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## ACRONYMS

LETA	Latvian National News Agency
CPCB	Corruption Prevention and Combating Bureau of the Republic of Latvia
LVL	Latvian Lats – Latvian currency
LPP/LC	Latvia's First Party/Latvian Way ( <i>Latvijas Pirmā partija/Latvijas Ceļš</i> )
NATO	North American Treaty Organization
CSO	Civil Society Organisation Sustainability Index

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## I. Introduction

Corruption has been a concern for Latvia continuously since the breakup of the Soviet Union. In a Eurobarometer survey of 2011, 83% of respondents deemed corruption a major problem in Latvia (the median rank among the 27 EU members of the time). In this sense Latvia resembles most European countries where the majority of the population holds such opinion. 64% of Latvia's respondents disagreed that they were personally affected by corruption in their daily life (12<sup>th</sup>-13<sup>th</sup> best result together with Slovenia) and 16% admitted having been asked or expected to pay a bribe at least once over the last 12 months (the 7<sup>th</sup> worst result) (European Commission 2011a). Thus, by different measures, Latvia's corruption situation is somewhere between the average and poorer levels in the European Union.

In a global comparison, according to the World Bank control-of-corruption indicator Latvia has been above the average, i.e. within the 60<sup>th</sup> – 66<sup>th</sup> percentile rank since 2003. On the scale between -0.25 and +0.25, Latvia's score improved dramatically from -0.82 to 0.18 in the period 1996-2003 (an improvement of such magnitude is not easily explained by considering domestic developments of the time). Since then, the time-series do not show radical changes in Latvia's control of corruption. The scores peaked before the last financial crisis to between +0.25 and +0.32 in 2005-2007, then dropped to +0.13 in 2008-2010 and improved a little to +0.19 and +0.15 in 2011 and 2012 (World Bank Group 2013).

Meanwhile the saliency of the corruption issue on the political agenda has been varying. In some parliamentary elections of the past, corruption was the defining issue, for example, in 2002. Afterwards top political priorities shifted elsewhere. In 2010, just one out of the 5 parties (electoral coalitions), which gained parliamentary representation, had an anti-corruption platform of any seriousness (Kalniņš 2010). The issues of corruption and alleged clandestine rule of the so-called oligarchs came back strongly for the extraordinary election of 2011 although still only two out of five elected parties offered anti-corruption platforms (Kalniņš 2011).

Moreover occasional detection of serious corruption-related crime maintains corruption in the focus of the public attention (for example, the detection of bribery related to construction and renovation contracts in the University Children's Hospital in 2009 as well as the abuse of office, bribery and money laundering related to public procurement and reconstruction of several objects of the state-owned energy company *Latvenergo* in 2010 (the former president of the company is among the indicted) (Deputati uz delnas.lv 2011-2013b).

General survey indicators about corruption leave open the question of the definition of the term "corruption". In a survey in 2008, respondents were offered a list of hypothetical situations and asked what situations could be considered as political corruption. Interestingly for the discussion about the ethical universalism and particularism in governance regimes, a

considerable proportion of respondents considered as political corruption situations where the inclusiveness, transparency or accountability of the policy-making process could be questioned even if no breaches of formal rules have been committed. Such were “the situation when a decision that benefits only a part of society is supported” (44.0%), “political decision-making that is influenced by lobbyists” (41.8%), “the accordance of state funding without clear criteria”(36.1%), “political decision-making without discussions with the general public” (30.9%), and “the adoption of a controversial political decision that is not sufficiently justified” (28.6%) (Kalniņš 2009: 19). A possible interpretation of these results would be that people use the label corruption for situations where there is a sense of exclusion from the policy-making process. Such approach goes in line with the understanding of corruption as particularistic (non-universal) allocation of public goods due to abuse of influence, which is the chosen definition in this paper.

## II. Main Part

### 1. Latvia's Mixed State of Governance

This chapter aims to diagnose Latvia's state of governance by looking at the allocation of certain selected types of public goods. Here and elsewhere in the paper, not just the current state of affairs but also historic developments of the last 20-25 years are considered in order to explain how the existing situation came about. Some indicators are shown in comparison with those of Estonia. The northern neighbor of Latvia is known for a remarkable progress against corruption (Kasemets 2013) and hence even a limited comparison could provide some hints for why some countries succeed more than others in this struggle.

The transfer of the state-owned and commanded economy into private hands started in the end of the 1980's, largely in the form of massive-scale asset stripping by Soviet factory managers. According to Anatol Lieven it was common “for managers and a select group of workers to form a private company within the larger state company, to acquire its assets or produce at low state prices, and then sell them for the market price, preferably in the West, and pocket the proceeds” (Lieven 1993: 340). Such *de facto* **privatization** was inherently discretionary and particularistic. Only around 1992 an official privatization policy commenced, decentralized through numerous privatization committees until 1994. At the time, wide discretion to select the would-be privatizers and lack of conflict-of-interest standards facilitated possibilities to distribute property within closed networks of cronies. To give an example, during this time the Deputy Minister of Agriculture (he also the deputy chair of the privatization commission of the Ministry of Agriculture), later Prime Minister and one of the nicknamed oligarchs Andris Šķēle managed the privatization of a large share of the country's food processing industry allegedly in such way as to ensure his own control and later outright ownership thereof (Lapsa, Metuzāls, Jančevska 2008: 41-45).

