



Combatting and preventing corruption in Armenia, Azerbaijan and Georgia

How anti-corruption measures can promote
democracy and the rule of law

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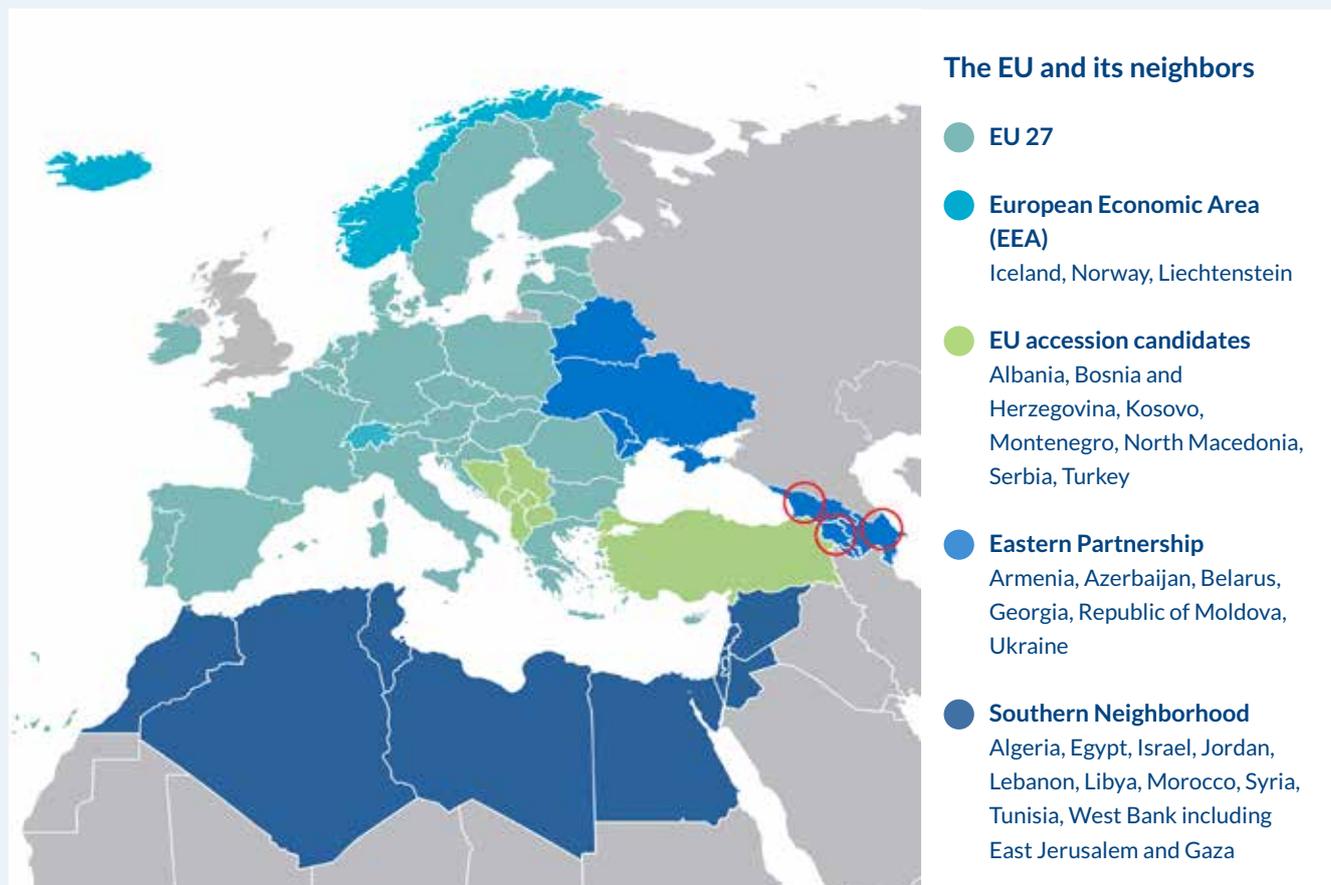
Silvia Stöber

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The Bertelsmann Stiftung project Strategies for the EU Neighbourhood focuses on countries bordering the European Union to the east and south

1. Instead of a preface: Why (read) this study?

... because democracy and stability in the South Caucasus have a lot to do with peace in Europe

Armenia, Azerbaijan and Georgia (along with Belarus, the Republic of Moldova and Ukraine) are part of the Eastern Partnership which, together with the multilateral initiative Union for the Mediterranean, drives the EU Neighbourhood Policy.

Since the 1990s, the European Union and Germany in particular have been supporting the transformation processes that promote democracy, the rule of law and a future-ready market economy in the region.

Yet the rule of law – as a basic prerequisite for democracy, social justice, freedom, stability and peace – remains a pipe dream for many people in Eastern Europe.

Reports on transformation regularly cite one fundamental factor that prevents the development of sustainable reforms, whether in the area of good governance, public administration, the legal system, competitive markets, entrepreneurship, property rights, political participation, health care or education. And that factor is: corruption.

Democracy, the rule of law and anti-corruption measures reinforce each other

Only a functioning, independent judiciary can prevent corruption, only reliable corruption-control measures and a separation of powers can ensure judges and prosecutors are incorruptible, and only democratic structures based on the rule of law can ensure transparency, oversight and independent government institutions and media.

The Council of the European Union, in its “Conclusions on Eastern Partnership policy beyond 2020,” reaffirmed the region’s “strategic importance” and the “joint commitment to building a common area of shared democracy, prosperity and stability.”¹

According to the Council, democracy, human rights, the rule of law, good governance, an independent, efficient and accountable judiciary, successful anti-corruption policies, the fight against organized crime, and democratic institutions are cornerstones of stable and resilient states and societies, and key conditions for development in other fields.²

Big money – big impact? The disproved formula

Corruption remains widespread even though for more than two decades the EU and other international donors have allocated billions of euros in foreign aid to promote the rule of law.

For Karl Schlögel, the historian of Eastern Europe, a term such as “transformation” does not adequately describe the processes that occurred after the fall of socialism, since those processes eclipsed the standard analytical concepts known in the West: “The most fantastic combinations and alliances [...] took place within the expansive social fabric of the collapsing empire, uniting former insiders, newcomers and self-made men, with corruption a historical presence that had grown over time. New ‘modern’ structures arose; kleptocratic capital merged with the secret service and other power structures; the mighty and the church conjoined with media aesthetics, à la Hollywood.”³

The result was a “power play without rules [...] There were no role models, no vocabulary for the unexpected birth of this new social class and this society, something which still applies today if one considers the unwieldy application of proximate terms such as ‘oligarchs’ and ‘mafia’” (ibid.).

Nevertheless, Europe has a responsibility to get involved where corruption is systemic and the rule of law remains a theoretical concept. Ultimately, promoting the rule of law is an essential part of conflict resolution and peacekeeping.

1 Council of the European Union. “Council Conclusions on Eastern Partnership policy beyond 2020.” May 11, 2020. Item 2. <https://www.consilium.europa.eu/media/43905/st07510-re01-en20.pdf>

2 Ibid., Item 9.

3 Karl Schlögel. “Denken ohne Geländer.” *Osteuropa* 69, no. 12 (2019): 6–7. All source material not originally in English has been translated for this report, unless otherwise indicated.

Of vital interest to Germany and the EU: well-governed neighborhoods

First, lasting stability within the European Union is only possible if the people living in its immediate neighborhood are also doing well. Second, peace and prosperity require democratic structures predicated on the rule of law. Good governance and the rule of law are what allow people to look to the future with confidence. And third, globalization is not a one-way street with only positive outcomes. Without the rule of law and viable economic prospects, people find themselves under pressure to emigrate. Income generated by corruption is laundered internationally and, in some cases, used for political purposes.

People are increasingly defending themselves against corruption and despotism

From Georgia, Ukraine, Moldova and Armenia to Tunisia, Egypt, Algeria, Libya, Morocco, Jordan and Syria, people are demanding an end to nepotism and abuse of power. Georgia's Rose Revolution of 2003 was only the first major protest in a series of civil movements that have been triggered by corruption and limited opportunities for social and political participation.

Why, therefore, is it so difficult to transform unpopular power constellations, even when international partners and reform-minded citizens work together?

From "closed club" to a form of government that ensures participation

The transition from structures in which only a few exert control over the state (so-called limited access orders; see section 2.2) to independent state institutions that offer opportunities for participation can be a minefield if existing elites use whatever means necessary to thwart reformers and defend their privileged access to public goods.

Anti-corruption policies can only succeed if power structures are modified. Corruption will always exist – but a state whose power structures are based on rules and on participation can ensure that public goods are distributed largely without corruption, since the latter, when it is only an exception and not the norm, can be made transparent and punished.

Promoting democracy and rule of law requires strong civil societies

The country reports in this publication describe and analyze anti-corruption reforms in the three South Caucasus states, along

with the reforms' many impacts. The research carried out on site focused on the three countries' civil societies, in addition to society at large. Without civil society and its actors, progress would not be possible, since they show how complex corruption is and how directly it affects people's everyday lives.

No country simply outgrows corruption as if it were a phase of childhood development – action must be taken!

Historic crises, such as the one caused by the corona pandemic, often aggravate existing shortcomings and dislocations. But crises also offer opportunities to change dysfunctional conditions faster than would otherwise be the case. Thus, they are just one more reason to focus our attention on good governance and anti-corruption measures in the European Neighbourhood.

Our sincere thanks go to the members of the Advisory Board who have supported our project, enriching it with their professional experience and expertise:

- **Dr. Tsy pylma Darieva**, social anthropologist and research associate at the Centre for East European and International Studies (ZOiS) in Berlin and associate member of the Institute for Slavic and Caucasus Studies at Friedrich Schiller University in Jena
- **Dr. Jens Deppe**, Senior Planning Officer for Administrative Reforms in the Specialist and Methodology Division of the German Association for International Cooperation (GIZ) in Eschborn
- **Daniel Hegedus**, Fellow for Central Europe at the German Marshall Fund in Berlin, with a focus on democratic backsliding, rule of law and populism in East Central Europe
- **Dr. Jan Koehler**, Research Associate in the Department of Development Studies (Drugs and (Dis)Order Project) at SOAS (School of Oriental and African Studies) University of London.

We hope you find the following report engaging and enlightening!

Miriam Kosmehl

Senior Expert for Eastern Europe
Europe's Future Program
Strategies for the EU Neighbourhood Project

2. Introduction

2.1 Methodology

The aim of this study is to provide those involved in international cooperation, civil society and the policy sphere with strategic recommendations for fighting corruption in country-specific contexts.

We begin by examining the prevalence of corruption and efforts to combat it in Armenia, Azerbaijan and Georgia, as well as corruption's international impact. The analysis and comparison of the three states in the South Caucasus shed light on key factors perpetuating corrupt structures and their influence beyond the countries of origin; they also illuminate factors driving the success of anti-corruption measures implemented as part of efforts to promote the rule of law.

These three states are telling subjects of investigation, since they developed along different paths after regaining their independence from the Soviet Union in the early 1990s, and they have chosen to align themselves differently vis-à-vis the EU/NATO in the west and Russia in the east. Moreover, each of the countries has taken a different approach to corruption. This is reflected in international benchmarks such as Transparency International's Corruption Perception Index, in which Georgia has been ranked in the top third for years, with Armenia in the second and Azerbaijan in the bottom third.

This raises a number of questions: Are the differences historically determined? How is corruption viewed in each of the countries? How strongly is it rooted there and what forms does it take? These are questions, in other words, about how power is distributed, about nepotism, cartels and monopolies, and about actors who cling to the status quo and others willing to engage in reform.

The issue is to what extent clans, oligarchs, smaller family groups and personal networks still shape society in these three countries.

Additional questions focus on which political and economic developments have led to wide-ranging reform efforts, which measures have been implemented to fight corruption, whether and how the public has been involved, and which outcomes are evident. Identifying outcomes is easiest for Georgia, where reforms began in 2004 and extensive information is available. Less material and fewer data and surveys exist on the reforms in Armenia and Azerbaijan.

This study is based on an evaluation of the literature on corruption and anti-corruption in the three South Caucasus states, and of political and social developments there. The author conducted interviews on site during one-week stays in Georgia and Armenia in September 2019 and in Azerbaijan in December 2019. Those activities were prepared and supported by the Institute for Development of Freedom of Information (IDFI) in Georgia, by the social scientist Tigran Matosyan in Armenia, and by Elnura Jivazada, who provided clarity on the Azerbaijani source material, especially on linguistic points. Media reports from and about the three countries were also used. In addition, the study draws on the author's findings and publications, which derive from interviews and regular, weeklong visits to the South Caucasus since 2007.

An advisory board consisting of five researchers and specialists evaluated the findings at four meetings and gave suggestions for improvements. The author would like to thank the members of the advisory board for their valuable comments.

2.2 Corruption

Democracy, the rule of law and corruption are interdependent. When corruption is widespread in a society, trust is lacking in public institutions. The separation of powers cannot be guaranteed; all citizens cannot rest assured they stand equal before the law. This calls into question the integrity of those working for the

state and its institutions. In such cases, democratic principles and the rule of law are not respected, and social stability is endangered or lacking completely.

Corruption is multifaceted, opaque, difficult to pinpoint precisely and, therefore, difficult to assess. Transparency International defines it as “the abuse of entrusted power for private gain” (Transparency International, n.d.).

Corruption provides a person or a group of persons with privileged access to resources that should be available to the general public. These may be raw materials, public budgets, or licenses, for example for mobile telecommunications. Access is achieved through personal contacts which take the form of nepotism, clientelism or patronage, rather than through transparent, fair procedures which reward the relevant competencies. People may be forced to pay bribes in order to gain access to services, education or employment. Complex networks can develop connecting different actors and demanding loyalty from them – networks based on mutual dependency and extortion.

In the political sphere, corruption serves to maintain or expand power. This can be achieved by electoral fraud, by exploiting the immunity granted those who hold political office, by designing laws to serve one’s own interests, and by using state resources to sideline political rivals.

In the social sciences, the term “limited access order” is used to denote societies with widespread corruption. These societies are dominated politically and socioeconomically by coalitions of influential actors, who control access to valuable resources, such as land and capital, and to certain activities, such as commerce and education. Members of such coalitions are able to exercise or threaten violence in an organized manner as a way of keeping others within desired limits. In contrast, open access orders are societies in which all citizens can participate in political and economic systems and can form organizations. This allows people to engage in impersonal exchanges and to compete for political control and economic resources. In these orders, the state possesses a monop-

oly on the legitimate use of force; the military and police are subservient to the political system (North et al. 2009).

