importance to society. One of the main consequences was that the participation of State Security servants in state governance after the fall of communism was made public by legal

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<sup>48</sup> “... In principle, affiliation with former State Security does not blemish the good repute of the investigated persons. ...It is indisputable that many State Security collaborators have engaged in activities that can be defined as moral even nowadays...this is confirmed by the fact that the law protects those collaborators of the former State Security who continue to collaborate with contemporary security services. ...Irrespective of this, the public considers some forms of such activity as contravening the social norms and morality as disgraceful. ...The public transfers its negative attitude to the former State Security onto all its collaborators, irrespective of the particular activity they have performed. ...For the above reasons, the Court considers that a person may be defined as a ‘collaborator’ with the former State Security solely on the grounds of irrefutable evidence of conscious provision of information to former State Security departments.” Constitutional Court, Decision No.10 of September 22, 1997.

<sup>49</sup> Between 1997 and 2002, the law was amended and supplemented several times in view of enlarging its scope. Major amendments were made in 2001, when access to the archives of the Intelligence Directorate of the General Staff (IDGS) was permitted. Another important measure was to broaden the scope of public offices and positions the tenure of which should be prohibited to former State Security servants. These now include a number of top executive positions, posts in party leaderships, the judiciary, the national media, science and education, particular trade activities, etc. After 2001, the law’s application was supervised by the Andreev Commission.



means. The law was also used as an instrument to exclude individuals from future state governance (in particular, during the selection of candidates for presidential and parliamentary elections in 2001). It is often cited to justify staff purges on the grounds of affiliation to State Security or abuse of information for political reasons. The law was repealed in 2002, after the adoption of the Law on Protection of Classified Information.

The attempt to make public the names of politicians connected to State Security could not have succeeded since their participation is impossible to entirely prove. Furthermore, allegations of collaboration can not be supported by relevant documents because of the deliberate destruction of some State Security records and archives at the start of transition. What's more, since the issue of who should be in charge of former State Security archives was not resolved, their use in smear campaigns was unmitigated. Most of today's security services (e.g., the National Intelligence Service [NIS], the National Security Service [NSS], the Operational and Technical Information Directorate [OTID], and the Bureau for Outdoor Surveillance [BOS]), too, have been involved in leaking information that discredits political opponents or business competitors and, in some cases, even violates their human rights. The discrediting of particular high-level security officials by means of smear materials reflects an ambition to gain political control over the security forces. All in all, they target the security services themselves by projecting them as a source of smear material.

Security service staff itself, provoked by professional, personal, economic or political controversies, participated in this process. Contentions often turned into initiatives to publicize or provide political parties with discrediting information. Such discrediting material usually misrepresented the facts and publicized them as coming from anonymous sources. Alternatively, information was made public outright without any consideration of the possible legal consequences. The most widespread incriminations were those of political bias, espionage for foreign states, corruption, homosexual orientation, and ties to organized crime. Smear material usually targeted particular individuals who had either held, were holding, or were likely to hold high-ranking positions. The use of discrediting information was turning into a style of governance.

But whatever the political objective, it was security services that bore the brunt of the abuse of classified information: frequent personnel reshuffling, negative attitudes on the part of the public, operational bottlenecks and overall incapacitation. Incidents bespeaking politically-biased security services recurred throughout the transition period. The ones that gained notoriety were "That List" (1991), "The Macedonian Deal" (1992), "Assistants" (2001), and "Gnome" (2002).

### *"That List"*

The phrase "that list" is now commonly used to refer to a 1991-1992 affair in which in a well calculated leakage of information: the names of former nomenklatura and intelligence officers working undercover in the Ministry of Foreign Affairs. Another reason for publishing that list of names was to misinform foreign intelligence services.

