

# East European Constitutional Review

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Feature

## Crime and Corruption after Communism

### Organized Crime in Bulgaria

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A couple of years ago, one of the owners of a well-known Bulgarian bank beat up his senior foreign currency dealer in front of the entire staff. The boss was enraged because the dealer had just lost \$1.2 million in what appeared to be a routine transaction. There and then, the currency dealer was forced to sign a document stating that he would work for a nominal wage until the bank's losses were restored. The banker in this incident is a former wrestler. Today he is an influential member of several "economic groups" in Bulgaria. Only four years ago, he and his former teammates were making a living stealing cars and shaking down small businesses. Today they reign unchallenged over huge swaths of the Bulgarian economy and are actively involved in the large-scale privatization of state assets—tourism, the food and beverage industry, oil and gas trade, cigarette sales, and agriculture.

How should we think of organized crime in today's Bulgaria? First of all, it has no centuries-old tradition like the Italian Mafia. Neither are its origins traceable to the traditional Russian system of the "thief-within-the-law" (*vor v zakone*), which persisted throughout the entire Soviet period. It does not have the ethnic flavor common to the Chechen and Georgian mafias, nor is it structured around kinship networks, as is Albanian organized crime. What is special about organized crime in Bulgaria is the way it was created by the "transitional state."

Three easily discernible types of individuals inhabit the vast Bulgarian organized crime network: former athletes, state security agents (especially those who had access to classified information about the socialist economy, namely ex-police officers), and members of the former communist nomenklatura. Each of these groups has evolved in a peculiar way and independently of the transformation of the others. After seven years of restructuring and adjustment, the Bulgarian mafia is now a smoothly functioning operation that has penetrated deeply into all sectors of society. What makes its continued existence possible is the way it can rip off individuals, targeted social groups, and ultimately society as a whole with virtual impunity.

### Former athletes

The most romantic and popular part of this story is the transformation of former athletes into all-powerful "businessmen." Prior to 1989, these darlings of the former communist regime spent many long years together, training under harsh conditions resembling a military boot camp. Their camaraderie was tested in adversity, and long-lasting bonds of trust were forged among them. These durable relationships proved to be a valuable asset after 1989, when state subsidies for athletics simply evaporated, and former sports stars had to find alternative sources of income to maintain their relatively luxurious lifestyles.

Emblematic in this respect is the evolution of the so-called wrestlers' brigade, to which our irritated "banker" belongs. This group was originally assembled as a part of the "Olympic Hopes" program and was later attached to the special sports platoon of the Bulgarian People's Army. All former members of the wrestlers' brigade are now in their mid- to late-thirties. During the "primitive stage of capital accumulation," right after the communist regime collapsed, they established firm control over motels along Bulgaria's international highways. This first take-over campaign enabled them to tap various sources of revenue, running the gamut from trading in hard currencies to prostitution. Armed robberies also figured prominently in the wrestlers' repertoire. Split into small and flexible units, the athletes acted briskly and with resolve, showing no mercy for their victims. Their preferred targets were Turkish Gastarbeiter transporting their earnings home from Germany.

At about the same time, in the early 1990s, these groups entered the lucrative car theft business, which traffics stolen Western cars to the former Soviet Union. The athletes gradually established contacts with customs officials and thus created dependable channels across the country's porous borders. In addition to this international activity, the wrestlers developed a network for stealing cars in Bulgaria too. Whereas in 1989 only 4,318 cars were reported stolen in the entire country, two years later this number reached 12,873 and dropped slightly in 1996 to 11,041.

The wrestlers' new organization is fashioned after the classical models of organized crime. The boss gets a percentage of every illegal transaction and directly supervises the activities of a small number of ringleaders who, in turn, manage the rank-and-file "wise-guys." After an arduous and violent 1991-1992 offensive, the wrestlers were able to subdue all of the small urban gangs, and thus to pocket a percentage of their profits. In return, the former athletes assumed the responsibility to help cooperative small-time crooks whenever problems with the police arose, and they also offered protection against other criminal groups. To fulfill the first task, they "shopped around" for obliging policemen and investigative officers and hired lawyers.

By 1992, racketeering had become the dominant form of criminal activity in the country. According to official data, in 1991 only 21 complaints of racketeering were filed with the police, growing to 629 in 1996. Naturally, this official data captures only the tip of the iceberg. Virtually all experts agree that racketeering is heavily underreported and that the actual number of such incidents is at least three times higher. In effect, only two years after the democratic changes, the fledgling private sector was forced to pay not only higher taxes but also "dues" to criminal gangs.