The term “state capture” is also used to describe corruption, especially in transition countries or post-socialist states: It describes how individuals, groups or firms from the private or public sector engage in improper or non-transparent activities to influence the design of laws, regulations, decrees and other procedures – i.e. the ground rules – for their own benefit and to the detriment of the general public. The actors operate for their own benefit or the benefit of a group (World Bank 2000: 1ff.). In most cases, it is not easy to determine whether actors inside or outside the state apparatus originate these actions and, thus, whether the political system’s influence on the business sector is stronger, or vice versa. In many cases, there are close family or other ties between leading businesses and high-ranking members of the state apparatus or parliamentary representatives.

Informal structures that exist alongside or that dominate formal structures are one hallmark of states impacted by widespread corruption. Trust, defined as the assumption that other actors will honor commitments and obligations, plays a key role in this context. Informal structures are predicated on interpersonal trust between members of social groups, while there is less institutional trust in organizations, rules and the mechanisms for applying the rules.

Trust between individuals is also described in the social sciences as “bonding social capital” and “bridging social capital,” where “bonding” refers to horizontal ties within communities and organizations that create identity and social connectedness. “Bridging” takes place across lines dividing social groups of different origins, ethnicities, religions, etc. Strong bonding combined with weak bridging can undermine a society’s collective interests and hinder its development as a state.

2.2.1 Consequences of corruption

Corruption is detrimental to the common good. It can deprive talented individuals of the chance to learn an occupation, workers of job opportunities and businesspeople of commercial contracts. It can impair a country’s infrastructure and endanger its national security during a crisis or war. Dysfunctional state institutions complicate people’s everyday lives. This puts more pressure to emigrate on individuals who lack future prospects or opportunities to earn an income.

Comprehending the nature and extent of corruption and of insufficient rule of law is easiest when they bring a state and its institu-

tions to the brink of dysfunction. This can lead to mass protests, instability and – as in the case of Syria – war.

Corruption aids organized crime. The latter has proven so agile in recent years that it has expanded beyond the countries from which it originates. Revenue generated by crime or corruption can be withheld from originating countries through money laundering that makes use of financial market instruments, such as offshore accounts and companies. Corruption also serves as a foreign policy tool: Decision-makers abroad are bribed and can be blackmailed as a result.

The coronavirus pandemic shows, moreover, that there can be global repercussions if individual states have inadequate health-

care systems – due, in part, to systemic corruption – and are unable to contain the spread of a disease.

2.2.2 Forms of corruption

For clarity, a distinction is made between “petty corruption” and “grand corruption.” Petty corruption takes place mainly between public institutions and individual citizens, usually through advantages granted following the payment of a bribe and through abuse of power. Doctors, police officers and other public employees may use bribes to supplement their income. Accepting such money and passing it on to superiors can, moreover, be part of a wider system of income generation which extends to a society’s upper echelons. Such a system can also be used to put pressure on subordinates and force them to break the law. This is why a portion of an employee’s salary is sometimes paid out illegally in cash, handed over in envelopes and thus making the recipient susceptible to blackmail. In contrast to grand corruption, petty corruption includes practices in which individuals are required to act unlawfully – paying a bribe, for example – in order to receive public services to which they are entitled.

Grand corruption refers to higher levels of the political system, state apparatus and economy, where it usually involves larger sums of money and far-reaching decisions – for example, access to resources, such as raw materials and licenses, or land for the benefit of a person or group. Influencing tax and customs legislation for one’s own benefit and to drive competitors out of the market falls into this category, as do activities ensuring that taxes can be evaded with impunity.

Frequently, no clear distinction is made between grand and political corruption. This study will follow the Basel Institute on Governance, which classifies as political corruption actions taken and decisions made in order to retain or expand power. These include vote buying and the intimidation of voters, and the repression of independent actors and political opponents, along with the use of the courts to achieve these ends.

To describe the extent and depth of corruption in greater detail, a distinction is made between occasional and systemic corruption, following Stefes (2006: 27ff.). Occasional corruption arises from sporadic opportunities, usually involving a limited number of people; often it is a matter of exchanging money or other resources for a favor from a civil servant or politician. In contrast, systemic corruption is firmly rooted: It is subject to informal rules and can involve a large number of participants who organize systems of mutual protection to avoid detection.

Where corruption is possible, organized crime can proliferate. Groups involved in organized crime bribe public officials and decision-makers as a way of systematizing the procurement and distribution of goods or services

2.3 Combatting corruption

The rule of law limits corruption by preventing abuse of power for personal benefit or advantage and, thus, privileged access to resources only for certain groups. This is ensured by society’s broad participation in policy-making and legislative processes. Government representatives, public administrators and members of executive bodies are bound by these laws; they may not act arbitrarily against citizens and the public interest. The separation of powers ensures this, as does, above all, an independent judiciary. Control is exercised by parliaments, civil society organizations and the media, which are responsible for ensuring transparency. When these conditions are met, the public trusts government institutions and their representatives, and is not dependent on informal structures driven by mutual dependencies.

In past decades, implementing the principles underlying the rule of law has been a prerequisite for receiving development aid and economic support from international partners. Accession of new members to the EU has also been linked to this, as has rapprochement with the EU by countries in the EU neighborhood through association and partnership agreements.

Moreover, programs, international agreements and initiatives at the intergovernmental level have existed for decades that deal – specifically or in part – with combatting corruption. These include the United Nations Convention against Corruption (UNCAC), the Council of Europe’s Group of States against Corruption (GRECO), the Istanbul Anti-Corruption Action Plan of the Organization for Economic Cooperation and Development (OECD), the G20 An-

ti-Corruption Action Plan, the Open Government Partnership, and the Extractive Industries Transparency Initiative (EITI) for states exporting natural resources. These agreements focus on providing recommendations, monitoring the implementation of administrative and judicial reforms, reducing bureaucracy (e.g. through digitalization), establishing anti-corruption authorities, and enforcing laws.

However, when implementing measures to promote the rule of law, country-specific factors must be taken into account, such as legal traditions and different conceptions of what the rule of law actually means. A mere transfer of laws and institutions or the insistence on certain principles regardless of a country's development can prove counterproductive, just as too many foreign consulting services can lead to advisors competing with each other instead of cooperating meaningfully. Moreover, to be successful and have a long-term effect, any measures introduced must not be perceived as merely having been brought in from outside, rather those individuals responsible for their implementation and, above all, those affected by the measures must be able to identify with them.

Introducing the rule of law and reducing corruption require a profound shift in the balance of power in many states which were once part of the Soviet Union. Engendering such a shift depends on pressure from outside and from within these societies, as well as a will-

ingness to change the ground rules on the part of those groups that control access to resources as the sole holders of power.

For pressure to arise from within society, an awareness must exist that corruption drives inequality and limits future prospects and that this situation need no longer be tolerated. A willingness must be generated throughout society to stop relying on personal relationships and trust state structures instead.

Influential groups must see an advantage in transforming the state from a limited access order to an open access order, i.e. opening access to resources, ending the close connection between economic resources and power, and allowing competitors to enter markets. They must also be willing to create institutions that guarantee property rights and ensure people can tap into sources of income without having to rely on personal relationships. It must be attractive for powerholders and others to invest their income in their own state instead of transferring it to countries where property rights are guaranteed by the rule of law.

This study shows that some areas can be successfully freed from corruption; informal power structures and institutions established over decades are difficult to change, however, despite reforms to formal structures. Therefore, it is increasingly important that international financial flows be subject to controls which make it difficult to invest the illicit income resulting from corruption.

2.4 References

Unless otherwise noted, all links listed in this publication were accessed on July 17, 2020.

Official websites maintained by Armenia and Azerbaijan in particular are often no longer accessible because of the military escalation between the two countries and the ensuing targeted cyberattacks. Whether or not these websites will be permanently damaged cannot be predicted at the time this publication underwent its final editing.

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3. Executive Summaries

3.1 Armenia – A promising change of power

Armenia is an example of how a limited access order that has been reinforced for decades can reach its limits and how a peaceful transfer of power can lay the foundations for an open access order.

The power groups that dominated Armenia until 2018 used the state to their advantage in a way that can be seen as state capture. They had established themselves as early as the 1990s, profiting from the economic scarcity present in the country and the isolation that resulted from the war with neighboring Azerbaijan. Oligarchic monopolies became prevalent adjacent to security and power structures, largely controlling the import and distribution of food and everyday goods. Businesspeople thus generated income at the population's expense, for example through high food prices, in addition to proceeds resulting from everyday bribes. At the same time, people were prevented from setting up their own small and medium-sized enterprises. The IT sector, on the other hand, developed relatively freely, as the oligarchs had difficulty comprehending it, making it of little interest. Corruption in the mining sector not only led to an unfair distribution of income from the country's resources, it also contributed to environmental degradation and to the public's exposure to health hazards.

The income model used by these power groups proximate to Armenia's political leadership was not, however, flexible enough to survive the various crises that occurred. Recurring protests beginning in 2008 made it clear that the public's willingness to tolerate the situation had reached its limit.

Myriad events led to people losing confidence in the ruling Republican Party. There were too many discrepancies, for example, between the actual power structures, as publicly discussed and reported in the media, and how the ruling party claimed to promote democratization and the rule of law. When it also became clear during the "Four-Day War" in 2016 that corruption adjacent to the armed forces was also endangering the country's security, resentment of the government spiked yet again.

Following the obvious manipulation of elections and referenda, the public no longer viewed Armenia's parliament and government as legitimate. At the same time, this prevented a normal change

of power from taking place. A protest movement subsequently emerged – driven by numerous young individuals and groups – that saw itself as unattached to politics and thus un beholden to corruption. It succeeded in connecting with the public even across social boundaries, organizing events throughout the country that generated pressure for a peaceful change of power.

Due to the high number of participants and to signals from the army endorsing the protests, the ruling party refrained from forcibly crushing the opposition movement led by Nikol Pashinyan, whom parliament ultimately elected prime minister.

Perceived as free and fair, the parliamentary elections held in December 2018 gave legitimacy to Armenia's parliament and government. The promised fight against corruption resulted in oligarchs no longer systematically appropriating state resources for themselves.

The state demonstrated its agency by having authorities investigate a number of business leaders, politicians and government officials, and by examining the activities of members of the new government. The media reported, however, that some businesspeople considered corrupt were not being prosecuted. Members of parliament, on the other hand, began asking whether the floor leader of the Prosperous Armenia Party, who owned several companies, was violating the constitution, which bans government representatives from engaging in economic activities.

The change of power remained incomplete and questions remained unresolved about who could legitimately hold public office, issues that were also evident in the judiciary, especially in appointments made to the Constitutional Court. In contrast to demands that the principle of separation of powers be upheld, demands that were also made by international organizations, the new ruling party and its supporters maintained that several judges had obtained their appointments illegitimately in order to remain on the bench for years to come. Pashinyan tried to solve the problem in a proven – and populist – manner, namely by again giving the people a voice, this time through a referendum. After consultations with representatives of civil society and international institutions, the

government chose not to implement some form of transitional justice, such as a process for reviewing the appointed judges.

In terms of economic policy, the Pashinyan government has pursued an approach that has not forced previously dominant business owners out of the market, on the one hand, but that is meant to provide a level playing field for all participants and for foreign investors, on the other.

It is unclear whether it will be possible to end corrupt relations between oligarchs and officials through criminal prosecution alone. In Armenia, the reforms implemented in the first two years of the current government have not been flanked by a fundamental restructuring of the public administration, as was true in Georgia, for example, where new organizations for providing services were founded and where police officers were dismissed en masse and only rehired after special training. At the same time, wage increases in Armenia have reduced the incentive to demand bribes.

This was also the objective behind campaigns calling on people to publicize instances in which bribes have been expected, for example in the health sector. There has been considerable willingness among the public to create a “new Armenia” that is corruption-free and thereby gain international recognition. Yet it has also become apparent that the more people can derive a personal advantage

by activating their own contacts, the less inclined they are to view such interactions as corrupt.

One problematic aspect of the reform drive has been that actors friendly with the old ruling party have sought to influence the public by using the media companies they own to spread disinformation about the new government. The latter has tried to counteract this, for example by banning “fake news” during the corona pandemic. This has proven difficult, however, since the ban’s general wording could be used to limit freedom of expression in general.

According to surveys carried out in 2019, the government has nevertheless succeeded in building among the public a modicum of trust in political and government institutions. The transfer of power in 2018 paved the way for an open access order, the first signs of which were apparent by 2020. The country’s critically minded civil society – not all members of the protest movement are now followers of the government – and various independent media have focused on the government’s authoritarian tendencies and missteps. The example of Armenia thus shows that an oligarchic system can indeed collapse under its own weight and that a change of power can occur which favors the creation of an open access order. Moreover, the power shift has purportedly reduced the pressure on Armenians to emigrate and made it less likely that the proceeds from corruption will be illicitly transferred abroad.

3.2 Azerbaijan – Retaining power and preventing petty corruption

The case of Azerbaijan shows that situations can arise in which power groups oppress the public, but are nevertheless also prepared to reduce corruption and facilitate access to resources – at least to some extent – if their income stream is threatened.

In recent decades, the country evinced systemic corruption on practically all levels. Informal structures existed alongside formal ones, often overriding them. This was due to a lack of trust in institutions, a situation that can be partially explained by the country’s history: For centuries, the formal, administrative systems present on the territory of today’s Azerbaijan were subject to foreign rule. Although local groups were integrated into the power structures, they could only exert real influence on the community and regional levels.

After the fall of the Russian Empire in 1917 and prior to Soviet rule in 1920, the intellectual and political elites did not have sufficient time to establish a nation-state, complete with parliamentary democracy and secular laws. As the dominant religion, Islam did not play a decisive role separating Azerbaijan from neighboring countries in the South Caucasus. Azerbaijani society was largely secu-

lar and influenced by liberal ideas from Russia and Western Europeans investing in the oil business.

During the Soviet era and afterwards, interpersonal trust – bonding – remained prevalent based on kinship, common regional origin and friendships among neighbors in cities, and among those with a shared educational background or occupation. Administrative structures also remained largely unaffected when the Republic of Azerbaijan gained its independence in 1991.