As became known through a leakage, the list was delivered to the Turkish Embassy in Bulgaria. As a result, the leader of the Movement for Rights and Freedoms (MRF) was accused of high treason. By the end of November, the final list was ready for use in the imminent layoffs at the Ministry of Interior.<sup>50</sup>

## 2.5. THE RISKS RESULTING FROM INCOMPLETE SECURITY SECTOR REFORM

The dismantling of the repressive State Security apparatus was successfully accomplished. As part of the first stage of public sector reform, the transformation of old communist security forces was much like reforms in the counterpart structures in Central and East European countries.<sup>51</sup> But, in contrast to some formerly communist states such as the Czech Republic, Bulgaria did not open the State Security files at all; likewise, the partial lustration did not hamper formerly eminent security servants from participating in political life. Such a radical transformation of the security sector and its individual services was necessitated by certain new risks arising from a variety of factors. Among them were the radical change of functions, a lowered social reputation, a severely restricted budget in a time of economic crisis, the disruption of the decades-old system of internal and civilian oversight. Additionally, old staff members had been replaced by politically unbiased, but inexperienced, officers. Finally, recruitment problems hindered the complete staffing of some of the services.<sup>52</sup>

**The first group of new risks** has to do with **the predicament of the security sector recruitment policy**, which has resulted in the following trends:

- Shortly after the 1989 events, both security services and their staff became targets of public criticism and lustration measures. As a result, many security officers became engaged in corrupt practices, threatening national security. Yet no action whatsoever was taken to prevent the inclusion of former security servants in criminal networks.
- The public's perception that collaboration with specialized services was equal to slander has become firmer than ever. Therefore, the population is ever more unwilling to assist the security services. Negative attitudes and the lack of understanding about the role of security agents in national security have facilitated the privatization of security information and the formation of corruption schemes involving former agents. As a result, there is a paradoxical situation in which excessive secrecy of security

<sup>50</sup> Georgi Milkov. "Secrets and Poison—the Brigadier Years of Bulgarian Intelligence." 24 *Chasa*, August 22, 2001.

<sup>51</sup> Evidence of this success is the fact that by 2003 a mere 19% of security officials were ex-state security servants, and none of them held any high positions. (From an interview with Interior Minister Georgi Petkanov for bTV's *Seizmograf* show, October 12, 2003).

<sup>52</sup> According to former justice minister Mladen Chervenjakov, in 2003 only 40% of positions at the National Intelligence Service were occupied; thus, half of the necessary staff is yet to be recruited. *bTV, Seizmograf*, October 12, 2003.

force activities and fairly easy access to information of vital importance through corrupt officials combines.

### *Main Proposals for Security Sector Reform in Bulgaria*

#### **The NSIS Proposal**

This proposal was the first one to suggest, in 1992, the merger of the National Intelligence Service and the National Security Service into a single National Service for Information and Security (NSIS) that would report to the Prime Minister. A draft Law was been elaborated, envisaging that the NSIS will be directly accountable to the premier and will furnish information to him or her and to the government about strategic domestic and foreign policy priorities. The new service was proposed to consist of three operational directorates: intelligence, counterintelligence and information. This concentration of functions is quite similar to the old communist State Security Agency. The authority assigned control over the new service was to be the parliamentary National Security Committee.<sup>53</sup>

#### **The Ministry of Security Proposal**

This proposal suggested the merging into a Ministry of Security of the activities of a still greater number of security services, including the Information Service (presently National Intelligence Service), the National Security Service, the Military Information Service, the Military Security Service (presently Military Counterintelligence), the Security of Communications and Information Service (the present Protection of Communications Service at the Mol) and the National Guard Service. The ministry was to be part of the executive branch and its activities were to be regulated by a Law on Security and Public Order. The project advocated that security forces should be divided into two major institutions: a Ministry of Security (in charge of security services) and a Ministry of Public Order (police services). The project advised that the president transfer his or her authority over the National Intelligence Service and the National Guard Service to the prime minister.<sup>54</sup>

#### **The Atanassov Proposal**

The former national security service director, Atanassov, incorporated his proposal in a report entitled "Concept for a Reform in the Security Services of the Republic of Bulgaria". The report was presented at a conference organized by the Institute for Euro-Atlantic Security in March 12, 2003. It proposes the formation of two big security services from the currently existing ones. The first one was to conduct foreign intelligence activities, combining the tasks of the National Security Service and the Military Information Service. The second one was to deal with domestic intelligence, adopting the functions of the National Security Service and the Military Police and Military Counterintelligence Service, the National Guard Service and the National Service for Combating Organized Crime. They will be coordinated by the National Security Council.<sup>55</sup>