In 1994 the privatization process was centralized under the Privatization Agency. Only at this stage one sees a genuine, even if often failing shift towards impartial privatization. Latvia's overall pace of privatization lagged slightly behind that of Estonia. In Latvia the peak of privatization of large enterprises was in 1997 (1994 in Estonia). Between 1995 and 1997, the foreign share of privatizing was 34% in Latvia, which was considerably lower than the 56% in Estonia for the period 1996-1998 (Mygind 1999: 5, 8). Given the managerial and financial superiority of foreign buyers at the time, the difference in the percentage could be interpreted as evidence that Latvia's policy was more biased toward potential domestic owners than Estonia's.

Privatization-related struggles were a major factor of instability for Latvian governments at the end of the 1990's and beginning of the 21<sup>st</sup> century. The privatization process appeared increasingly partisan with major political parties struggling hard to secure presence in the Privatization Agency and especially the state-owned companies, which were to be privatized, e.g. the Latvian Shipping Company and *Latvenergo* (the latter eventually remained in state ownership) (Huang 2001). It appears that Latvia achieved certain ability to privatize small, medium and a part of large enterprises in a fair manner but intense political struggles for control over a few of the largest companies turned the process into closed haggling.

With privatization by and large complete, **public procurement** nowadays represents one of the most significant mechanisms of distribution. In 2011, public-procurement payments amounted to 10.3% of Latvia's GDP (Iepirkumu uzraudzības birojs 2012b: 14). Based on available data, it is impossible to verify quantitatively whether the dominant mode of the award of public procurement contracts is fair and impartial or, on the contrary, discriminatory and corrupt. Rich anecdotal evidence confirms *prima facie* discriminatory award. Particular observed irregularities may be due to actual corruption, favoritism, which falls short of criminally punishable actions, or incompetence but on the whole they attest to significant exemptions from impartial operation. Both the leadership of the Procurement Supervision Bureau (state oversight body for the public procurement) and participants in procurement competitions confirm that discriminatory requirements favor particular providers in unjustified ways (Melbārzde 2013) (especially on the level of local governments) (LETA 2012). Occasionally procuring agencies would not make procurement documentation available to bidders, pose unclear and/or disproportionate requirements vis-à-vis bidders and subcontractors and thus skew the competition (Iepirkumu uzraudzības birojs 2012a: 2, 3).

In some situations, evidence hints at clientelistic arrangements where parties exercise control over public resources and channel them to supportive businesses. In the case of the University Children's Hospital, officials allegedly took bribes from a construction company (Deputati uz delnas.lv 2011-2013a). During the court process, allegations emerged that the

officials not only inflated the prices of construction works to generate excess funds for themselves but also forwarded part of the money to the then ruling People's Party (Ir 2013).

Generally, not many criminal investigations reach into procurement corruption. A notable case was detected in 2010 when the Corruption Prevention and Combating Bureau (hereafter – CPCB) detained officials of *Latvenergo* including its president and vice-president. Among the suspected offences are decisions made by board members of *Latvenergo* and its subsidiary *Sadales tīkls* awarding procurement orders to a supplier secretly co-owned by the officials themselves, purchase by a foreign company of confidential information needed to secure a contract for a project of reconstruction of a combined heat and power plant, and payment by another company for a procurement decision concerning the reconstruction of a hydroelectric power station (Deputati uz delnas.lv 2011-2013b). Still the case does not allow for any generalization on the procurement practice in general. Moreover, at the time of writing in December 2013, no verdict had been delivered.

Thus on the whole the fairness of the public procurement process is mixed at best. Even if the system is geared toward impartiality and effectiveness, a considerable (albeit indeterminate) number of actors systematically attempt to skew it.

Compared to privatization and procurement, some less prominent practices of distribution of public funds are even more prone to the risk of particularism. The practice sometimes nicknamed as **the “democratic” or “deputies” quota** has been used traditionally as a manifestly discretionary manner of allocation. The term refers to a certain set-aside amount of the state budget that MPs are allowed to distribute as they please. This results in allocations for specific civil-society or sports organizations, local-government projects, and education or sports establishments with no backing on the level of the policy planning. The availability of such freely disposable funds ceased during the financial crisis but they are found again in the budget since 2012.

Although total amounts, which are allocated in this way, are not large compared to the whole of the budget, the practice has been perceived as controversial because of its arbitrariness. There is a certain ambiguity as to the extent to which opposition parties are excluded from participation. In 2007, a study on the state funding for NGOs noted that proposals from opposition parties or MPs were almost never approved but then the governing parties would often resubmit and actually approve those same proposals (Curika 2007: 17). This could be an indication of political deals whereby the opposition is allowed to influence the allocation but denied a visible credit for it. For the state budget of 2014, each parliamentary faction of the ruling coalition had a set-aside limit of EUR 300,000 at its disposal (Leitāns 2013). The two opposition factions did not have any guarantee of this kind although a few of their proposals, albeit financially smaller, were approved (Latvijas Republikas Saeima 2013).

