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CURBING CORRUPTION IN SECURITY SECTOR:
Precondition for Sustainable Development

<u>Introduction</u>

Establishing good governance and curbing corruption in the security sector are the major elements of the newly emerged concept of Security Sector Reform (SSR). This new concept has emerged over the last few years, after the international community recognized the fact that conflict prevention and SSR are prerequisites for sustainable development[1]. This recognition most likely has been a result of recent shift of emphasis from state centered security to human security, implying the priority of physical protection of human beings and their well-being over the defense of state boundaries[2]. This new view of most of the international actors (international IGOs, NGOs and national governments), in the course of 1990s resulted in the elaboration of new strategies and activities internationally, in order to reduce human suffering associated with poverty, hunger, violence etc, and foster sustainable development in many affected countries worldwide. However, the international community also acknowledged that without establishing effective, transparent and accountable security sectors in such countries, the key development objectives (recently put under the term of Millennium Development Goals - MDG) could not be achieved[3]. This need demonstrated the importance of SSR as a major contributor to peace and stability, with which to create the conditions for sustainable development.

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[1] Damin Lilly, Robin Luckham and Michael Von Tangen Page, "A Goal Oriented Approach to Governance and Security Sector Reform," International Alert, September 2002, P-3.
[2] Gary King and Christopher Murray, "Rethinking Human Security," http://gking.harvard.edu/files/hs.pdf
[3] Lilly, Luckham and Page, P-3.

Today, many developing countries in the world are in extreme need of reforming their security sectors, though the types of necessary reform measures and activities can vary from one country to another, in accordance with different social conditions that different countries face. For example, in some countries (group I) SSR is seen to be an urgent measure for peace building and disarmament, while in many other countries (group II) SSR can be a facilitator of advancing their democratization process.

In this research paper the emphasis will be put on the second group of developing countries (e.g. Former Soviet, Eastern European, Latin American countries), where I identify corruption in security sector as a major impediment for sustainable development. From this point of view, in this research paper I will demonstrate some empirical evidences of how security sector reform with an eye to curb corruption, can facilitate the sustainable economic growth of the country, and subsequent development, by using two case studies from the Former Soviet region. Some qualitative comparative examples will also be presented.

The basic research question in this paper is the relationship between SSR (with intent to curb corruption) and sustainable development. The hypothesis that I am going to test in this paper is the following: *SSR, with specific emphasis on curbing corruption will be the major contribution to sustainable development in certain developing countries*. The outcome (dependant) variable to this hypothesis is sustainable development, which basically can be measured by annual GDP growth, reduction in unemployment, and increase in average household income, as well as by some qualitative evidences. Generally, there are lots of independent variables affecting sustainable development, e.g. the mostly accepted ones can be country's resources (human, natural etc), international

reputation (for attracting investments), level of citizens' education etc. However, for the purposes of this research paper I identify SSR as a major independent policy variable, which on its turn can be broken down to several other independent variables: demilitarization/DDR (Demobilization, Disarmament & Reintegration); separating military and police; level of civil-military relations; level of democratic (parliamentary) oversight over the security forces; integration of indigenous people into police; good governance in the security sector (less corrupt practices). All those independent variables at the same time represent the aspects of SSR. I will briefly review all of those variables in the third chapter, though the main emphasis will be put on corruption in security sector, since the hypothesis identifies corruption as a main influential factor to outcome variable (sustainable development) in certain group of countries.

Globalization of the Issue of Corruption

Globalizing (internationalizing) the issues is a recent phenomenon, which basically started after the end of the Cold War, and had intense character in the course of entire 1990s. To globalize the issue means to take the issue from a local agenda and put it on an international agenda. Many issues considered as being internal problems of states in the past, are now seen as global problems, which require involvement of the international community to address them successfully. The emergence of this phenomenon probably was a result of the numerous changes in world politics, which basically were triggered by the end of the Cold War. The collapse of the bipolar system, which significantly reduced the nuclear threat to countries in both poles, encouraged the international community to reconsider the traditionally accepted definitions of security, and to pay more attention to human security. Besides, the end of the Cold War was

followed by increased ethnic conflicts and other types of armed violence; new states have emerged with lots of political, economic and social problems. Consequently, in the beginning of 1990s international community was facing the new challenges, which basically were associated with problems causing human suffering (armed violence, conflicts, poverty, epidemics, and other problems etc.). It became absolutely evident that international community needed to think about new tactics and strategies to address those problems and to ensure human security, dignity and well-being. Therefore, the early 1990s were characterized by globalizing the issues such as small arms proliferation, landmines, poverty, HIV/AIDS etc. Those issues were brought to international agenda, mostly at the conferences sponsored by the United Nations, though the role of NGOs was intense. One good example of globalizing such an issue can be the intensive campaign against antipersonnel landmines, which by 1997 led the world towards a historic Ottawa Convention comprehensively and unconditionally banning all types of antipersonnel landmines. Another example can be the establishment of the permanent International Criminal Court (ICC) against the human rights' violators. Both examples demonstrate the new attitude of the international community towards the creation of the conditions for ensuring human security and their well-being.

