



Illicit Networks and Politics in the Baltic States



International IDEA

© International Institute for Democracy and Electoral Assistance (International IDEA), 2013

International IDEA

Strömsborg, SE-103 34 Stockholm, Sweden

Tel: +46 8 698 37 00, fax: +46 8 20 24 22

E-mail: info@idea.int, website: www.idea.int

The electronic version of this publication is available under a Creative Commons Licence Copyright (CC) — creative Commons Attribution-NonCommercial-ShareAlike 3.0 Licence. You are free to copy, distribute and transmit the publication as well as to remix and adapt it, provided it is for non-commercial purposes, that you appropriately attribute the publication, and that you distribute it only under a licence identical to this one. For the full conditions of this CCI, see: <http://creativecommons.org/licenses/by-nc-sa/3.0/>

International IDEA publications are independent of specific national or political interests. Views expressed in this publication do not necessarily represent the views of International IDEA, its Board or its Council members.

Design by: Turbo Design, Ramallah

Cover image: ©2013 [Curtis Parker]c/o thespot.com

Printed in Sweden

ISBN: 978-91-86565-95-4



Illicit Networks and Politics in the Baltic States

Santiago Villaveces-Izquierdo
Catalina Uribe Burcher



Institute for Security &
Development Policy

This report is based on the main findings of a joint project implemented by International IDEA and the Institute for Security and Development Policy (ISDP).



Preface

It is a known fact that transnational organized crime represents one of the most pressing international security threats. Less attention has been given to how it is hollowing out democracy in all regions of the world and to the fact that it is one of the major challenges to democracy today. The world is witnessing a growing threat from transnational illicit networks to the legitimacy of democratic institutions and political processes in both emerging and established democracies.

Transnational organized crime networks exist in countries with a long tradition of institutional development, such as Colombia, as well as in countries which are fragile, such as Guatemala or Haiti. They exist in post-communist countries, now members of the European Union (EU), such as the Baltic states and Romania. They exist in relatively new democracies in West Africa, and in well-established democracies, such as Italy. They may lead to the effective takeover of states by illicit drug networks, controlling political institutions, political parties and candidates—and, in the process, obliterating the voices and demands of ordinary people.

The illicit financing of political campaigns is a well-known and major concern. However, it is only the tip of the iceberg of more complex, systemic and deeply-rooted linkages between segments of the political sphere and the darker side of globalization. Criminal networks are shifting the playing fields at local and national levels by altering electoral behaviour through the displacement and intimidation of voters. They are establishing legitimate political parties that further their interests in legislative bodies at regional and national levels. They distort governance, security and financial architectures through money laundering, violence and illicit trade in drugs, humans and weapons. Criminal networks may, in some cases, function as an extension of political competition; in other cases they may use politics to start tinkering with democratic institutions to their own advantage.

Protecting Legitimacy in Politics is a unique global initiative led by International IDEA, starting with a focus on Latin America and the Baltic states. For the first time, the extent to which transnational organized crime has impacted on democratic politics is being examined and key challenges and insights are being derived from country experiences. Through in-country dialogue at local, regional and national levels, both the threats and policy responses to this threat have been identified, with some key insights emerging which will strengthen the basis for tackling these challenges.

This particular publication focuses on how illicit networks have impacted on politics in the Baltic states. Since the admission of the Baltic states to the EU in May 2004, Latvia, Estonia and Lithuania are now part of the EU's easternmost frontier and are being used as transit and destination countries for goods being smuggled in and out of the EU. The recent economic downturn has also created opportunities for illicit networks both within and outside these countries.



Steps have been taken in the Baltic countries to curb the influence of illicit networks in politics. However, attempts to construct healthy and transparent democratic systems face numerous challenges, including the geopolitics of the region and the fact that small countries lack power leverage. In addition, relationships between politicians and members of illicit networks are often forged in childhood, making it harder for law enforcement agencies to differentiate between legitimate and illegitimate associations. Several other challenges are also clear—the need to work with the influence of illicit networks on politics at the local level; the regulation of political party finance and its enforcement; the framework, regulations and practices around public procurement; and, very significantly, the independence of the media.

In June and August 2012, International IDEA, the Institute for Security and Development Policy (ISDP) and the George C. Marshall European Center for Security Studies held a series of national and regional dialogues in Latvia, Estonia, Lithuania and Germany as part of the *Protecting Legitimacy in Politics* initiative. Research was also conducted in 2011 and 2012 by International IDEA and ISDP that shows how difficult it is for law enforcement agencies to identify criminals who have moved from old stereotypes into a more sophisticated, and seemingly more legitimate, way of conducting business and politics.

This report presents the main findings of this research into illicit networks in the Baltic states and highlights some key insights into the nature of this problem. It fills an important gap in building up knowledge of how these networks impact democratic politics and pointing towards ways in which this might be addressed.

Combating the threat to democratic politics posed by transnational organized crime requires an urgent revision of policies and legal frameworks at national level. It also requires concerted action by the international community—countries, civil society, global and regional organizations—to safeguard the legitimacy of political processes and allow democracy the space to grow.

Vidar Helgesen
Secretary-General
International IDEA



Acknowledgements

The background research and national and regional dialogues on which this report is based would not have been possible without the support and contributions of numerous individuals and organizations. Special acknowledgements go to our partner organization, the Swedish Institute for Security and Development Policy (ISDP), who were instrumental in ensuring our appropriate presence in the region. In particular we are grateful for the contribution and assistance of ISDP staff members Alexandru Molcean, Walter Kegö and Erik Leijonmark. Many thanks go to our national researchers and contributors: Dr Arturas Petkus, Associate Professor, Law Faculty, Mykolas Romeris University in Lithuania; Dr Palomaa Tupay, Advisor, Ministry of Justice of Estonia; Dr Artis Velšs, Director, State Police College, Latvia; and Dr Andrejs Vilks, Dean of the Law Faculty, Riga Stradins University, Latvia.

A special acknowledgement goes to the George C. Marshall European Centre for Security Studies, and in particular to Lt. Gen. Keith Dayton, Lt. Col. Michael Ebersbach, and K. P. Haueter for the organization and financial support of a regional dialogue in Garmisch, Germany.

We extend our deepest appreciation to our colleagues Lotta Westerberg and Nadia Handal Zander for overseeing the production of this report, as well as to our administrative assistant Valeria Virzi and our two interns Kimberley Roessler and Audrey Wong. We also thank our peer reviewers Ivan Briscoe, Senior Research Fellow at the Conflict Research Unit, Clingendael Institute; Dr Artis Velšs, Director, State Police College, Latvia; and Elin Falguera, Nana Kalandadze and Julian Smith, at International IDEA.

Contents

Background	8
Context	11
Policy frameworks	15
Estonia	16
Frameworks regulating the behaviour of politicians and state officials	16
Frameworks regulating the behaviour of political parties, election coalitions and independent candidates	18
Latvia	19
Frameworks regulating the behaviour of politicians and state officials	19
Frameworks regulating the behaviour of political parties, election coalitions and independent candidates	21
Lithuania	22
Frameworks regulating the behaviour of politicians and state officials	22
Frameworks regulating the behaviour of political parties, election coalitions and independent candidates	24
Policy challenges: insights from the field	25
First insight: relationships between crime and politics are functional, not ideological	25
Second insight: relationships between crime and politics thrive on close-knit social and economic ties	26
Third insight: politics as business, a doorway for criminalization	26
Fourth insight: international dynamics shape the nature and extent of the relationships between crime and politics	27
Stakeholders' responses	29
Short-term options	29
Revisiting existing policy frameworks	29
Protecting the role of legitimate civil society organizations	29
Strengthening the role of intergovernmental organizations	30
Long-term strategic options	30
Politicians—key enablers	30
Sovereignty revisited	30
Out-of-the-box strategic thinking	30
References	32
Acronyms and abbreviations	38
Annex I: Research methodology	39
Annex II: About International IDEA	40



Background

During the last ten years we have witnessed the increasing capacity of transnational illicit networks to threaten legitimacy in both emerging and established democracies (Allum and Siebert 2003; Findlay 2008; Wilson and Lindsey 2009; Mandel 2010). These networks have affected democratic institutions and political processes in countries with a long tradition of institutional development, such as Colombia and Mexico, as well as in countries considered fragile, such as Guatemala or Haiti; in post-communist countries—now members of the European Union (EU)—such as Estonia, Latvia and Lithuania; in relatively new democracies such as Ghana and Liberia; and in European democracies, such as Italy.

While transnational illicit networks contested and challenged state institutions and legitimate political processes through violence and intimidation, more organic and subtle relationships have been developing in the background. Beyond the illicit funding of political campaigns, corrupt politicians have linked with illicit networks in legitimate business and economic ventures, in money-laundering schemes that transcend nation-state boundaries, and in establishing new political parties and movements. This criminalization of politics is not unique to weak and fragile states but a reality that is affecting established democracies within Europe and beyond, challenging in ever more present and novel ways the development of democratic politics around the globe. Even though there is expertise on organized crime as such, as well as on democratic practice, there is a gap in specialized knowledge that connects these two issues; that is, that identifies and explains the modalities illicit networks and political actors are using to engage with one another.

The International Institute for Democracy and Electoral Assistance (International IDEA) has been promoting international policy discussions aimed at addressing this gap, in particular the problem of illicit financing of political parties. In 2009, International IDEA hosted a Democracy Round Table with several Mexican institutions on the topic of Illicit Funding in Politics, which resulted in the report 'Democracy at Crossroads: The Challenge of Illicit Finance in Politics' (International IDEA 2009). In addition, International IDEA recently launched a database on political finance that includes laws from 180 countries and can be used to compare provisions across countries and regions (<<http://www.idea.int/political-finance/index.cfm>>).

Recognizing that the problem extends beyond the illicit financing of political parties, in 2011 International IDEA jointly hosted an international seminar with the Center on International Cooperation at New York University (CIC-NYU) and the Netherlands Institute for Multiparty Democracy (NIMD) on the topic of Organized Crime and State Capture. The seminar brought together investigative journalists, politicians, researchers and analysts from both Latin America and Africa. This event highlighted the need for evidence-based policy and programming through empirical in-country documentation in order to avoid broad or oversimplified conceptualizations and instead provide support towards more effective policy design and implementation.