What is remarkable in this case, including in comparison to other post-Soviet states, is the almost continuous dominance for half a century of some power groups in a limited access order. Described as a power pyramid, this structure was established by Heydar Aliyev, who advanced to the top of what was then a Soviet Republic in 1969. After his return to power in the early 1990s, he also succeeded in balancing the interests of various power groups within the country and anchoring the monopoly on the use of force within the office of the presidency. A key factor here was that he was able to rely on income from rising oil revenues.

His son Ilham took control of this structure when he became president in 2003. He secured his family's position at the top of the state against competition from within the power pyramid by strengthening the presidency in 2016/17. He achieved this through constitutional amendments and by creating the position of first vice president for his wife, making her the second most powerful person in the country. Limited in number, Azerbaijan's power groups – its clans and oligarchic systems – thus secured access to resources through the country's authoritarian leadership.

A certain willingness to expand this access and to reduce corruption has only become apparent in recent years, after forecasts showed that the economic growth triggered by oil and gas development was likely to end. The financial, currency and economic crisis caused by the fall in oil prices in 2014 called the ruling groups' income models into question. Corrupt structures hindered efforts to find solutions leading out of the crisis. As a result, the banking sector was not able to respond adequately when the currency weakened. Economic sectors beyond the oil industry were not sufficiently developed, partly due to weaknesses in the country's infrastructure, which had been linked to cases of corruption. Moreover, greater pressure was being exerted by the public, due to falling incomes from both official and informal sources.

Pressure from abroad also increased. In some cases, costly image and lobbying campaigns by the country's leaders proved counterproductive. Azerbaijani leaders were also put under pressure in international initiatives that the country had voluntarily joined, such as EITI and the Open Government Partnership, when repressive measures were carried out against the country's population. Foreign companies, in turn, sullied their reputations by becoming involved in corruption scandals.

President Aliyev used the crisis to restructure the power pyramid. He dismissed ministers and members of the old nomenklatura, while strengthening the position of his wife and, as a result, the intellectual and progressive power group adjacent to her and, in some cases, further afield. He has thus created access to higher positions of power, at least for younger representatives of the elite.

Access is also being granted to non-privileged but talented students, thanks to a reform of the education system and transparent and fair entrance exams to universities and administrative positions. Such individuals are needed both in the state apparatus and in the economy if new sources of income are to be generated beyond the oil industry. According to a number of sources, oligarchs have experienced economic difficulties, on the one hand, and young entrepreneurs have been given more freedom to act, on the other.

Legislative reforms affecting the business community and taxes and customs duties are meant to open the economy to foreign investors and entrepreneurs, as are the suspension of inspections and the establishment of special economic zones for foreign companies – with the Ministry of Economy as the sole point of contact. It is not yet clear, however, how effective these measures will be and whether they can forestall a further deterioration of the economic situation, which has resulted from the unprecedented fall in oil prices in April 2020.

Measures to reduce corruption in interactions between individuals and state authorities have been both visible and tangible. Even though a top-down approach was used without the participation of civil society, it has been possible to build public trust in the country's institutions. The key here was a radically new approach, one that made use of transparent and efficient "service centers" which are modern in design and staffed by new, specially trained personnel.

That customers do not experience corruption at the ASAN and DOST service centers is a crucial factor for ensuring the public accepts and makes use of them. By promoting this model abroad, Azerbaijan is hoping to gain prestige on an international level. It is possible that this immaterial gain, together with the fees collected by the centers, will be worth more than the income from bribery and corruption.

Additionally, staff members following a transparent set of rules are presumably more efficient than subordinates who are loyal only because they are forced to engage in activities that make them susceptible to blackmail. Instead of offering bribes to civil servants, people can now pay set fees to obtain government services, which is why they have been demanding that the ASAN approach be used to deliver other services. The question here is whether the model will catch on in the provinces, i.e. to what extent will creating new authorities and weakening existing ones be possible while avoiding an overt power struggle.

Digitalization and training alone are not enough to reduce corruption among public authorities. Administrative structures are apparently proving more sustainable here, to the extent that they create a new awareness among staff and relieve them of the pressure to do favors for friends and relatives.

The drive to use digitalization to reduce bureaucracy and corruption is not being questioned, nor is the use of cameras to monitor streets and other public places – not even by independent actors and the opposition, although photos and data have already been used against activists and a journalist.

The various irregularities occurring during parliamentary elections on February 9, 2020, the bar association's taking action against independent lawyers, and the government's handling of the recent drop in oil prices and the corona pandemic all suggest that reducing petty corruption and disempowering some oligarchs and post-Soviet elites have been geared towards ensuring the current leadership retains its grip on power. Creating an open access order is thus not the objective of these corruption-reducing steps, nor is establishing the rule of law, along with separation of powers, legitimate legal structures and equality of all before the law.

Efforts to reduce systemic corruption have proven to be a means of dealing with the financial and economic crisis, which has not caused major social or political upheavals among the public. However, at least a partial opening will be required to meet the growing

need for political, administrative and business managers capable of adapting to the "post-oil era," and to give the younger generations a viable future within the country and keep them from turning against the state leadership.

In addition, the public debate, which is increasingly being conducted in social media, is almost impossible to control – and cannot be stifled by smear campaigns against independent actors and opponents. Pressure is also generated when international journalists and NGOs expose and report on instances of corruption, when such instances are officially investigated and when action is taken against money laundering in other countries. External influence can have an impact, not least since the leadership around President Aliyev wants to legitimize itself with the Azerbaijani public through its good standing abroad.

3.3 Georgia – An anti-corruption role model with dents

Georgia's development shows that a country considered a failed state can be fundamentally transformed within a few years into a state operating according to efficient standards of modern governance. Yet it also shows the tenacity of informal structures which, despite the strengthening of formal structures, can exist concurrently or become predominant once again. The example of Georgia makes it particularly clear that organized crime must be combated transnationally, given its agility and elusiveness. It also shows that corruption, along with misguided reforms, can generate push factors for migration.

The situation that Georgia faced when it gained its independence in 1991 was rife with challenges. As in neighboring states, corrupt networks were prevalent in the former Soviet republic. More than elsewhere, however, they were run by individuals engaged in organized crime, some of whom became politically active during the years of transformation and war, and even founded paramilitary associations. After returning to lead Georgia in 1992 – first as chairman of the Georgian State Council and then as president in 1995 – Eduard Shevardnadze had great difficulty restoring the monopoly on the use of force to state control.

One of the few factors in his favor was Georgia's early European-transatlantic orientation combined with financial support from international organizations and the US. It is not possible to speak of a limited access order or state capture, since there was no well-structured power pyramid present in Georgia at the time, rather numerous small groups competing for the few available sources of income. Corruption threatened the country's security and economy. The state was dysfunctional.

It was therefore all the more impressive that Mikheil Saakashvili and his comrades-in-arms were able to re-establish the central role of the state beginning in 2004, putting it on a viable footing by creating a functioning tax system, essentially through the introduction of a flat tax. The government also succeeded in gaining the trust of the country's citizens, who, given the weak state, had relied primarily on social contacts (bonding).

Through its publicity campaigns, the government also brought about a lasting change in people's thinking. This was most impressively achieved in the police force. Today, the country's citizens' centers and its digitalized system of public procurement serve as models for other nations.

Despite the exemplary nature of these activities, however, it is questionable how appropriate the efforts were that dealt with gangs and corrupt elites, as human rights violations occurred – and not only in isolated cases. Criminal organizations proved flexible and moved abroad, including to Germany. This again demonstrates the need to fight organized crime across borders.

The example of Georgia's health-care system shows that radical privatization and deregulation as a means of fighting corruption can boomerang and lead to new forms of corruption. Today, the health sector is dominated by a small number of businesses that own insurance companies, hospitals, pharmaceutical firms and pharmacies. Not only are drug prices higher than in other countries, the population now often lacks access to adequate health care and has come to mistrust institutions. Seeking treatment for medical conditions and looking for work to pay off debts have been two common reasons motivating Georgians to apply for asylum in the EU.

The elimination of controls – on food and vehicles, for example – also had health consequences for Georgian society; their re-introduction proved arduous and was accompanied by the threat of new instances of corruption, as car inspections have shown. The lack of regulation has made it possible for companies in certain economic sectors to dominate the market. New informal methods have also appeared, such as the “forced donation” of property to the state.

Saakashvili’s two terms in office and his United National Movement (UNM) are examples of how some governments are willing to undertake reforms designed to establish the rule of law and fight corruption – while leaving open opportunities for political and grand corruption, or creating new ones through deregulation. Moreover, the leadership around Saakashvili lacked the political will to reform the judiciary in such a way that it could operate unencumbered by political influence.

Only in some areas is it possible to speak of a limited access order secured by an authoritarian government, especially during Saakashvili’s second term in office. For example, access to education and positions in companies and public institutions was possible even without informal contacts, although they could play a role. Moreover, UNM and Saakashvili handed over power to their opponents after they lost elections in 2012 and 2013.

Failures to combat political and grand corruption became even more apparent during the subsequent term in office of the Georgian Dream alliance. Its founder and leader, Bidzina Ivanishvili, succeeded in bringing about a change of power by making promises and running a large-scale election campaign – and thanks to his unmatched wealth. After almost two terms, Georgian Dream representatives occupied positions on all political levels and in key institutions. When Ivanishvili’s Cartu Charity Foundation bought up the loans of over-indebted citizens before the second round of the 2018 presidential election, the opposition and international observers deemed it vote-buying.

Ivanishvili’s power can be considered more far-reaching than that of Saakashvili and his allies during their time in office. Although Georgia has a vibrant civil society and opposition, they have not been able to serve as an effective counterweight to Ivanishvili, say-

ing he has been informally influencing politics since 2013. Yet the ostensible goal of carrying out a constitutional reform and transitioning from a presidential to a parliamentary republic, still back under Saakashvili, was to strengthen democracy.

During the corona pandemic, the power that the Orthodox Church and its non-elected representatives have over the executive branch became clear when the patriarchate disregarded official decrees, such as the declaration of a state of emergency and the nightly curfew. However, the government has been quite successful in appealing to common sense and getting people to limit interpersonal contact.

Given the polarized political landscape, other important informal actors are representatives of the international community, such as the EU and diplomats from various countries, who are regarded by some in civil society as “referees.”

After the change of government in 2012, the Georgian Dream alliance retained its European-transatlantic alignment and continued its reform effort. In light of the EU Association Agreement and the Deep and Comprehensive Free Trade Area, the government made adjustments, for example by revamping social assistance programs. Implementation of the EU regulations took time, however, given the lack of personnel in the country of only 3.7 million inhabitants.

The legal changes, however, have not always proven sufficiently effective in practice, something that can be seen in the judiciary: Formally, judges have become more independent, but access to the courts has been strongly influenced by a cadre of judges and by political power. In view of this, it is questionable whether it makes sense to insist on the appointment of certain judges for life as a fundamental principle.

Opinion polls that asked more than just whether respondents approved of membership in the EU and NATO revealed disappointment as a result of the public’s overly inflated expectations. It is clear that the EU’s sizeable financial commitment has hardly been noticed.



Armenia

A promising change of power

4. Armenia

4.1 Introduction to the current situation

In December 2018, the British weekly magazine the *Economist* declared Armenia “Country of the Year 2018” (Economist 22.12.2018). In 2019, Armenia, which had long had an unimpressive ranking, rose from 105th to 77th out of the 180 countries in Transparency International’s Corruption Perceptions Index.

This was preceded by a peaceful transfer of power, brought about by protests that enjoyed broad popular support. Ending the corruption that was widespread in the country was one of the protesters’ main demands (Shahnazarian 3.2020: 5). Giving in to pressure from the protesters, parliament elected their leader, Nikol Pashinyan, prime minister. At the end of 2018, the alliance led by Pashinyan won a parliamentary majority. However, supporters of the previous ruling Republican Party retained their predominant position in the economy, judiciary and media.

Although the Republicans had nominally promoted the rule of law while in office, a small number of interest groups with close ties to the business and political spheres controlled de facto access to public resources, such as mining licenses, and markets for imports, food and everyday goods. The high prices resulting from these monopoly structures were an enormous burden for ordinary citizens (Giragosian 2009: 3; Shahnazarian 9.2019: 6).

Experts saw this as state capture: the appropriation of state structures for the private benefit of individual groups at the expense of the general public. The business leaders referred to as oligarchs helped the Republicans retain power by manipulating elections through vote buying and by exerting pressure on employees (Policy Forum Armenia 2013: 7; Shahnazarian 3.2020: 3ff.). The oligarchs’ bodyguards were able to use violence against individual citizens without any threat of genuine punishment (Stefes 2006: 130; IWPR 6.7.2012).

Richard Giragosian, director of the Regional Studies Center think tank, in Yerevan in September 2019: “The so-called oligarchs in Armenia are much less sophisticated than those in Ukraine or Russia. They are therefore much easier to control and correct. What we are seeing, however, is only the initial opening of important goods-based sectors.”

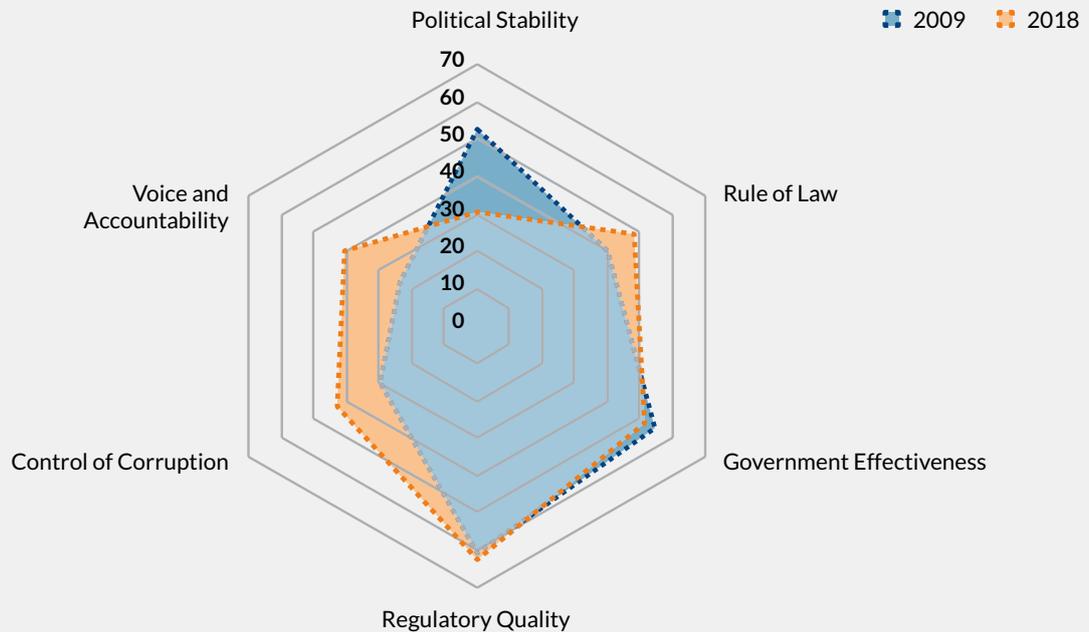
Corruption was endemic in state institutions. It had been entrenched for decades, as the transition from the Soviet era to independence involved few structural and personnel changes and was accompanied by persistent corrupt practices. The conflict with Azerbaijan to the east over the territory of Nagorno-Karabakh and Armenia’s subsequent regional isolation facilitated the emergence of the oligarchic system during the transformation phase of the 1990s.