Like all other recently globalized issues (landmines, small arms, child soldiers, poverty reduction, HIV/AIDS etc), in the past corruption was also considered as an internal problem of states, which should have been addressed on a local level. However, along with those issues, recently corruption also entered the agenda of the international community. From one point, corruption demonstrated its global nature by having links to other forms of crime, particularly organized crime and economic crime. For example,

high corruption levels in one country can facilitate international trafficking of drugs, arms, or human beings, money laundering and subsequent terror financing. Those problems obviously demonstrated that corruption was a transnational phenomenon, and indiscriminately could affect many countries and societies in the world (among them developed countries)[4]. Besides, corruption showed that it could seriously impede the achievement of declared United Nation's Millennium Development Goals, which are designed to contribute to sustained development by addressing the problems of poverty, child mortality, maternal health, HIV/AIDS, education, gender equality, environment, and global partnership.[5] In addition, corruption was acknowledged to be one of the basic impediments to global economic growth. According to World Bank figures released at a U.N. conference on corruption in Merida, Mexico (December 2003), corruption costs more than $1.5 trillion a year, or 5 percent of the world's economy[6].

The efforts to internationalize the issue of corruption started at the end of 1990s, though the first efforts were made by various groups of states in different regions of the world. Before the issue of corruption finally got on an international agenda, numerous regional anti-corruption treaties had been signed in the late 1990s. For establishing the norm against corruption, all those regions were motivated by the devastating multi-dimensional impact of corruption on countries' economies and overall development activities. The basic similarity of these different regional treaties is that they all promote close cooperation between member states, and call for amendments of their criminal

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[4] See Report of the Ad Hoc Committee for the Negotiation of a Convention Against Corruption on the work of its first to seventh sessions.
http://www.unodc.org/unodc/crime_convention_corruption_reports.html
[5] See http://www.un.org/millenniumgoals/.
[6] "Corruption Costs $1.5 Trillion A Year, U.N. Says," *U.N. Wire*, December 12, 2003,
http://www.unwire.org/UNWire/20031212/449_11262.asp

legislations in accordance with definitions and provisions of the respective treaties. The following regional anti-corruption treaties were adopted in the second half of 1990s: Inter-American Convention Against Corruption, adopted by the Organization of American States on 29 March 1996[7]; Convention on the Fight Against Corruption, adopted by the Council of European Union on 26 May 1997[8]; OESD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, adopted on 21 November 1997[9]; Civil Law Convention on Corruption, adopted by the Committee of Ministers of the European Council on 4 November 1999[10]; and African Union Convention on Preventing and Combating Corruption, adopted by the Heads of State and Government of the African Union on 12 July 2003[11].

In addition to those regional efforts to fight corruption, after the year of 2000 the efforts increased toward further internationalization the issue. In its resolution 55/61 of 4 December 2000, the UN General Assembly recognized that an effective international legal instrument against corruption, independent of the UN Convention Against Transnational Organized Crime (which entered into force on 29 September 2003) was desirable and decided to establish an ad hoc committee for the negotiation of such an instrument in Vienna at the Office of Drug Control and Crime Prevention[12]. At the same time, the issue of corruption was occupying the international agenda through the other

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[7] See Organization of American States website: http://www.oas.org/juridico/english/Treaties/b-58.html.
[8] See Council of the European Union website:
http://ue.eu.int/ejn/data/vol_a/4a_convention_protocole_accords/interets_financiers/11542en.html.
[9] See OECD website:
http://www.oecd.org/document/21/0,2340,en_2649_34855_2017813_119672_1_1_37447,00.html.
[10] See Council of Europe website: http://conventions.coe.int/Treaty/en/Treaties/Html/174.htm.
[11] See African Union website: http://www.africa-union.org/Official_documents/Treaties_%20Conventions_%20Protocols/Convention%20on%20Combating%20Corruption.pdf.
[12] See Report of the Ad Hoc Committee for the Negotiation of a Convention Against Corruption on the work of its first to seventh sessions.
http://www.unodc.org/unodc/crime_convention_corruption_reports.html