In order to promote synergies with similar initiatives, International IDEA held a series of meetings in late 2011 with key organizations specialized in this field, including Transparency International (TI) and the Financial Action Task Force (FATF), and culminating in a high-level consultation in Stockholm in November 2011. This involved experts from: the Organisation for Economic Co-operation and Development - Development Assistance Committee (OECD-DAC); the Organization for Security and Co-operation in Europe (OSCE); the World Bank and the US Department of State Bureau of International Narcotics and Law Enforcement Affairs; research institutions and think tanks such as the Kofi Annan International Peacekeeping Training Centre (KAIPTC), the Institute of Peace and Conflict Studies (IPCS) and the Swedish Institute for Security and Development Policy (ISDP); non-governmental organizations (NGOs) such as the Network for the Affirmation of the Non-Government Sector (MANS) in Montenegro and Corporación Nuevo Arco Iris from Colombia; global civil society organizations such as the Tax Justice Network; and investigative journalists such as the members of the Flare Network.

During the same period, the Global Commission on Elections, Democracy and Security—made up of former world leaders, Nobel Prize winners and leading academics—carried out research and issued a report analysing the principal threats to electoral integrity. On the issue of the impact of illicit networks, the Commission found that ‘while general political finance regulation at the national level is an important instrument for fighting organized crime’s use of political finance as a means of protection and influence, it is not enough. The penetration of transnational organized crime into mainstream politics, and its ability to move finance across borders illicitly, require regional and international efforts to contain it’ (Global Commission on Elections, Democracy and Security 2012: 31).

The outcomes of the Stockholm consultations led International IDEA to design a three-pronged programme to address the criminalization of politics by generating empirical knowledge on its extent and modalities, documenting the existing regulatory frameworks that restrict and punish the illicit behaviour of politicians, and facilitating policy debates with decision makers at national and regional levels. Launching such a programme in the Baltic states is meant as a recognition that the links between illicit networks and politicians are not exclusive to failed states but are also found in countries on a promising path towards fully-fledged democracy, with promising economies that abide by the rules of the European Union.

This report documents a process that combined fieldwork research and policy analysis with national and regional policy dialogues with legislators, regulators and regional organizations. Fieldwork involved extended interviews with senior government and law enforcement officials, parliamentarians, members of political parties, academics, journalists, members of the intelligence community, civil society organizations, and members of national and international NGOs and think tanks working in the region. The nature and confidentiality of the research do not allow specific details and sources to be disclosed. The national and regional policy dialogues brought together legislators, regulators and regional intergovernmental organizations canvassing ways to prevent and mitigate increasing illicit activity in politics in the region.



The first section of this report provides an overall contextualization of the region while emphasizing how the links between crime and politics have been shaped over the last 20 years. The second section offers an overview of the existing policy frameworks in each country that limit the illicit behaviour of politicians and political parties. The third section highlights the major policy challenges that ongoing judicial investigations into the criminalization of politics in the region are unveiling. The fourth and last section documents stakeholders' responses to both fieldwork and policy analysis, in particular as they outline a two-pronged path towards more comprehensive and proactive strategies to curb the influence of crime over politics in the region.

Context

At a news conference in September 2007 Latvian Prime Minister Aigars Kalvitis made a daring statement: 'Organized crime in Latvia is made up of former members of the special services, former Afghan war participants, former State Security Committee staff, politicians and members of criminal organizations'.¹ Four years later, Latvian President Valdis Zatlers announced the dissolution of the country's parliament after it rejected the Corruption Prevention and Combating Bureau plan to search a house belonging to MP Ainars Slesers, a well-known businessman-politician suspected of corrupt dealings. The political significance of these events extends beyond their time frame as well as beyond the country's national borders.


In 1991 Estonia, Latvia and Lithuania gained independence from the Soviet Union and began their path as sovereign democratic nations. These processes have been shaped by a struggle with the issues raised by both Kalvitis and Zatlers. Indeed, in all three countries the legacy of the former KGB² within governance institutions and political bodies, the institutionalization of illicit networks and of favours and demands from them, and the use that politicians have made of both, mark a constant tension between the requirements of clean democratic politics, justice and the rule of law, on the one hand, and a situation in which politicians who control areas of illicit activity also have influence over justice and law enforcement. Over time this tension has played out differently in each country, sometimes resulting in proactive engagement, at other times in a denial of the extent and impact of the problem. Despite these enormous differences, over the last 20 years the relations between crime and politics in all three Baltic states have been shaped by two milestones that they have in common: the post-independence development of democracy, including reconstruction of institutions and the economy; and accession to the EU in May 2004.

The years that followed independence were shaped by power-holders from former Soviet times reinventing and repositioning themselves as economic tycoons and movers and shakers of new political parties. The rise of the oligarchs in the Baltics as a distinct elite merging economic and political power, while it was triggered by the movement from command economy to market economy, did not show the same intensity of deprecation as it did in other post-communist countries (Huang 2002). Nonetheless the merging of economic and political power has shaped the political process since early post-independence days. Cash restrictions and hollowed-out state institutions, together with the urgency of starting a process of privatization, created a suitable environment for politicians and public officers from the nomenklatura to seek alliances with Russian organized crime.

Predatory politicians wanting greater power and wealth saw unique potential in the privatization process. At the same time, Russian organized crime sought new opportunities in the post-Soviet nations as they opened up an uncontrolled territory with no competition, and with the promise of extraordinary profits in illicit businesses and markets (smuggling of goods,

¹ The Baltic Times, Kalvitis: Rogue Agents on the Loose (27 September 2007), available at <<http://www.baltictimes.com/news/articles/18924/#.UpcAIsTktH0>>, accessed 27 November 2013

² Komitet Gosudarstvennoi Bezopasnosti (KGB), or Committee for State Security.



prostitution, contract killings, extortion and drugs). The merging of both politicians and organized crime interests came from what has been referred to as the 'criminalization of the privatization process' (Fituni 1993). At the national level, large-scale financial manipulation, embezzlement and financial fraud played a significant role in the distribution of former state assets and reflect the extent of the alliances forged between emerging businessmen-politicians and the hierarchical structures of Russian organized crime. At the municipal level, the high profits from the smuggling of persons, cigarettes, alcohol, oil and food, in conjunction with the political appetites of both local elites and criminals, paved the way for variations in the extent and depth of the criminalization of local governments, in particular those along the porous eastern borders.

During the 13 years between independence and accession to the EU these functional relationships between illicit activity and politics expanded most significantly alongside the financial industry. With ownership of strategic economic sectors, including maritime harbours and energy distribution, banking became a key asset to control as it ensured streamlined mechanisms for capital flight, unregulated currency exchange markets and money laundering. As the banking system became more sophisticated it ensured enough guarantees for foreign capital flight from Russia to Baltic banks. The liquidity that this produced in the economy also served as a buffer against crisis and helped to keep afloat otherwise very weak currencies; for example, Riga's financial services at the time compared in sophistication to those offered by offshore banking in the Bahamas (Shelley 1995: 347).

As years passed, the predominance of Russian organized crime shifted. New local illicit networks emerged and the relations between crime and politics at municipal levels on the eastern borders became more of a home-grown mix of criminals-turned-politicians and politicians-turned-criminals who monopolized smuggling routes, access to local state-owned warehouses and properties, local contracts and local bureaucracies. At the national level other shifts were also taking place reflecting a wider dynamic triggered during the first months of post-Soviet Russia. With the collapse of the Soviet Union, incarcerated members of illicit networks in the Central Asian republics were released. The reorganization of these networks challenged the dominance of Russian organized crime over transnational smuggling routes, making them the new interlocutors and international partners of local Baltic networks, as well as the new business partners of local politicians (Shelley 1995).

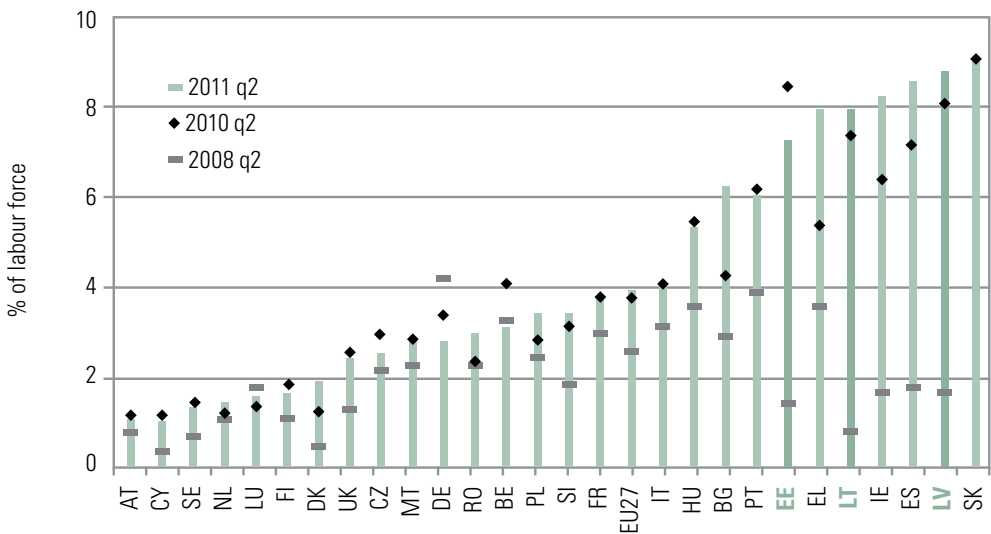
The accession of Estonia, Latvia and Lithuania to the EU in May 2004 changed the geopolitical significance of the Baltic region. Not only were the borders of the EU with Russia and the Commonwealth of Independent States (CIS) bloc redefined, but so also were the comparative advantages that the three Baltic countries offer for organized transnational crime: the exit/entry ports for the transit of illicit goods between east and west moved from Germany, Austria and Italy to Latvia, Lithuania and Estonia in the north. The implications of this shift are multiple and include different strategies adopted by transnational organized crime networks to position themselves in the forefront of new market possibilities in the Baltic states: increase investment in legal businesses; increase use of the local banking industry to facilitate money-laundering schemes; increase their physical presence; take advantage of a favourable regime for residence permits for foreigners; and expand the modalities for cooperation and partnership with corrupt politicians. These

changes were reflected in a drastic reduction of violence in the region, signalling a shift among organized crime networks to what an Estonian researcher refers to as project-based operations highly integrated with legal business activities (Kegö and Molcean 2012: 66). This new landscape further benefited from the 2008 financial crises as it severely crippled the nascent economies in the Baltic states, with drastic drops in gross domestic product (GDP) and significant spikes in unemployment.