This form of extortion may have been originally introduced as a way of solving turf-conflicts among various groups involved in the gambling business. In the early 1990s, even though there are no laws regulating gambling in Bulgaria, a large number of slot machines were imported and instantly began yielding considerable profits. The wrestlers demanded a share of these profits, and operators who refused to pay were paid informal visits, which sometimes included physical violence and the destruction of their property. To insure themselves against such predation, slot-machine owners turned to rival criminal groups for protection. Hence the "protection business" grew rapidly, feeding on itself, and soon enveloped many kinds of firms, bars, stores, and offices.

In order to draw a veil of legitimacy over their unsavory activities, the gangs established "protection firms." In 1994, between 3,600 and 3,800 such firms were duly registered and are now operating legally in Bulgaria. The proliferation of such "businesses" was spurred by an additional factor: the emergence on the national scene of so-called credit millionaires. Using various fraudulent schemes, these individuals took loans from private businesses and state-owned banks and never paid them back. Sluggish court procedures and the institutional chaos that cripples the country's judicial system rendered the creditors' efforts to collect their loans futile. Even if the courts finally ruled against the debtors, inflation and the devaluation of the lev reduced the actual amount collected to next to nothing. Given the futility of seeking judicial remedies, creditors hired protection firms which, for a fee, would insure that what was owed was promptly paid. Sometimes the firm's fee would amount to 30 percent of the original debt. Frequently, corrupt policemen lent assistance to the "enforcers." Even after the Ministry of Internal Affairs issued obligatory guidelines purporting to regulate the activities of protection firms, these basically underground operations continued to thrive and act as they pleased. In addition, many banks created their own "bad credits departments," which were manned by former policemen. Even though no statistical data are available, it is widely believed that many banks do in fact rely on criminal groups to collect from defaulting debtors.

The emergence of a "market" for such services crystallized the mutual dependency of private businesses, owned by former members of the nomenklatura, and coercive structures created by former athletes. The new entrepreneurs, who as a rule shun public attention, need private enforcers to settle scores with shady business partners. On the other hand, the enforcers, who seek to channel their money into the profitable sectors of the national economy, crave the opportunity to establish contacts with the new political establishment. These mutually beneficial contacts have enabled at least some criminal bosses to tap resources previously controlled exclusively by the nomenklatura. For example, by 1993, Vassil Iliev (a notorious crime boss whose assassination in 1995 still reverberates in Bulgaria's underworld) had become the owner of twelve companies spanning a wide array of business activities.

After a series of murders and scandals, Ljuben Berov's government (1992-1994) finally took tentative action and canceled the licenses of several protection firms. Soon thereafter, these companies re-registered as "insurance companies." Vassil Iliev is reputed to have godfathered this idea. His company, VIS-1, was among those blacklisted by the government; but only days after he was forced out of business, he announced that a newly formed company, VIS-2, would offer insurance plans to owners of expensive Western-made cars. He stated that his company was providing "assistance" to victims of car theft; but the truth is that Iliev and his associates would steal the cars first and then demand ransom. After setting up their bogus insurance companies, former athletes could collect this ransom in advance, without bothering to steal the cars, and issue "insurance documents" in return. The

emergence of such “insurance agencies” was made easier because the largest state-owned insurance company usually takes more than a year to pay indemnities for a stolen car.

Towards the end of 1995, Georgi Iliev, Vassil Iliev’s brother and heir, said in an interview: “We used to be wrestlers, but now we are businessmen.” And he had ample evidence to support his boast. Relying on networks that criss-crossed the entire country, the wrestlers already dominated a variety of profitable activities. After a series of municipal privatizations, they acquired a large number of food-processing companies, a strategic move that gave them control of the agricultural products market. They have also established a virtual monopoly over the import of sugar. Not a single shipment of this commodity can be unloaded at a Bulgarian port without the unofficial permission of SIC, VIS-2’s most serious competitor in underworld affairs. After a number of related incidents—including beatings, kidnappings, and assassinations—the wrestlers also solidified their grip over the export of wild berries. The former athletes have bought allies at all levels of the state administration and, as a result, they have no trouble acquiring export and import licenses and quotas, winning public auctions, and benefiting from lucrative privatization projects.