meetings and conferences. For example, on August 26 – September 4, 2002 in Johannesburg, South Africa during the World Summit on Sustainable Development, was adopted the Johannesburg Declaration on Sustainable Development, which in its Article 19 identified the major threats to sustainable development, and declared the necessity of priority attention to fight against those worldwide conditions. Corruption is also identified among threats to sustainable development, and is standing alongside the other problems such as terrorism, organized crime, armed conflicts, illicit arms trafficking etc[13]. Further international effort against corruption was made during the International Conference on Financing Development, hosted by the United Nations on 18-22 March 2002 in Monterrey, Mexico. The conference, which attracted 50 heads of state or government, over 200 ministers, as well as leaders of private sector, civil society, and heads of the World Bank, International Monetary Fund, the World Trade Organization and other organizations, was designed to discuss the key financial and development issues. The uniqueness of the conference was that it marked the first quadripartite exchange of views between governments, civil society, the business community, and the institutional stakeholders on global economic issues[14]. The conference adopted the Monterrey Consensus, in which developed, developing and transition economy countries pledged to undertake important actions in domestic, international and systemic policy matters. One of such important actions, according to Monterrey Consensus, is fighting corruption at all levels, which was identified as a priority. The document identifies corruption as a serious barrier to effective resource mobilization and allocation, and major impediment to activities that are vital for poverty eradication and economic and

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[13] See http://www.johannesburgsummit.org./
[14] See the UN website on International Conference on Financing Development, www.un.org/esa/ffd.

sustainable development[15]. Monterrey Consensus also demonstrated parties' commitment

to negotiating and finalizing as soon as possible a UN convention against corruption in all

its aspects, including the question of repatriation of illicitly acquired funds to countries of

origin, and also promotion of stronger cooperation to eliminate money laundering[16].

Indeed, the negotiation and signature of UN Convention Against Corruption can be

considered as a major effort that international community undertook under the UN

guidance. Adoption and signature of the treaty in December 2003, clearly demonstrated

that the international community has established the norm against corruptions, and that

from this date corruption would be considered as a global problem.

The drafting committee began working on the treaty in January 2002, with the

collaboration of 128 U.N. member states, and on 31 October 2003, the General Assembly

unanimously adopted the treaty against corruption and set 9 December 2003 as a date for

its signature. According to UN General Secretary Kofi Annan, the treaty sends a clear

message that the international community is determined to prevent and control

corruption.[17] On 9 December 2003, 94 countries had signed the treaty during the UN

conference on corruption held in Merida, Mexico.[18] The treaty is binding on its

signatories and requires countries to criminalize corrupt activities, promote integrity and

cooperate with other countries to root out corruption. The uniqueness of this treaty also is

that it is the first international document, which sets new standards and provides for the

return of looted assets that have been transferred to other countries.[19] According to

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[15] See Monterrey Consensus, Paragraph 13, , http://www.un.org/esa/ffd.
[16] See Monterrey Consensus, Paragraph 65, http://www.un.org/esa/ffd.
[17] Jim Wurst, "General Assembly Unanimously Approves Anti-Corruption Treaty," *U.N. Wire*, Novemner 3, 2003, http://www.unwire.org/News/328_426_10012.asp.
[18] "Corruption Costs $1.5 Trillion A Year, U.N. Says," *U.N. Wire*, December 12, 2003, http://www.unwire.org/UNWire/20031212/449_11262.asp
[19] Ibid.

Transparency International, the world's most prominent anti-corruption NGO, the treaty is a milestone for global efforts to combat graft, which should make it much easier to pursue cases of cross-border corruption.[20] However, despite the fact that the achievement of the treaty was extremely positive step forward in fighting corruption as a global problem, far more still has to be done. The success of the treaty is exclusively based on cooperation among governments, and particularly among those structures domestically fighting corruption (police, other law enforcement agencies etc.). After praising the treaty at the UN conference on corruption in Merida, Transparency International's representative noted that despite the convention's potential, the text does not provide a process to ensure effective implementation, and that the success of the treaty requires political will and a commitment to monitor implementation[21]. This problem drives us back to the issue of the security sector reform. If the UN treaty signatory countries have high corruption levels in their security sectors, which are the major fighting forces against corruption, then we should expect no positive results from the treaty, since perfect cooperation will not take place from the side of corrupt security sectors (police, prosecutors, courts, other justice bodies etc.). Therefore, for complete success in fighting corruption domestically and then internationally requires transparent, accountable and effective security sectors in respective countries, which can be achieved through the security sector reform.

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[20] Transparency International's Press Release: UN launches new global convention against graft on December 9th , henceforth International Anti-Corruption Day Berlin/Merida, 08 December 2003
http://www.transparency.org/pressreleases_archive/2003/2003.12.08.un_anti_corruption_day.html
[21] Ibid.