As with the accession to the EU, the financial crises paved the way for new opportunities for organized crime investments in the region, as well as for a deeper encroachment into the economic and political fabric. Investments in undervalued legal businesses ensured not only capital returns in the medium and long term but also expedient ways of laundering money and diversifying risk: the wave of business expansion moved beyond financial services to real estate, construction, energy supply chains, freight, private security, the food processing industry, retail and pharmaceuticals (anonymous interviews, Riga, Tallinn and Vilnius 2012; Vilks 2012). These investments were often accompanied by the purchase of satellite businesses that were bled out and later filed for bankruptcy (a recent alleged example of such a tactic was seen in 2012 with Air Baltic). At the same time other opportunities were opening up for organized crime: the increases in value added tax (VAT) to counteract an increasing public deficit resulted in wider profit margins for smuggled goods, in particular alcohol, tobacco, retail and oil, as well as an opportunity to attract a wider base of unemployed youth to the rank and file of illicit actors (Shelley 1995: 236; Kegö and Molcean 2012).

The toughest days for the Baltic economies seem to be over as all three countries have shown slight growth rates in the last two years, but unemployment figures still linger at between 11.5 per cent and 15.5 per cent (see Figure 1).

Figure 1: Long-term unemployment rates for EU member states



Source: Eurostat, Labour Force Survey. Data non-seasonally adjusted.



The composition of GDP is dominated by the service industries, with banking taking a large share. In terms of organized crime-related activities, the recent shifts have made the Baltic states an important redistribution hub where goods and funds are re-routed to networks and operations in Israel, the UK, the US, Spain, Italy, Austria, Germany, the Netherlands, France, Cyprus and, more recently, Colombia and Mexico.³ With organized crime networks investing aggressively in legal businesses in the region, and forming companies with boards of directors who have strong ties to the political and financial spheres, the tracing of relationships between crime and politics is more daunting. History has shown that reductions in violence do not necessarily happen because the initiators or perpetrators of violence have vanished, but may rather reflect a settlement offering market and territorial control that does not need to be achieved through war. Similarly, positive anti-corruption indicators do not necessarily mean that the connections between public office and illicit networks have been reduced, but rather that the places under observation are now less often the ones used to forge these relationships.

Overall, major challenges persist in the Baltic countries that jeopardize attempts to construct healthy and transparent democratic systems. The first is the geopolitics of the region and the fact that small countries lack power leverage.⁴ The influence of powerful neighbours such as Belarus and Russia, combined with the voracious appetite of transnational illicit networks, overexposes the politics and economies of Latvia, Lithuania and Estonia to forces and dynamics that are well beyond their control. Energy politics have led to coercion and blackmail by Russia, the more so as all three countries depend solely on Russian gas and oil. Russian investment is also an important component in their economies, in particular in the areas of banking and real estate. An overexposure to Russian capital may also contribute to additional economic vulnerabilities, especially when a high percentage of such investment is suspected to be of dubious origin. Finally, and perhaps what most concerns the exposure of politics to illicit activities, are the political vulnerabilities present throughout the last 20 years. The political systems in all three countries need to strengthen their regulatory frameworks and standards for political accountability and political responsibility. These institutional weaknesses, combined with an acute political fragmentation (a large number of small and weak political parties) and what some call a commercialization of politics (Grigas 2012) (non-transparent party financing, corruption, lobbying, and the dependence of politicians on legal and illegal business interests), make the overall system in all three countries susceptible to outside influence, in particular from powerful third parties disguised as political sympathizers or lobbyists.

³ See as illustration the Erik Vanagels transnational money laundering scheme at <<http://economiccrimeintelligence.wordpress.com/2012/01/20/the-vanagels-connection-the-story-of-the-homeless-billionaire/>> and <<http://economiccrimeintelligence.wordpress.com/2012/02/23/erik-vanagels-trademark-the-extent-of-a-money-laundering-supermarket/>> (see also Cheloukhine and Haberfeld 2011: 169–77).

⁴ For an overall analysis of the last 20 years in the Baltic states, see Kramer 2012.



Policy frameworks

In its latest recommendations, the Council of Europe's Group of States against Corruption (GRECO) Secretariat urges Estonia and Latvia to sharpen their corruption prevention policies concerning members of parliament, judges and prosecutors (Council of Europe, Group of States against Corruption 2013). This statement (and the statement regarding Lithuania is expected to be similar when the Lithuanian report is made public)⁵ signals the persistence of the issues of corruption and political vulnerabilities as well as the regional awareness of such challenges. To contextualize this regional call for more proactive reforms, a closer look at the distinct policy options that each country has been favouring highlights the advances made and the challenges to date. The analysis of the policy frameworks that follows hones in on the existing regulations that limit the illicit behaviour of politicians and political parties. Legislation, judicial decisions and interpretations, interviews, expert legal articles and databases, including International IDEA's Political Finance Database <<http://www.idea.int/political-finance/index.cfm>> were reviewed for this report. A comprehensive set of available tools—constitutional provisions, legal regulations, executive decrees—is presented for each country, together with the implementation challenges faced—lack of political will, inadequate allocation of resources, lack of comprehensive inter-agency coordination, and third-party tampering.

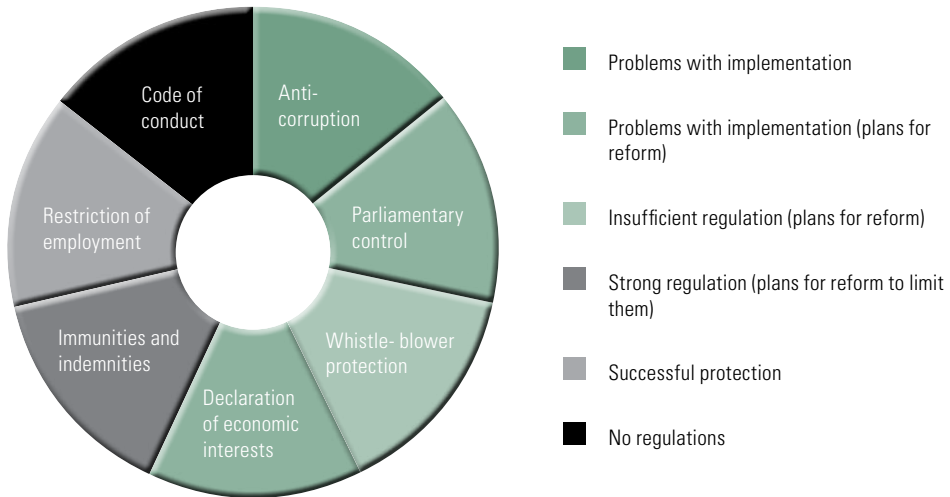
The analysis of these provisions in each country is divided into (a) regulations targeted at the behaviour of politicians and state officials, and (b) regulations targeted at the behaviour of political parties, election coalitions and independent candidates. It is hoped that this distinction will make it easier for readers to differentiate among the various policies in place, given that most of them focus either on individuals in a position to hold public interests (namely active politicians and state officials) or political parties and other entities (and sometimes individuals, i.e. candidates) involved in the democratic life of a country, especially during elections. Some provisions, however, deal with both individuals and entities. In addition, in each section the reader will find a figure representing the legal provisions and their level of development or implementation. This should assist the reader in sorting out the various legal tools that the country has enacted, but a more detailed explanation of each provision is provided under the graphic.

⁵ At the time the research was conducted, this report had not been published.

Estonia

Frameworks regulating the behaviour of politicians and state officials

Politicians



Overview

In Estonia, the provisions that regulate the behaviour of politicians and state officials have advanced considerably since independence, and continue advancing as the country further aligns its legal and policy frameworks to the recommendations of the EU, thus improving the prevention, mitigation and punishment of potential relations between these officials and organized crime. However, there still exist a number of challenges to further increasing this capability, related to both the regulations and the authorities and institutions charged with implementing them.

Weak or inexistent regulations

Provisions needing to be created, reinforced or modified include the code of conduct for public officials, protection for whistleblowers, the anti-corruption strategy and the criminal code. In particular, there seems to be a vacuum in the regulatory framework in terms of the behaviour of politicians in public office, as well as in the provision of protection for whistleblowers. In response, the draft Anti-Corruption Act intends, among other things, to (a) strengthen provisions regulating the declaration and disclosure of assets, (b) increase parliamentary resources for implementation of the Anti-Corruption Act, and (c) expand the definition of people who are obliged to declare assets, including all property ‘in active use’. The new draft also considers an overhaul of the criminal code, especially in reducing gaps and loopholes that undermine legitimate lobbying practices and create opportunities for illegitimate lobbying.



