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## **Unstable Membership: Bulgaria, Corruption, and Policy of the European Union**

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*“Corruption is worse than prostitution. The latter might endanger the morals of an individual, the former invariably endangers the morals of the entire country”*

*Karl Kraus (1874-1936)*

## **I. Introduction**

Corruption is one of the most threatening forces to the body politic. It can infiltrate and hinder almost every area of government and impede economic development. Its effects can be inhibitive and wide ranging and are often responsible for creating precarious business environments, barriers to market entry, nepotism, inequity of civil rights, and misallocation of public goods. Many seem to oversimplify corruption, viewing it as merely fraudulent behavior by those in power. It is vital to understand, however, that the incapacity of institutions, the asymmetric access to wealth and domination, and the arrangements of social organizations allow this behavior to materialize.

In 2008, pre-accession funds dedicated towards transitioning Bulgaria to full membership were frozen by the European Union (EU) due to excessive misuse of resources by government officials. This event marked a turning point for a sustainable partnership between Bulgaria and the EU. As Bulgaria continues to exhibit repeated acts of corruption, there is an exigent concern to prevent corrosion from the inside out. Analogous to the quotation above, infrequent acts of improbity by Bulgaria are of little concern to the EU. Only until those transgressions enter the realm of corruption have concerns been raised.

This paper explores both the consequences of corruption within and outside Bulgaria, as well as the domestic and external factors that contribute to it. The domestic conditions of Bulgaria are not solely responsible for the causes of corruption. Private interests of the

international community, neighboring countries, and members of the EU collectively shoulder the burden. As examples will prove, the overarching rules and regulations of the EU heavily restrict the ability of Bulgaria to address problems in its own way given that they are not always sympathetic to national particularities. As a result, these rules disrupt the public's pursuit of national policy interests and debilitate the effectiveness of both the analogous and unrelated institutions that mitigate corruption. The question of how to address these concerns—from a policy standpoint—will be discussed in the concluding segment of this paper.

## **II. The Nature of Corruption in Bulgaria**

Bulgaria's communist past has hindered the government's ability to reduce corruption and accelerate modernization. While this newly minted member of the EU aspires to join the European mainstream, it exhibits the peculiarities of Soviet-style centralization typified by the government's wide functional scope and weak institutional capacity. Weak capacity to monitor and combat corruption has persistently allowed its associated problems to continue unabated. Consequently, the opportunity for graft is high and law enforcement low. This is especially true for a few high profile areas that currently demand attention: customs administration, the judiciary, public procurement, and the financing of political parties.<sup>1</sup>

Prior to achieving EU membership in 2007, Bulgaria placed a high priority on fighting corruption. As early as 1997, anti-corruption measures and the fight against organized crime galvanized the Union of Democratic Forces Party (UDF), and resulted in numerous pieces of

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<sup>1</sup> "Corruption and Anti-Corruption Policy in Bulgaria," Open Society Institute, (2002)  
[http://info.worldbank.org/etools/antic/docs/Resources/Country%20Profiles/Bulgaria/OpenSocietyInstitute\\_CorruptionBulgaria.pdf](http://info.worldbank.org/etools/antic/docs/Resources/Country%20Profiles/Bulgaria/OpenSocietyInstitute_CorruptionBulgaria.pdf).

reform legislation.<sup>2</sup> On May 26, 1997, EU members signed the Convention on the Fight against Corruption Involving Officials of the European Communities or Officials of the Member States of the European Union.<sup>3</sup> This convention was one of the first cooperative stances taken between Bulgaria and the EU to attenuate illicit government activity. In addition, an effort was made to better institutional reform by supplementing Bulgaria's National Audit Office (NAO) with the necessary resources to promote better financial transparency.<sup>4</sup>

While Bulgaria has shown evidence of sincerity vis-à-vis anti-corruption policy, the outcomes continue to remain ineffectual. There are three factors that are most apparent in this regard. First, apart from the Ministry of Interior's clash with organized crime, there are no "specialized" domestic anti-corruption agencies. The agencies that do target corrupt practices are replete with both unreliable and incomplete statistical data and are unable to formulate competent policy or means for convicting criminals. Second, the Supreme Judicial Council (SJC) has had mixed results with high-profile organized crime. In January 2010, a possible witness to an organized crime case was murdered in the streets of Sofia.<sup>5</sup> Since mid-2009 no convictions involving organized crime have materialized.<sup>6</sup> Unsuccessful prosecution in such high-profile areas insulates members of Parliament from any significant means of oversight. Parliament's lack of efficacy as an anti-corruption instrument and the minor progress made with political parties supports these practices. Finally, the definition of what legally constitutes a "public

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<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> "Interim Report from the European Commission to the European Parliament and the Council: Progress in Bulgaria under the Co-Operation and Verification Mechanism," European Commission, (March 23, 2010), [http://eurlex.europa.eu/Result.do?arg0=Bulgaria&arg1=&arg2=&titre=titre&chlang=en&RechType=RECH\\_mot&Submit=Search](http://eurlex.europa.eu/Result.do?arg0=Bulgaria&arg1=&arg2=&titre=titre&chlang=en&RechType=RECH_mot&Submit=Search).