Security Sector Reform and the Problem of Corruption

Security Sector Reform (SSR) is a new phenomenon for both donor community and groups (individuals, organizations, states etc.) advocating its importance.[22] Although significance of reforms in the security sector is quite clear in general, the exact policy steps or measures for SSR are not defined, largely due to peculiar nature of the problems and social conditions in different countries. In the introduction part of this paper, I talked about the two groups of countries, which have different social conditions and need different sets of measures and policies in the process of reforming their security sectors. For example, in many African countries, SSR is a matter of advancing peace and development, where as in many Eastern European, Former Soviet Union (FSU) and Latin American countries SSR is seen as a part of broader democratization process.[23] In the first group of countries, basically facing ethnic conflicts, civil wars, or post-conflict situations with uncontrolled armed groups etc., the SSR measures should be associated with the need of immediate assistance in conflict resolution, peace building, demilitarization, DDR (demobilization, disarmament & reintegration), separation of police and military etc. This group includes number of countries in Africa (e.g. DR of Congo, Liberia, Somalia), Afghanistan, Iraq etc. Where as the SSR measures in another group of countries (basically FSU, Eastern European and Latin American countries) may include the good governance, curding corruption, reduction in size of security sector, establishment of civilian control of, and democratic oversight over the security sector, improvement of national crisis management system etc.

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[22] "Towards a Better Practice Framework in Security Sector Reform – Broadening the Debate" International Alert, Occasional Paper #1, August 2002, P-1.
[23] Lilly, Luckham and Page, P-3.

Because SSR is a new phenomenon, there is no unanimously agreed definition about it. In the past few years, lots of SSR definitions came out from various organizations, institutions and individuals, which establish the basic ideas of what such reforms may include, though they differ from one another. For example, one article in the International Alert's (NGO) publication defines the SSR in a following way: *SSR is about the transformation of security institutions so that they play an effective, legitimate and democratically accountable role in providing external and internal security*.[24] The UNDP's Bureau of Crisis Prevention and Recovery (BCPR) develops the following definition: *SSR is a change in the behavior, actions, operations, and strategies of the personnel and the institutions in which they serve the public weal*.[25] Which types of organizations to include in the security sector, is also a matter of individual understanding. Some narrower definitions of security sector talk about only the organizations directly involved in the security activities (police, armed forces, other security forces). However, the broader definitions of the security sector put together all the organizations related to security sector in any way (directly or indirectly). For example, according to same publication of International Alert, *security sector includes* <u>*state institutions*</u>*, which have a formal mandate to ensure the safety of the state and its citizens against acts of violence and coercion, and the elected and/or duly appointed* <u>*civil authorities*</u> *responsible for control and oversight of these institutions*.[26] Mentioned *state institutions* in the definition, evidently can include armed forces, police, intelligence etc. Where as *civil authorities* may include parliaments, defense ministries, judicial and penal

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[24] Ibid. P-4.

[25] "Justice and Security Sector Reform," BCPR's programmatic approach, November 2002, http://www.undp.org/erd/jssr/docs/jssrprogramaticapproach.pdf.

[26] Lilly, Luckham and Page, P-3.

systems etc. In short, security sector should consist of public institutions with a mandate to "produce" security, together with those assuring their democratic control, management and oversight. OECD's Development Assistance Committee (DAC) also lists institutions involved in the security sector and in addition to that, develops a concept of the security sector community. According to DAC the following four types of institutions may comprise the security sector:

1. Criminal justice organizations (police, judiciary etc.);

2. Management and oversight bodies (executive and legislative branches, municipal legislatures etc);

3. Military and intelligence services (armed forces, paramilitary forces, border guards etc.);

4. Non-core institutions (customs and other uniformed bodies).

DAC also suggests a term *security sector community* that can be broader than only security sector, and in addition to the mentioned four categories of actors may include non-statutory forces (liberation armies, guerrilla armies, traditional militias, private security companies etc.) and civil society (professional organizations, think tanks, advocacy groups, media etc.). According to DAC, these six categories of actors together comprise justice and security sector community.[27]

As mentioned earlier, the exact steps of the security sector reform are not defined. However, based on problems that generated need of SSR, we can identify some broad measures, including the following (though the list can be longer):

1. Demilitarization/ DDR (demobilization, disarmament & reintegration);

2. Separation of police and military;

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[27] BCPR's programmatic approach, November 2002, P-8

3. Creation of new forces;

4. Creation of new public police academies;

5. Integration of indigenous people into police;

6. Establishment of good governance

    a. Establishment of parliamentary/democratic oversight;

    b. Development of civil-military relations;

    c. Curbing corruption in security sector.

All those listed measures are the aspects of SSR, though not all of them can be applicable to all countries that are in need of SSR. The first five measures in the list are relevant to the first group of countries (groups are discussed above), while the sixth measure *establishment of good governance* is directly related to the second group of countries, where armed conflicts are not in progress, and constitutional orders are not endangered. For example, many countries in Eastern Europe, FSU area and Latin America do not have humanitarian crisis associated with armed violence, ethnic conflicts, and security sector is within the hands of governments, they still face huge economic and social problems. Those problems in most cases are the consequence of bad governance and high levels of corruption in the security sectors. While those countries do not suffer with high street crime levels and/or armed violence, attraction of investments (both domestic and foreign) is still impossible because of the lack of trust to security forces for their highly corrupt practices. The SSR for those countries is important to establish good governance, curb corruption, make security sector transparent, accountable and effective, and consequently foster democratization and development processes.