### **Ex-cops**

After 1989, public attention was concentrated on dismantling the repressive structures of the totalitarian state. For the most part, the repressive force of the regime was concentrated in the first, second, and sixth departments of State Security. By 1991, approximately 17,000 employees of the Ministry of Interior had been forced to resign from their jobs. Many of them had committed no serious sins against society and naturally resented the way they were treated. A majority offered their services to the new protection firms. There they found a welcoming environment where they could benefit from their contacts with former colleagues, and criminals, and from economic information that was classified as top secret during the totalitarian period. Others became security consultants to newly emerging private businesses and banks. And some went into private business themselves, capitalizing on their exclusive knowledge of the legal loopholes of postcommunism and their proficiency at navigating the notorious “gray zones” of the unregulated economy.

In 1993, skirmishes briefly erupted between protection firms run by ex-cops and those managed by ex-athletes. The most intense turf wars took place over Bulgaria’s attractive seaside resorts. The stakes were high. Whoever took charge here would profit from the daily operations of state-owned hotels and numerous currency exchange offices, and tap such

traditional sources of mob revenue as alcohol, gambling, and prostitution. Frequent dismissals of hotel managers, perennial uncertainty about the validity of legal titles, fuzzy property rights ambiguously assigned, and the unpredictable cancellation of privatization deals created favorable conditions for the spread of corruption and the cozy coexistence among criminals, former policemen, and members of the nomenklatura. The dynamics of criminal activity surrounding the seaside resorts is emblematic of emerging patterns of organized crime in Bulgaria.

Protection is far from being the only lucrative trade in which ex-cops have decided to try their hands. During the communist era, State Security squads were the preferred instrument for monitoring all areas of public life as well as the economy, including finance, commerce, banking, metallurgy, the oil industry, and agricultural trade. Hence, it is no surprise that former employees of this pervasive institution had skills and knowledge that they could profitably exploit when the era of private business began.

The first and second departments of State Security were actually in charge of all joint ventures set up by Bulgarian state-owned firms in the West, and so the earliest entrepreneurs could capitalize on considerable experience. In 1986-1987, the government set up joint ventures abroad in order to circumvent various Western restrictions on trade with East bloc countries. An intricate system for trafficking embargoed goods into Bulgaria was established to elude Western

monitors. According to a 1991 report, prepared by Bogomil Bonev, the current minister of internal affairs in the United Democratic Forces government, Bulgaria was the principal owner of more than 250 joint ventures and trading companies in countries such as Germany, Italy, France, and Great Britain. More than \$200 million had been invested in these firms, and their combined commodity turnover in 1989 was well over \$1 billion. For obvious reasons, these firms were never required to abide by strict accounting guidelines, which turned them into irresistible embezzlement targets. After 1989, they were scooped up in a wave of illegal privatizations.

Ex-cops thrived also in the trade of excised goods, like cigarettes and alcohol. Relying on their connections with customs officials, former employees of the Ministry of Internal Affairs created a smoothly functioning smuggling network that straddled several national boundaries. Upon crossing the Bulgarian border, these goods were stamped as “temporarily imported,” meaning that no excise duties had to be paid on them. Instead of being shipped out of the country, however, they were sold on the national market. An identical scheme was used to label false exports “duty free” and then sell them to customers inside Bulgaria.

**Metamorphosis of the nomenklatura**

In their insightful study of the rise of organized crime in Bulgaria, *The Crime Explosion in Bulgaria* (Covestina, 1995), Boicho Panev and Vassil Prodanov help explain the role of politicians and party apparatchiks in the development of criminal syndicates. They point out that former cadres who were politically purged viewed the newly emerging market not merely as a refuge, but rather as a gold mine in which they could flourish. The largest “economic groups” sometimes bear an uncanny resemblance to the state itself: they maintain giant security, intelligence, and data processing departments, which in turn can mobilize dispersed financial, commercial, and industrial resources in the pursuit of various projects. Those who work for these departments display behavioral patterns typical of “marginal groups.” They are no longer attached in any way to the idea of “mature socialism,” which would legitimate their past activities but, at the same time, they have not internalized the kind of thinking characteristic of free-market capitalism. Arguably, every marginalized group is prone to slide into criminal activities. What sets these former members of the nomenklatura apart is that they possess know-how, money, and the ability to organize themselves. Moreover, their previous experiences and connections allow them to exploit the destabilized and poorly functioning state for their own gain.