Moving backwards

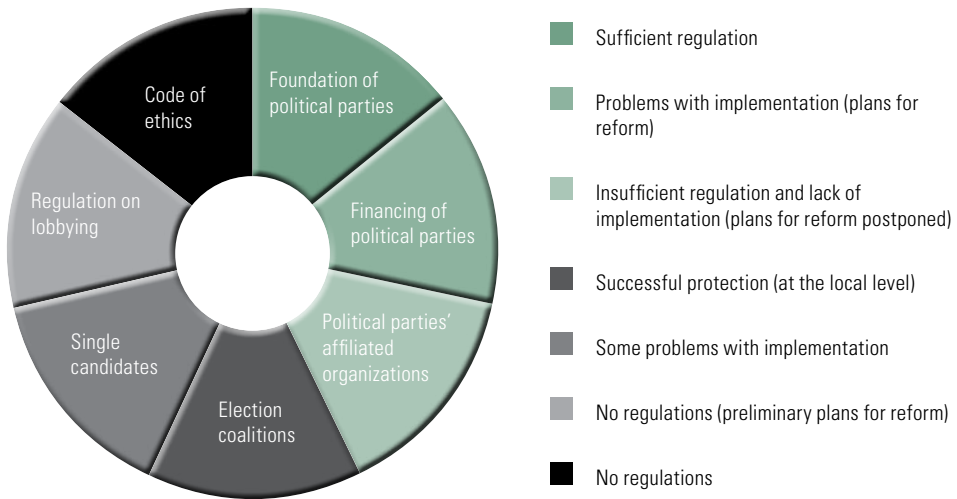
Recently a counter-reform movement has promoted amendments that actually restrict the effectiveness of the existing frameworks regulating the behaviour of politicians, in particular concerning immunity and indemnity. As the Code of Criminal Procedure stands today, the Security Police Board and the Prosecutor General's Office can conduct searches against public figures without the prior consent of parliament, the Ministry of Justice or the president, thus protecting criminal investigations from political tampering and effectively upholding the criminal liability of politicians. However, in April 2012 the parliament voted to review parliamentary immunity from prosecution, including criminal proceedings, as well as immunity from surveillance by law enforcement agencies in cases subject to a criminal investigation (Rikken 2011; Tammik 2012). This revision aims at reducing the powers of the police and prosecutors in those cases where immunities apply.

Institutional challenges

There are a number of challenges concerning the capacity of the implementing agencies, in particular the Security Police Board and the Prosecutor's Office. The Security Police have no access to the Central Bank database so accessing financial information on suspects is particularly cumbersome as it involves requesting information from over 18 financial institutions. In addition, the independence and impartiality of the Security Police are under scrutiny, in particular after a recent investigation into the leading opposition parties, which many found unjustified and disproportionate (Kaukvere 2012). This in turn has prompted an ongoing political debate on the need to amend the regulations governing the Security Police Board (Berendson 2012). At local level, the shortcomings of the Security Police have been corrected with the creation of a new Anti-corruption Bureau, but the challenges persist as the Security Police still operates in the six biggest cities of the country.

Frameworks regulating the behaviour of political parties, election coalitions and independent candidates

Political organizations and candidates



Overview

The regulation of political organizations and candidates in Estonia, like the rest of the legal spectrum, has evolved considerably over the last 20 years with the return of the country to democracy. Some of the most interesting developments include the prohibition of coalitions since 1990. This measure was implemented with the intention of enhancing political accountability and strengthening the formation of large, uniform political parties. In 2002, the parliament wanted to pass analogue amendments at the local level, but the minister of justice intervened and stated that these provisions would constitute a disproportionate constraint on the right to be elected and would decrease the capacity of local residents to influence local politics and decision making. In 2005, the Supreme Court's judgement agreed with the minister of justice's evaluation.

Lack of implementation

The Political Parties Act (Draft Act 144 SE I) is vague in many of its definitions, and is weakest in those governing the regulation of party affiliate organizations such as youth groups and private foundations. Such vagueness has impeded the actual registration of all party-affiliated groups and associations, hampering the adequate control of those supporting the parties.

Political party financing control

One of the most controversial topics regarding political parties is their financing, as numerous scandals have highlighted the challenges in controlling this. In May 2012 the Estonian



Liberal Party (Reformierakond) received donations from unknown donors through a party member (Meikar 2012), including legal persons (something that is prohibited under current legislation) (Rikken 2012b). Other examples include the 2007 ‘buying the law’ scandal, in which one of the biggest businessmen in Estonia donated considerable amounts of money to several political parties while he was building a power plant for renewable energy sources. After the construction was completed, a bill was passed granting subsidies to companies like the one he owned, raising suspicion of potential corrupt practices. These cases have evidenced the reduced power and lack of capacity, resources and independence of the Political Party Funding Supervision Committee (Koppel 2012).

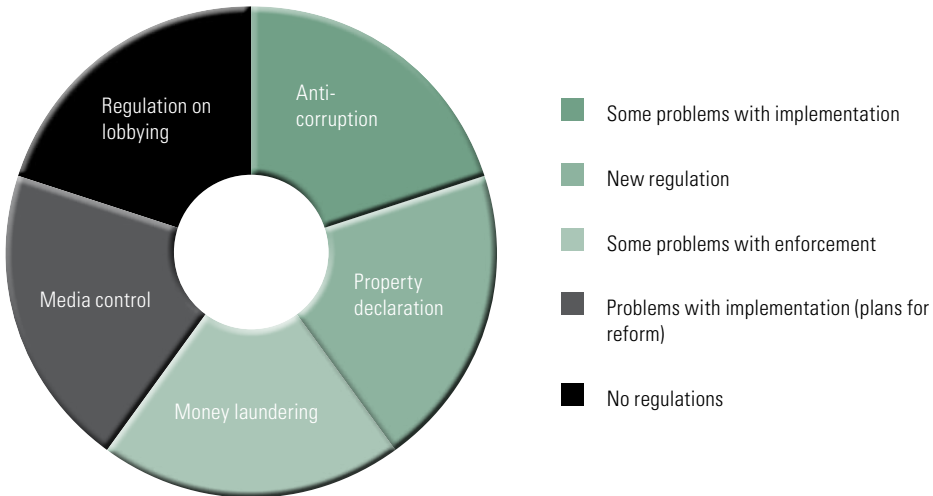
Private vs public interests

Several of the existing regulations do not draw clear distinctions between private and public interests. Of particular concern are the lack of regulations on lobbying, and the lack of democratic governing principles within parties. In both cases, private motivations are still dressed up as public interest, undermining a transparent and accountable exercise of political deliberation and decision making.

Latvia

Frameworks regulating the behaviour of politicians and state officials

Politicians





Overview

In Latvia, like other Baltic states, corruption is one of the most acute problems within the party system. Indeed, political parties are seen as the most corrupt public institutions in the country (Transparency International 2010). Despite this, in the run up to the 2010 parliamentary elections, the topic of combating corruption was not raised in the pre-election period. This started changing after 2011, especially when the country's president, Valdis Zatlers, proposed a referendum that resulted in the dissolution of parliament. This decision was motivated by the growing unpopularity of the parliament which was seen as an impediment to criminal investigations involving some high-level politicians. These events encouraged debate about corruption and the potential political influence of the so-called 'oligarchs', and in July 2011 amendments were approved in order to introduce criminal liability for large-scale violations of party funding regulations under the criminal code. The Law on Property Status and Non-Declared Income of Physical Persons, approved after many years of discussions and delays (Kasjauns 2011), is another achievement, though there are likely to be many challenges to its implementation (FinanceNet 2011; Ventspils City Council 2011).

Lack of independence

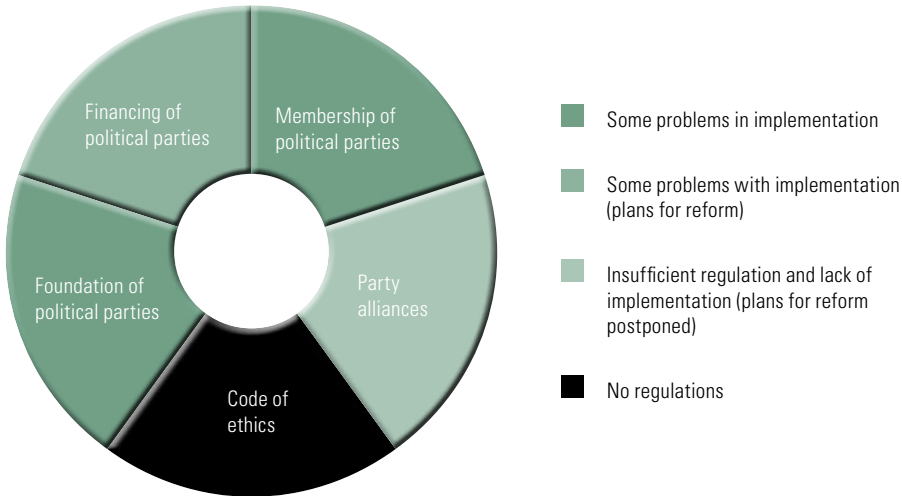
A persistent challenge in Latvia is the lack of independence of legislators. Some reports have highlighted the country's vulnerability to 'state capture' and excessive influence on the legislative process by business interests (Delna 2012: 45–148; Rusu 2010: 5–15). Another issue is the lack of qualified personnel in the State Audit's Office and the risible fines when a designated non-financial institution violates due diligence guidelines for customers (including politicians), as the potential financial gain for the institution is much higher than the fines. In addition, the State Revenue Service has been criticized for lacking a centralized information system in which all of the agencies and their respective subdivisions pool their knowledge, for poor intelligence sharing between competent agencies and for inadequate training of personnel.

Ownership of mass media

The work of investigative journalists in following cases of corruption is fundamental to making sure that external interests do not influence the work and independence of politicians and state officials. However, there is a systemic challenge to the media's ability to highlight cases of corruption and put pressure on authorities to respond. It is rooted in what has been called the 'media capture' scandal. A well-known group, locally regarded as the country's main oligarchs (wielding both economic and political power), have been accused of combining efforts to obtain majority shares in the most prominent media outfits—a move that has raised concern in parliamentary commissions and prompted the promotion of new legislation requiring disclosure of the real media owners.