<sup>6</sup> Ibid.

official” and “bribery” is unclear.<sup>7</sup> Without sufficient definitions, a legal solution may never be feasible.<sup>8</sup> Altogether, the structural incapacity for enforcement, inept legal enforcement, and weak accountability encourages relentless abuse of public resources.

Bulgaria’s structural weaknesses have led to a number of harmful social consequences. A decline in government efficacy has been followed by a diminishing rate of institutional approval. The impunity enjoyed by civil servants engaged in illicit activity has provoked public discontent and a deeply seeded distrust of government. Recent Eurobarometer data claims that Bulgarians show a higher trust in EU institutions than in their own.<sup>9</sup> A shift in confidence from national to the supranational creates a dilemma over which source of governance will better address publically demanded concerns. As public support diminishes, the situation is severely compounded by problems of economic inefficiency.

Although there are many causes for an inefficient economy in other countries, the ubiquity of bribery in Bulgaria may be the *raison d’être* for their economic woes. In 2002, the average bribe in Bulgaria was equal to 30% of unpaid customs, duties, and other fees.<sup>10</sup> This represents a substantial loss in state revenue from duties and taxes and exemplifies the authority exercised by customs agents. The wide discretion for regulating imports and exports has made customs one of the most conspicuous areas for bribery. Despite embargos and trade restrictions,

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<sup>7</sup> Carl Pacini, , Judyth A. Swingen, and Hudson Rogers, “The Role of the OECD and EU Conventions in Combating Bribery of Foreign Officials,” *Journal of Business Ethics* Vol. 37 (June 2002): 385-405.

<sup>8</sup> Without separating public and private boundaries, the legal ambiguity is unable to isolate the instance of bribery from other closely related actions that involve illicit monetary gain.

<sup>9</sup> According to Eurobarometer data (2009), twenty-three percent of Bulgarians claim satisfaction with democratic effectiveness in their own country, while fifty-four percent claim satisfaction in the EU. Comparatively, fifty-three percent of EU countries average an overall satisfaction with their respective countries effectiveness.

“Eurobarometer: Standard EB 72,” European Commission, (Autumn 2009), [http://ec.europa.eu/public\\_opinion/archives/eb/eb72/eb72\\_en.htm](http://ec.europa.eu/public_opinion/archives/eb/eb72/eb72_en.htm).

<sup>10</sup> Campos, Edgardo, and Sanjay Pradham, *The Many Faces of Corruption: Tracking Vulnerabilities at the Sector Level*, Washington D.C.: The World Bank, 2007.

customs officials regularly permit importation for monetary gain. This arbitrary enforcement by public officials creates an impetus for the emergence of black markets that support organized crime. In Bulgaria, illegal imports represent a grey economy responsible for approximately thirty-five percent of GDP.<sup>11</sup> This unrestricted influx of illicit goods thus represents not only the financial means to sustain organized crime but also a loss of unpaid duties as potential government revenue.

Customs, however, is not the only area where public officials engage in illicit behavior. The issuing of business licenses is yet another one. The limited accountability in Bulgaria provides an incentive for high rent-generating schemes in which the sale of public goods for private benefit brings enormous profits to public officials. The failure to equitably enforce the rules and regulations of private industry causes major market distortions. In transitional economies, this is a common phenomenon that Hellman et al (2000) describe as state capture.<sup>12</sup>

Under state capture, the high level of negative externalities creates risk and uncertainty for new non-captor firms seeking to become established in a market by corrupt officials. As a result, entrepreneurship diminishes due to excessive administrative requirements, small businesses become disadvantaged, competition is impeded, monopolies are created, and private contracts are awarded unjustly. The highest bidders circumvent the bureaucratic processes of obtaining licenses while small businesses are required to file as many as thirty documents from multiple institutions.<sup>13</sup> Such hurdles delay the process of registering a business and make

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<sup>11</sup> "Corruption and Anti-Corruption Policy in Bulgaria." Open Society Institute, 2002.