A different type of public resource, often prone to particularistic distribution, is **public-sector jobs**. The Latvian public administration does not employ unified and clear selection principles for employment candidates (Latvijas Republikas Ministru kabinets 2013a, 2013b). By default civil servants remain in their positions after government changes. However, exceptions do occur and they are quite frequent in the very top brass of the civil service. Appointments to high-level civil service positions usually require approval from ruling political parties (Kalniņš, Ķirse 2011: 76-77). Occasionally conflicts arise between top civil servants of ministries and ministers, which usually end into the rotation of the civil servant to another agency or his/her resignation altogether. Other cases are known when political officials change ministries and a group of loyal civil servants follow.

A rough indicator of professionalism v. politicized particularism in the civil service is whether state secretaries (the highest non-political officials) of ministries can survive in their positions the change of ministers (especially when such change also means a change in the party affiliations). As of 19 March 2013, Latvia had 13 ministries and respectively 13 positions of state secretaries. Out of the thirteen state secretaries, one had experienced four changes of the respective minister, one – three changes, four<sup>1</sup> – two changes, two – only one change, and five – no change (i.e. they were appointed during the tenure of the minister of the time). The number of “survived” shifts of the party affiliation is smaller (sometimes a minister of one party has been replaced by a minister of the same party) – two state secretaries had experienced three such changes, two<sup>2</sup> – two changes, four – only one change, and five – no change. This data show that although changes of state secretaries are common (and in fact they are often due to the will of the minister to achieve greater political harmony with his/her highest civil servant), the change of the state secretary along with the change of the minister is not the default course of action even when the party affiliation of the minister changes. Rather the picture is mixed.

Over years, probably the most politicized group of officials has been board members of state-controlled companies. As of the beginning of October 2010, in a sample of 13 state-owned companies 6 companies had party affiliated members on their boards (among the six companies in total 10 out 19 members had identifiable party affiliations) (Kalniņš, Litvins 2011: 59-61). Considering the frequent changes of the board members in tune with changes in the governments, a largely particularistic pattern of appointments emerges. Anecdotal evidence shows that, at least to some extent, such practice continues (Tvnet/De facto 2013) despite attempts by the government to modernize the governance of state-controlled companies (Deputati uz delnas.lv 2011-2013d). Board positions provide the people with

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<sup>1</sup> As of 10 March 2013, the Ministry of Transport had no state secretary appointed. Since the last state secretary had recently been appointed as the Minister, his tenure as the state secretary is considered here.

<sup>2</sup> See footnote 1.

salaries from about 2.4 to 6 times the national average salary and hence represent fairly attractive opportunities for individuals who find themselves below the top levels of political party elites. The parties, in turn, benefit from the possibility to maintain a salaried cadre reserve and collect donations, even if mostly modest, from the appointees.

Finally, as far as the output of the public sector is concerned, **access to social services** such as education and health is an important category for diagnosis. Data suggest that, on the level of perception, the education institutions are less corrupt than public health institutions and hence the latter operate more along the principles of particularistic allocation. A survey of 2012 contained also an experience-based indicator asking people who have been engaged with the respective institutions whether they had to resort to unofficial payments, gifts, barter deals or personal connections. At least one of those means has been used by 28% of people who received treatment in an outpatient clinic or hospital (the indicator was higher only for relations with the road police, commonly considered the etalon of a corrupt administrative institution). Meanwhile this is an improvement over the historically worst comparable indicator from 2005 – 41.3%. When it comes to entering a kindergarten, school or higher education institution, the respective figure of 2012 is 5.9% (historically worst in 1999 was 32.4%) (Latvijas Fakti 2012). The survey thus attests to substantial improvement in both of the sectors although it is much slower in health.

## **2. Corruption in Politics (and Why It Could Get so Bad)**

Since the 1990's, many have viewed Latvia's political life as the area most gravely affected by corruption (in contrast to the lower administrative ranks with seemingly less pervasive corruption). After the year 2000, the term "state capture" entered the mainstream parlance thanks to the State Capture Index published within a study by the World Bank (the index was expressed as the share of firms affected by state capture and stood at 30% for Latvia, much higher than for Estonia (10%) as well as for most other former socialist countries of the sample) (World Bank 2000: 13).

One of the most prominent mechanisms of the state capture appeared to be private funding for political parties and their campaigns with increasing cost between 1998 and 2006. According to declarations by parties the total cost of the parliamentary election campaign of 1998 was LVL 1,699,999 (approx. USD 990,000). According to monitoring carried out by NGOs the total cost of election campaigns in 2002 and 2006 was way higher – respectively LVL 6,325,000 (approx. EUR 3,770,000) and LVL 6,635,546 (approx. EUR 3,955,000) (Kažoka 2011: 28).

Against this background, demands to lessen the role of money in politics became stronger and the parliament adopted numerous new rules for the party finance – a radically decreased limit for a single donation, prompt disclosure of donations, and party expenditure reports in

2002 (Kalniņš, Čigāne 2003), the ban on donations by legal entities (based on the controversial argument that the ban would prevent physical persons from using legal entities to circumvent restrictions on donating (Veģe 2003)) and the cap on the total amounts of certain types of campaign expenditure in 2004 (Čigāne 2007: 6), adoption of state funding for parties in 2010, prohibition of paid campaign advertising on TV 30 days before elections in 2012, etc. Administratively the system works quite smoothly although it is hard to verify how much of undeclared money is used. Moreover, the reduced donation limit and prohibition of donations from legal entities have made it difficult to identify any major sponsors who may provide or coordinate large campaign contributions from behind the scenes.

