



**Organized Nature of Corruption in Post-Soviet Space and
Challenges of Donors: A Case Study of Georgia**

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ORGANIZED NATURE OF CORRUPTION IN POST-SOVIET SPACE AND CHALLENGES OF DONORS: A CASE STUDY OF GEORGIA

I. Georgia's "Rose Revolution": People's Anti-Corruption Revolution or Made-in-America Coup?

1. The popular uprising in Georgia on November 23, 2003 that led to President Eduard Shevardnadze's resignation is being termed a "The Velvet Revolution" or a "The Revolution of Roses." Many experts called the Georgian events as the former Soviet Union's first anti-corruption revolution.

2. Generally speaking, Revolution for me is not a positive definition and in reality the Georgian revolution, from a legal point of view, was a coup d'état. But as it has been done so peacefully and without bloodshed, it has created an important precedent and elsewhere have inspired frustrated opposition activists who followed Georgian events closely. The Rose Revolution and the peaceful ouster of Shevardnadze was a significant event in the politics of Eurasia and have had a major impact on the other countries of the former Soviet Union. After November 2003 all of us knew very well that the next would be the Ukraine.

Why Georgia?

3. First, a "revolution" was possible in Georgia because during Eduard Shevardnadze's tenure, opposition leaders, parties and society had developed leeway for action which did not exist elsewhere in the Caucasus, not to mention Central Asia. Since the late 1980s, we had free media. Their freedom of maneuver and action, which translated into effective political influence, reflected Shevardnadze's own relatively liberal attitudes, the weakness of the Georgian state— i.e. its inability to control and co-opt competing center of power and authority—and Georgians' unruly national character. Moreover, international NGOs were deeply involved in Georgian events. Much press and analytical attention has been focused on the Open Society Institute of the Soros Foundation, which funded the revolution.

4. Second, the Georgian state, crippled by corruption, was extremely weak. The worst consequence of this weakness was that criminals and crooked officials did not worry about the possible penalties of breaking the law. But this weakness ultimately made possible November's Rose Revolution by dissipating the state's ability to resist better organized players. True, international organizations and foreign capitals were urging a peaceful resolution of the showdown and warning Shevardnadze—whom everyone expected to remain in office until 2005—that resorting to violence would end in disaster. But by November 2003, Shevardnadze could no longer command the state's coercive apparatus; in the end, nobody was willing to act against the crowd's peacefully calling, first, for new elections and then for his resignation.

5. And third, just 1 month before the revolution, the US government along with the World Bank and the IMF had decided to reduce and, in many cases, stop their financial assistance as the reforms in Georgia had slowed down.

Not All Rosy One Year After Revolution

6. Revolutions – starting with France in 1789 and stretching past Russia in 1917 – invariably reach a stage where those seeking to establish a new order must face the question: Do the ends justify the means? Georgia seems to have reached this point right now...a year after.

- Were the Georgian events real anti-corruption revolution or just a replacement of one corrupt government with another one?
- Why did 62 % of respondents answer NO to the question: “One year after the “Rose Revolution”—have your hopes for an improvement come true?”
- Is Georgia's Rose Revolution going through a turbulent period?
- What are the first thorns in anti-corruption roses?

7. Before answering these questions we should analyze organized nature and political economy of Georgian corruption.

II. Organized Nature and Political Economy of Georgian Corruption

8. After gaining independence (1990) and leaving totalitarian society, Georgia started building democratic society. Like other post-Soviet countries, it faced many obstacles, primarily civil war and ethnic conflicts, which was followed by economic collapse. Georgia, strategically situated between the Black Sea and the oil-rich Caspian, has long been a focus of intrigue and conflict between the great powers: USA and Russia. The geo-political location of Georgia, broadening prospects of Euro-Asian corridor and the agreements on oil and gas pipelines traversing Georgia provide particularly lucrative conditions and environment for the pervasion of the wrongdoings related to corruption, which facilitate the alliance of the corrupt state agencies with organized crime and undermine the security and sovereignty of a state, as well as its economic, political and overall development.

9. Corruption in Georgia encompasses all forms of illegal exchanges, including large-scale embezzlement by high officials, small-scale extortion of bribes by traffic policemen, and nepotism at all levels of the state structure. Corruption is very well structured from the top down and between various state agencies.