<sup>12</sup> In the capture economy the policy and legal framework is shaped to the capture firm's advantage at the expense of the rest of the enterprise sector. Hellman, Joel, Geraint Jones, and Daniel Kaufmann. "'Seize the State, Seize the Day" State Capture, Corruption and Influence in Transition." *The World Bank* (September 2000): pp. 1-45.

<sup>13</sup> "Corruption and Anti-Corruption Policy in Bulgaria," Open Society Institute, (2002),

prospective entrepreneurs more risk adverse. Ultimately, society bears the burden of poor market-oriented performance and barriers to economic development.

### **III. The Effects of Bulgarian Corruption on the EU**

As a consequence of high profile corruption, one of the EU's poorest members has imposed a significant burden. Problems with economic spillovers and 'free-riding' threaten neighboring and affiliated EU states. While Bulgaria has yet to enjoy the full privileges of an EU member, the inability to meet the standards in the qualifying process has halted the financing of their transition and has prevented their progression to full membership.

Since the freezing of transitional funds in 2008, Bulgaria's arbitrary criteria for awarding contracts have further justified the recent halt. Accordingly, a report from the Commission to the European Parliament and Council showed concern over the gross negligence of transparency and accountability in public procurement.<sup>14</sup> This has severely damaged confidence in Bulgaria's capacity to function as a full member of the EU.

The abuse of transitional funds represents a major financial strain on the EU and its members. In spite of achieving membership, one of the EU's most corrupt members has not experienced the necessary incentives for serious reform.<sup>15</sup> This lack of an appropriate incentive structure creates a free-rider situation, whereby the country consumes more public resources than it provides. On a collective scale, they have little reason to change their behavior if a capricious response towards reform will continue to bring financial assistance.

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<sup>14</sup> "Report from the European Commission to the Parliament and the Council: On the Management of EU Funds in Bulgaria," *Commission of the European Communities*, July 2008,

[http://ec.europa.eu/dgs/secretariat\\_general/cvm/docs/bulgaria\\_report\\_funds\\_20080723\\_en.pdf](http://ec.europa.eu/dgs/secretariat_general/cvm/docs/bulgaria_report_funds_20080723_en.pdf).

<sup>15</sup> As of 2009, Bulgaria is tied with Romania at 3.8 on the Corruption Perceptions Index:

[http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2009/cpi\\_2009\\_table](http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table)

The contrasts in governmental effectiveness between Bulgaria and the rest of the EU are demonstrated in the chart below. Figure one provides a scatter chart of all EU member states and crosses data from Human Development Index with the World Bank's Control of Corruption Index. A list of the country abbreviations can be found in Appendix A. According to the data in Figure 1, Bulgaria (BG) has the worst control of corruption in the European Union and the second to lowest ranking in human development, next to Romania (RO). What is interesting to note is Bulgaria's distance from the rest of the post-Soviet states, making it a case of considerable concern.