These developments of regulation used to coexist with a widespread perception about the tight control by a few influential people over several major political parties (DB.lv 2011). According to this perception the mayor of Latvia's east coast city of Ventspils Aivars Lembergs, suspected major provider of funds for various politicians since 1990's, indicted for numerous corruption-related crimes, has been able to exert considerable control over the Union of Greens and Farmers for more than a decade (the party group has been represented in the parliament since 2002) (Rulle 2012; Ozoliņš 2011). Another strongman Ainārs Šlesers controlled several consecutive parties established/ officially led by him from 1998 to 2011 when his party LPP/LC dissolved (all in all Šlesers' related parties were represented in the parliament from 1998 to 2011). In 1998 Andris Šķēle led the establishment of the later powerful People's Party and appeared to be largely in control of it until 2011 when this party also dissolved. The parliamentary elections of 2011 brought a complete failure for the Šlesers' party (the People's Party dissolved already before). Since then the oligarchic grip of Latvian politics seems to have eased.

Publication of leaked material of an investigation by the CPCB provides a glimpse into how the oligarchic control operated even though the concrete facts have not been proved in the court. One of the episodes covers a situation in 2010 when the vice-mayor of Riga and the chair of the board of Riga Freeport Authority Šlesers gained a seat in the parliament and had to leave the non-parliamentary posts. Already before taking the parliamentary seat, Šlesers allegedly attempted to ensure that in his place in the port authority his party comrade Andris Ameriks is elected (Ameriks did gain the post and continues to hold it at the time of writing of this paper). To achieve it, Šlesers presumably struck a deal with Lembergs who would ensure that a representative of the Greens and Farmers Union in the board of the port authority vote for Ameriks. In return Ventspils' strongman would ask a major advertising contract to be concluded with the media company "Mediju Nams" under Lemberg's control. Šlesers would do so by making sure that the Freeport Authority, the state-controlled airline "Air Baltic" or the foundation "Live Riga" established by Riga municipality conclude such contracts (Deputati uz delnas.lv 2011-2013c; Pietiek 2011). The case purportedly showed

the ability of Šlesers to secure funds from public entities and of Lembergs to secure a favorable appointment in Riga where he has no official role.

Otherwise there is little direct data on *quid pro quo* donations for political parties although anecdotal and indirect evidence attests to the practice of favors granted to sponsors of political parties. It is common for construction and other companies, which carry out public procurement orders, to grant money donations to the parties in charge both in the government and municipalities (Delfi 2013; Sprinģe, Rebaltica 2011). Nevertheless the total election expenditure has diminished starting with 2010 and therefore particularistic reciprocity should have eased.

The perceived state capture and at least temporary oligarch-forming aspect of Latvian politics have prompted questions about possible causes thereof. Several macro factors can be hypothesized, which have supported particularistic allocation and unfairness.

A major presumed factor is **limited political competition** due to Latvia's ethnic cleavage. Political parties in Latvia can be labeled as those of predominantly Latvian speakers and those of predominantly Russian speakers. Ever since the restoration of Latvia's independence, the mainly Russian speakers' parties have been deemed by the parliamentary majority as fundamentally unsuitable for participation in the governing coalition.

The elections of 2006 resulted in 23% of parliamentary seats for the Russian speakers' parties, elections of 2010 – 29%, and elections of 2011 - 31% (Centrālā vēlēšanu komisija 2006, 2010, 2011). Given this *de facto* disqualification of a sizeable share of the parliament, the mainly Latvian speaking parties have been operating in conditions of limited political competition. Every government coalition has known that realistically they could not be completely replaced by an entirely different coalition after new elections. It became obvious again in November 2013 when the Prime Minister Valdis Dombrovskis resigned after a catastrophic collapse of a supermarket roof in Riga killing 54 people. A feasible new governmental coalition consists of the same parties, which formed it before (the *Unity*, the Reform Party and the National Union), with or without addition of the Greens and Farmers Union previously in opposition. The union *Harmony Centre*, which represents largely Russian speaking voters, does not seem to be an acceptable partner for the other parties despite holding 30% of seats. Hence even allegedly corrupt governments in the past almost never had to fear the largely Russian parliamentary opposition. The only viable threats could come from challenger parties, which grew outside of the *Saeima* like in 2002 (the New Era formed by the former president of the Bank of Latvia Einārs Repše) and in 2011 (Zatlers' Reform Party formed by the former President of State Valdis Zatlers). This is a major difference from Estonia where all of the current parliamentary parties (or their predecessors) have had a chance to be in the governing coalition at some time.

From a socio-economic angle, a combination of subjectively perceived **low average income** coupled with high **income inequality** could hamper attempts to control corruption. There are several supposed benchmarks against which a considerable part of the population could feel at relative deprivation – the past living standards (Latvia experienced sharp drops in GDP in 1991-1993 and 2009-2010, both considerably worse than in Estonia (Ivan Kushnir's Research Center), the living standards of geographically nearby wealthy West European countries, and the wealth of the most well-to-do in own society.