10. The ties between various sectors of state and government are normally working at the same levels of power and/or official status. Therefore, these ties as horizontal structures of corruption have been carried over from the old communist system. During the Soviet Union, the Communist Party provided the framework for developing contacts across different state agencies. Moreover, in Georgia, family and friendship relationships strengthened these networks. The political changes since 1989 have not seriously damaged the networks because most officials at the lower and middle levels of the state were not exchanged. The political changes in November 2003, when a new leadership came in power, also did not damage the same networks, as new young officials have smoothly been integrated into the system and their fight against corruption is just becoming a witch-hunt.

11. Vertical structures of corruption have developed within the same branches of the state and encompass various administrative levels. They can be characterized as patron-client relationships--personal relationships in which the superior provides security, jobs, etc. for a subordinate in exchange for support, loyalty, work, etc. In this relationship, payoffs and personal benefits are expected. Today, political power as a means of control is paralleled by economic power. Policemen, judges, tax and customs officials pay huge sums to acquire their official positions which enable them to extract bribes, justifying the prior “investment.” This investment has two consequences which keep the vertical structures intact. First, they serve as ‘filters.’ The very moment an official pays for his/her job it can be assumed that this person will not violate the ‘rules of the game’ because he has already committed a corrupt act at the very beginning of his/her career. Second, in a crisis-ridden economy, like the Georgian one, several thousand dollars is a lot of money which, in most cases, has been borrowed from friends and relatives. Since there is no job protection in Georgia, subordinates are at the mercy of higher officials, and being fired could easily mean financial ruin. Moreover, higher officials are normally not directly involved in

corrupt activities. Yet they are well aware of the corrupt activities of their subordinates. This knowledge allows them to put additional pressure on the lower officials. Accordingly, there is sufficient pressure for public officials to play by the rules of corruption.

12. The Georgian State has largely degenerated into a vehicle which serves the private interests of public officials. This has led to a paradoxical position. On the one hand, the Georgian State has no financial means to play a positive role in the economic and social development of the country. Corruption is mainly responsible for the deplorable situation of the state budget. On the other hand, based on its monopoly over the execution of public services, the bureaucratic apparatus (police, public procuracy, courts, etc.) remains a powerful actor.

13. Horizontal and vertical structures of corruption seriously undermine the impact of formal institutions of democratic control. The horizontal ties between various branches of state and government, incorporating economic actors in the private sphere, dissolve the state as an independent arbiter of societal conflict. Society is essentially divided into a few wealthy entrepreneurs with close contacts to state agencies and the higher echelon of public officials, on one hand, and common citizens, on the other. For the first group, about 5-10% of the Georgian population, the rule of law does not apply. For the second group, the rule of law does not apply either. Yet it doesn't not benefit the citizens, it does quite the opposite. Laws, which are intended to protect the rights of citizens, are grossly violated by public officials.

Georgian Corruption is endemic. Practices that westerners view as “corrupt”, many Georgians consider a means of “taking care of one’s own” and conducting ordinary business.

14. In Transparency International's 2003 year's ranking of ninety-nine countries for levels of corruption, Georgia was one of the worst. Its rank at eighty-fourth made it comparable in levels of corruption to Uganda, Pakistan, Kazakstan and Russia. In spite of so called “Anti-corruption Revolution” the situation was not changed this year either. According to Transparency International's Corruption Perceptions Index 2004, which ranks a record 146 countries, Georgia has the 139th position neighbouring with Indonesia, Tajikistan and Cote d'Ivoire.

15. Businesses consistently complain of having to pay "transaction taxes" or bribes to government officials in order to conduct business. A recent study by the World Bank determined that bribes to public officials in Georgia exceed eight percent of the revenues of companies doing business in the country which places Georgia dead last in the post communist world.

III. The First Thorns in the Anti-corruption Roses

16. Since his January 2004 victory, Mikheil Saakashvili, the youngest president in Europe, has moved to realize his vision for Georgia, which involves institutionalizing anticorruption measures and seeking to reunite South Ossetia and Abkhazia. President-elect has been swept to power by the people of Georgia expressing their dissatisfaction with the corruption of the old regime and their resolution in demanding system-wide reform. But the first change the President made right after the election was to the constitutional amendments, allowing the President to dissolve parliament. The amendments drew criticism from Georgian opposition leaders and NGOs. The Council of Europe and the European Parliament also echoed these concerns.