Curbing corruption in security sector, which is one of the aspects of good governance, is a direct subject of discussion in this paper, which aims at finding out the relationships between corruption in security sector and sustainable development. Particularly, I identify the two major problems that corrupt security sector can generate in terms of negative influence on sustainable development: 1) it impedes investments (local and foreign) because of unstable economic environment and physical insecurity of investors, and 2) it creates incentives for shadow economy to flourish in the country.

Much empirical evidence shows that corruption negatively affects economic growth. For example, a survey by a resident representative office of the IMF in one country suggested that "informal payments" to various officials accounted, on average, for 40% of total enterprise expenses during the first year of operation.[28] Many other studies have revealed, that the corrupt security services (particularly police and tax) impose additional fixed losses to investors, or to the other economic actors. According to 1993 study named *"corruption"* by Shleifer and Vishny, one reason why corruption seems to depress investment is that it acts like a tax on private investment, and a "corruption tax" is particularly burdensome for activities such as investment projects that by nature involve a long time horizon and a multiplicity of logistic, administrative and legal steps.[29] According to study conducted in 69 countries by the World Bank's International Finance Corporation, from fifteen different obstacles to start business, corruption is the major obstacle in developing countries, where as in advanced

[28] Thomas Wolf, Emine Gurgen; "Improving Governance and Fighting Against Corruption in the Baltic and CIS Countries – the Role of IMF"; Economic Issues 21; IMF 2000, P-7.
[29] Stephen S. Everhart, Mariusz A. Sumlinski, "Trends in Private Investments in Developing Countries," International Finance Corporation; Discussion Paper 44; The World Bank 2001, P-8.

developing and developed countries corruption occupies the middle and final places respectively.[30]

The second major problem associated with the corruption in the security sector can be the encouragement and growth of the shadow economy – statistically unreported economic activities whether they are legal or illegal businesses.[31] Corruption establishes informal rules, to which all actors engaged in shadow economy abide, because they get informal protection from the side law enforcement in exchange of bribe payments.

The main harm that shadow economy can impose on the country's development is that it's hidden, and there is no real information about the country's economic activities, GDP, and real average income, which impedes country's authorities and international consultants to elaborate appropriate fiscal and monetary policies. Shadow economy also distorts the tax system of the country, resulting in the state budget crises, which causes significant problems for developing countries. To fight shadow economy, it is important to create relevant state control mechanisms, mainly comprised of the organizations included in security sector (police, customs, tax services). However, when the facts demonstrate that the organizations of security sector are basic facilitators of shadow economy in the country, this raises the question that reform in security sector will be the only precondition to fight illegal economy and return all economic activities under the state control.

Although many studies have been done about inverse correlation of corruption and sustainable development, the existed literature does not distinguish security sector

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[30] Aymo Brunetti, Gregory Kisunko, Beatrice Weder, "How Businesses See Government," *Discussion Paper 33*, International Finance Corporation, January 1998.
[31] "Essence and Nature of the Shadow Economy," Corruption Research Center, Tbilisi, 1999, http://crc.gateway.ge/undp/shadowec.pdf.

from an entire public service in terms of anti-corruption reforms. However, to put emphasis on policies designed to curb corruption in security sector at the first place is essential, since the organizations included in the security sector (particularly the law enforcement) have direct responsibility to fight corruption in other governmental or non-governmental organizations and agencies. In addition, in most countries that face corruption, the security sector (basically police, security, and tax officials) is considered to be the most corrupt part of the government, typically for having the power and authority in their hands. In these circumstances, local or foreign citizens (including businessmen and investors) see no instance to appeal against the cases of corruption. There is lack of trust to security forces that they would defend lawful interests of individuals or corporations, and this factor subsequently impedes the incentives for legal businesses and investments, which are critical for sustainable development. In addition, corrupt security sector results in the lack of physical security in the country, high levels of organized crime in many cases, which further discourages local and foreign direct investments. The international community has suggested many different types of anticorruption reforms to developing countries. For example, the IMF is basically supporting reforms in economic policies and institutions, and is intensifying efforts to promote transparency and accountability in economic system.[32] However, if this process of economic reforms is not attended by the parallel restructuring and reforming of security sector, success will be much harder to achieve. There were many complaints from the side of developing countries that anti-corruption reforms suggested by the IMF failed. This probably happened because the reforms were administered only in economic system, leaving security sector contaminated with high levels of corruption. No matter

[32] Wolf, Gurgen, P-13.

what strategies and measures governments of international institutions undertake, without transparent, accountable and reliable security sector, no anti-corruption programs will survive and succeed.