Given the weak formal institutions known for their arbitrary decisions, people had to rely on informal structures based on kinship and friendship for their daily survival (Shahnazarian 3.2020: 3). As a result, interpersonal trust in the form of bonding was strong, but trust in institutions was weak (Bertelsmann Stiftung 2020: 14). Bridging across social borders is one result of the protest movement that began in 2010, and at least parliament now enjoys greater trust among the population than under the old government (International Republican Institute 9.12.2019).

Lena Nazaryan, one of the protest movement’s leading activists and parliamentary vice-president since 2019, on the change of power in 2018: “This revolution was about justice. I would not say that the people of Armenia are against democracy. Of course they are for democracy. They want democratic systems. But in this movement, people were protesting against social injustice.”

To this day, Russia, as a military protector, still plays a key role, as do the Russian companies that have a significant presence in Armenia’s infrastructure, especially in the energy, rail transport and telecommunications sectors (Bertelsmann Stiftung 2020: 5). This limits Armenia’s ability to set its own foreign and domestic policies. This became evident, for example, when Armenia withdrew from the EU Association Agreement in September 2013, which was ready to be signed. Yet the government subsequently negotiated an agreement with the European Union that reflected the new conditions following Armenia’s accession to the Eurasian Economic Union – a development which, in turn, shows that Yerevan sees the EU as a counterweight to Russia’s influence in the region.

FIGURE 1 Institutional framework for Armenia – Comparison of 2009 and 2018



“Political Stability” declined, while “Voice and Accountability,” “Control of Corruption” and “Rule of Law” improved significantly.

Source: World Bank – The World Governance Indicators 2019
<https://info.worldbank.org/governance/wgi/Home/Reports>, own illustration
 Scale: 0–100, with 100 as highest value

| BertelsmannStiftung

In terms of its social situation, Armenia has a poverty rate of 24 percent and an unemployment rate of 19 percent. The average gross monthly wage in 2019 was around €340. The International Monetary Fund (IMF) estimated the shadow economy to be 36 percent of gross domestic product (GDP) in 2015. Moreover, the population is highly dependent on remittances from relatives working in Russia and other countries. In 2019, these payments amounted to some €1.8 billion, with Russia accounting for €1.4 billion (commonsense.eu 7.4.2020). Thus, recessions like the ones that have taken place in Russia in 2014 and 2020 have a direct impact on Armenians’ income. Partially due to emigration, the country’s population has decreased from 3.45 million in 1992 to (officially) 2.97 million in 2019.

The legacy of the previous government, especially the shortcomings in the health-care sector resulting from massive corruption, have proven a heavy burden during the corona crisis. Only by imposing drastic measures was the new government under Pashinyan able to stop the spread of Covid-19 and prevent hospitals from being overwhelmed. The measures have, in turn, had a sizeable im-

impact on the country’s social and economic situation, causing considerable discontent.

At the same time, the new government found itself under great pressure to make up for deficiencies in the armed forces that were also the result of corruption; some are even said to have led to fatalities when violence erupted in April 2016. One important aspect of the public’s trust in the new government under Pashinyan was the issue of how forcefully the new leadership would support the country’s ability to defend itself against its neighbor Azerbaijan in the dispute over the contested region of Nagorno-Karabakh and seven other regions under Armenia’s de facto control. That put pressure on Pashinyan – who, in contrast to his predecessors Robert Kocharyan and Serzh Sargsyan, is not from Nagorno-Karabakh – to take a resolute stance and satisfy public opinion, which is very sensitive where this issue is concerned. This was one of the many reasons why new skirmishes between Armenia and Azerbaijan began in July 2020 that have the potential to turn into an even larger conflict entailing significant sacrifices on both sides and setting the region back by years. There is also a danger of spill-over effects into Georgia, where Armenian and Azeri minorities live.

4.2 Historical background

The corrupt structures that existed in the Soviet Union, which had already developed during the tsarist era, remained largely intact in Armenia even after independence in 1991. Corruption thus persisted in the country's administrative structures and among their personnel.

It is true that the long-standing head of the Armenian Communist Party, Karen Demirchyan, had to give up his post during perestroika in 1988. But thanks to his connections and the assets he had amassed during Soviet times, he became a wealthy businessman after independence and returned to politics in the mid-1990s. He was assassinated along with other politicians in an attack on parliament in 1999. His son also went into politics (Stefes 2006: 77; Suny 1993: 128).

Efforts to fight corruption were already underway before the Soviet Union collapsed, but they hardly affected local informal structures. Many members of the nomenklatura remained in their positions during the transformation phase: Ten years after the end of the Soviet Union, they still occupied 60 to 70 percent of the state apparatus; 65 percent of the era's decision makers had belonged to the Soviet elite, and 80 percent of 50 Armenian companies were in the hands of the former nomenklatura (Stefes 2006: 93).

In 2006, Stefes described the corruption in Armenia's government institutions as being highly centralized and very well organized: Police officers and civil servants passed on the bribes they received to superiors, who in return offered protection to loyal underlings. Jobs in the civil service cost between \$3,000 and, in the case of high-level posts in government ministries, several million dollars. Since few citizens had such sums at their disposal, they would have had to borrow the money and thus expose themselves to the pressure of repaying their debts after acquiring a post. Given the low salaries that were paid, only bribes could help (ibid.: 100f.).

Efforts to separate Nagorno-Karabakh from Azerbaijan influenced the change of leadership following the dissolution of the Soviet Union. Lacking resistance from the Communist Party, the people elected the popular intellectual and head of the Karabakh Committee, Levon Ter-Petrosyan, as the first president of independent Armenia in 1991. Within a few months, Ter-Petrosyan succeeded in disbanding more than 20 militias which had formed as a result of the Nagorno-Karabakh conflict and which were in some cases led by criminals. Interior Minister Vano Siradeghyan used controversial methods to combat organized crime (ibid.: 44f.).

The army was founded by local warlords outside of state control. It was financed not only by taxes, but also by donations collected illegally and funds diverted from money provided by diaspora Armenians to develop the state and infrastructure. Yerkrpah, the

semi-criminal association of Nagorno-Karabakh veterans, had a significant influence on the army. The group's leader, Vazgen Sargsyan, was simultaneously defense minister and later prime minister until he was also assassinated in the 1999 attack on the country's parliament (Koehler and Zürcher 2004: 87).

An oligarchic system also developed under Ter-Petrosyan involving his own family and political comrades-in-arms. Economic scarcity, aggravated by the war and the resulting closure of the borders with Azerbaijan and Turkey, favored the emergence of such a system: The government awarded export and import contracts to a small number of firms, giving rise to monopoly structures. This prevented small and mid-sized enterprises and producers of food and everyday products from developing (Petrosyan 7.2013: 14).

The profiteers included Interior Minister Siradeghyan and Defense Minister Sargsyan, who controlled the import and distribution of food and oil products. Other ministers are said to have profited from humanitarian aid (Shahnazarian 3.2020: 4; Stefes 2006: 97).

External pressure resulting from the confrontation with neighboring Azerbaijan made it easier for Ter-Petrosyan and his successors to accuse the opposition and independent actors of being traitors to the fatherland and a threat to state security. Forces from the Ministry of the Interior and Defense used violence – both threatened and real – to extract donations from the official and informal economy (Koehler and Zürcher 2004: 86).

At the end of the 1990s, a network from Nagorno-Karabakh led by Robert Kocharyan – who succeeded Ter-Petrosyan as president – and Serzh Sargsyan displaced the old political and economic elite. Sargsyan and his brother Alexander expanded their businesses in Armenia, including in the gas and oil industries. Both were high-ranking members of the Republican Party. The businessman Gagik Tsarukyan, who founded the Prosperous Armenia Party in 2006, also gained influence at the time. The party later played an important role in parliament by shifting its loyalties between the opposition and the government.

Observers described most of the Armenian oligarchs as being interested only in short-term success as opposed to long-term market strategies. The advantages they gained thus resulted mostly from verbal agreements and close ties to higher-ranking political functionaries. Oligarchic structures lacked financial and economic stability (Petrosyan 7.2013: 12). Using nicknames reminiscent of the Soviet underworld and prisons, such as "Dodi," "Grzo," "Tzaghik," "Lyfik" and "Nemets," the oligarchs commanded respect but cast doubt on their seriousness as businessmen and members of parliament (Shahnazarian 3.2020: 4).

4.2.1 Consolidation of the oligarchic system

In 2008, Serzh Sargsyan succeeded his comrade-in-arms Kocharyan in office. However, the result of the presidential election was controversial, with the defeated candidate Ter-Petrosyan leading protests lasting several days, which security forces ended using brutal violence in which eight demonstrators and two police officers were killed. After the change of power in 2018, the country's Special Investigation Service (SIS) indicted Kocharyan for unconstitutional activity. The politically and legally controversial process had not reached its conclusion by spring 2020.

While Sargsyan was president, the system of oligarchs underwent consolidation. Experts and the public both criticized that oligarchs, together with their relatives and allies, had a higher political standing than political parties (Petrosyan 7.2013: 12). Oligarchs secured immunity and access to state resources through parliamentary mandates held either by themselves or their associates. They influenced legislation to their advantage and negotiated with state employees to gain privileges (Giragosian 2009: 3).

4.2.2 Lack of trust in the government

During the Kocharyan and Sargsyan presidencies, the government presented three anti-corruption strategies and action plans for the periods 2003–2006, 2009–2012 and 2015–2018. Only the second plan contained benchmarks for implementation of the corresponding strategy, but these were not achieved. With the adoption of the third strategy, the government increased the number of anti-corruption institutions to three: an expert group, a department for monitoring the relevant programs, and an anti-corruption council led by the prime minister that included several ministers, representatives of the parliamentary opposition, the chief public prosecutor, the head of the ethics council for high-ranking state employees, and two NGO representatives. Yet the opposition MPs and NGO representatives refused to participate, since they felt the political will was lacking to fight corruption. Transparency International Armenia only agreed to play an observer role. As a result, the public's perceptions remained unchanged by the strategies and the institutional efforts (Bertelsmann Stiftung 2018: 34). A survey conducted by the Caucasus Resource Research Center in 2013 revealed the population's general mistrust of the president and political parties, showing that people had little confidence in the political leadership's commitment to fighting corruption (Harutyunyan 5.10.2015: 2; Transparency International Anti-Corruption Center 2015).

The public's mistrust was seemingly justified after the Panama Papers were published in April 2016. The leaked documents showed

Richard Giragosian in Yerevan in September 2019: "So-called oligarchs had excessive market access, with 75 to 90 percent control of certain areas, although not 100 percent. This reflects the goods-based cartel structure. It was created by the state and later strengthened by the state procurement process. While they were being given preferential treatment, however, the so-called oligarchs became enemies of the state by depriving it of revenue through tax evasion."

In 2013, the World Bank rated Armenia's economy as the most heavily monopolized among the CIS countries. For example, it was only in 2015, after extensive efforts and a visit by France's then President François Hollande, that the French supermarket chain Carrefour was able to open stores in Armenia. They competed with the company Alex Holding, which dominated the market in Armenia's capital Yerevan and was associated with a member of parliament for the Republican Party (Eurasianet 25.3.2015).

that a high-ranking judiciary official and two of his uncles owned offshore companies in Panama, which made it possible for them to cover up their having been awarded government contracts (OCCRP 8.4.2016). In 2017, the accused official was elected to parliament as a representative of the Republican Party. The investigations which began in 2016 were concluded in 2018 without result, a move that the investigative platform Hetq described as politically motivated (Hetq 19.11.2018).

Protests erupted when the corruption in the mining industry became known, among other reasons because, according to investigative research, a former minister had illicitly profited from resources in the sector by diverting lucrative mining licenses to family members (Policy Forum Armenia 2013: 8). The unrest was also fueled by the massive environmental pollution and adverse health consequences for people living near the mines.

Protest movements developed around this complex of issues, and the protagonists increasingly succeeded in motivating people from various social groups to participate in activities opposing government measures. On several occasions, the government felt compelled to accede to the protesters' demands, for example by rolling back price increases in public transport (Tagesschau.de 8.5.2018).

The government was not successful in gaining support for its reforms, which included a revised pension law that envisaged the use

of private insurance. Opposition politicians successfully filed a lawsuit in 2013 against parts of the planned law, and a protest movement took shape, made up mainly of workers from the IT sector. According to a survey conducted by the Caucasus Resource Research Center in 2015, a majority of the population was against the reform regardless of age or income, forcing the government to make concessions (Shakhmuradyan 1.2020: 5). Fearing disadvantages, people living in the country's various regions also criticized a territorial reform aimed at adapting administrative structures to demographic developments.

The hopes liberal activists and politicians had that serious change might take place with the help of the EU were dashed on September 3, 2013 when, after visiting his Russian counterpart Vladimir Putin in Moscow, President Sargsyan made a surprise announcement that Armenia would join the Eurasian Union. The announcement torpedoed the Association Agreement between Armenia and the EU, drafted over almost four years, which included a Deep and Comprehensive Free Trade Area (DCFTA).

Observers attributed the decision to massive pressure from the Russian leadership. Three members of the Armenian government stated that Gazprom, the state-controlled Russian gas company, would have significantly increased the price of gas had Armenia decided differently. Gazprom has a de facto monopoly on gas supplies to Armenia (Transparency International 18.11.2019: 6). However, opposition politician and political expert Styopa Safaryan pointed out that the contents of the agreement with the EU were not publicly accessible, making it easy to spread disinformation and more difficult to generate support for it.