17. In his first months in office, President Saakashvili has struck at corruption by arresting officials and high-profile individuals. People believe that many of them really were corrupt, *but all of them were his political opponents*, while Saakashvilis's supporting corrupt officials from old or/and new government are still at their positions and many of them continue to conduct their “ordinary corrupt” businesses. By this

authorities *are applying the law selectively in the on-going anti-corruption drive*, arresting and punishing political enemies while leaving supporters untouched.

18. At the same time current arrests of former officials in Georgia were routinely staged like scenes from Hollywood gangster movies. Viewers of Georgian television news are treated to regular fare showing masked security officers pouncing on suspects accused of corruption or tax evasion. Because of this people maybe are more scared to be corrupt, but it does not mean they will not go back to corrupt practices if more kind of serious changes do not take place. So far, it is based on fear.

19. The government has some kind of propensity to revolutionary justice and in many cases, some efforts justified by the fight against corruption were based on neglecting law, neglecting due procedures and they are accompanied by pressure on courts. With that this young and inexperienced government risks creating new ground for new corruption.

20. There are significant "gaps" in the President's administration's statements on human rights and its actual practices. The increasing number of cases of torture, inhuman and humiliating treatment, as well as arbitrary detentions also remain matters of deep concern.

21. Perhaps the biggest institutional failure of the new authorities lies in apparent de-facto restrictions on the independence of the judiciary. Observers noted that judges exercise political self-censorship in sensitive cases and lean towards the decisions they think are endorsed by the authorities. President himself repeatedly made statements that could have been seen as prejudicing the court. As a result, in all of the high-profile corruption cases the courts ordered pre-trial detention of the accused, a measure that is to be applied in very limited cases according to a "strict" interpretation of the Criminal Procedure Code.

22. New leadership faces daunting problems as the lack of educated and professional personnel in all walks of governance is apparent. It has taken some drastic steps to shake up some of the most stagnant and corrupt institutions – such as the ministry of defense and the traffic police. Nonetheless, critics point out that most appointments at the middle-management level are done based on personal and partisan loyalty. Reform of the civil service is lagging, while merit-based competitions for public positions are still few and far between.

23. After the Rose Revolution, relations between the Georgian government and local media have increasingly caused concern, because the government has attempted to tame the press by administrative measures under the plausible excuse of establishing the rule of law. Consequentially, some Georgian television stations and newspapers, which had gained a following with their relatively freewheeling reports, have significantly toned down their criticism of the government, other just were closed. As a result, The Paris-based press freedom watchdog Reporters Sans Frontieres ranked Georgia 94th among 166 countries for its press freedom record, down from 73 the previous year.

24. In a letter of congratulations to President-elect Saakashvili from TI's international Chairman, Peter Eigen, TI outlines the priorities for the first 200 days of the new presidency. TI called for a restructured anti-corruption commission, with powers of investigation, which reports to parliament. TI also urged the new administration to implement the National Anti-Corruption Programme.

25. The OECD in its special recommendations for Georgia, made within the Regional Anti-Corruption Action Plan, also recommended strengthening the existing Anti-corruption Coordination Council and establish a Specialized Anti-corruption Agency with a mandate to detect, investigate and prosecute corruption offences, including those committed by high-level officials. But instead in 2004, the existing Anti-corruption Coordination Council was eliminated by the decision of new government and the

anti-corruption programme has been put on the shelf (about 2 million US dollars donor money have been spent for the preparation of mentioned anti-corruption programme and establishing of the Anti-Corruption Coordinating Council). Specialized Anti-corruption Agency was not established too and now there is no institution coordinating and monitoring anti-corruption measures and strategy of the country.

26. I am afraid that Georgia's new leadership's attempts to establish a mono-opinion and even intellectual dictatorship will not lead the country to rapid reforms, but to authoritarian rule and stagnation again. Developing democracy in post-Soviet republics, it has now become clear over the last 12 years, will be a long, drawn-out process, with no guarantee of success in many of them. Authoritarian traditions remain strong even among the best educated, most Western-oriented leaders, with little or no personal involvement in the Communist Party apparatus or stake in that tradition of governing. Georgian symptoms prove that not all of the western-trained leaders are immune to such temptations of power.