#### **The Tsvetkov Proposal**

This proposal was presented in the report "Some Problems Regarding the Improvement of State Policy on Special Services in the Republic of Bulgaria" from BSP national security expert and former Mol secretary Tsvyatko Tsvetkov. He suggested that the National Security Service and the military counterintelligence should be unified in a single counterintelligence agency. This agency should be in

<sup>53</sup> Harry Boev, "UDF Revives State Security", *Duma*, September 24, 1992.

<sup>54</sup> Pavlina Trifonova, "In Search of a Minister of Secret Services", *24 Chasa*, March 15, 2000.

<sup>55</sup> "Two Special Services Proposed", *24 Chasa*, March 13, 2003.

charge of domestic surveillance means but the MoI, the National Intelligence Service and the Military Intelligence Service were also to use its information. The head of this agency was to be a deputy prime minister or a state minister for security and public order. He or she should also be the second official after the premier at the top of CoM Security Council and a hypothetical Council of Secret Services Directors. The MoI was to be transformed into a Ministry of Public Order.<sup>56</sup>

#### The Bossilkov Proposal

This proposal suggested that the NSS should no longer be part of the MoI, while the NIS should be accountable to the president. The Military Counterintelligence and Military Police should be separated. The Military Information Service and Military Counterintelligence should be independent from the MoD. All these newly independent entities should be accountable to the prime minister. Their activities should be coordinated by a security coordinator. The National Guard Service should become part of the MoI. The Military Police should remain within the MoD. The Bureau for Outdoor Surveillance and the Operative and Technical Information Service should be separated and similar functions be transferred to future units of the MoI and MoD special services. All police services should be merged in a single structure. The Anti-Terrorist Squad should be reduced, restructured and become accountable to the MoI's secretary general rather than the minister of interior.

- Many of the newly-appointed officers did not have the respective professional and managerial skills. This was reflected in the ineffectiveness of most services and their staff's susceptibility to corruption.
- Frequent changes in management impeded the formation of a professional management elite. This further hampered contacts between them and the regular officers. It also created favorable conditions for corrupt medium-level officers surviving most staff reorganizations to maintain their own shady business dealings.
- Staff assessment procedures and modern human resource management techniques were not immediately introduced. On the contrary, their long delay demoralized security officers who would have testified to the corruption of their colleagues, had the risks not been so high, especially where the corrupt officials held senior positions.
- The formation of internal control and security departments was also retarded. This was made apparent by the fact that officials whose material status was well above their income continued to be employed at the security sector, even in senior positions, and by the enduring instances of relatives of former or acting security sector seniors being appointed to the border police, customs and road taxes and permits units.
- Last, but not least, curtailed budgets, low wages and insufficient motivation kept prospective officers away from the security services, while the officers working there became incapable of coping with the complex new operational circumstances (that is, orders to penetrate crime groups or to recruit or embed agents within them).

Perhaps the most disputed group of risks that emerged from the security sector reordering had to do with **the absence of an effective system for**

<sup>56</sup> Tsvyatko Tsvetkov, "How to Reform Special Services", *Monitor*, March 19, 2003.

**coordination and control** across related security institutions.

The concept of national security aims to balance the influence of the three focal points of power—government, parliament and president—in the security sector through the distribution of the separate services between the president (NIS and NBS), the Ministry of Interior (NSS, OTIS, BOS and CPS) and the Ministry of Defense (the Military Information Service and the Security-Military Information and Military Police Service). This is the feature that will also distinguish the contemporary security sector from the communist-time services centralized around an all-powerful Ministry of Interior.

