

Latvia: The Rigas of anti-corruption

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Latvia is something of a contradiction. It is estimated that one third of public/private sector projects and organisations involve bribery at some level and in some form; and yet, 85% of Latvians have indicated that they are no longer prepared to participate in such 'facilitation'. Amid an uncertain political and economic future, which side will win out?

As a former Soviet state, Latvia has long grappled with the legacy left by the USSR of corruption, malpractice and fraud. This may be best represented today by the volume of the 'grey economy' reaching almost 30% of total GDP and that total tax losses are €2.7b Euros. Given the climate that Latvia emerged from, it is certainly understandable that there have been bumps along the road, but concerning that they are still so disruptive. And so, to the figures above. The breadth of the alleged corruption is such that neither the public nor private sectors can be considered 'safe' places in which to do business, and one can be sure that the real figure is likely to be higher – not only because some corruption always goes unreported for fear of retaliatory consequences, but because highly-placed officials and leaders are often to be found as a 'hidden hand' behind deals which seem superficially clean. The biggest example in recent years would be the case of the banks DNB and Nordea (which merged to form Luminor in 2017), with at least five billion dollars of the seven billion understood to be laundered through both banks prior to the merger, occurring in Latvia – in a system that, if not designed to encourage this, clearly did not do enough to stop it.

As always with Baltic states, the influence of Russia is never far behind. At least two oligarchs were alleged to be involved in the above banking fraud, and organised crime driven by Russian gangs is prevalent and manifests in property fraud, human trafficking and financial interference. Now that Latvia has taken a very strong line against Russia following the invasion of Ukraine, with the PM stating that 'Russia has to lose', we should expect such interference to escalate through both overt and covert means. Cyber-attacks on Latvia, akin to those afflicting its neighbour Estonia, would certainly be disruptive, but arguably of more long-term import would be continuing efforts to undermine Latvia's attempts to place its corporate environment on a cleaner and more transparent platform.

And what of the 85% of the population who have indicated (according to results of the survey conducted by Latvia's Corruption Preventing and Combating Bureau, KNAB) that they will not tolerate the bribing of officials in order to get things done? On the one hand, they may find that their morality cannot meet reality, that eventually their hands will be forced as they always have been before if things are to move ahead. But on the other, it seems that much of the new attitude is founded in a response to the Covid-19 pandemic – that this is a chance to rip up the old rulebook and start afresh, and that the 'traditional' way of doing things does not need to be the future.

Certainly, cronyism and nepotism cannot be stamped out of Latvian political & corporate society entirely, but such a 'united front' is certainly a start. But these internal shifts cannot resolve the problem of outside Russian manipulation, putting the Latvian economy, and all companies operating in-country, in continuing peril.

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