No hard data allow one to assess whether the cuts in public-sector salaries in 2009-2010 contributed to more corruption and enhanced particularism in the performance of the public sector. The average monthly gross income among the public sector employees fell from LVL 564 in 2008 to LVL 470 in 2010 (its growth resumed in 2011) (Latvijas Republikas Centrālā statistikas pārvalde 2013). However, survey data on the administrative corruption do not corroborate the hypothesis of worsening corruption following the budget reduction.

Jong-Sung You and Sanjeev Khagram have argued that “the wealthy have both greater motivation and more opportunity to engage in corruption, whereas the poor are more vulnerable to extortion and less able to monitor and hold the rich and powerful accountable as inequality increases. Inequality also adversely affects social norms about corruption and people’s beliefs about the legitimacy of rules and institutions, thereby making it easier for them to tolerate corruption as acceptable behaviour” (You, Khagram 2005). If so, then one of the driving factors of Latvia’s corruption could be its leading place among EU countries in terms of economic inequality. Latvia’s Gini coefficient of equivalised disposable income was 35.9 in 2012, the highest in the EU (32.5 in Estonia) (Eurostat 2013).

Moreover, although the exact relationship between the share of **informal economy** and corruption can be debated, Latvia has been standing out among other EU members with its high share of the shadow economy. Estimated at 27.3% in 2010, the share was the fifth highest among EU countries (on this indicator Estonia was slightly worse with 29.9%) (Schneider 2010). There are many ways in which the sizeable shadow economy could boost corruption in particular and help maintaining particularistic mode of governance in general. Two of the presumably important ways of impact could be the difficulty to control the legality of individual wealth in particular due to the large share of cash economy (and thus making it relatively easy to enjoy corrupt gains) as well as the inability of the state to tax the respective revenues (and thus not being able to mitigate the possible impact of the unofficial economy on inequality).

From the cultural point of view, research has considered **the lack of trust** (Uslaner 2004) and related collective-action problem as possible driving forces of corruption (Persson, Rothstein, Teorell 2012). Eric M. Uslaner puts it bluntly: “To reduce corruption, you need to increase trust.” (Uslaner 2004: 22) Latvia is characterized as a society with low levels of trust

in public agencies in particular and low interpersonal trust in general. In November 2010, 6% of the population trusted political parties (2<sup>nd</sup> lowest in EU 27), 15% - the national parliament (4<sup>th</sup> lowest in EU 27), 20% - the national government (6<sup>th</sup> lowest in EU 27), and 36% - the courts/ judicial system (8<sup>th</sup> lowest in EU 27) (European Commission 2011b: 44, 50-52). In addition, the level of interpersonal trust in Latvian society is rather low. In 2009, 13.1% answered affirmatively to the question if they thought that most people could be trusted (the 2<sup>nd</sup> lowest result among 28 EU members in the 2012 Legatum Prosperity Index) (Legatum Institute 2012). There is again a contrast with Estonia, which appears to have an unusually high level of trust for a post-soviet society.

One could assume in the Latvian case that the average citizen would hardly rely on the main national political bodies as safeguards of his/her interests. The picture seems to give grounds for a hypothesis that the public has a significant incentive to choose selfish strategies vis-à-vis the state (given that the political leaders are mostly not regarded as striving towards the common good). On the other hand, possible shifts towards a more universalistic worldview in the broader public could produce mistrust in the political establishment, which continues operating according to the particularistic paradigm. If so, corruption would be a determining factor for the lack of trust rather than the other way around.

### **3. Struggles for Change**

After regaining independence, Latvia's political elite contained a considerable number of the communist elite members (overall a larger share than that in Estonia) (Lauristin, Pettai 2011: 158; Struberga 2013: 53-54). Not all of the old elite members could be considered automatically corrupt or anti-reform-minded. However, in the early 1990's, few visible anti-corruption champions emerged in either the ruling elite or elsewhere. Later some individuals did undertake anti-corruption efforts, for example, the MP Jānis Lagzdīņš who was commonly credited for the elaboration of Latvia's first comprehensive anti-corruption law (adopted in 1995) or journalists Uldis Dreiblats, Jānis Domburs and Inese Voika who investigated a prominent affair of 3 million lats stolen from *Latvenergo* in 1997. Given the inability of law enforcement bodies of the time to counter serious corruption crimes, these early efforts by and large failed to turn into effective constraints on corruption.

Conditionality associated with accession to the EU and NATO achieved some synergy with the domestic demand for fairer public life. One result was the establishment of the CPCB in 2002. Due to its investigative powers and independence of leaders (notably the former director Aleksejs Loskutovs and long-serving deputy director Jūta Strīķe), the CPCB proved partial success. Early on, the CPCB showed its preparedness to undertake investigations against high-status individuals. Main examples from 2003 were the case of the Minister of

Health Āris Auders who, when practicing as a doctor, had accepted illicit payments (Nedēļa (LNT) 2003) and the case of major suspected fraud in the state-funded digitalization of television in Latvia. Thus already the first year of the CPCB's operation appeared like a breakthrough (Kalniņš, Ķirse 2011: 126-141).