Comparative Case Studies (Estonia & Georgia)

This chapter examines the relevance of the hypothesis provided in the introduction part of this paper, based on two case studies from the Former Soviet Union (FSU) region. To provide evidence of how security sector reform contributes to economic growth and subsequent development, cases of Estonia and Georgia will be discussed and compared in terms of their current political-economic conditions and the processes of reforms they went through. The cases of Estonia and Georgia are carefully selected for the following reasons: until the year of 1991, both countries were parts of the Soviet Union, and after independence both of them started to build independent states from the same political, economic and social levels. However, they took different directions of development, and today we can clearly see how Estonia has achieved relatively good and sustainable economic conditions, and more developed and reliable civil service, than Georgia. Therefore, by looking at these cases we will be able to draw much more reliable generalizations about the key variables affecting the sustainable development in this group of countries.

Estonia today is considered as advanced democracy by the international community, and is a potential candidate of NATO and EU membership. Where as Georgia is in extremely difficult economic conditions, with most of its population impoverished and state institutions contaminated with high levels of corruption. According to Transparency International's Corruption Perceptions index 2003 (CPI),

Estonia is least corrupt of all ex-communist countries (both FSU and Eastern European countries), while Georgia is put among the world's ten most corrupt countries.[33] *The Economist* makes the similar conclusion about Estonia: foreign businessmen consider Estonia as least corrupt of all ex-communist countries, which encourages investment and attracts capital (Greco P-7). According to 1999 report of Georgian Corruption Research Center (CRC), the shadow economy in Georgia ranges between 36% and 70% of its GDP. CRC also gives data on Estonia, where the share of shadow economy ranges only between 19% and 26% of country's GDP[34].

According to the European Commission's assessment, Estonia is a functioning market economy. Its open policy towards trade and capital movements, combined with large private sector and an attractive business environment, has provided strong incentives for the development of economic activity. European Commission also positively assesses Estonia's tax policy and admits that it encourages investment and that most of state industry has been efficiently sold off. The banking sector is Estonia is well developed and strong, since foreign-owned banks control more than 90% of domestic banks' assets. Foreign trade is rising resulting from a very liberal external trade and payment regime. Although GDP per capita is still less than half of the EU average, this GDP indicator is much better than one of Georgia.[35] These successful developments in Estonia can be seen as a result of leadership's political will and commitment to reforms and administrative changes in the government. According to evaluation of Group of

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[33] Transparency International, Corruption Perceptions Index 2003, http://www.transparency.org/pressreleases_archive/2003/2003.10.07.cpi.en.html

[34] "Essence and Nature of the Shadow Economy," Corruption Research Center, Tbilisi, 1999, http://crc.gateway.ge/undp/shadowec.pdf.

[35] Evaluation Report on Georgia, by Group of States Against Corruption (Greco), Strasbourg, 15 June 2001, P-4.

States Against Corruption (Greco), Estonia has adopted overall government anti-corruption policies, which aim at enhancing the transparency of decision-making and promoting public confidence toward state authorities. Greco claims that the present government coalition considers combating corruption and maintaining high ethical standards as priorities.[36]

On the other hand, we do not have these kinds of impressive results in Georgia. Country's economy is in severe conditions, possibly due to many reasons, though high corruption levels (particularly in the security sector) stand among the key variables. Some surveys have concluded that there is no corruption free sphere in Georgia, that a high percentage of Georgian companies frequently or regularly pay bribes and that the police, the customs, and the courts, those very agencies responsible for fighting corruption, are most widely affected by it.[37] This indicates on the importance of prioritizing of curbing corrupt practices in security sector, which should then fight corruption in other parts of government. According to 2000 report of Georgian Anti-Corruption Commission, corruption in Georgia has grown to the point that it is challenging the normal functioning of public institutions, hampering economic development, diminishing public trust in state institutions, and undermining Georgia's image in the international community. Businesses consistently complain of having to pay "transaction taxes" or bribes to government officials in order to conduct business.[38] According to the recent World Bank study, the bribes to public officials in Georgia exceed eight percent of the revenues of

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[36] Ibid.
[37] Ibid. P-14
[38] "Recent Report of the Georgian Anti-Corruption Commission," December 4, 2000, Washington DC, www.csis.org/energy/event001204boylan.html.

companies doing business in Georgia.[39] According to 2001 NGO sustainability index, the foreign direct investment that entered Estonia equals $241,000,000, where as in Georgia the amount of foreign investment counts only $101,000,000.[40] If we compare numbers of population in both countries (Georgia – 5 million; Estonia – 1,4 million), we will find out that aggregate foreign investments in Estonia is about eight times larger than aggregate foreign investments in Georgia. The GDP per capita is also more than two times higher in Estonia relative to Georgia according to 2000 estimate ($10,000 and $4,600 respectively).