After a pause in negotiations, the EU and Armenia began, at the request of the government in Yerevan, to negotiate a Comprehensive and Enhanced Partnership Agreement (CEPA) that took into account Armenia's membership in the Eurasian Union. Both sides signed the agreement in Brussels on November 24, 2017 after two years of negotiations.

Nikol Pashinyan, prime minister of Armenia, in February 2019 in Berlin: "Our European partners have told us that we do not have to choose between the EU and the Eurasian Economic Union. We are counting on the EU's support for our reform process. Our Russian colleagues know this."

Another massive loss of trust in the Armenian government was caused by the "Four-Day War" with neighboring Azerbaijan in the spring of 2016, in which Armenia was forced to cede territory. Shortcomings became apparent in the Armenian army and were ascribed by the public to corruption.

Similarly, there was widespread consternation when Sargsyan announced in early April 2018 that he wanted to become prime minister after the end of his second and last term as president – especially since he had ruled out such a move prior to the country's constitutional reform. The result of the constitutional referendum that had taken place on December 6, 2015 was controversial in light of reports of vote buying and other forms of manipulation.

The constitutional reform transformed Armenia from a semi-presidential to a parliamentary republic, conferring more power on parliamentary representatives, but also on the prime minister. Nominally designed to promote democratization, the constitutional changes were also meant to help Sargsyan remain in power as prime minister, as was made clear by his announcement in April 2018.

On April 17, 2018, a parliamentary majority that included his own Republican Party elected Sargsyan prime minister – an event that occasioned massive protests by the public. Opposition politician Nikol Pashinyan and experienced civil society activists used the dissatisfaction that had been building among the general population for years to produce a wave of nationwide demonstrations, which Pashinyan christened the Velvet Revolution. After an unsuccessful attempt to crush the protests by force, Sargsyan resigned as prime minister. Under pressure from the streets, MPs elected Pashinyan prime minister on May 8, 2018. Pashinyan formed a new cabinet, but still faced the Republican Party's parliamentary majority.

Lena Nazaryan, parliamentary vice-president since 2019 and former activist: "We had no support from outside Armenia and we didn't want any. It was an entirely local movement. That was one of the things that guaranteed our success."

This changed after a snap election in December 2018, which, according to the OSCE's Office for Democratic Institutions and Human Rights (ODIHR), was free and fair for the first time in years. The Republican Party lost all its parliamentary seats, while Pashinyan's alliance achieved an absolute majority.

Yet judges appointed by Republicans have retained their posts, influential business leaders continue to dominate the economy, and the media remain largely in the hands of businessmen who are close to the Republican Party (EVN Report 1.10.2019).

In addition to these power groups, Russia remains a factor determining whether and how the reforms will be delivered that have been promised by Pashinyan to promote the rule of law and fight corruption. Unlike the position he took before becoming prime

minister, Pashinyan no longer questions Armenia's participation in the Eurasian Economic Union (which developed from the Eurasian Union, of which Armenia has been a member since 2014). At the same time, he asked for the EU's support in carrying out reforms

affecting the rule of law, as they relate to implementing the CEPA, which has been in force since May 2018. The new government also considers recommendations from other international organizations, such as the Council of Europe and the OSCE/ODIHR.

4.3 The Pashinyan government's anti-corruption measures

4.3.1 Background conditions

Fighting corruption and ending the oligarchic system were two of Pashinyan's main promises, along with improving the social and economic situation. The government hoped for help from abroad, not only from the EU, but above all from international investors, including the Armenian diaspora (Intellinews 15.10.2020). Initially, however, potential investors were hesitant, since it was by no means certain that the change of power would be permanent and that existing networks would no longer dominate parliament and the country as a whole.

The public was very enthusiastic about reform and very willing to fight corruption. As many people have attested, there was talk everywhere of a "new Armenia" that would be perceived as a role model throughout the region. Ordinary citizens were no longer prepared to pay bribes to school teachers or civil servants. It became possible to report demands for such illegal payments to the government by phone and via Facebook.

At the same time, the public's readiness to combat corruption reached its limits when jobs were at stake, for example when cafés operating illegally in the center of Yerevan were to be closed or when businesses were to be investigated for tax evasion (News.am 8.4.2019).

Interviews conducted in September 2019 revealed different ideas of what constitutes corruption. For example, interviewees felt it was inappropriate to bribe a school principal to receive a place at a particular school, but it was legitimate to use one's own contacts in the relevant government ministry to achieve the same objective. Moreover, the fact that some 20,000 applications for membership were received by Pashinyan's My Step Party after it won the parliamentary elections in December 2018 suggests that government employees in particular were hoping to secure their jobs by becoming party members. As a result, Pashinyan declared that, in the future, personnel policy would be based on skills and not party membership.

Even payments to medical staff in government clinics, which were officially free, were not always perceived as bribes, despite the new warnings that had been posted there. Medical professionals

have been underpaid for decades, and many see gifts to doctors and nurses as a way of recognizing their efforts.

There seems to be a perception that such actions can to some extent be considered legitimate in view of the country's traditionally weak institutions and social systems. Family ties and personal networks were traditionally essential for daily survival, while people perceived the state as an adversary and considered involvement in politics a means of personal advancement rather than a way to improve society as a whole (Shahnazarian 3.2020: 3). However, in Armenia the adversary was not an anonymous state entity, but a network whose members and methods were known. There was public discussion about high food prices caused by monopolistic structures; for example, notoriously excessive banana prices were addressed in parliament in 2015 by Pashinyan, then an MP (Hetq 26.3.2015).

Given the high expectations and diverse backgrounds of Pashinyan's supporters, there were, moreover, very different and, in some cases, contradictory ideas about reforms and how they should be implemented. This was most evident in the treatment mining companies were given and in efforts to improve business conditions, which included a flat tax that was controversial among activists.

Pashinyan tried to maintain his public support by interacting with people, for example through Facebook and Instagram accounts, and by travelling to the country's various regions. The government also increased salaries in many areas, such as for teachers and medical staff. The minimum wage and pensions were also increased (EVN Report 9.4.2020).

In the second half of 2019, the government consistently worked to reform state institutions and implement measures for combatting and preventing corruption (Transparency International 9.12.2019). An order issued by Pashinyan on June 24, 2019 served as the basis for these efforts. On October 3, 2019, the government adopted an anti-corruption strategy and action plan for the years 2019 to 2023. Shortly thereafter, the government agreed on a strategy for implementing reforms in the judicial system during the same period, which was intended to improve the efficiency of

the courts, public prosecutors and law enforcement agencies, and to identify approaches to transitional justice. In November 2019, parliament moved to establish a Corruption Prevention Commission. During the year, the country's MPs submitted draft legisla-

tion relating to this topic, including legislation on the confiscation of illegal assets, on political parties and on amendments to the Civil Service Act.

4.3.2 Measures to combat grand corruption

The change of power represents one step in the fight against the oligarchic system in that many business leaders lost their connections to parliament and the government. In February 2018, Pashinyan declared the oligarchs to be mere entrepreneurs and nothing more (Die Zeit 13.2.2019). At the beginning of 2020, foreign trade representatives also came to the conclusion that the government had succeeded in reducing the influence of market-controlling oligarchs on economic policy (GTAI 17.1.2020).

Nikol Pashinyan in February 2019 in Berlin: "I explained to the voters that we no longer have oligarchs in Armenia. That surprised many people, because these individuals are still there and they shouldn't leave. But what is an oligarch? An oligarch enjoys privileges. Other laws apply to him, he has access to and can influence the government. Now the conditions are the same for everyone."

This was accompanied by extensive corruption investigations: In April 2019, the commission responsible for most cases announced that it had opened 1,077 investigations the year before, mainly concerning embezzlement and misuse of public funds. In 2017, the number had only been 403. Most of the prominent cases involved relatives and associates of the former president (Azatutyun – Radio Liberty Armenia 23.4.2019; EVN Report 29.12.2019).

The latter included Alexander Sargsyan, the brother of the former president, who rejected the accusation by Pashinyan that he had acquired his assets illegally (Hetq 26.12.2019). In February 2019, however, the National Security Service (NSS) announced that the former president's brother had paid 3.16 billion dram (about €6 million) to the state after a tax audit. In addition, he had donated the equivalent of €17.7 million to the Ministry of Defense for the purchase of weapons. Ex-President Sargsyan was charged with "theft of state funds" in December 2019. Specifically, the case concerned the conclusion of a contract between the government and a company, which had cost the state almost €1 million in subsidies. To what extent Sargsyan had personally benefited was not clear from the indictment (Eurasianet 4.12.2019). The trial began in February 2020 and was postponed in mid-April due to the corona pandemic.

In June 2018, apartments belonging to a number of individuals were searched, including the mayor of Yerevan. Public uproar ensued in particular over videos showing the property owned by a former member of parliament and ex-general who was using it to store weapons, supplies and luxury goods for the army (Radio Free Europe Radio Liberty 29.6.2018).

The NSS also uncovered a criminal tax evasion scheme involving 461 dummy companies which were part of Alex Holding, including supermarkets located mostly in Yerevan (Jam News 1.6.2018). A moving company with monopoly-like control of the market, which was accused of making informal agreements with customs and tax authorities, was investigated for tax evasion and unpaid customs duties amounting to millions.

The State Revenue Committee reported a 16-percent increase in tax revenues for 2019, which was due to more tax inspections and back payments resulting from investigations, among other factors. In July 2018, shortly after Pashinyan took office, the committee announced that it had been able to secure the equivalent of €42.5 million and return it to the state (Jam News 11.7.2018). According to data published in 2019, 30 billion dram (about €60 million) were credited to the state as a result of the anti-corruption measures – an amount that was, however, less than what people had been expecting following statements made by Pashinyan.

In April 2020, parliament passed a law that allows prosecutors to begin investigating when they have sufficient reason to suspect that the market value of an individual's property exceeds his or her legal income by 50 million dram (about €95,000). In such cases, prosecutors can ask the courts to nationalize the property, even if the owners are not found guilty of corruption or other legal offences. In such cases, owners must prove that they have acquired their property legally. When presenting the legislative changes, the government argued that this would make the anti-corruption campaign more effective. Critics, however, felt it could be exploited for political purposes (IWPR 27.11.2019).

Yet some business leaders have not been investigated despite having been considered major profiteers of the old regime – leading

many people to feel that the justice achieved by the legal system is selective. Some of these cases are particularly important because they involve owners of major media outlets.

In addition, some MPs elected to parliament in 2018 had conflicts of interest due to their business activities. According to research by Armenian journalists, the leader of the opposition Prosperous Armenia Party owned 66 percent of a gold mine in the northern province of Lori (Hetq 19.6.2019). He himself declared that he had no conflicts of interest. However, a spotlight was placed on the topic in April 2019 when parliament debated tariffs for cement imports, and the head of Prosperous Armenia argued that the legislation did not go far enough to protect domestic cement producers. The owner of Armenia's largest cement-producing company, he threatened to lay off 1,100 employees. Comparing himself to US President Donald Trump and Italy's former Prime Minister Silvio Berlusconi, he noted that successful politicians all over the world are also businessmen. He also pointed out that he merely owns the various companies, but does not manage them. The Armenian constitution bars members of parliament from engaging in entrepreneurial activity (Azatutyun – Radio Liberty Armenia 24.4.2019). Faced with calls to resign, the MP negotiated personally with Pashinyan. His criticism of the latter's economic policy was followed by searches of his and an Italian business partner's property. Members of the governing My Step Party and the tax authorities declared, however, that the searches were not politically motivated (Vestnik Kavkaza 17.12.2019).

In response to the accusations often made that former members of the government have been the target of politically motivated investigations, as have the media associated with them, Pashinyan's supporters argued that individuals from his own ranks were also under investigation. This included one prominent case, the head of the State Control Service, who was one of Pashinyan's allies in his former Civil Contract Party and the Reject Serzh protest movement. In April 2019, the National Security Service accused the Pashinyan ally of abusing his power to promote an employee's business interests. According to the investigative platform Hetq, the accusation related to a tender for dialysis machines for a state hospital. The accused ally denied the allegations and said they were being used specifically to stop his fight against corruption. Pashinyan relieved him of his duties (Eurasianet 19.4.2019).

The opposition Bright Armenia Party, which holds seats in parliament, accused the mayor of Yerevan, who is allied with Pashinyan, of having been given garbage trucks for the city in return for awarding building permits to companies – an accusation the mayor denied. The governing My Step Party rejected calls to form a special committee to look into the matter, arguing that parliament should not interfere in local affairs (Azatutyun – Radio Lib-

erty Armenia 24.1.2020). However, the city government confirmed that it had accepted a donation from a company owned by a businessman who was under investigation and who had been a former high-ranking government employee. It ultimately came to light that Alex Holding had donated garbage trucks to the city (Eurasianet 17.12.2019).

In October 2019, it became known that the government had doubled the salaries of high-ranking employees without making this public – despite having declared transparency to be one of its most important principles. Pashinyan defended the salary increases as bonus payments made at the end of 2019, which had been approved by parliament. Transparency International noted that there were concerns about the increased payments to government members and about agreements with business leaders.

However, at the end of 2019 the organization stated that, in sum, the influence exerted by oligarchic and monopoly structures on public administrators and politicians had diminished, and that there was no serious or credible evidence of business leaders belonging to the ruling political elite, of a corruption pyramid existing within the state system, or of coordinated tax evasion (Transparency International 9.12.2019).

When asked by journalists, Pashinyan's wife denied that people associated with the former ruling party had made donations to her foundations My Step and City of Smile in return for favors. That was how things were done in the past and now anyone can donate to the foundations, she explained (Armenpress 27.5.2019).

Some people were disturbed by the fact that the prime minister's wife remained editor-in-chief of the *Armenian Times* newspaper after the change of power. Such feelings can also be traced back to the extreme polarization in Armenia's media between the liberal and progressive forces affiliated with the new government, on the one side, and, on the other, the former ruling party, which continues to dominate the media landscape. One manifestation of this division is disinformation and "hate speech." The reporting on alleged or actual corruption has also given rise to uncertainty among the general public (Eurasianet 30.10.2019). To combat disinformation during the corona pandemic, the government tightened the laws in force during the declared state of emergency. According to these laws, organizations carrying out journalistic activities may only publish information from official sources on the subject in order to prevent panic and to protect coronavirus patients. Journalists expressed concern about these restrictions, as did the OSCE representative on freedom of the media, Harlem Désir, saying that publishing only information provided by the authorities would disproportionately limit freedom of the media (OSCE 24.3.2020).