Tensions between parts of the political elite and the CPCB emerged early on and first manifested itself clearly in September 2003 when the parliament turned down the candidacy of Strīķe for the post of the head of the bureau (Voika 2006: 22). In 2004 Aleksejs Loskutovs, already an official of the CPCB, was appointed to the post after he had secretly conversed with Lembergs and Šķēle and apparently was deemed friendly enough (Lase 2011). This proved to be a miscalculation and Loskutovs eventually did his best to shelter the CPCB from interference. The agency dared to take up cases against the mighty People's Party and LPP/LC, which in 2006 used closely connected non-governmental organizations organizing massive paid advertising campaigns to allow the parties to circumvent the pre-election expenditure limit.

The Prime Minister of the People's Party Aigars Kalvītis started verbal advances against the CPCB as early as in 2005; a number of disciplinary proceedings against Loskutovs were initiated (LETA 2005; Stafecka 2008: 46-47). In 2007, the government initiated the procedure to dismiss him. Shortly before the expected decision of the parliament, the first mass mobilization under the slogans of anti-corruption and fairer politics took place, practically organized by *Transparency International – Delna*. Nicknamed the *Umbrellas' Revolution* because of the rainy weather of the time, protest actions brought thousands of people in the streets in October 2007 eventually forcing the government to retract the motion of dismissal. In 2008, a stronger case was made to prove the managerial weakness of Loskutovs and this time he was dismissed without serious protests.

The successor of Loskutovs was Normunds Vīlnītis, appointed in 2009 by a parliamentary coalition deemed to be under oligarch control. Distrust towards him by a large part of the CPCB personnel and breaches of procedures in his attempts to consolidate control over the bureau led to his dismissal in 2011. The dismissal was all the more possible because less than a month earlier the president Valdis Zatlers had initiated the dissolution of the parliament over its failure to lift the immunity against search of premises of Šlesers. The new legislature, elected in September 2011, appeared more supportive to anti-corruption policies (Dreifelds 2012: 330). It appointed the current head of the CPCB Jaroslavs Streļčenoks, an official whose integrity has never been questioned but who has ended up in damaging personality clashes with several of his subordinates including Strīķe. On the whole, despite the struggles, the CPCB managed to make a major push against corruption resulting in numerous serious criminal cases sent to the court.

Apart from the CPCB (and also the Office of the Public Prosecutor General), among Latvia's key champions of change three types of groups seem to stand out. One of them comprises a few civil society organizations, e.g. *Transparency International – Delna* (with the activist Inese Voika as the initiator of the organization and its leader up until now) since 1998 and the Centre for Public Policy *Providus* since 2003 (both with major financial support from the *Soros Foundation – Latvia*). While not large in numbers, such organizations have served as loud voices and advocates for anti-corruption reforms. Particularly noteworthy was their monitoring of the expenses of political parties during pre-election campaigns and advocacy for tightening of financing rules. In addition, sporadic mobilization of larger numbers of people has rendered the public demand for anti-corruption more visible, e.g. in 2007 for the defense of Loskutovs and then in June 2011 against the oligarchs after the proposed dissolution of the parliament (Delfi 2011). Another group of actors comprises a few active anti-corruption media outlets, for example, the public television, the weekly magazine *lr* and until 2009 the daily newspaper *Diena*.

A particular agent of change has been relatively new political elite groups who challenged the dominating elites and raised anti-corruption slogans (with semi-successful delivery afterwards, as did notably the New Era party after the election victory in 2002 with its group of leaders who were either new to politics or on the sidelines of the political decision making during the previous decade or the Reform Party established by Zatlers after it came out the second winner in the extraordinary parliamentary elections in 2011). One can explain the periodical success of such reform-minded parties by the presence of electoral demand for fairer politics, which is not permanent and always dominant but sufficient to power occasional thrusts towards universalism in the party politics.

All of the described developments have created considerable restraints against corruption but their reflection in general corruption indicators has been modest. Mutually comparable national survey data from 1999, 2005, 2007 and 2012 do indicate strong and overall continuous drop in administrative corruption.<sup>3</sup> Meanwhile people's habits change slowly. In 2007, 39.4% of respondents were prepared to give a bribe, down by just a little to 34.7% in 2012 (Latvijas Fakti 2012).

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<sup>3</sup> The data cover the respondents' relations with the road police, health institutions, handling issues in relation to EU structural funds (the only area where the situation has deteriorated), employment in public agencies, receiving of permissions and licenses, handling issues in relation to the real estate, local governments, courts, registration or technical inspection of road vehicles, the State Police, entry into educational institutions, the State Revenue Service, public procurement, customs and handling issues related to passports and residence permits.