27. The Schevardnadze's regime was no Stalinist dictatorship, but just a corrupt mixture of clan and mafia mismanagement, which was used to declare every year as a "final year" to combat corruption in the country. Anti-corruption should not become as the populist, legitimising message of new leaderships regime. Anti-corruption is an old tune which wearies with repetition even in as corrupt a society as Georgia.

28. Precisely for this reason, it is important that Georgian society, as well as international donor institutions continue to track the situation closely and, when needed, offer constructive criticism.

IV. Corruption and Foreign Assistance Programs in Georgia

29. Georgia is a small transition economy with a population of about 5 million people. The country's gross national income per person in 2003 was US\$830, placing it among the group of lower-income countries.

30. Georgia receives assistance from various international organisations, including the International Monetary Fund (IMF), World Bank (WB), United Nations (UN), European Bank for Reconstruction and Development (EBRD), the Organisation for Security and Cooperation in Europe (OSCE), the Black Sea Trade and Development Bank (BSTDB), etc.

31. Georgia receives bilateral aid from USA, Germany, Netherlands, UK, Japan, Switzerland, Sweden, China, Greece, Canada, Turkey and others. Many international non-governmental organizations are rendering assistance to Georgia, implementing aid projects. In the most of the assistance programmes anti-corruption is a priority.

If the ranking of corruption based on the access to international assistance programs were considered, Georgia might move into the top spot as the most corrupt state in the former Soviet Union.

32. One of the reasons for such situation could be that the direction of foreign aid is dictated by political and strategic considerations, much more than by the economic needs and policy performance of the recipients. For the country's people, more than half of whom are poor, economic growth is as urgent as political reform. The economy cannot stabilize until donors become confident that aid will not go into players' pockets.

33. From the early days of the Clinton administration, Georgia has been a second largest recipient of the U.S. financial assistance, second only to Israel, for many years. According to the U.S. embassy in Tbilisi, Georgia received up to USD 700 million in assistance since 1992, plus USD 376 million USAID assistance since 1996. Washington invested enormous political and diplomatic capital in the construction

of a pipeline that would connect the oil fields of Baku, in Azerbaijan, to Western markets, while skirting the territory of both Russia and Iran. In May 2004, Georgia was selected as one of 16 Millennium Challenge Account (MCA) countries.

34. On the June 17-18 summit in Brussels, along with the European Commission, International donors from 31 countries and 12 international organizations pledged extraordinary financial support to Georgia: about US\$1 billion (or €850 million). EU officials have stressed that the aid will be conditioned on the continuation of Georgian reforms and in particular a far-reaching anti-corruption initiative. But it is still unclear for which concrete programmes this money will be spent and what are the monitoring mechanisms. The government promised that all information would be transparent and placed in the web site by the end of July. But these promises were not fulfilled. The World Bank has invested some \$700 million in Georgian projects. Whatever aid Georgia received, according to the index of shadow economy, we may suggest, that least 50-60 % of donor's money has been gone to the pockets of corrupt officials.

35. Meanwhile Donor Sponsored Anti-Corruption has become an industry and awareness raised a Corruption is no longer a four-letter word. Now Donor projects should be focused on the capacity building. We need a Knowledge Management: "Real Anti-Corruption knowledge" in enforcement and financial management. All of the reform efforts should be translated into jobs.

36. The review of the experiences made with assistance to Georgia has led to the following main conclusions:

1. More than ten years of significant levels of donor assistance to Georgia have not yet led to the expected results and about 50-60 percent of the money have been gone to the pockets of corrupt officials
2. In return for receiving donor assistance, the Georgian government has not yet shown the level of commitment to reaching the policy
3. The donor assistance instruments need to be reviewed under the aspects of both their design and the way they are used with a view to maximising impact. There are hundreds of organizations involved in the development of Georgia and these organizations are all working with similar objectives. There should be a balance between program objectives and policies and local efforts and initiatives;

37. And finally, considering many anti-corruption strategic plans, foreign states rendering assistance to Georgia and the region, it should be mentioned that what works in theory does not always work well in practice.

Conclusion

38. The Georgian government has long been "fighting" against corruption. Old and new high-ranking officials speak loudly about corruption in the country, but still the fight against this monster doesn't progress from merely talking. I would like to hope that the process of fighting corruption in Georgia would not turn into the permanent campaign under the slogan: "Corruption is dead! Long live corruption!"