The process dates back to 1991. During that year, former apparatchiks positioned themselves in strategic locations in fledgling markets and began bilking large state-owned enterprises through various financial schemes involving shady transactions with private firms. A secret report, prepared in late 1996 for high-ranking officials in the Ministry of Internal Affairs, concluded that the former nomenklatura is a powerful and well-organized group that capitalizes on its strategic positions in both state-run and private companies. Virtually all “Communist Youth funds” were quickly siphoned off into private pockets. Former managers of state-run enterprises and Communist Youth officials enjoyed easy entry into international markets, because of the contacts they maintained with comrades in the former socialist countries and especially Russia. Reliable financial channels allowed the new businessmen to stash their profits in foreign banks.

Clever members of the nomenklatura soon discovered the secret key to the postcommunist bonanza: they learned how to privatize the assets and nationalize the liabilities of state enterprises. The private contractors with whom state firms made sweetheart deals walked away with enormous profits, while the ensuing losses were dumped back onto the public debt. This phenomenon—which came to be known as “the spider system”—was made possible by the late start of privatization, which rendered the accumulation of fortunes by former communist officials considerably easier. Private suppliers that enjoyed virtual monopolies sold inputs to large state firms at marked-up prices. Then the state firms sold their output to private purchasers at knocked-down prices. The state enterprises managers who initiated these deals were given their cut, by kickbacks or other means. Thus, the following vicious circle was set in motion: enterprises first lost money to private firms, then they borrowed from commercial banks, then they failed to repay the loans, and finally the banks received refinancing from the National Bank to cover the bad loans from the public treasury, thereby fueling an inflationary spiral. The rising tide of bad credits precipitated the collapse of many Bulgarian banks in 1996.

“Nomenklatura firms” also took part in the fraudulent export-import operations originally invented by the ex-cops. In fact, the maintenance of smuggling networks was one area where the interests of rival criminal syndicates overlapped. The safety of deliveries was frequently ensured by on-duty policemen hired by protection firms. (On several occasions, officers from the special anti-terrorism unit were, while on duty, ordered by their superiors at the Ministry of Internal Affairs to ensure the safe passage of truckloads of smuggled cigarettes.) The distribution of goods were overseen by former athletes who had already established full control over the country’s retail trade and wholesale markets. Perhaps because of the size of the huge profits, a deal between the major groups of players was relatively easy to strike.

Illicit exports to the former Yugoslavia was another area where the interests of athletes, police, and ex-communists converged. When the international community imposed a trade embargo on the former Yugoslavia, it should be recalled, the Bulgarian government officially joined the blockade. In retrospect, this act of the international community turns out to have been a blessing for Bulgarian criminals. Special reports prepared by the Ministry of Internal Affairs record hundreds of violations of the Yugoslav embargo, whereby trading companies managed by former policemen and ex-communist officials accumulated exorbitant profits by exporting metals, oil, and arms to the warring factions in Bosnia. According to some economists, the profit rate in this trade averaged between 200 and 300 percent. Resembling a peculiar “division of labor,” patterns of cooperation began to coalesce along the following lines: the former nomenklatura would arrange the supply of oil and other strategic resources nominally controlled by the Bulgarian state, the ex-cops would ensure that the convoys crossed the border without inspection, and the former athletes oversaw transportation and protection. As they grew stronger, the enforcers began to invest their own money in this trade and to send their own shipments across the border to Serbia. Thus the embargo gave rise to the spontaneous growth of organized crime in Bulgaria. There is an analogy here with

Prohibition in the US. Law could not repress the offensive behavior but was able to encourage the creation of a powerful symbiosis of criminals, law enforcers, and economic interests.

The ultimate form of profiteering, in which all of the above-mentioned components of organized crime were involved, was the draining of banks and the financial system in general. This process began immediately after 1989, when organized crime structures became solidified. After several years of racketeering, massive violations of the embargo, smuggling, and other criminal activities, profits had to be laundered and then legally banked abroad. The formless and unregulated financial sector was therefore turned by the criminals into a money-laundering machine, which also contributed to large-scale asset stripping, by extending government-backed bank loans to insiders who would then fail to repay.

This is how the Bulgarian state, within a relatively short period of seven years, developed its own home-grown version of organized crime. Of course, organized crime in Bulgaria was not created in accordance with someone's orders or a master plan. Rather, organized crime is thriving in Bulgaria because the state apparatus is so weak, corrupt, disorganized, and untransparent. The dismantling of the repressive totalitarian system and the desire to liberate the economy from state interference created a legal and institutional vacuum. This vacuum has been filled with criminal structures.

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