## 4. Detailed Diagnosis

**Table 1. Competitive Particularism in Latvia**

	Sources of information/indicators
<b>Power distribution</b>	<p><b>Pluralism with rather diffused power. Political competition constrained by a rigid ethnic cleavage.</b></p> <ul style="list-style-type: none"> <li>Partially free and fair elections in 1990, free and fair elections since 1993.</li> <li>It has been common for particular ruling parties to lose power. However, no coalition has been completely replaced by another mainly because the predominantly Russian-speaking parties were never found acceptable for a coalition.</li> <li>The predominantly Russian-speaking parties have had chances as occasional bargaining partners in the parliament and winners in some municipal elections, most remarkably in 2009 and 2013 in Riga.</li> <li>On the whole, parties have been unstable, established and liquidated out of convenience, with party switching common.</li> <li>Some municipal leaders have been shifting parties following the change of the national governing coalition.</li> <li>Several parties have been deemed gripped by a small number of oligarchic strongmen.</li> <li>Widespread mistrust in main political bodies and perception of political corruption (European Commission 2011b: 7).</li> </ul>
<b>State autonomy from private interest</b>	<p><b>Mixed. Capture by various groups used to be prominent, now less visible. 'Islands of autonomy' have been continuously growing (the CPCB, Prosecutor General's Office, the State Audit Office, etc.).</b></p> <ul style="list-style-type: none"> <li>Past data indicated high levels of the state capture in Latvia, not least because of the dependence of political parties on a few major sponsors. In 2012, 32.2% of surveyed respondents claimed that problems of high-level corruption had worsened (Latvijas Fakti 2012).</li> <li>When governments change, limited changes among professional civil servants do take place. Officials in state-controlled enterprises especially prone.</li> <li>Relatively high level of transparency (e.g. exhaustive and up-to-date information available about the formal decision-making processes in the executive and legislature).</li> <li>Very limited legislative framework for lobbying.</li> <li>Somewhat crude but generally functioning conflict-of-interest management regime.</li> </ul>
<b>Public allocation (services, goods)</b>	<p><b>Both fair and distorted procedures of allocation are frequent. In a few areas, fairness does not seem to be the principle at all.</b></p> <ul style="list-style-type: none"> <li>The media report anecdotal evidence of correlation between businesses' donations to ruling parties and obtained public procurement contracts.</li> <li>A chunk of the state budget is allocated for near arbitrary distribution by MPs, a moderate anti-opposition bias exists.</li> <li>Certain public services, e.g. healthcare appear heavily affected by corruption.</li> </ul>
<b>Separation private-public</b>	<p><b>Slow and gradual change from poor to sharper distinction. The use of public resources for private needs has changed from widely open to largely hidden. The public moral outrage at such practice is commonly seen but with notable exceptions.</b></p> <ul style="list-style-type: none"> <li>Clear legal provisions prohibit the use of public resources for private needs, e.g. the Conflict of Interest Prevention Law obliges officials to use the public property only as prescribed in legal acts (Section 18) and prohibits the use of official information for purposes other than the official duties (Section 19).</li> <li>According to information by the CPCB, employees of local governments commonly used service cars for personal needs (Korupcijas novēršanas un</li> </ul>

	<p>apkarošanas birojs 2012: 11).</p> <ul style="list-style-type: none"> <li>• In 2012, 47 public officials were subject to administrative liability for violating provisions of the Conflict of Interest Prevention Law (down from 81 in 2011). Typical conflicts of interest involve decision making in favour of interests of the officials' relatives (Korupcijas novēršanas un apkarošanas birojs 2013: 10).</li> <li>• Politicians suspected of using public office for personal gain often lose electoral credibility but there are exceptions, e.g. Aivars Lembergs was prosecuted for a range of grave corruption-related crimes (Rulle 2012) but this did not preclude him from winning landslide electoral victories in his city of Ventspils in 2009 and 2013.</li> </ul>
<b>Relation formal/informal institutions</b>	<p><b>The Latvian society has strong traditions of solving various issues informally as opposed to relying on official procedures. The current state varies depending on the sector and situation but generally both types of institutions seem mutually competitive.</b></p> <ul style="list-style-type: none"> <li>• The share of shadow economy estimated at 27.3% in 2010.</li> <li>• For various types of crime the underreporting rate varies between 38% and 3% (Fieldex 2012: 6).</li> </ul>
<b>Accountability and rule of law</b>	<p><b>Certain aspects of public accountability and the rule of law are strong but they are not comprehensive.</b></p> <ul style="list-style-type: none"> <li>• Several high-profile investigations have led to the prosecution of individuals who belonged to chief status groups at the time of beginning of the investigations (Kalniņš, Ķirse 2011: 139).</li> <li>• Whistleblowing is rare with just a few publicly known cases since 2006 (Dupate 2012: 9; Kalniņš 2012; Zone 2009).</li> <li>• In 2012, 45.7% of respondents said they were prepared to report instances of corruption as opposed to 42.1% who said they were not prepared (Latvijas Fakti 2012).</li> <li>• In a survey about actual behaviour, 97% of respondents who had encountered a request of a bribe or additional payment did not report the incident (Fieldex 2012: 31).</li> <li>• In a survey of court clients in 2010, among surveyed lawyers 39% disagreed that argumentation of a court judgment was good enough for them to explain to their clients, 36% disagreed that the judge had equal attitude towards both parties, and 34% disagreed that the judge was impartial to both parties. Among the surveyed non-lawyer clients, 16% disagreed that in general they felt that the court was just (Latvijas Tiesnešu mācību centrs 2011: 13).</li> </ul>
<b>Personal autonomy and collective action capacity</b>	<p><b>Limited collective action capacity and ambivalent attitudes toward corruption.</b></p> <ul style="list-style-type: none"> <li>• The CSO Sustainability Index for Latvia was 2.7 in 2012 (on a scale from 1 to 7 with 1 meaning the strongest sustainability) (United States Agency for International Development 2013: 115).</li> <li>• There were mass gatherings on good-governance issues in 2007 and 2011. However, such activity is sporadic.</li> <li>• In 2008, 65.8% of respondents claimed that they did not participate in any organization (Rozenvalds, Ījabs 2009: 201). This indicates low levels of civic engagement.</li> <li>• Public attitudes toward corruption are ambivalent. In 2012, 35.7% did not mind the state would be deceived because it did not give them anything anyway, 33.4% said that corruption was justifiable if it were not possible to settle a legal issue otherwise, and 18% stated that giving/taking bribes was morally justifiable because everyone does so (Latvijas Fakti 2012).</li> </ul>