- Thus far, security sector fracturing has also loosened the coordination between its structural units, destroyed the natural partnership between complementary services, and increased the overlapping of functions of different ministries or even of services within the same ministry (e.g., those of the National Police Service and the National Service for Combating Organized Crime). The governance of the sector is in crisis and it lacks a unified information system for effectively counteracting crime.
- As far as coordination of security sector reform is concerned, a balance between the roles of the presidency, the government and parliament has not been achieved either. There is no adequate interaction between the Consultative Council on National Security and the president or between the Security Council and the Council of Ministers. Therefore, frequent crises of confidence among the institutions impede effective coordination of the sector. Even the functions and the role of a key institution, such as the Security Council, are not clear.
- There are also a number of inefficiencies in the organization of the structure and work of the MoI that are often exploited by political opponents.

**Another group of risks have to do with the incomplete modernization of the legal and institutional framework regulating security sector activities.**

- No law has yet been elaborated on the National Intelligence Service and the National Bodyguard Service. This hampers control on the legitimacy of their actions. Moreover, as NIS and the Military Information Service are entitled by law to “possession of special means of surveillance within their respective competences”, (LSMS, Art. 20, Par.2) conditions are rife for infringement upon citizens’ rights.
- The separation of intelligence information functions from policing has not yet been accomplished. For instance, the MoD Security—Military Police and Military Counterintelligence Service—performs these two functions simultaneously. Similarly, some services of rather divergent competences are accountable to the same ministry: MoI services range from fire and emergency service to counterintelligence, from border police to gendarmerie, from police through service for combating organized crime and communications protection.

- The different services in the security sector are of varying status—some of them, like NIS, NBS and all MoD services are military agencies, while others like OTIS and BOS, are completely civilian.

**The risks arising from lack of awareness of priorities in countering new security threats** are also important. The main reason is the absence of a modern security concept to bring together all efforts for curbing both civilian and military threats to the security of the country and its citizens. No national security concept has been elaborated on which to base short- and mid-term priorities. Therefore, there is no adequate institutional policy on fighting security threats, the new soft security threats in particular.

Counteraction to trans-border crime and corruption is still played down. The Customs Agency, being part of the Ministry of Finance, is rather loosely linked to other security sector services, and, according to popular perception, is not even regarded as part of the sector. Nevertheless, customs' importance for the state is crucial, since over half of the revenues for the state budget are collected by customs bureaus and any trans-border commercial flow is inconceivable without them. Until very recently, however, control of the customs administration was feeble and corruption thrived. Stable smuggling channels were formed, operating at the expense of the state budget and legal importers and producers. The country was saturated with dirty money and has had to bear the consequences of its entry into domestic business and politics alike.

Another example of the downplay of the threats posed by organized crime and the corrupt relationship between state officials and criminal bosses is the isolation of the National Intelligence Service from the anti-crime efforts in the economy. Kircho Kirov, acting NIS Director, testifies that in 1997, the NIS Economic Security Directorate was closed down and its entire staff—over 20 officers—was dismissed. Since then, the NIS has not been authorized to perform any important economic tasks such as investigation of prospective investors, scrutiny of financial transactions, or examination of large incomes.<sup>57</sup>

Among other deficiencies is the mutual segregation of the Ministry of Interior and the Ministry of Defense, in particular the non-participation of the armed forces in the fight against trans-border crime. Most democratic states, however, have also lagged behind new security challenges and have not yet coped with similar institutional problems in the security sector.

In spite of all of the setbacks in the post-1989 restructuring of the security sector, the idea that preservation of certain elements inherited from the communist security sector might have reduced the risks to national security is unfounded. Where post-communist reforms were delayed, reproduction of the old repressive models was observed such as the so called “active measures”. Other trends resulting from delayed reforms were the ill-founded loyalty to the former communist party, nationalism disguised as patriotism which guided security servants' work in the wrong direction, and the persisting negative attitude toward NATO and Bulgaria's new allies, notably the USA.

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<sup>57</sup> *Trud*, August 4, 2003.



## 2.6. CORRUPTION IN THE SECURITY SECTOR

Since the above-mentioned risks have not been adequately addressed, Bulgarian organized crime has expanded and has penetrated the security sector.