Frameworks regulating the behaviour of political parties, election coalitions and independent candidates

Political organizations and candidates



Political party weaknesses

The regulations for establishing and joining political parties in Latvia have matured considerably since independence, but many issues remain and continue to emerge. Party formation commonly happens just prior to elections, and shortly afterwards the newly formed parties are dissolved; this is particularly common in local elections. Even though by the end of 2011 there were 58 political parties and their alliances registered, during the extraordinary election for the 11th parliament (Saeima) in September 2011, only 13 parties and their alliances participated (Central Election Commission of Latvia 2011). Many of these parties are suspected of being ‘artificial’ parties, created to obtain public funds without having significant numbers of real members. Therefore, there is currently a proposal to extend the powers of the Office for the Registration of Enterprises (currently in charge of checking that the requirement of a minimum of 200 members is met) to monitoring them annually.

In addition, membership in political parties is particularly cumbersome as many parties require their potential members to have personal recommendations from active party members (Rusu 2010; Institute of Social and Political Research 2005). Moreover, political parties are not compelled to develop internal standards of ethics—something that could block the potential influence of illicit groups or individuals in the parties. Even when parties have such internal standards, enforcement is often hampered by the lack of internal regulations that guarantee external supervision and accountability (Indriksons 2003). The current structure and functioning of political parties in Latvia are such that there is little incentive for the public to participate in parties, particularly since they lack transparency in their decision-

making processes, have weak institutional structures, and allow only minimal involvement of members in the functioning of the party (Delna 2009). This is particularly acute in local elections when decisions are taken by a handful of individuals with the final say resting with the party leader (Stafecka 2009).

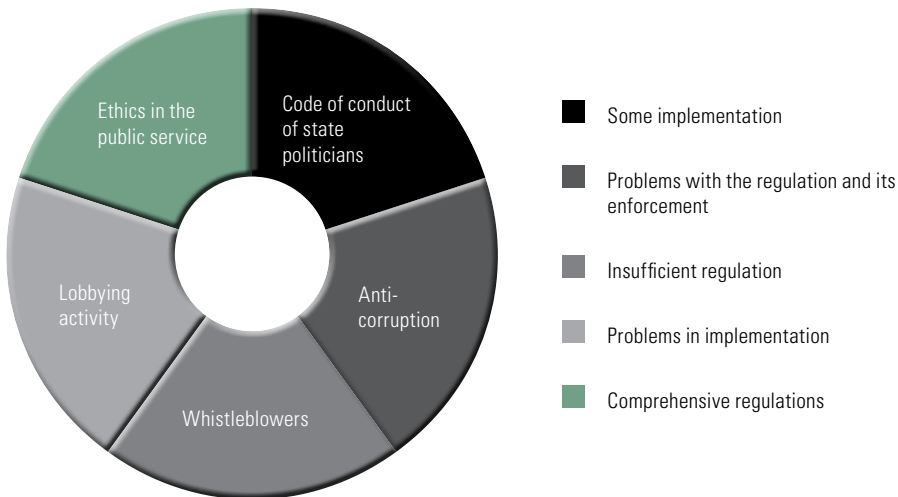
Political party financing

Despite the challenges, tighter supervision by the Corruption Prevention and Combating Bureau (Korupcijas Novēršanas un Apkarošanas Birojs—KNAB) has resulted in fewer violations by parties of the spending rules (Kažoka 2012). In addition, corruption and illegitimate political tampering by external interests have been somewhat curbed by improved party finance regulations. Today, party financial declarations are more transparent, with requirements for detailed pre-election, election and annual party declarations, and a cap on donations. Latvia has also banned donations from legal persons (i.e. organizations or bodies with judicial personality). But the most relevant amendments to date were those introduced in 2010 and 2011, incorporating national budget resources to be used to fund political parties, as well as placing caps on the amounts that can be spent during the pre-election period (Kažoka and Valeckis 2007; Pinto-Duschinsky 2006; Roper 2006; Dahl 2001). New amendments in 2012 include further reduction of the limit on donations received by political parties (IR 2012b) and a new requirement for donors and fee-paying party members to prove the legal origin of their contributions. Despite these efforts, parties still rely heavily on private donations, particularly large ones (Kažoka 2011; KNAB 2010; Ikstens 2003). Further limits on campaign spending, as well as lower caps on single-source donations, are currently under discussion (Delna 2012: 45–148).

Lithuania

Frameworks regulating the behaviour of politicians and state officials

Politicians





Overview

Among the Baltic states, Lithuania has the most comprehensive regulations concerning the behaviour of politicians. Indeed, the fight against corruption has been at the forefront of government attention in recent years, and the country has enacted laws on (a) ethics in the public service, (b) lobbying, (c) conflict of interests, and (d) anti-corruption and transparency. The current obligation of public institutions to answer enquiries from the public is seen as a key instrument in the promotion of public accountability.

Weaknesses

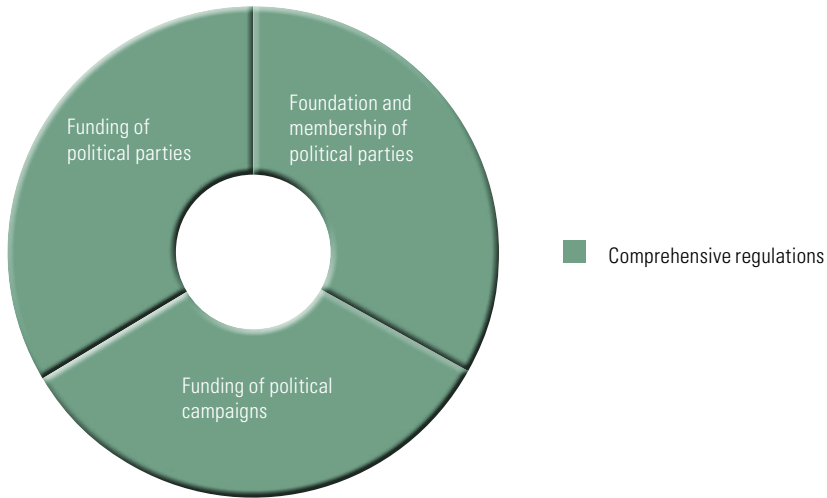
Frameworks regulating lobbying have been criticized for: (a) focusing exclusively on lobbying of the legislative branch, with no regulations on lobbying of the executive; (b) not differentiating between professional lobbying and interest groups' normal advocacy; (c) not covering, under the legal definition of 'lobbying', activities by a person or organization motivated by self-interest (the so-called 'in-house lobbyists'); and (d) only applying to registered lobbyists. Policies on whistleblowing also face challenges: among other things, they have been criticized for: (a) offering whistleblowers financial compensation instead of protection; (b) being hard to implement in practice; (c) not providing for the internal reporting or accountability schemes that public and private institutions need to implement and which would reduce the need for whistleblowers; (d) not defining 'whistleblowing' clearly: it is generally equated to complaining, which is covered by other regulations for internal reporting procedures under civil and labour law; and (e) failing to convince the general public of the benefits of these instruments to correct systemic deficiencies in the political system.

Internal corruption

Internal corruption is common in control and regulation agencies, exacerbating the implementation challenges and the legitimacy and independence of punitive actions. In 2011 an effort to curb systemic internal corruption led to an amendment to the law on the prevention of corruption that introduces a rotation system for police personnel as well as limited terms for police officers.

Frameworks regulating the behaviour of political parties, election coalitions and independent candidates

Political organizations and candidates



Overview

In Lithuania there is a comprehensive set of regulations for political parties, especially regarding their foundation and funding. A political party can only be set up by a legal citizen of voting age with the backing of at least 1,000 founder members. Funding sources can include membership fees, state budget appropriations, and income from the party's activities (for example publishing, use and disposal of property, cultural events). Funding can also be channeled through loans from banks registered in Lithuania, with interest on the funds kept in the party's bank accounts.

Political party financing

State funding has become increasingly central to the resources of political parties, especially with the 2012 law banning legal persons from making donations to political parties. Thus, 20,278 million litas were allocated to political parties in 2012,⁶ compared with only 5.4 million the year before and 9.5 million in 2010. The law aims to keep political parties free from the influence of external economic interests (legal and illegal), but its success will depend on the monitoring and control mechanisms for oversight of funding sources and expenditure. Therefore, additional changes to the regulation of political party funding have been made, including the Electoral Commission's mandate to monitor parties' funds and bank accounts.

⁶ The litas is the Lithuanian currency. 1 litas = 0.380575 US dollars (USD) (as of July 2013).



Policy challenges: insights from the field


The research done for this report included an in-depth analysis, in the three countries, of ongoing judicial investigations into cases where illicit interests merge with politics and public office. While the nature and confidentiality of the research do not allow specific details and sources to be disclosed, the research does permit verification of the factors that contribute to the criminalization of politics as well as a glimpse into the challenges in need of policy responses. Judicial investigations are starting to provide crucial evidence on the complexity, extent and reach of illicit connections—making it possible to challenge and question existing policy frameworks, and providing an opportunity to reshape policy thinking into more comprehensive and strategic responses. The set of insights that follow is intended to serve both ends.

First insight: relationships between crime and politics are functional, not ideological

The legal evidence in cases under investigation shows that politicians use illicit networks as much as illicit networks use politicians. A nexus is formed when there is mutual benefit for both parties. For a politician or a political party, establishing a link with an illicit network offers greater electoral capital through territorial control (using these networks to intimidate and alter their electoral bases) and personal enrichment through joint economic ventures either in illegal trades such as smuggling and money laundering or in capturing land and state assets. For illicit networks, association with power brokers ensures protection from prosecution, opportunities for collusion in the plundering of state assets, co-participation in public tenders, and other forms of wealth creation whether public or private, legal or illegal.

At the municipal level, local illicit networks serve as bridges between the transnational illicit networks and the corrupt local politicians. The cases of smuggling rings in the municipalities on the country's eastern border illustrate the following mechanics: the local illicit network has the cross-border contacts, these contacts need warehouses and secure transport for the smuggled goods, and the local politician offers state-owned warehouses and safe passage in exchange for a cut of the profits or partnering in the business. Ongoing investigations also reveal that relationships between crime and politics expand through time: for example, a corrupt politician with economic stakes in money-laundering operations expands the local network of his partners by connecting them with financial operators, prosecutors and solicitors. In exchange, the transnational illicit network connects the local politician with contacts outside the country that can facilitate discreet capital flight to offshore accounts via shell companies.