4.3.3 Judiciary

In recent years, the judiciary has been an area in which Armenia's citizens have had the least confidence. In a nationwide survey carried out in 2019, some 82 percent of the respondents said that judicial reform should be one of the government's top priorities (International Republican Institute 9.12.2019).

Legal proceedings against former president Robert Kocharyan turned into a judicial showdown between Pashinyan's ruling party and the former elites. Although a large part of the population welcomed the trial against Kocharyan that began in May 2019 as a result of the above-mentioned suppression of the protests after the 2008 presidential election, opponents accuse Pashinyan of wanting revenge on a personal level. There was also a foreign policy element, as Russian President Vladimir Putin had signaled support for Kocharyan.

The Special Investigation Service (SIS) accused Kocharyan of acting unconstitutionally as he allegedly deployed the army to stop the protests, in which ten people were killed. At the time, Pashinyan, who sided with opposition leader Levon Ter-Petrosyan, was wanted by law enforcement authorities and spent several months in prison. After a court temporarily released Kocharyan on bail in May 2019, Pashinyan used Facebook to encourage the public to block court entrances in protest, and several thousand people responded accordingly. At the same time, many of his supporters criticized his continued use of protest methods as prime minister.

Rapporteurs of the Parliamentary Assembly of the Council of Europe warned against putting pressure on the judiciary. However, they also noted the low level of trust Armenians have in the courts and encouraged the government to undertake far-reaching reforms to combat corruption (Euractiv 22.5.2019).

The conflict between the new government and the old elites ultimately came to a head over the Constitutional Court and its judges. Pashinyan and MPs representing his My Step Party cast doubt on the legitimacy of the court's chairman in particular, saying he had secured his position until 2035 through an agreement made in 2018 with then President Sargsyan. They claimed that, as a former minister of justice and former member of the Republican Party, the senior judge had played a decisive role in the constitutional amendments of 2015 that were designed to ensure Sargsyan remained in power. Transparency International Armenia also notes that for years the Constitutional Court verified the results of rigged elections (Transparency International 9.12.2019).

In October 2019, a majority of MPs called on the Constitutional Court to remove the judge, among other reasons because he could not make impartial decisions due to positions he held in the former

government. The parliamentarians also objected to the fact that, at the trial of former President Kocharyan, one of the defendant's lawyers was the judge's godchild. The court rejected the MPs' demand to remove the senior judge.

Two days later, the Special Investigation Service opened a case against the judge based on a complaint by an independent MP to the attorney general, alleging that the judge had conspired with the former government to become chairman of the Constitutional Court in March 2018. The National Security Service, in turn, began investigating the judge for possible misappropriation of funds during his tenure as minister of justice from 2012 to 2014. Property owned by the judge's family was also searched, accompanied, in some cases, by protests led by members of the former ruling party (OC-Media 21.10.2019).

A new judge appointed by the government to the Constitutional Court – a lawyer respected by supporters of the former opposition who represented victims of the 2008 protests – tried to work within the court to get the chairman voted out, citing different wording in the old and new constitutions. The Venice Commission of the Council of Europe criticized this attempt and parliament's support for the newly appointed judge (Eurasianet 22.10.2019).

In January 2020, the ruling faction in parliament presented a proposal to remove the chairman of the Constitutional Court from the judicial body, along with another six of its nine judges, saying the president, the Cabinet of Ministers, and the General Assembly of Judges should nominate new justices. The reason given by the faction for this step was that the crisis surrounding the Constitutional Court posed serious challenges to democracy, sovereignty and the rule of law in Armenia (Armenpress 5.2.2020). Pashinyan proposed a referendum to parliament in which the voters would decide about removing seven of the nine judges. The referendum has been postponed several times, however, after the government declared a state of emergency due to the corona pandemic.

Other plans put forward by the ruling My Step Party in spring 2019 to subject judges to a review process were praised by the Venice Commission, since My Step had entered into a transparent dialogue with Armenian society and international partners, including the Council of Europe, and abandoned its most radical proposals (Venice Commission 14.10.2019).

An action plan for the years 2021 to 2023 provides for numerous measures designed to make the judicial system more transparent, more effective and more independent of the executive branch. Training is also planned for judges on how to prepare judgments in cases pertaining to corruption, white-collar crime and charges

brought against government employees (Government of the Republic of Armenia 10.10.2019 – 03).

In keeping with an executive order signed by Prime Minister Pashinyan, a commission was convened in October 2019 to develop proposals for new constitutional amendments pertaining to the judicial and electoral systems. The commission comprised 15 members from the government, judiciary, parliament and civil society. It also included the country's human rights ombudsman and six lawyers. In this context, a debate took place in the media on whether Armenia should return to a presidential system (Azatutyun – Radio Liberty Armenia 14.1.2020).

4.3.4 Monopoly structures in the economy

In order to destroy the oligarchic system, Pashinyan promised to promote equal opportunity while prosecuting those who illegally profit from state resources, saying the political revolution needed to become an “economic revolution” (Die Zeit 13.2.2019). He stressed that the government's task is not to provide work, but to create conditions for people to take the initiative and become active, for example as entrepreneurs. The emergence in Yerevan in 2019 of numerous small businesses, such as cafés and food trucks, showed that young Armenians saw the change of power as an opportunity to become business owners themselves.

Nikol Pashinyan in February 2019 in Berlin: “We want to create equal opportunities for all. We are reforming the tax laws, we are reducing red tape, we want to make it possible to get an inexpensive loan. We have destroyed the monopolies. There are no more obstacles to accessing the free market. But ordinary citizens must also make an effort.”

Billed as an “economic revolution,” a five-year plan was adopted by parliament in February 2019, yet even Pashinyan's supporters criticized it as not sufficiently detailed or ambitious. The parliamentary opposition did not support it at all. It also revealed the different ideas held by supporters of the new government: Citing the example of Georgia's economic and social development, some criticized that Pashinyan was relying in traditional fashion on the markets, had switched from progressive taxation to a flat tax and had reduced the income tax for all Armenians to 23 percent. While some experts emphasized that this would lower the incentive to evade taxes, others warned that it would not reduce social inequality, a major reason for the protests (Eurasianet 27.3.2019).

A draft with amendments to the electoral law is to be submitted by the Ministry of Justice to Parliament in 2020 (Government of the Republic of Armenia 10.10.2019 – 02). A first attempt at reform prior to the parliamentary elections at the end of 2018 failed due to insufficient support by the Republican parliamentary majority at the time and the resulting lack of votes (EVN Report 1.8.2019). In March 2019, a parliamentary committee resumed work on the reform, inviting international organizations, including ODIHR and the International Foundation for Electoral Systems (IFES), for consultations. Key aspects of the reform are participation requirements for political parties, a lower threshold for entering parliament, verification of voter lists and measures to prevent vote-buying (EVN Report 4.2.2020).

Businesses were exempted from paying taxes if their turnover was less than €50,000, a move designed to create equal opportunities for smaller businesses, especially in the agricultural sector (Business Support Office 1.2020). The government also introduced programs to compensate farmers for building costs (Panorama.am 7.11.2019).

The World Bank reported growth of 6.9 percent in Armenia in 2019, and predicted an increase of 5.1 percent in 2020 before the corona pandemic. Pashinyan had set an annual target of 5 percent. Referring to IMF data, he emphasized that Armenia's GDP had overtaken Georgia's in 2019 and would catch up with Azerbaijan's in 2020. However, economic experts pointed out that the recovery was mainly due to a 14-percent increase in private consumption and to the service sector.

According to foreign trade representatives, foreign and public-sector investments in particular rose in 2019. In the first three quarters, the inflow from abroad rose by 27 percent to €2 billion compared to the same period in the previous year. Public spending contributed the equivalent of €685 million, mainly for road construction, irrigation, energy and support for agriculture, tourism and some industrial sectors (GTAI 17.1.2020).

Road construction was one of the areas in which changes quickly became visible: A transport project was initiated as early as 2012; reconstruction of the North-South highway should have been completed in 2019, a crucial traffic artery especially given that Armenia's western and eastern borders are closed. But under the old government, only 31 of the planned 550 kilometers were repaired. In September 2018, public prosecutors started investiga-

tions into mismanagement and corruption; some €44 million were estimated to have gone missing between 2009 and 2018 (Hetq 5.9.2018). On May 31, 2019, the apartment of a former MP and the brother of the former minister of transport and communications was searched (Hetq 31.5.2019). In August 2019, a lawsuit alleging fraud and embezzlement was initiated against a high-ranking manager of a Spanish construction company; the company had been awarded a contract worth some €250 million to repair highways. The company should have built 90 kilometers of roadway, but did not complete the contract (Azatutyun – Radio Liberty Armenia 14.8.2020). The new government did not hesitate to begin construction work. In February 2020, the Ministry of Infrastructure announced that 335 kilometers had been completed during the past year, costing €55 million. The ministry plans to build an additional 500 kilometers in 2020 (Eurasianet 5.2.2020).

According to Armenian economic experts, tourism and the IT industry are two areas in which oligarchs have shown little interest. Many young Armenians who previously studied and worked abroad are active in the IT sector. The general consensus is that students in Armenia still receive a good education in mathematics. Moreover, the country's political and geographical isolation does not play a role in this sector. The government has created programs to develop resources in this area. For example, a project in Yerevan called Digitown is planning to offer space for 100 start-ups as of 2021 (Digitown 2019). Legal changes came into effect in May 2019, according to which start-ups with less than 30 employees do not pay any profit tax and only pay income tax of 10 percent – although the start-up cannot have resulted from the reorganization of another company (EBRD 2019: 3). In 2019, Yerevan was rated one of the best cities for start-ups internationally (Valuer 5.3.2019). The competition from other countries in Eastern Europe and Asia is considerable, however. In tourism, Armenia benefited in 2019 from Georgia's boom and from the international recognition Armenia gained among young people due to the Velvet Revolution. Nonetheless, the corona pandemic brought tourism to a halt before the 2020 season could get underway.

The way in which the country's mining companies are treated is controversial. Zangezur Copper Molybdenum Combine, whose main shareholder is German mining company Cronimet (Cronimet 2020), has been one of the largest taxpayers in recent years, employing 4,000 people. The public views this and other mining enterprises under international control with considerable distrust,

in part because of reports by the Armenian media about their connections to associates of former President Sargsyan (News.am 6.11.2019) and because of the country's environmental protection laws, which activists maintain are inadequate.

After taking office, the new government promised to monitor all mining companies and, in autumn 2019, witnessed the first protests directed against it by former supporters. The unrest concerned the Amulsar gold mine operated by the Anglo-Canadian company Lydian International, based on the British island of Jersey (Hetq 19.6.2019). Members of the former government are said to have been among the shareholders of this company, as one Armenian environmental organization explained (Deutsche Welle 11.9.2019). Lydian International provided no information about the individuals behind the parent companies.

The protestors were demonstrating against the possibility that serious environmental damage could occur when the mining operations began and against agreements negotiated under the old government. Pashinyan was also under international pressure to show that the government had adopted an investor-friendly approach. The suggestion was made to settle the dispute before an international arbitration body. Pashinyan did not take a clear stance on the matter and warned environmental activists against "demonizing" the mining industry. Local protest groups continued their blockade of the mine in 2020. Lydian International was delisted from the Toronto Stock Exchange in early 2020 (The Armenian Weekly 5.2.2020).

Since 2017, Armenia has been a member of the Extractive Industries Transparency Initiative (EITI), a voluntary association of resource-exporting states. As a result, information on the production and export of raw materials, which previously had been withheld as "trade secrets," must now be made public. In April 2019, parliament amended the law governing disclosure of who the "beneficial owners" of mining companies are (EITI 23.4.2019). According to EITI requirements, these owners must be disclosed from 2020 onwards, provided they hold shares of more than 10 percent. Critics of the law have noted that owners can reduce their shares to below 10 percent by distributing them to relatives, and that there are no penalties for non-compliance. According to the investigative platform Hetq, the authorities have not issued any new mining licenses since the current government came to power, but changes have not been implemented in the sector either.

4.4 Petty corruption

4.4.1 Higher education

According to a 2011 census, 44 percent of the population aged 34 years or younger had a degree from a higher education institution. According to OECD data, this is a high level by international standards, especially for a country like Armenia, which has a low average income and spends only 2.5 percent of GDP on education (OECD 2018: 152).

Even if education is an important topic for Armenian society (Bertelsmann Stiftung 2018: 28), systemic corruption has also been prevalent in the field of higher education. This has affected the management of universities, the recruitment of teaching staff, the selection of students, funding and contracting. For example, 46 percent of the respondents to a survey conducted by the International Republican Institute in autumn 2019 said there was a lot or some corruption in the area of higher education or at universities (IRI 9.12.2019).

In 2018, the government adopted a comprehensive program of anti-corruption measures for the higher education sector that had been developed in cooperation with civil society organizations. However, the authors of the fourth OECD monitoring report on the 2018 Istanbul Anti-Corruption Action Plan state that the program did not take into account the sector's systemic issues. Moreover, they write, there are no budgeting or mandatory requirements, and the implementation deadlines are too short and unrealistic (OECD 2018: 14).

A draft law for colleges and universities presented in autumn 2019 was the target of considerable public criticism. Among other things, the issue was how much influence the government will be allowed to exert on the appointment of committees and other bodies at state universities and the degree to which academic freedom could be restricted. The debates and protests focused, however, on the passage stating that in the future the Armenian language, literature and history would no longer be compulsory for all courses of study (OC-Media 8.11.2019).

According to those interviewed for this publication, few changes were realized within the university system in the two years following the change of power. One case that became public knowledge involved the new rector of the State University of Economics, who wanted to implement anti-corruption measures, including assigning teaching hours to instructors based on performance. This met with fierce resistance from many university employees. After the

latter accused the rector of plagiarism in his doctoral thesis, he resigned. One interviewee described the competition for teaching hours as a generational conflict between long-serving and younger educators.

One leader of a student organization described a massive case of corruption among university staff: During the renovation of a university guesthouse, money had been diverted and used by the person in charge to build his own hotel. Although the facts were known, no authorities had intervened, the interviewee said.

One small step in the fight against corruption in higher education was the adoption of a law in 2018 that banned advertising for agencies willing to write academic papers and theses for payment. Educators were apparently also involved in such "services." In September 2019, conversely, interviewees described the university admission tests and scholarship exams as relatively straightforward and transparent.