Undoubtedly, corruption levels can be considered as a major independent variable affecting aggregate foreign direct investment, and economic growth in both countries. Corruption in the security sector can impede flow of foreign direct investment because of two reasons: unstable economy (you can not successfully plan, because of necessary informal payments), and physical security of investors. For example, in Georgia on three occasions foreign investors were kidnapped for ransom: British businessman Peter Show, Executive Director of Agro-Business Bank was kidnapped from the center of Tbilisi (capital) on June 2002, while driving his car.[41] One year before, Lebanese businessmen Sharbel Aoun was kidnapped also from Tbilisi and stayed in custody for six months.[42] The third known case was kidnapping of two Spanish businessmen, Antonio Tremino and Francisco Rodrigues, who stayed in criminals' custody for more than a year.[43] In addition to foreign businessman, there were many other cases when criminals kidnapped local businessmen or their relatives basically for the purposes of ransom. Those facts indeed

[39] Ibid.
[40] 2001 NGO Sustainability Index, USAID website, www.usaid.gov/locations/europe_eurasia/dem_gov/ngoindex/2001.
[41] Zurab Chiaberashvili, "Georgia: A State of Criminals," Network of Independent Journals, Issue No. 279, July 3, 2002.
[42] "Lebanese Businessmen Held Captive in Georgia Rescued," *Pravda Ru* online addition, 23 August, 2001
[43] Chiaberashvili.

damage the image of the country and certainly impede the flow of investments (mainly foreign, but also local) to the country, which is the basic tool of advancing country's economy. Nevertheless, the situation became worse after numerous allegations of public officials (mainly those involved in the security sector) by the civil society organizations, in having ties with criminals involving in those kidnapping activities. But despite extensive campaign raised by civil society and also some politicians, against law-enforcement agencies with connections to criminal organizations, Georgian government did nothing to investigate and reveal such connections, and always tried to prove that allegations were based or rumors. The high corruption levels in security sector is also proved by several cases in which Georgian law-enforcement officials were allegedly involved in illegal trade of arms and drugs. In the spring of 2002, independent TV channel "Rustavi-2", investigated and revealed arms smuggling operation, in which Georgian military officers where involved. However, authorities again did nothing to further investigate or arrest those officials. In June 2002, based on all negative facts described above, George Soros made an open statement, in which accused Georgian government in doing nothing in the fight against corruption.[44] Evidently, such environment undermines the country's ability to attract local or foreign investment in the country. It's known that corruption in public sector is in negative correlation to investment, but particularly corruption in security sector makes efforts to attract investments much more difficult, since potential investors see no instance capable to address the problems related to their physical security and security of their business activities.

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[44] Chiaberashvili.

Unlike Georgian government, Estonia took significant measures in improving

business environment and attracting of investments in the country. According to the 2001

report of Group of States Against Corruption (Greco), the problem of corruption in

Estonia is relatively limited in comparison to other former Soviet republics, which is

partly a consequence of favorable economic environment, people's determination to build

a new state, as well as the existence of a variety of relatively reliable state control

mechanisms. Furthermore, Greco stresses that Estonian authorities are determined to

fight corruption.[45] The 1998 public opinion poll in Estonia revealed that corruption had

not been spreading especially among politicians and civil servants, but was more

prevalent in private sector. More than 69% of respondents declared that during the last

five years they had no direct personal contacts with the corrupt behaviors.[46]

The major part of Estonia's success in curbing corruption can be seen in

government's commitment toward state reforms. It's notable that in the course of

administrative reforms and modernization, Estonia made very radical changes in

personnel policy, which features a big share of relatively young but well educated people

working in Estonian political management and civil service.[47]

It's also worth to mention that Estonian police reforms were attended by reduction

in size of police force. Today Estonia has relatively small number of police officers

including about 3,600 officers, down from more than 7,000 in 1993. Almost half of the

police force is under 30, and all police officers undergo some anti-corruption training in

the police school. However, Estonia has the special force in charge of fighting corruption,

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[45] Evaluation Report on Estonia, by Group of States Against Corruption (Greco), Strasbourg, 14 September 2001, P-22.
[46] Ibid. P-7.
[47] Ibid. P-3.

called *Security Police*, which was established in 1993 as an independent board within the Ministry of Internal Affairs. Although its role also includes intelligence gathering, anti-terrorism, and counter-intelligence, since 1999 the priority to the Security Police has become the dealing with the corruption cases. The most officers in the Security Police have higher education and are young; in 2000 the average age was 31 and the average length of service just over 5 years. The Security Police appears to be well-trained and well-equipped modern police force, with specialized training in corruption investigations.[48]

It seems that efficient fighting against corruption in Estonia partly was due to setting relatively high salary levels in security sector, and particularly in police. Many studies have been done, which claim that paradoxically law wages in civil service can easily breed corrupt practices, because corruption in this case can become a survival strategy.[49] The conditions under which police work, are relatively favorable from the point of view of susceptibility of corruption. The minimum police salary is around 25 percent less than the national average wage (which is approximately 5800 kroons/$450), but one of the highest in the public sector.[50] Citizen trust in the police is relatively high and rising. According to the *2000 International Crime Victim Survey*, 51% of Estonians found the police to be rather or very professional, a rise from 17% in 1993. According to

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[48] Ibid. P-8,9.