Various criminal groups have started to corrupt and privatize the security forces, tapping into the disorganized management and coordination, as well as control and oversight of the sector. The following methods for corruption have been used:

- Young professionals are placed in relevant security sector jobs or acting special service officers and volunteers are hired to provide early information for a fixed monthly remuneration.
- Security servants keep contacts with crime bosses for the supposed purpose of using them as informers. In reality, such relations (particularly with NSS and NSCOC officers) grant the criminals latitude to sustain their shady activities.
- Some security officials investigate sources and channels of leakage among corrupt inferiors linked with smugglers only to capture a share of the gains or prevent such officers from further revealing discrediting facts.
- Election-time fundraising from criminal sources in exchange for “immunity” against investigation is particularly common.
- Certain private companies provide information to special services, which, in exchange, help them monopolize the respective business.
- Leading security sector positions are occupied by inexperienced political and economic appointees. As a rule, reshuffling at highest levels is followed by staff and organizational restructuring involving expert officers and key unit directors. Often professionals of undisputed expertise are dismissed to prevent them from interfering in the threefold relationship between the security sector, political corruption and organized crime<sup>58</sup>.
- Unofficial privatization of official information has become a profitable business for individual security servants. Information leaks to the media, on the other hand, are a means to sustain smear campaigns directed by corrupt officials in certain parties or by corporate interests. The public is often unaware that abuse of such information by those who hold it turns into racketeering of political and other public figures.

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<sup>58</sup> Several methods for eliminating potentially troublesome officers are used, such as promotion accompanied by transfer to a completely different department, coercive resignation of officers, and character assassination of officials aiming to remove them from their posts.

## 2.7. THE ABSENCE OF DEMOCRATIC CONTROL ON SECURITY SECTOR ACTIVITIES

Democratic oversight of the security sector is executed by the State Committee on the Security of Information (SCSI). Parliamentary control is exercised by parliament's Foreign Policy, Defense and Security Committee and the Internal Security and Public Order Committee. No legal act exists, however, regulating the rules and mechanisms of parliamentary control over security sector activities. Financial control is an integral part of this oversight, as is control over the appointment of senior officials.

SCSI holds executive control over the legitimacy of security service activities. The committee's chairman reports to the government; the report is further approved by the National Assembly. Copies of the report are also submitted to the chairman of parliament, the president and the prime minister. But the committee's efficiency is limited due to understaffing and its uncertain legal status. A decision of the Supreme Administrative Court, however, has interrupted the dismantling of SCSI's predecessor, the Dossiers Committee.<sup>59</sup> It was the latter's deputy head that had demanded the interruption of the dismantling procedure on the grounds that the Dossiers Committee archives had not been transferred to the Liquidation Committee, which in its turn was obliged to transfer all files to the new SCSI.<sup>60</sup>

But the absence of democratic oversight contributes to the pervasive obscurity of security sector activities and the gap in democratic standards of transparency and accountability cannot be bridged. Due to this gap, the media has managed to monopolize available information about the security sector.

The security services themselves, though, are to blame for the lack of transparency. In recent years, policy makers have always tried to suspend the creation of a controlling mechanism for the security sector. The reason for this is that, in addition to a lack of vision about such a mechanism, they feared that any ruling party may monopolize the services. In other words the root of the problem is the lack of political consensus on the issue of security service oversight.

The critique from NATO member states as part of partner control during Bulgaria's preparation for membership also targeted security sector control deficiencies, focusing on the incomplete re-staffing of high ranking personnel and the sector's poor coordination. The cue that spurred such critique was the announced intention of Prime Minister Simeon Saxe-Coburg to appoint former State Security top officer Gen. Brigo Asparukhov as his assistant responsible for the coordination of "secret services". The case caused a public scandal and the appointment was cancelled. The incumbents were compelled to align reform measures to NATO and EU requirements, in particular to their standards on access to classified information.<sup>61</sup>

<sup>59</sup> Announcement of the Supreme Administrative Court. January 17, 2003.

<sup>60</sup> "The Wrapping of Classified Information". *Sega*, January 21, 2003.

<sup>61</sup> "Brigo Would Have to Pass Through a Needle's Eye to Get to NATO Information". *Sega*, October 10, 2003.