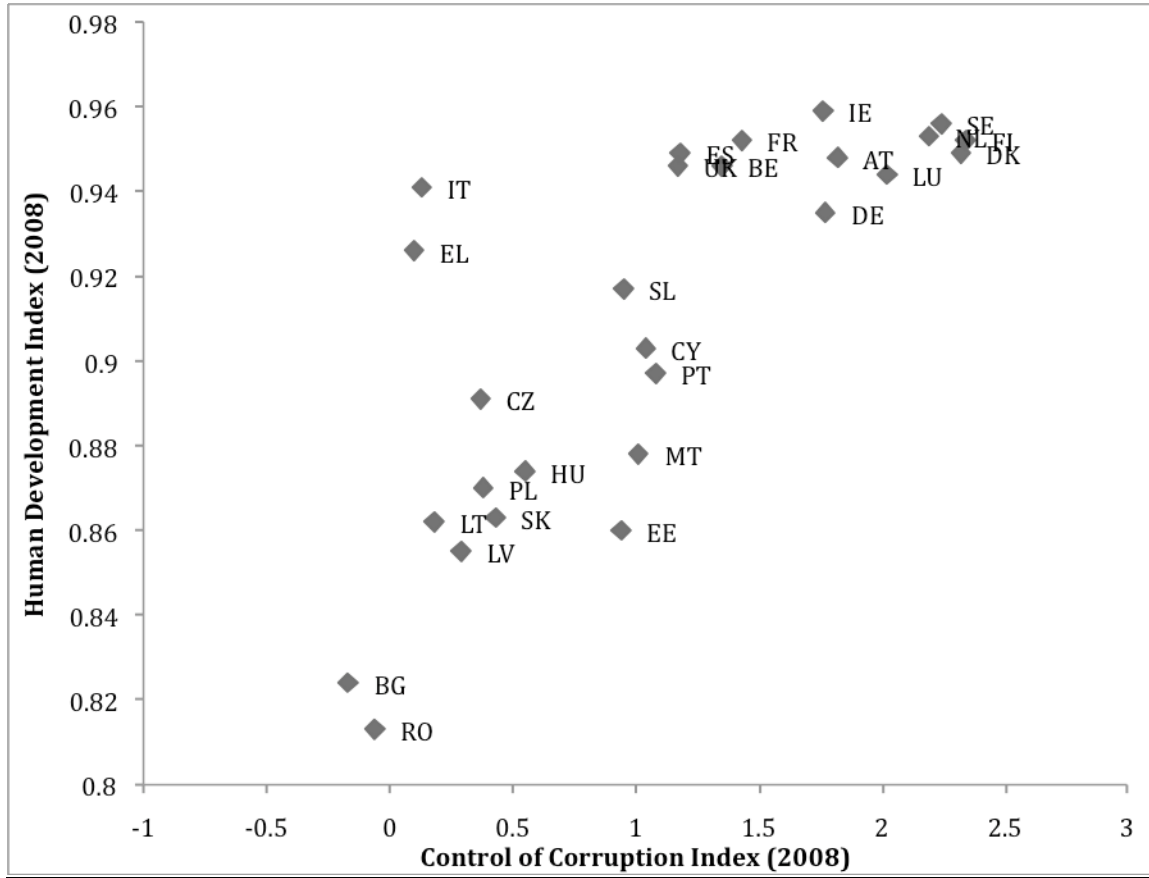
The EU demands that significant reform be implemented to warrant financing transitional membership. Bulgaria, however, has been able to shirk its responsibility and still receive economic aid. Despite current indicators of government performance, the concerns of the EU Commission over fraudulent use of funds have still not been fully addressed and irregularities in public procurement continue unabated.<sup>16</sup>

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<sup>16</sup> "Interim Report from the European Commission to the European Parliament and the Council: Progress in Bulgaria under the Co-Operation and Verification Mechanism," European Commission, (March 23, 2010).



**Figure 1**



Source: Authors calculations, Corruption Data from WBI and Human Development Data from UNDP.

#### IV. The Effects of Accession on Bulgaria

Bulgaria has sought EU membership because of both the numerous benefits of inclusion and the high costs of exclusion.<sup>17</sup> While there is strong public support for inclusion, policy has been obsequiously initiated to accommodate the EU's goals. The obvious consequences are partial renouncement of sovereignty, shifting policy priorities, exposure to cultural homogeneity, and compliance with a supra-national entity.

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<sup>17</sup> Jesús Crespo-Cuaresma, Jarko Fidrmuc, and Maria Antoinette Silgoner, "On the Road: The Path of Bulgaria, Croatia, and Romania to the EU and the Euro," *Taylor & Francis LTD*. Vol. 57. Europe-Asia Studies (September 2005): pp. 843-858.

Given the concerns over corrupt activity in Bulgaria, strict adherence to EU qualification has had to be met. The immediate challenges for integration resulted in the EU's demands for high performance and dedication to mitigating corruption.<sup>18</sup> Although aid is sufficiently offered, the administrative training and institutional framework has been viewed as inadequate. According to previous reports by the European Commission Comprehensive Monitoring, the expectation of domestic mechanisms for policy development and implementation have been deemed either unavailable or in need of more comprehensive development.<sup>19</sup>

Along with the ambiguous framework for mitigation, domestic agendas have had to compete with overarching EU agendas. Policy prioritization has marginalized many domestic policy priorities due to EU accession, and in certain instances supplanted popular demand and created resentment towards national government.<sup>20</sup> Perhaps an unintended consequence of these European Commission monitoring reports is the shift in faith of governance, which strongly compels political parties to bear the burden of choosing either EU appeasement or domestic priorities.

Since Bulgaria began its move towards inclusion, it has suffered a shock in the role of its institutional priorities. By shifting these priorities in favor of the EU, Bulgaria's governance capacity has diminished in other domains. Competent administrators were taken from one

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<sup>18</sup> Gavrilova, Dessislava, "The Other Side of European Integration: Effects of EU Accession Process on the non EU-Regulated Policy Areas in Central and Eastern Europe: The Case of Bulgaria." *European Political Economy Review* No. 8 (Spring 2008): pp. 68-96.