[49] See: **Susan Rose-Ackerman**, "Corruption and Government," Cambridge University Press 1999, P-72; **Oskar Kurer**, "The Political Foundations of Development Policies," University Press of America, inc. Lanham; New York, London 1997, P-104; **Paulo Mauro**, "Why Worry About Corruption?" IMF, Washington DC, 1997, P-5.

[50] Monitoring the EU Accession Process: Corruption and Anti-Corruption Policy in Estonia, Open Society Institute 2002 (EU MAP report), PP. 227-228, http://www.eumap.org/reports/2002/content/50/233/2002_c_estonia.pdf.

a survey conducted by Estonian Conjuncture Institute in January 2000, 60% of respondents said the police do a good or a very good job.[51]

In Georgia we have very different picture. Police forces in Georgia include 21,000 officers, which is 100% more than number of policemen in Estonia in terms of the ratio between the number of policemen and overall population in each country. In addition, Georgia never reformed its police (if not take into account minor restructurings), and thus has less effective police service.

Investigations on corruption (also on other crimes) are extremely complicated in Georgia. According to Criminal Procedure Code, three state bodies – respective investigative departments within the MIA, General Prosecutor's Office, and Ministry of State Security – are responsible for corruption investigations. This complicated bureaucratic structure further contributes to corruption in law enforcement. Although Criminal Procedure Code divides tasks and types of activities among those three law enforcement agencies, this complicated system results in duplication and confusion among law enforcement. The basic organization in charge of fighting corruption in Georgia is the Main Administration Against Corruption and Economic Crimes under the Ministry of Internal Affairs with staff of 335 (including regional divisions). According to 2001 Greco report, Officials working for the main administration do not have necessary training in this field because of budgetary difficulties.[52] Greco also states that it does not seem that the Main Administration has a proactive approach towards possible cases of corruption, but they react on the basis of information received from the operational units. Owing to financial difficulties, there is no centralized database or intelligence unit

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[51] Ibid.
[52] Greco report on Georgia, P-6.

collecting information about cases linked to corruption phenomenon.[53] Unlike Estonian police, the salaries of Georgian officers are extremely law; the average monthly wages to police and also to other security sector employees amount only 80 Lari ($37). The table #1 below illustrates the higher effectiveness of Estonian law enforcement efforts against corruption, over the efforts undertaken by the Georgian law enforcers. The table shows that the number of convicted public officials for corruption in Estonia exceed the number in Georgia, despite the fact that Georgia has much more corrupt civil service than Estonia (according to Transparency International's Corruption Index), and that the size of Government in Georgia is about three times larger than one in Estonia in terms of ratio between number of population and number of civil servants.

Table 1: Convictions for accepting bribes in different years[54]

	1998	1999	2000
Estonia	31	12	17
Georgia	12	4	1 (first half)

Conclusions and Recommendations

We can make the following conclusions from the discussed comparative cases:

- Corruption in security sector damages image of the state and impedes the flow of investments in the country, which is the basic precondition for sustainable development.

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[53] Ibid, P-7.
[54] Data are taken from Greco evaluation report on Georgia, and EU MAP report.

- Corruption in security sector acts like a tax on businesses, and thus discourages local and foreign investments.

- Corrupt security sector results in the lack of physical security in the country, and high levels of organized crime, further discouraging local and foreign investments.

- Fighting corruption in security sector should be given priority over the entire anti-corruption reforms in the country, since the security sector is the major fighting force against corruption in the other parts of government.

- Economic development greatly depends on political will of the leadership and their commitments to reforms (particularly in the security sector).

Based on case studies, we can identify the following reform strategies that might be used in the course of the security sector reform:

Primary: primary strategies are designed to create good governance by eliminating objective factors supporting corruption (e.g token salaries to security sector employees, and particularly of those in charge of fighting corruption). Primary strategies may include:

- Reduction in size of security sector (automatically reduces corruption).

- Increase in salary levels.

- Make law-enforcement procedures of fighting corruption simpler;

- Attraction of young, well-educated, and committed individuals to work with the security sector (particularly police, tax, customs);

- Imposition of stricter punishments for corrupt activities;

- Creation of Code of Conduct for officers of Security Sector.

Secondary: Secondary strategies can include:

Provision of technical capabilities of fighting corruption (e.g. central criminal databases);

Provision of necessary training for fighting corruption.