Overall, the legal evidence in several cases suggests that relationships between crime and politics are established or strengthened when advantages for both parties are clear. It is



about who is offering the right service, at the right time and in the right place, and this rule of thumb is as important for the corrupt politician as for the criminal.

Second insight: relationships between crime and politics thrive on close-knit social and economic ties

Ongoing legal investigations are providing evidence to suggest that the connections between illicit networks and corrupt politicians are not dependent on electoral cycles or illegal campaign financing, but rather on more organic and sustained family or friendship ties that often date back to school, or ties developed through shared interests and social associations (country clubs, sport clubs and the like). Through time these relationships become more intertwined, more interdependent and more resilient. The clearest example of this resilience and permanence over time comes from an investigation into a municipality on the eastern border where the lines between a popularly elected mayor and an illicit network are completely blurred. A vertical integration of legal and illegal businesses, and political clout, accompanied by effective service delivery to the electorate, has produced extremely high rates of popular support for local political figures who are under serious criminal investigation. In such cases, general awareness of such links becomes irrelevant and is overridden by satisfaction with the delivery of public services.

Third insight: politics as business, a doorway for criminalization

The exercise of politics has shifted from citizens' choice of competing ideological platforms to an increased focus on individualistic extension of private interests. The commercialization of politics means the use of public office as a channel for legal or illegal business interests, and as an opportunity for the accumulation and diversification of personal wealth. Power is maintained through selling favours to third-party interests, including those of illicit networks. Anti-corruption efforts since independence have certainly paved the way for more transparency within state institutions but have yet to gain much ground in curbing deeply entrenched political corruption and abuse of power.

National anti-corruption bodies and law enforcement agencies have made significant advances but still face the challenge of maintaining their independence. High-profile cases involving collusion between illicit networks and prominent political figures have not progressed, often at the expense of reshuffling clean upper echelons of law enforcement and anti-corruption agencies. Compromises with illicit networks are also reflected in legislation that overlooks areas in need of tight control—such as vetting political candidates, lobbying, and the formation, functioning and internal regulation of political parties. One case under judicial investigation illustrates how a known operator of an illicit network opted to form a political party in order to bypass obstacles to the expansion and seamless operation of his multiple businesses.

Sale of favours in exchange for business partnerships with illicit networks includes the establishment of shell companies and the distribution of residence permits to foreign



nationals. Shell companies take advantage of relaxed foreign investment legislation that allows non-EU citizens to apply for residency by investing in real estate, joining the management board of a locally registered company, or starting a company with capital at times as low as 3,461 USD. Ongoing legal investigations are indicating how corrupt politicians are using such mechanisms to expand their economic partnerships with illicit networks (mostly in money-laundering enterprises) while at the same time ensuring protection from prosecution.


The criminalization of politics via its commercialization is most acute in the municipalities. While increased autonomy of local authorities—together with substantial budget transfers from both national and EU levels—has empowered local politicians to deliver more effectively, it has also created important capital opportunities for joint economic ventures between illicit networks and politicians. Illicit networks have systematically invested in politicians in the eastern border towns, ensuring seamless cross-border movement of illicit goods, while at the same time colluding with locally elected mayors in the plundering of state assets and in the distribution of public tenders. Several ongoing judicial investigations are revealing not only the extent but also the endurance of such relationships, some built on close-knit social ties that go back more than 30 years.

Fourth insight: international dynamics shape the nature and extent of the relationships between crime and politics

Geopolitics and international cash flows can facilitate more extensive criminalization of politics. CIS countries have ample reasons for investing in the Baltic states: geographic proximity, relaxed regulations for foreign investment and EU membership ensure entry into wider European markets and financial circuitry without the hassle of overt regulatory controls. Large volumes of trade attract not only legal entrepreneurs but also transnational illicit networks that find opportunities for money laundering, and new markets and distribution channels for illegal trades.⁷ While foreign investment has helped in overcoming post-independence economic stagnation, the lack of robust vetting mechanisms has paved the way for the entrance of dirty money into the economy. Vulnerable sectors include the financial industry, real estate, logistics (shipping and transport industries), pharmaceuticals, food processing, energy distribution, import–export enterprises, wholesale and retail.

Substantive differences between national criminal codes, international regulatory frameworks and law enforcement systems create loopholes that safeguard the criminalization of politics from both public scrutiny and criminal prosecution. National policies, regulatory frameworks and law enforcement are hampered when they face complex cases that transcend national

⁷ The Baltic countries, located on increasingly important illegal trafficking routes, suffer from a disproportionate presence of Russian organized crime, among others, and constitute what Europol refers to as Europe's north-east criminal hub. See Bakowski 2011 and Galeotti 2012.



borders.⁸ International treaties and law enforcement bodies (for example, Europol, Interpol) are bound by issues of sovereignty and lack real operational capacity. At the same time, tax havens and offshore financial centres contribute to the proliferation of shell companies that benefit from very loose international regulatory regimes and are literally immune to national prosecution and regulation. These distortions, paired with slow-paced and often unresponsive international cooperation, provide fertile ground for further cross-border expansion of the connections between crime and politics.

With more interconnected economies, more fluid financial markets, and an increasingly obsolete international architecture, the space where the criminalization of politics takes place is shifting from national boundaries to the open domains of some unregulated international economic, legal and financial spheres.

⁸ See as illustration the most recent banking scandal that has shaken the region. After facing criminal charges for bankrupting several banks in Latvia and Lithuania (including Snoras and Krajbanka) with the compliance of, and on occasion in partnership with, traditional political elites, the Russo-British Vladimir Antonov fled to the UK where he was arrested and later released on bail. Since then an extradition battle has begun with slim chance of prosecution.



Stakeholders' responses

In the course of 2012, national policy dialogues with legislators and regulators in Latvia, Lithuania and Estonia were followed by a regional policy dialogue with legislators, regulators and law enforcement agencies from the Baltic region as well as sub-regional intergovernmental bodies (GRECO and Europol). The aim of these dialogues was to facilitate a platform to discuss, in the light of the existing policy challenges, comprehensive evidence-based policies for the prevention and mitigation of the criminalization of politics in the region. The overall conclusions in these debates highlighted the need for a two-pronged strategy that would combine reactive responses—that is short-term policy options that address the shortcomings in the existing regulatory frameworks (see the Policy frameworks section)—with ways to set the scene for longer-term strategic thinking (see the Policy challenges section).

Short-term options

Revisiting existing policy frameworks

The policy challenges revealed by this project should serve as springboards to engage national and regional stakeholders in focused debates on existing gaps in legislation, failures in regulatory and control bodies, and policy implementation challenges.

Gaps in legislation

The public financing of political parties, as well as internal processes—such as vetting of politicians running for public office, internal accountability and transparent disclosure of assets, and sanctions for party members with links to illicit networks—should be put up for public debate.

Failures in regulation


Control institutions should be improved through more robust mandates and implementation capabilities, and their independence should be protected from any form of political tampering.

Failures in policy implementation

These are broadly two-fold. First, they stem from weak national and regional coordinating mechanisms and inter-agency cooperation and, second, from budgetary constraints that compromise the adequate implementation of existing frameworks.

Protecting the role of legitimate civil society organizations

In all three countries there is an important body of work carried out by investigative journalists and independent NGOs on the costs of corruption and the impact of illegal trades and networks on the political health of the country and its institutions. Legislators



and regulators are proposing a wider role for NGOs in risk prevention, in public education, and in monitoring both anti-corruption bodies and politicians. However, to achieve this, first there must be a clear political commitment to protecting the independence of NGOs, and second a clear distinction must be drawn between economic and professional associations and legitimate NGOs. Shell NGOs are often created by illicit networks and corrupt politicians to divert attention and politicize an otherwise criminal issue.

Strengthening the role of intergovernmental organizations

The transnational nature of illicit networks requires a more prominent role for intergovernmental organizations in at least two respects. First, intergovernmental organizations can play a leading role in paving the way for comprehensive approaches that favour systemic analysis and strategy over the traditional sector-based analysis and engagement. This approach is essential when revisiting sovereignty issues (see below) and can play a crucial role in exerting political pressure on countries with weak political commitment. In addition, closer cooperation between intergovernmental organizations can stimulate better inter-agency support within a country as well as lay the groundwork for harmonizing basic policies and procedures in order to achieve more adaptable information sharing and enforcement across borders.

Long-term strategic options

Politicians—key enablers

It is of paramount importance that political parties should have a clear position on illicit networks and their capacity to disrupt the legitimacy of democratic politics. Equally critical is renewed emphasis on ideological politics and the implementation of key disincentives and sanctions against the commercialization of politics. In particular, the role of legislators as key enablers leading the development of more strategic thinking within governance and regulatory agencies is the first step to tackling the issue of illicit networks and politics in a broader, more comprehensive and proactive manner.

Sovereignty revisited

Facing the challenge of illicit networks in a more connected globalized world while acknowledging the transnational nature of these networks requires globalized thinking that is not restricted by sovereignty considerations. The practical challenges to fluid transnational cooperation are often rooted in sovereignty concerns that instead of enriching debates create unnecessary barriers to comprehensive prevention and mitigation responses.

Out-of-the-box strategic thinking

Legislators and regulators from all three countries, as well as members of intergovernmental agencies (GRECO, Europol), highlighted the urgent need for innovation in policymaking through the use of tools and methodologies conducive to out-of-the-box thinking. Curbing the impact of the illicit networks–politics nexus will require a shift away from the existing



mind set that emphasizes sector-based over comprehensive engagement, and national concerns over transnational ones. Prospective scenario-building exercises and policy wind-tunnel resilience testing were discussed as potential tools to promote new ways of thinking while engaging in strategic long-term solutions. Europol's recently published prospective scenario exercise was cited as providing an interesting bearing on these issues (Europol 2010).