### **III. Summary and Conclusions**

Within the typology of governance regimes, which distinguishes between the limited access order and open access order (Mungiu-Pippidi 2011: 10-13), Latvia fits as a borderline case. Traits of pluralism, power sharing, procedural fairness and impartiality as well as the public demand for these values are obvious. However, along virtually all of the relevant parameters there are also major caveats. Struggles for a fairer governance regime have come to resemble trench war-fare, which has not ended with a decisive victory, but rather resulted in a patchwork of rather fairer and rather particularistic institutions, rather impartial processes alongside narrowly politicized processes, a condemnation of corrupt practices in a large part of the society with quite tolerant attitudes not infrequent either.

During the last decade or so, gradual increases in political power sharing as well as improvements of the legal and institutional anti-corruption framework are the main advances. Meanwhile the distribution of material resources, in particular through the public procurement, perpetuates clientelistic social arrangements. In part this may be the case because building institutions such the CPCB or the administrative courts, which act as a restraint on the arbitrariness of the public administration, are relatively easier points for the application of policy efforts than the mundane area of the financial backyards of political parties. In other words, it is easier to adopt new laws and set up controlling agencies than to make sure that unfair collusions between politicians and favored businesses are really disrupted. Meanwhile building of institutional restraints with some credibility is also by no means a trivial task.

Latvia is one of the countries, which used to be under strong international conditionality due to its goals to join the European Union and NATO. The setting up of the CPCB, which proved moderate success, was a direct reaction to international pressures. Also apart from the formal conditionality, Western Europe and the European Union have served as a certain value model for the country's development in some segments of the society and its elites. A common question remains why Latvia did not turn into a widely recognized unequivocal anti-corruption success story like Estonia, a seemingly similar country. By far short of a definitive answer, data reviewed for this paper hint at the greater share of communist nomenclature members in the political elite of the post-Soviet Latvia, permanent exclusion of some opposition parties from eligibility for governing coalitions, heavier economic blows to Latvia and cultural characteristics such as much lower levels of trust as factors that may have contributed to the difference.

One tipping point in Latvia's anti-corruption efforts seemed to occur around the years 2002-2003. The financial crisis of 2008-2010 seemed to trigger another tipping point culminating in the elections of 2011. On the other hand, towards the end of 2013 many fundamental

struggles in the Latvian politics are not settled – including the tug between particularism and universalism.

#### **IV. Results beyond the empirical assessment**

In a relatively democratic and inclusive system, a synergy between international conditionality and values of at least some significant part of the society may result in sustained movement towards the governance regime of open access order.

Rather strong and impartial institutions in some parts of the public sector can coexist continuously with discriminatory patterns of distribution and other demonstrations of particularism elsewhere. A number of seemingly paradoxical indicators can be found within a single society, e.g. sustainable organized civil society and very low general levels of participation, rather high and proven institutional capacity to detect corruption crime and widespread examples of particularistic allocation of procurement contracts.

It is difficult to detect substantial change in the short term. Latvia's changes have been so gradual that decade-on-decade comparisons are much more telling than year-on-year comparisons where significant improvement is rare.

The dominant mode of distribution and other aspects of the relative balance between particularism and universalism are challenging to quantify based on empirical data. Hence it is difficult to avoid subjective assessment. It is also probably appropriate to speak of black boxes, which are found within the visible regulatory and control framework, e.g. what share of party funds go through the official system.

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## Project profile

ANTICORRP is a large-scale research project funded by the European Commission's Seventh Framework Programme. The full name of the project is "Anti-corruption Policies Revisited: Global Trends and European Responses to the Challenge of Corruption". The project started in March 2012 and will last for five years. The research is conducted by 21 research groups in sixteen countries.

The fundamental purpose of ANTICORRP is to investigate and explain the factors that promote or hinder the development of effective anti-corruption policies and impartial government institutions. A central issue is how policy responses can be tailored to deal effectively with various forms of corruption. Through this approach ANTICORRP seeks to advance the knowledge on how corruption can be curbed in Europe and elsewhere. Special emphasis is laid on the agency of different state and non-state actors to contribute to building good governance.

Project acronym: ANTICORRP

Project full title: Anti-corruption Policies Revisited: Global Trends and European Responses to the Challenge of Corruption

Project duration: March 2012 – February 2017

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