There have been successes in the fight against corruption in the country's schools. Bribery – and students' and parents' unwillingness to engage in it – had already been an important topic during the wave of protests that took place before the change of power. Subsequently, the Ministry of Education began cooperating with law enforcement, making it possible to investigate suspected cases immediately. According to media reports, parents were generally no longer expected to contribute money for school repairs, make gifts to teachers, or pay bribes, for example to meet with educators. At the same time, salaries for teaching staff were increased. At the beginning of September 2019, the salaries of 38,000 teachers rose by 10 percent, for instance, and those of art and music teachers by 25 percent. The minimum net salary for teachers is now reportedly the equivalent of €200 per month.

Similar to other post-Soviet states, teachers have traditionally been deployed as election workers. School principals head the election committees at polling stations, which are usually set up in schools. In the past they were usually members of the Republican Party. Part of their job was to ensure that the Republican Party received the majority of votes in their district, so they put pressure on teachers, for example by giving them fewer hours, which in turn reduced their salaries. This did not change until the national elections in 2018, which domestic and international observers described as being free of fraud or manipulation.

4.4.2 Health-care sector

In recent years, there have been indications of widespread corruption in the health-care system. According to reports by Armenian patients and foreign visitors, every form of treatment has to be paid for in state hospitals, which are supposed to be free of charge. In many cases, being treated by a doctor can cost 10,000 dram (€20), purchasing a prescription drug without a prescription in a pharmacy 5,000 dram (€10). Bribes also have to be paid for medical aids such as walkers. These amounts are considerable in view of average gross monthly income, which is the equivalent of €340.

It has also been customary for patients to give presents to doctors after they recover. This has been seen as both appropriate and obligatory, as doctors, since Soviet times, have received low salaries despite the lengthy training they must undergo and the importance of the work they do. Those interviewed for this publication also noted that the willingness to pay bribes has been greater in the health-care sector than elsewhere, since people are concerned about receiving proper treatment. According to a survey conducted in autumn 2019, 63 percent of respondents said there is some or a lot of corruption in the health-care sector – more than in any other area (IRI 9.12.2019).

After the new government took office, the Ministry of Health responded to these attitudes among the public by launching an information campaign, which included displaying posters in hospitals. If patients are asked to pay a bribe, they can report it via SMS or Facebook. At the same time, the government has increased the salaries of medical staff by 10 to 30 percent (Sputnik Armenia 8.5.2019). By promoting efficiency and reducing bureaucracy, it has been possible to spend more money on hospitals and salaries for staff there.

At a press conference in September 2019, Pashinyan declared that the health-care shadow economy had decreased significantly. He pointed out that revenue at private and public clinics had increased by 14 percent in the previous seven months compared to the same period in 2018, and that, on average, salaries had increased by 17 percent. Moreover, he said, some 400 drugs would be distributed free of charge to 200,000 people participating in the country's social assistance program (Prime Minister of the Republic of Armenia 16.9.2019).

Several cases have been initiated alleging misappropriation of funds. Moreover, the director of a hospital and other employees were investigated in connection with a shocking scandal involving illegal adoptions of newborns by foreigners, in which the biological parents were allegedly lied to about the health of their children and pressured to give their permission for adoption (Eurasianet 10.1.2020).

According to media reports, the scandal confirmed the mistrust many citizens had had in the health-care system for years. In contrast, the autumn 2019 survey showed a mixed reaction to developments in the sector: 44 percent felt there had been an improvement in the previous six months, 40 percent said there was no change and 13 percent perceived a deterioration. According to those interviewed for this publication, corruption in hospitals has decreased and staff have become more friendly towards patients.

One development that could well have contributed to this positive assessment is that, since February 2019, patients have no longer had to cover the cost of treatments for serious illnesses such as cancer. In 2018, the Ministry of Health introduced an online registration system for patients in need of government-funded treatment, preventing hospitals from delaying or refusing treatment (Armenpress 17.8.2018).

Until now, civil servants have been responsible for paying out pensions and social assistance. According to interviewees, those receiving the money must pay around 10,000 dram (€20) for this service. The government wants to change this by outsourcing the payments to post offices. It remains to be seen whether this will alter the situation. In November 2019, the Ministry of Health presented a plan to introduce universal and compulsory health insurance that would require increasing the income tax for all salaried employees by 6 percent. Health Minister Arsen Tonosyan argued that 85 percent of Armenians had previously paid for health care out of their own pockets, increasing the country's poverty level. The proposal resulted in protests on social media: As with the previous government's plans for pension reform, representatives of the IT sector in particular were critical of the fact that taxpayers were supposed to fund the health insurance of all Armenians (Eurasianet 22.10.2019). Some commentators pointed out that people travelled to Russia or Western Europe to be treated for serious illnesses anyway, since the necessary procedures were not available in Armenia.

When the corona pandemic hit, the Armenian government implemented strict restrictions to prevent the weak health-care system from being overburdened. At the end of January, travel from China was severely limited and, on February 24, 2020, the country closed its border with Iran. The government closed public institutions in early March and, on March 15, it declared a state of emergency. Despite these measures, the government still had difficulty controlling the disease. It began to collect personal data using a smartphone app in order to track and quarantine infected individuals. Alternatively, people were required to keep a record of each time they left their home. Human Rights Watch criticized that the regulations infringed on people's privacy and allowed authorities to

access confidential health and personal data. According to various sources, hospitals in Armenia had a maximum of 300 ventilators

in March 2020. The country received 120 ventilators from China, along with corona tests, masks and other protective equipment.

4.4.3 Law enforcement

To limit bribes paid to police officers, the old government introduced a camera system that recorded speeding and other traffic offences on major roads. The system, however, was seen as legitimizing corruption, since, according to Armenian media reports, private companies associated with the then president deducted part of the fees paid by drivers (Shahnazarian 9.2019: 5).

Supporters of Pashinyan in Yerevan emphasized that, following the change of power, corruption had decreased significantly in general and in the police force in particular. In a survey conducted in autumn 2019, only 7 percent of the respondents said they had paid bribes or had experienced or seen corrupt behavior by police officers (IRI 5.2019: 36). Taxi drivers reported that police patrols have stopped demanding money for minor offences, but have begun exacting payments again in remote areas and in situations where there was no possibility of being seen by the public.

Under a new system, each driver now receives nine points of “credit” per year and points are deducted for each violation of the traffic code. When a driver reaches zero points, his or her license is revoked (Sputnik Armenia 27.12.2019).

Civil society organizations expressed concern that the police and law enforcement authorities seemed not to be pursuing criminal cases as actively as before the change of power. They raised the issue at a meeting with Pashinyan in autumn 2019, saying they suspected there was less motivation to get involved since bribes were no longer being paid by victims. This aligns with an observation made by Richard Giragosian of the Regional Studies Center in Yerevan, who noted that a number of police officers had quit the force in light of falling incomes and opened small businesses instead.

In spring 2020, the government submitted draft legislation to parliament for restructuring the Ministry of Interior Affairs and

a number of agencies responsible for internal security. Unlike Saakashvili’s government in Georgia, Pashinyan did not put forward measures, such as introducing new uniforms or constructing glass buildings, that clearly symbolized the changes taking place.

However, like the government in Georgia after the change of power there, the Armenian parliament adopted a law on January 22, 2020 to combat organized crime and its leaders, commonly referred to as “thieves in law” (see section 5.2 on Georgia). The new law makes it illegal to establish or lead a criminal organization in Armenia, which can result in 5 to 10 years imprisonment and the confiscation of assets, even if the accused has not committed any other crimes. Pashinyan justified the legislation by saying that “thieves in law” were still considered “honorable persons,” even if they had committed murder and theft and had exerted influence on the political system. He admitted that Armenian law enforcement authorities lacked the skills to combat this milieu. Conversely, a member of parliament from the Prosperous Armenia Party said in November 2019 that he respected the “thieves” and that one should not interfere with them (Eurasianet 23.1.2020).

At the end of 2019, the head of Armenia’s Penitentiary Service, Artur Goyunian, declared that the draft law had already prevented the country from becoming a haven for members of the Russian mafia. Russia had passed a similar law in February 2019 (Meduza 19.2.2019). According to Goyunian, there was a danger that Russian criminals of Armenian origin would escape to Armenia. Moreover, he said, there had been riots in Armenian prisons in September 2019 because of the draft law. To combat the culture of “thieves in law” in prisons, Goyunian called for wage increases for prison guards and better conditions and rehabilitation programs for prisoners (Azatutyun – Radio Liberty Armenia 20.1.2019).

4.5 International implications

4.5.1 Organized crime and money laundering

A rigorous crackdown took place on armed and criminal groups during the presidency of Robert Kocharyan in the mid-1990s, putting pressure on members of organized crime to leave Armenia. Russia was an obvious destination because of its culture and language, but other states with Armenian communities, such as the US, were also viable choices (Galeotti 2018: 120, 199f).

Criminal groups have also gained a foothold Germany. According to information provided by the German government in response to an inquiry by the Free Democratic Party (FDP) in 2018, structures dominated by Armenian citizens are considered part of Russian-Eurasian organized crime. There were 35 proceedings against such groups in 2016 and 29 in 2017, and an additional three proceedings in 2017 against groups whose members were predominantly Armenian citizens. Activities have been detected mainly in northern and eastern Germany. The state of Thuringia has been a focal point in recent years, where street shootings have even taken place between rival groups (MDR 28.11.2019). Research has turned up evidence of networks with groups of other nationalities (Der Spiegel 7.11.2018).

In 2017, the German government said it did not have any information on Armenian organized crime having ties between Germany and Armenia “in terms of state institutions,” as media reports had suggested. It also said that cooperation with Armenian law en-

forcement authorities takes place via Interpol (Deutscher Bundestag 27.12.2018).

According to experts, Armenia has been vulnerable to money laundering in that large amounts of cash can be diverted from supermarkets and other retail outlets, then transferred abroad. Close links to other countries, due to the millions of Armenians living abroad, especially in Russia, have also played a role. The international research network OCCRP, for example, reports that one businessman, who is highly regarded for his charitable work in Armenia, was head of what was once Russia’s largest investment bank, Troika Dialog, which was purportedly involved in money laundering. According to OCCRP, €4.2 billion was laundered through the bank between 2006 and 2013, an assertion based on documents from the Lithuanian bank Ukio Bankas that became public. The head of the bank stated that he did not know of any criminal activities carried out by his employees and that he adhered to the market rules applicable at the time (OCCRP n.d.). According to the investigative platform Hetq, signatures of Armenians working in Russia were used for contracts for offshore companies, although the Armenians themselves say they knew nothing about the companies. According to Hetq, there is evidence that the workers’ data were used after they paid bribes to obtain residence permits in Russia (Hetq 5.3.2019).

4.5.2 Migration and asylum

Armenia has experienced significant emigration over the past 30 years, especially to Russia. Yet working conditions have become more difficult there for Armenians, due to economic and financial crises and discrimination against non-Russians, especially those from the Caucasus and Central Asia.

Armenian taxi driver in Yerevan: “I want to apply for asylum in Germany and have my heart condition treated.”

As in Georgia, many people in Armenia believed that receiving asylum in Germany meant being given housing, schooling and medical treatment, including for serious and chronic illnesses. The head of the Armenian Migration Service, Armen Ghazaryan, said that Armenians living in Europe had mostly applied for asylum because they were suffering from an illness they hoped to have treated, al-

though a trend had become discernible after the change of power, namely that Armenians were voluntarily returning to their native country. In addition, he explained, Armenians persecuted by the previous government were no longer being recognized as refugees. In October, the Pashinyan government launched a program to reintegrate Armenians, who are supposed to receive temporary accommodation and support once they return.

Armenia concluded a readmission agreement with the EU as early as 2013, which came into force in 2014. In September 2019, an implementation protocol was signed with Germany. According to the head of the Migration Service, the number of requests for return from the EU has been increasing steadily since 2015 (EVN Report 4.11.2019).

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Azerbaijan

Retaining power and preventing
petty corruption

5. Azerbaijan

5.1 Introduction to the current situation

Azerbaijan is the largest and, with some 10 million inhabitants, most populous of the three South Caucasus states. Thanks to oil and gas deposits, the country on the Caspian Sea has had considerable income at its disposal in recent years.

At the same time, Azerbaijan generally ranks in the lower third of both global and regional comparisons of corruption. In Transparency International's 2019 Corruption Perceptions Index, it ranks 126th out of 180 countries. It holds a similar position in indices measuring the state of democracy, for example in the Economist's Democracy Index, in which it ranked 146th out of 167 states in 2019. The Bertelsmann Stiftung's Transformation Index describes Azerbaijan as a "fully-fledged autocracy" (Bertelsmann Stiftung 2020: 3).

Azerbaijani society is characterized by centuries-old informal structures that have survived foreign rule, including during the Russian tsarist empire and the Soviet Union, and they still play an important role today. Social capital is very much present as bonding through kinship, common regional origin and friendships among neighbors in cities, and among those with a shared educational background. Formal structures have been shaped over centuries by foreign rulers, which has not fostered society's trust in institutions.

The Aliyev family has played a dominant role for half a century. In 1969, after a career in the secret service, Heydar Aliyev became chairman of the Communist Party of Azerbaijan. Two years after the country gained its independence in 1991, a time marked by chaos and mismanagement, Aliyev returned to lead the state, which he ruled until 2003 as president. After his death, his son Ilham took over his post.