References


- Allum, F. and Siebert, R. (eds), *Organized Crime and the Challenge to Democracy* (Abingdon: Routledge, 2003)
- Bakowski, P., *Russian Organized Crime: The EU Perspective*, Library Briefing (Brussels: Library of the European Parliament, 2011), available at <<http://www.europarl.europa.eu/document/activities/cont/201207/20120730ATT49511.pdf>>, accessed 23 July 2013
- Berendson, R., 'Kapo vóimu ohjeldamine ebaónnestus taas' [Kapo's power control failed again], *Postimees*, 28 May 2012, available at <<http://www.postimees.ee/855904/kapo-voimu-ohjeldamine-ebaonnustus-taas/> 2012), accessed 4 December 2012
- BloombergBusinessweek, 'Swiss-style Latvian Banking Hub Thrives on Ex-soviet Cash', 30 August 2012, available at <<http://www.businessweek.com/news/2012-08-29/swiss-style-latvian-banking-hub-thrives-on-ex-soviet-cash-flood>>
- Central Election Commission of Latvia, '11th Saeima Election', Riga, 2011, available at <<http://web.cvk.lv/pub/public/30182.html>>, accessed 4 December 2012
- Cheloukhine, S. and Haberfeld, M. R., *Russian Organized Corruption Networks and their International Trajectories* (New York, London: Springer, 2011)
- Council of Europe, Group of States against Corruption, 'Fourth Evaluation Round [Compliance Reports for Latvia and Estonia]', 16 July 2013, available at <http://www.coe.int/t/dghl/monitoring/greco/evaluations/round4/ReportsRound4_en.asp>
- Dahl, B., *Financing of Political Parties in Latvia: Transparency, Regulation and State Subsidies* (Riga: Ministry of Justice, Republic of Latvia, 2001)
- Delfi, 'Justiitsminister lubab: huvide deklareerimine muutub läbipaistvamaks' [Justice Minister Promises: Declaration of economic interests will be more transparent], 16 May 2011, available at <<http://www.delfi.ee/news/paevauudised/eesti/justiitsminister-lubab-huvide-deklareerimine-muutub-labipaistvamaks.d?id=46042871>>, accessed 4 December 2012
- Delna, 'Cik demokrātiskas ir Latvijas politiskās partijas? Vēlēšanu sarakstu veidošana pirms 2009.gada pašvaldību vēlēšanām' [How Democratic Are Latvian Political Parties? Building Lists of Candidates Before the 2009 Local Election], Delna, Riga, 7 October 2009, available at <<http://politika.lv/article/cik-demokratiskas-ir-latvijas-politiskas-partijas-velesanu-sarakstu-veidosana-pirms-2009-gada-pasvaldibu-velesanam>>, accessed 4 December 2012
- Delna, *Latvian National Integrity System Assessment Latvia* (Riga: Delna, 2012)
- Europol, *Organized Crime and Energy Supplies: Scenarios to 2020* (The Hague: Europol, 2010), available at <<http://edz.bib.uni-mannheim.de/daten/edz-era/eurp/10/Organised%20crime%20in%20energy%20supply.pdf>>, accessed 8 December 2012

- Farah, D., *Fixers, Super Fixers and Shadow Facilitators: How Networks Connect* (Alexandria: International Assessment and Strategy Center), available at <http://www.strategycenter.net/docLib/20120423_Farah_FixersSuperFixersShadow.pdf>, accessed 4 December 2012
- FinanceNet, 'Bērziņš norāda uz riskiem sākumdeklarēšanas likuma izpildē' [Berzins Points to the Risks of Enforcing the Declaration Law], Riga, 14 December 2011, available at <http://www.financenet.lv/viedokli/403250-berzins_norada_uz_riskiem_sakumdeklaresanas_likuma_izpildecments>, accessed 4 December 2012
- Findlay, M. J., *Governing through Globalised Crime: Futures for International Criminal Justice* (Cullompton, UK: Willan Publishing, 2008)
- Fituni, L. L. (Director, Center for Strategic and Global Studies, Russian Academy of Sciences), 'CIS: Organized Crime and its International Activities', Conference paper, Hanns Seidel Stiftung, Wildbad Kreuth, 22–24 September 1993
- Galeotti, M., *Transnational Aspects of Russian Organized Crime: Russia and Eurasia Programme Meeting Summary* (London: Royal Institute of International Affairs, 2012), available at <<http://www.chathamhouse.org/sites/default/files/public/Research/Russia%20and%20Eurasia/170712summary.pdf>>, accessed 23 July 2013
- Global Commission on Elections, Democracy and Security, *Deepening Democracy: A strategy for Improving the Integrity of Elections Worldwide* ([Stockholm and Geneva]: International IDEA and the Kofi Annan Foundation, September 2012), available at <<http://www.global-commission.org/sites/global-commission.org/files/DeepeningDemocracyFinalReport.pdf>>, accessed 18 September 2013
- Grigas, A., *Legacies, Coercion and Soft Power: Russian Influence in the Baltic States* (London: Royal Institute of International Affairs, 2012), available at <http://www.chathamhouse.org/sites/default/files/public/Research/Russia%20and%20Eurasia/0812bp_grigas.pdf>, accessed 15 September 2013
- Hafner-Burton, E. and Montgomery, A.H., 'Globalization and the Social Power Politics of International Economic Networks', 24 November 1998, available at <<http://ssrn.com/abstract=1306648>>
- Huang, M., *Wannabe Oligarchs: Tycoons and Influence in the Baltic States* (Swindon: Advanced Research and Assessment Group, 2002)
- Ikstens, J. (ed.), *Partiju finansēšana: Latvijas pieredze pasaules kontekstā* [Party Financing: Latvian Experience in a Global Context] (Riga: Baltic Institute of Social Sciences, 2003)
- Indriksone, A., *Ētikas kodeksi valsts iestādēs: plāksteris vai panaceja?* [Codes of Ethics in State Institutions: A Patch or a Panacea?] (Riga: Centre for Public Policy PROVIDUS, 2003), available at <<http://politika.lv/article/etikas-kodeksi-valsts-iestades-plaksteris-vai-panaceja>>, accessed 23 May 2012

- Institute of Social and Political Research, *How Democratic is Latvia? Audit of Democracy* (Riga: University of Latvia, 2005)
- International IDEA, 'Democracy at Crossroads: The Challenge of Illicit Finance in Politics. Highlights from the International IDEA 2009 Democracy Round Table 1–2 December, Mexico City', 2009, available at <http://www.idea.int/parties/illicit_finance_challeng.cfm>
- IR, *Vienojas par skaidras naudas sākumdeklarēšanas kārtību* [Achieved Initial Agreement on the Procedure for Monetary Declaration] (Riga: IR, 31 January 2012a), available at <<http://www.ir.lv/2012/1y31/vienojas-par-skaidras-naudas-sakumdeklarasanas-kartibu>>, accessed 4 June 2012
- IR, *Partiju Ziedojumu Maksimālo Apmēru Grib Samazināt uz Pusi* [Proposal to reduce by half the maximum donations], IR (28 February 2012b), available at <<http://www.ir.lv/2012/2/28/plano-uz-pusi-samazinat-maksimalo-ziedojumu-apmeru-partijam>>, accessed 23 May 2012
- Jaakson, T., 'E-häätetamise korda muudetakse läbipaistvamaks' [E-voting transparency], ERR, 16 April 2012, available at <<http://uudised.err.ee/index.php?06250703>>, accessed 4 December 2012
- Kasjauns, 'Saeimas deputāti "zeķē" glabā gandrīz 400 000 latu' [Parliament Deputy Saves in "Socks" Almost 400 000 Lats], Riga, 28 November 2011, available at <<http://www.kasjauns.lv/lv/zinas/65251/saeimas-deputati-zeke-glabagandriz-400-000-latu>>, accessed 4 June 2012
- Kaukvere, T., 'Prokuratuur tule all: "Ehku peale inimese mainet kahjustada ei tohi!"' [The Prosecutor's Office Under Fire], *Õhtuleht* (Tallinn), 16 May 2012, available at <<http://www.oh tuleht.ee/477023www.oh tuleht.ee/477023>>, accessed 4 December 2012
- Kažoka, I., 'Kas Būtu Jāuzlabo Latvijas Partiju Finanšu un Priekšvēlēšanu Aģitācijas Regulējuma?' [What Should Be Improved in Latvian Financial and Party Pre-election Regulations?], Centre for Public Policy PROVIDUS, Riga, January 2011
- Kažoka, I., 'Attracting Funding, Parties are More Aware of their Image', LETA News Agency, Riga, 22 March 2012
- Kažoka, I. and Valeckis, M., *Valsts Finansējums Politiskajām Partijām: iespējamie modeļi* [State Funding of Political Parties: A Feasible Model] (Riga: Centre for Public Policy PROVIDUS, November 2007)
- Kegö, W. and Molcean, A. (eds), *Russian Organized Crime: Recent Trends in the Baltic Sea Region* (Stockholm: Institute for Security and Development Policy, 2012)
- KNAB (Corruption Prevention and Combating Bureau), *Partiju Deklarācijas* [Party Declarations] (Riga: KNAB, 2010), available at <<http://www.knab.gov.lv/lv/finances/db/declaration/?order=2&page=1Birojs>>, accessed 23 May 2012