<sup>19</sup> "Report from the European Commission to the Parliament and the Council. On the Management of EU Funds in Bulgaria." Commission of the European Communities, July 2008. [http://ec.europa.eu/dgs/secretariat\\_general/cvm/docs/bulgaria\\_report\\_funds\\_20080723\\_en.pdf](http://ec.europa.eu/dgs/secretariat_general/cvm/docs/bulgaria_report_funds_20080723_en.pdf), NEED ACCESS DATE.

<sup>20</sup> Gavrilova (2008) illustrates this shift by contending that in spite of strong public advocacy for educational reform its legislation has been relegated to accommodate the EU's pressure for environmental reform. Domestic policy has thus been replaced by the EU's agenda.

institution and shifted to another. The rapid change in goals left many institutions inept and administratively decrepit.<sup>21</sup> Furthermore, the diminished capacity was strained when tasked with implementing over ninety thousand pages of the *acquis*<sup>22</sup> into national legislation.<sup>23</sup>

Relegating publicly demanded policy to a non-elected entity can be seen as erosive to democracy and to the autonomy of national institutions. The considerable pressure of the EU's agenda may, as a result, threaten the pursuit of a nationalistic agenda. Engendering political and economic cohesion demands resolving issues of corruption in Bulgaria's government, but the looming feature of their relationship is constant exposure to the interests of exogenous political forces. And the outcome of this interaction will place serious limitations on the pursuit of a nationalistic agenda, cultural protection, and best interests of domestic society.

## **V. Conclusion**

The aforementioned problems of corruption contribute to the question of how much the EU wants sustainability and the extent to which Bulgaria desires the privileges of full membership. How much these two governing bodies are willing to sacrifice for a sustainable partnership is a question that must be extensively considered. In essence, there are two sets of factors to take into account.

First, the EU should undergo careful examination of Bulgaria's incentives as a participating member and how to procure a regionally specific anti-corruption policy. It has overlooked Bulgaria's tendency to consume resources without intention to contribute. Moreover, the EU has neglected a serious effort to target the training and institutional strengthening as part

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<sup>21</sup> Ibid.

<sup>22</sup> *Acquis* refers to the total body of law currently used by the European Union.

<sup>23</sup> Ibid.

of their assistance curriculum. Reform in the judicial sector should place a greater emphasis on isolating the national penal code to convict abuses of public trust for private gain and should target more cases of high-profile corruption. However, the most successful area of reform will target the National Customs Agency; any instance of success will damage the revenue stream of organized crime and make other areas of reform less prone to criminal threat. If these factors remain unaddressed it is likely that the EU and its member states will be at risk of increased financial strain, criminal syndicates, regional instability, and the circulation of hazardous materials and prohibited goods.

Second, sustaining a long-term partnership will require a move away from Bulgaria's current approach of neglecting domestic affairs. Politically, Bulgaria has been playing a dangerous game of submissively catering to EU standards while turning a blind eye to public priorities. Public cries to address organized crime and institutional reform cannot be ignored. However, reform is not easily achievable. Balancing internal demands with the implementation of the EU's ninety thousand page policy requirements exemplifies the enormity of Bulgaria's undertaking.

In sum, Bulgaria has a host of problems stemming from the deeply embedded presence of governmental malfeasance. If the current situation does not improve, these problems could manifest themselves as a threat to the EU. In one aspect, addressing the particular issues that Bulgaria faces may pave the way in the future for the EU to mitigate problems of corruption that are more specific in nature. On the other end, a decision must be made as to what extent the EU is willing to tolerate the costs of an unstable Bulgarian membership in the interest of maintaining European political solidarity.

## **Appendix A - Country Abbreviations for Figures.**

Austria (AT)  
Belgium (BE)  
Bulgaria (BG)  
Cyprus (CY)  
Czech Republic (CZ)  
Denmark (DK)  
Estonia (EE)  
Finland (FI)  
France (FR)  
Germany (DE)  
Greece (EL)  
Hungary (HU)  
Ireland (IE)  
Italy (IT)  
Latvia (LV)  
Lithuania (LT)  
Luxembourg (LU)  
Malta (MT)  
Netherlands (NL)  
Poland (PL)  
Portugal (PT)  
Romania (RO)  
Slovakia (SK)  
Slovenia (SL)  
Spain (ES)  
Sweden (SE)  
United Kingdom (UK)

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## Data Sources

Corruption Perception Index.

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Control of Corruption & Rule of Law

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<http://hdr.undp.org/en/reports/global/hdr2007-2008/>