- Koppel, K., 'Tarand: Meikari väidetes ei ole midagi üllatavat' [Tarand: Meikar's Allegations Are Not Surprising], ERR, 22 May 2012, available at <<http://uudised.err.ee/index.php?06253397>>, accessed 4 December 2012
- Kramer, M., , 'The Baltic Countries after Two Decades of Independence', PONARS Eurasia Policy Memo no. 200, June 2012
- Krjukov, A., 'Erakonnaseaduse muutmine lükkub sügisesse' [Changing the Political Parties Act Will be Delayed until Autumn], ERR, 29 May 2012, available at <<http://uudised.err.ee/index.php?06253960>>, accessed 4 December 2012
- Kund, O., 'KajaKallas: olenvalmiskoostamariigikoguetikakoodeksit' [Kaja Kallas: I am ready to prepare a code of ethics for the Parliament], *Postimees* (April 2012), available at <<http://www.postimees.ee/821722/kaja-kallas-olen-valmis-koostama-riigikoguetikakoodeksit/>>, accessed 10 October 2012
- Kuul, M., 'Kohus langetab maadevahetuse süüasjas otsuse juunis' [In June the Court Makes a Decision in the Land-Swap Case], ERR, 7 March 2012, available at <<http://uudised.err.ee/index.php?06247623>>, accessed 4 December 2012
- Mandel, M., 'Expert from USA: E-voting Is Not Safe', *BBN* (19 July 2011), available at <<http://www.balticbusinessnews.com/article/2011/7/19/expert-from-usa-e-voting-is-not-safe>>, accessed 4 December 2012
- Mandel, R., *Dark Logic: Transnational Criminal Tactics and Global Security* (Stanford, Cal.: Stanford Security Studies, 2010)
- Meikar, S., 'Silver Meikar: erakondade rahastamisest. Ausalt' [Silver Meikar: The Funding of Political Parties. Honestly], *Postimees* (22 May 2012), available at <<http://arvamus.postimees.ee/849254/silver-meikar-erakondade-rahastamisest-ausalt/>>, accessed 4 December 2012
- Ministry of the Interior of Latvia, *Grozījumi Politisko Organizāciju (Partiju) Ffinansēšanas Likumā, Laikraksts Latvijas Vēstnesis* [Amendments to Political Organizations (Parties) Financing Law] (Riga, 11 January 2005), available at <<http://www.likumi.lv/doc.php?id=99229>>, accessed 23 May 2012
- Organisation for Economic Co-operation and Development (OECD), 'Legislation on Lobbying in Europe', GOV/PGC/ETH/RD (2007) p. 27, available at <<http://www.oecd.org/dataoecd/18/15/38944200.pdf>>, accessed 4 December 2012
- Parliament of Estonia, *Draft Act 144 SE I* (7 December 2011), available at <<http://www.riigikogu.ee/?page=eelnou&op=ems&emshelp=true&eid=1456012&u=20120321114826>>, accessed 4 December 2012
- Parliament of Estonia, *Draft Act 216 SE I*, available at <<http://www.riigikogu.ee/?page=eelnou&op=ems&emshelp=true&eid=1491615&u=20120603214034>>, accessed 4 December 2012

- Parliament of Estonia, *Välismaalastele Tähtajaliste Elamislubade Andmisega Seotud Asjaolude Väljaselgitamise Uurimiskomisjon* [Inquiry on the Facts Pertaining the Granting of Temporary Residence Permits to Foreigners] (7 February 2012), available at <<http://www.riigikogu.ee/index.php?id=172125>>, accessed 4 December 2012
- Pinto-Duschinsky, M., *Aspects of State Capture and Political Financing*, Corruption Prevention and Combating Bureau (KNAB) (Riga: Government of Latvia, June 2006)
- Racas, A., 'Finance Minister Steps Down', *The Baltic Times* (28 March 2007), available at <<http://www.baltictimes.com/news/articles/17586/>>, accessed 4 December 2012
- Rikken, K., 'Immunity of MPs on Muddy Ground', ERR, 11 October 2011, available at <<http://news.err.ee/politics/cf1d8451-5bf7-4b46-b7a4-d9223a22c40c>>, accessed 4 December 2012
- Rikken, K., 'Ministry Review to Tackle Definition of Illegal Influence Peddling', ERR, 16 May 2012, available at <<http://news.err.ee/Society/cfc31e73-bcc2-4aeb-9935-8572ed4889c6>>, accessed 4 December 2012 (2012a)
- Rikken, K., 'Meikar Not Telling Full Story, Says MP', ERR, 25 May 2012, available at <<http://news.err.ee/politics/c8ac29ab-7ed2-4d37-8d27-3b2a76fea61e>>, accessed 4 December 2012 (2012b)
- Roper, S. D., *The Effectiveness of Legal Frameworks on Pre-election Campaigning*, Corruption Prevention and Combating Bureau (KNAB) (Riga: Government of Latvia, 2006)
- Rusu, A., *Latvia* (Riga: Civil Society against Corruption, Romanian Academic Society, September 2010), available at <http://www.againstcorruption.eu/uploads/rapoarte_finale_PDF/Latvia.pdf>, accessed 23 May 2012
- Shelley, L. I., 'Post-Soviet Organized Crime: Implications for Economic, Social and Political Development', *Trends in Organized Crime*, 1/1 (1995), pp. 7–25
- Stafecka, L., 'A Party, A Democracy', *Politika*, 6 October 2009, available at <<http://politika.lv/article/kadas-partijas-tada-demokratija>>, accessed 3 June 2012
- Supreme Court of Estonia (Riigikohus), Judgment of the Constitutional Review Chamber of the Supreme Court, Constitutional Judgement no. 3-4-1-13-05, 1 September 2005, available at <<http://www.nc.ee/?id=381>>, accessed 4 December 2012
- Supreme Court of Estonia (Riigikohus), Penal Chamber, Case No. 3-1-1-23-12 of 30 April 2012, available at <<http://www.nc.ee/?id=11&tekst=222545802>>, accessed 4 December 2012
- Tammik, O., 'Parliament to Take Another Look at Immunity', ERR, 5 April 2012, available at <<http://news.err.ee/Politics/f01693fc-92ee-4269-a2cf-2c9786534833>>, accessed 4 December 2012

- 
-
- Transparency International, *Global Corruption Barometer 2010* (Berlin: Transparency International, 2010), available at <http://www.transparency.org/policy_research/surveys_indices/gcb/2010/results>, accessed 23 May 2012
- Ventspils City Council, *Lembergs: "fizisko personu mantiskā stāvokļa deklarēšana ir bezjēdzīga, jo to nevar izkontrolēt"* [Lembergs: 'Personal Property Declaration Is Meaningless since the Control Takes Places Afterwards'], Ventspils City Council, 2 December 2011, available at <<http://www.ventspils.lv/lat/parvalde/10277-lebergs-fizisko-personu-mantiska-stavokla-deklaresana-ir>>, accessed 4 June 2012
- Vilks, A., 'Latvia', in Walter Kegö and Alexandru Molcean (eds), *Russian Organized Crime: Recent Trends in the Baltic Sea Region* (Stockholm: Institute for Security and Development Policy, 2012), pp. 67–78
- Wilson, E. and Lindsey, T., *Government of the Shadows: Parapolitics and Criminal Sovereignty* (London and New York: Pluto Press, 2009)



Acronyms and abbreviations

CIC-NYU	Center on International Cooperation at New York University
CIS	Commonwealth of Independent States
DFID	UK Department for International Development
EU	European Union
FATF	Financial Action Task Force
GDP	gross domestic product
GRECO	Council of Europe's Group of States against Corruption
IPCS	Institute of Peace and Conflict Studies
ISDP	Swedish Institute for Security and Development Policy
KAIPTC	Kofi Annan International Peacekeeping Training Centre
KNAB	Korupcijas Novēršanas un Apkarošanas Birojs (Corruption Prevention and Combating Bureau)
MANS	Network for the Affirmation of the Non-Government Sector (Montenegro)
NGO	non-governmental organization
NIMD	Netherlands Institute for Multiparty Democracy
OECD-DAC	Organisation for Economic Co-operation and Development - Development Assistance Committee
OSCE	Organization for Security and Co-operation in Europe
TI	Transparency International
VAT	value added tax



Annex I: Research methodology

This publication is based on research that was carried out between September 2011 and March 2013. Following a broad literature review of relevant official and academic sources, as well as media reports, the research team conducted fieldwork in Estonia, Latvia and Lithuania. The team visited each of the three countries twice, for a total period of six non-consecutive weeks, to carry out semi-structured interviews with high-level officials from the governments, ombudsman offices, relevant police units, anti-corruption commissions, parliaments, election commissions and prosecutors' offices, as well as scholars, politicians, journalists and representatives from non-governmental organizations working on transparency and good governance. In total, the team conducted approximately 80 interviews during September and October 2012.

During the same period, six national researchers and legal experts in the three countries prepared a series of commissioned papers. In each country, a local researcher documented three current or recent cases that illustrate the nexus between illicit networks and politicians. The information was gathered through semi-structured interviews with reliable informants, complementing it with media outlets and other public information. Given their sensitive nature, these cases—many of which are accounts of ongoing investigations—cannot be published.

Additionally, legal experts from each country produced comprehensive studies about the normative instruments that regulate the behaviour of politicians and political parties in the country, analysing enforcement challenges as well as good practices.

The researchers were brought together in a regional workshop in Riga in November 2011 to share the cases and legal analysis and identify common trends in each area. Also, in June 2012 national workshops were hosted with policy makers and representatives from law enforcement agencies in each country, in order to discuss the preliminary findings of the research process. Participants provided valuable feedback that was used to promote the final regional dialogue held in August 2012 with external experts who further complemented the insights gathered thus far.

Between September 2012 and March 2013, additional desk research was conducted to collect references, complement materials and check existing information, and four peer reviewers provided additional feedback.

This report summarizes the main findings of this research process.



Annex II: About International IDEA

What is International IDEA?

The International Institute for Democracy and Electoral Assistance (International IDEA) is an intergovernmental organization with a mission to support sustainable democracy worldwide.

The objectives of the Institute are to support stronger democratic institutions and processes, and more sustainable, effective and legitimate democracy.

What does International IDEA do?

The Institute's work is organized at global, regional and country level, focusing on the citizen as the driver of change.

International IDEA produces comparative knowledge in its key areas of expertise: electoral processes, constitution building, political participation and representation, and democracy and development, as well as on democracy as it relates to gender, diversity, and conflict and security.

International IDEA brings this knowledge to national and local actors who are working for democratic reform, and facilitates dialogue in support of democratic change.

In its work, International IDEA aims for:

- Increased capacity, legitimacy and credibility of democracy
- More inclusive participation and accountable representation
- More effective and legitimate democracy cooperation

Where does International IDEA work?

International IDEA works worldwide. Based in Stockholm, Sweden, the Institute has offices in Africa, Asia and the Pacific, Latin America and the Caribbean, and West Asia and North Africa regions.