Ilham Aliyev felt compelled to more actively realign the country's power structures and reforms in order to fight corruption, since the public was increasingly expressing its dissatisfaction – despite all the repressive measures carried out against the media, opposition and civil society. The discontent grew further in light of a dramatic fall in oil revenues and the financial and economic crisis that resulted as of 2014. Young, loyal technocrats trained abroad are now replacing the oligarchs and elite of the 1990s. Parallel

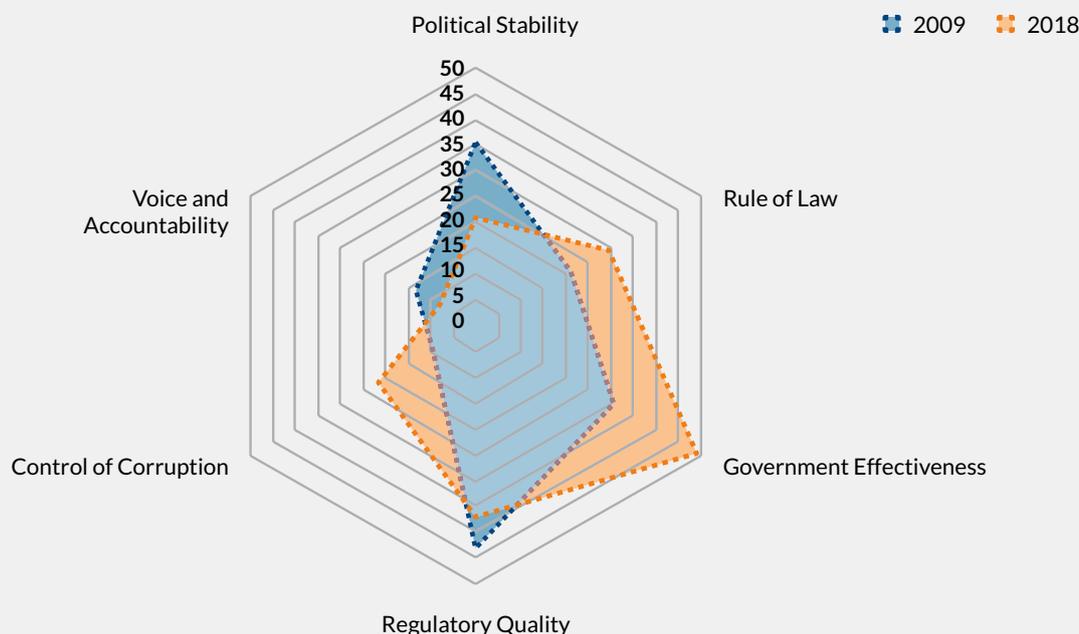
to this, the president's wife, Mehriban Aliyeva, has been given a more powerful role politically: She has served as the country's first vice-president since 2017, making her the second most influential state leader and giving her considerable scope to exert her power.

An academic from Baku in December 2019 on the issue of prosecuting individuals for corruption: "If you look behind the corrupt officials, you'll find entire families. You can't just lock them all up. That would add grist to the reactionaries' mill."

The public has noticed a decline in petty corruption in their dealings with government employees. Young people and independent actors hope to be able to exercise more political power in the future. Mistrust of the country's leadership and state apparatus remains, however, as reforms are planned and implemented from the top down without involving a large part of Azerbaijani society. Moreover, an election took place in February 2020, which, contrary to the hopes of progressively minded citizens, did not bring about any significant change in the composition of parliament – which has been dominated for years by the ruling New Azerbaijan Party.

Massive problems became evident during the corona crisis, above all in the health-care sector, where reforms designed to increase efficiency and reduce corruption had only just been launched. Government decisions aimed at preventing the virus from spreading resulted in considerable restrictions being put on the general population. In this situation, the authorities also redoubled their measures against government critics. In July 2020, thousands of Azerbaijanis spontaneously took to the streets in protest of the government and tried to storm the parliament. The cause of the unrest was the death of a high-ranking officer during skirmishes with Armenia in a northern border zone close to major gas and oil pipelines connecting Azerbaijan, Georgia and Turkey, located between the Armenian province of Tavush and the Azerbaijani Tovuz. Any spread of these events could lead to an open war that would set Armenia and Azerbaijan back significantly in terms of their development, and could also affect the wider region.

FIGURE 2 Institutional framework for Azerbaijan – Comparison of 2009 and 2018



In Azerbaijan, the value for “Government Effectiveness” has risen most, as have “Rule of Law” and “Control of Corruption” (although they remain much lower than in Armenia or Georgia).

Source: World Bank – The World Governance Indicators 2019
<https://info.worldbank.org/governance/wgi/Home/Reports>, own illustration
 Scale: 0–100, with 100 as highest value

| BertelsmannStiftung

5.2 Historical background

The territory on which present-day Azerbaijan is located was dominated for centuries by competing principalities and foreign powers, under which informal structures have held their ground to the present day (Cornell 2011: 82). During Persian and Turkish rule, the Shiite faith prevailed in the south and the Sunni faith in the north, along with a Turkic language.

The Russian tsarist empire occupied the entire South Caucasus at the end of the 18th century; Soviet rule followed. After the annexation, the Russians introduced new administrative structures, legislation, a new currency and the Russian language. Local elites were offered education and a career in the civil service. They received land and titles.

In the 1870s, an oil boom began in Baku, which brought Western entrepreneurs, such as the Nobel brothers and the Rothschilds, to Azerbaijan. With them came capital, new technologies and mod-

ern infrastructure, such as a railway line between Baku and Batumi and the world’s first oil pipeline from Baku on the Caspian to Georgia on the Black Sea.

At the beginning of the 20th century, Baku was a cosmopolitan city in which a working and an intellectual upper class formed. Political ideas spread among the latter group, from Pan-Turkism and Pan-Islamism to socialism and liberalism. One important issue was the modernization of education, which was no longer to be based on rote memorization. Alongside Baku, a center of political activity took shape in Ganja, where nationalist ideas found robust support. Illiteracy remained widespread in the rest of the country, however.

After the collapse of the tsarist empire and before the Red Army secured the South Caucasus, the Azerbaijanis succeeded in establishing their own republic in 1918. The new country had a parliamentary system and granted equal rights to all citizens. After

Georgia, Armenia and Azerbaijan became Soviet republics, however, not only did Stalin increase the centralized nature of his dictatorship, he destroyed the Azerbaijani elites and devalued the country's culture. As was the case throughout the Soviet Union, this did not change until the 1980s.

In the Soviet Union's final years, Azerbaijan lost its role as a major oil producer, especially after the discovery of sizeable energy resources in Siberia. Nevertheless, oil remained Azerbaijan's most important economic contribution to the Soviet Union, alongside cotton.

The year 1969 proved decisive for the country, when Heydar Aliyev became chairman of the Communist Party and thus the republic's primary powerholder. During his career in the KGB's Azerbaijani division, he had gained attention as an energetic and assertive man. He was thus entrusted with the task of fighting corruption and stagnation. He succeeded in dissolving old cliques – but filled key positions with his own confidants from the security apparatus and from his home region of Nakhichevan. He then transferred them to new posts from time to time to prevent them from unduly expanding their power (Cornell 2011: 43).

Having stepped down, Aliyev returned to Baku in 1993 when the state was on the verge of collapse after gaining its independence in 1991. Using proven methods, he concentrated power in his hands as president and held his own against political opponents who attempted to overthrow him (Cornell 2011: 83). The main factors assisting him were the power-exercising skills he had acquired during Soviet times, his popularity among the population and, above all, the increasing revenues from the country's oil deposits. Azerbaijan thus developed into a rentier state whose leadership was able to buy political loyalty (Stefes 2006: 179; Meissner 2011: 6).

When he died in 2003, Aliyev left behind a consolidated power apparatus, which experts described as a pyramid with the president at its top. The presidential administration, with departments that mirrored the ministries, was one of the country's strongest political actors, controlling both the parliament and the security apparatus.

The political and economic power structures were based on traditional clan structures that functioned as patronage networks. The president and important actors in his entourage, for example, came from the Nakhichevan clan, which competed with the Yeraz clan, whose members originally came from Armenian territory (Meiss-

ner 2011: 6). Today, the elites in the capital, Baku, constitute another group, which includes the Pashayev family, to which First Lady Mehriban Aliyeva belongs and which owns PASHA Holding, one of the most important corporate empires in the country.

Oligarchs directed ministries and public agencies; their families controlled commercial enterprises. They also suggested to the president who should become chief executive (governor) of their region and bore responsibility for the latter's performance. These chief executives, a legacy of the Soviet administration, are relatively free to act as they choose. At the same time, they are responsible for the well-being of the people living in the region and for their loyalty to the state apparatus, and thus for the region's political stability (Bertelsmann Stiftung 2020: 9).

Corruption was endemic in sectors such as education, health care, the judiciary and law enforcement. Many activities required bribes: issuing documents; being treated in state hospitals, which were free in name only; getting a job at a government institution, for which informal price lists existed. Money was passed on proportionately from the lower ranks upwards, with the general public having different ideas about how far up it went and whether it was distributed onwards to provinces such as Nakhichevan (Meissner 2011: 7). Depending on the size of their companies, business managers needed informal contacts at customs and tax offices and in ministries. The state was thus structured by systemic corruption, and access to resources depended on which power group one belonged to and how much one could pay in bribes.

Ilham Aliyev, president since 2003, has secured, through referenda and controversial elections, the possibility of ruling at least until 2025. He has gradually strengthened his position within the power pyramid, mostly by setting up parallel administrative structures alongside existing ones.

In recent years, the state leadership has increasingly restricted the freedom of the opposition and independent actors to take part in politics, the media and civil society. Well-known individuals have been discredited in public; many have received long prison sentences. In some cases, they have been marginalized by actors close to the government in the media, for example, or at think tanks and religious institutions. Government-organized non-governmental organizations (GoNGOs) are a common tool for achieving this. Many opponents of the government have gone into exile. There is no separation of powers, no equality before the law and no controlling bodies that could effectively serve to correct the situation.

5.3 Top-down reforms as of 2012 and following the 2015 crisis

There have been several attempts to combat corruption since Ilham Aliyev became president. Government ministers submitted proposals, which, however, produced few results. Pressure increased at the end of Aliyev's second term of office (2008–2013). Although he had already secured the possibility of further terms in a referendum in 2009 (Reuters 18.3.2009), this step was controversial, as was the presidential election in 2013, which gave Aliyev a third term. There were public protests, which the leadership responded to by further restricting the opposition and independent voices. Added to this was the unrest in the Arab world beginning in 2011 and the defeat of President Mikheil Saakashvili's ruling party in Georgia in 2012.

In view of this, Aliyev introduced measures in 2012 to fight petty corruption. The salaries of civil servants were raised to compensate them for the loss of income from the bribes no longer being paid. This allowed the state to demonstrate to the frustrated public its ability to take action and thus to gain legitimacy.

Erkin Gadirli of the opposition ReAl Party, the only member of parliament in the opposition since February 2020 (in Baku in December 2019): “Before the 2014 crisis, construction workers were earning up to 6,000 manat a month [€5,600 at the time]. Many earned so much that they had something to lose. That's why they wanted stability above all.”

A push for more aggressive reforms came in 2015, when it became clear how justified the long-standing warnings by experts were about an impending end to the oil boom. In 2014, oil prices began to fall dramatically (Azernews 6.1.2015) and Azerbaijan experienced its first recession since 1995, leading the central bank to massively devalue the manat, the national currency, in 2015 and

again in 2016 (Bertelsmann Stiftung 2018: 26; Neue Zürcher Zeitung 13.5.2017). The banks experienced liquidity problems, and many customers were no longer able to pay off debts denominated in foreign currencies. According to the rating agency Fitch, credit in foreign currencies accounted for about half of all loans, because a majority of Azerbaijanis had no confidence in the manat. By the end of 2016, inflation had officially risen to more than 12 percent. While the public mainly had to pay higher prices for food, medicine, electricity and gas, less was available to be distributed through corrupt channels. There were protests once again, and demonstrators showed even less tolerance for corruption.

In addition to new reprisals, Aliyev reacted by accelerating the country's modernization process and trying to reduce its dependence on oil. At the World Economic Forum in Davos in January 2018, he described it as follows: “When we faced a significant drop in oil prices, I said that the post-oil period has already begun for us in Azerbaijan and we should forget about oil and gas. Diversification of the economy is our main task, and I think that we have achieved a good result in this direction. [...] [A]s the main source of income, we should consider technology, innovation, industry, entrepreneurship and agriculture” (Turan 24.1.2018). Interviewees close to the government expressed similar views in Baku in December 2019.

One policy expert reported that, as of 2015, the government took the warnings about the end of the oil boom seriously and asked think tanks for ideas on how to diversify the economy. In addition, it was understood on all levels that the pie available for distribution was getting smaller, the expert said. Opposition and independent activists were pleased, feeling the wealth generated by oil was also a curse for the country.

5.4 Petty corruption

In 2012, Aliyev took a step towards modernizing the country's public administration by creating the State Agency for Public Service and Social Innovation under the President of the Republic of Azerbaijan (VXSIDA). The agency is under the direct control of the president. The aim is the fundamental modernization of the bureaucracy, which still operates as it did in Soviet times.

This includes the digitalization of public administration, which has now progressed so far that people can use the e-gov.az website to access their government documents and data, once they have applied for an electronic signature. The website also shows when

employers want to view references and data that are stored and accessible on the government's servers. Moreover, a telephone number – 108 – was created that people can call for information on public services, similar to the number 115 used in Germany and 3939 in France.

The most visible institution within VXSIDA is the Azerbaijani Service and Assessment Network (ASAN), which runs service centers the public can use to access government services. ASAN means “simple” and “light” in Azerbaijani. Other organizations bear the names DOST (“friend”) and TEBIB (“doctor”). Travelers who want

to clear customs easily pass through what is called the “Green Corridor” – a designation much different than the terminology used in Soviet times, which mostly consisted of cumbersome and difficult to pronounce abbreviations.

5.4.1 ASAN service centers

In 2013, the Azerbaijani Service and Assessment Network (ASAN) opened, which is designed to make government services more easily available using modern technologies. A notable feature is that the public can access 200 services from 10 government ministries under one roof. ASAN offers its services at 315 branches throughout the country, and at mobile centers located in buses and trains. The available services include issuing birth certificates, driver’s licenses and passports, and registering real estate and businesses. For example, registering a foreign company costs the equivalent of €165, while receiving an ID card costs €2.75 for a 10-day wait and €18 for a 3-day wait.

No cash is exchanged between employees and customers. Fees are paid by bank transfer, and there are ATM machines in the service centers for this purpose, as well as notary’s offices. Names of employees are clearly displayed at the counters, as is the time planned for completing individual procedures. Work-flow statistics for individual ASAN centers can also be viewed on the Internet. For example, center No. 3 in Baku handles an average of 2,000 cases per day.

In October 2015, the president ordered requirements for licenses to be simplified and the number of activities involving licenses to be reduced, along with the related fees. While 10 documents were once required to obtain a new driver’s license, now only the driver’s identity card and old license must be presented. The license to set up a private kindergarten, for example, now costs only 125 manat (€66 in April 2020) instead of 2,500.

Staff are recruited via the State Examination Center (DIM), which resulted from the merger of the Civil Service Commission and the commission responsible for placing students at universities, which was created in 1992 and which long had a good reputation. DIM was designed to handle recruitment to the civil service, and student admissions to higher education and training. However, the fourth OECD monitoring report from 2016 on the Istanbul Anti-Corruption Action Plan states that the merger had not yet been fully implemented (State Examination Center of the Republic of Azerbaijan 1.4.2019; OECD 2016: 6).

Another method for recruiting staff for ASAN is a two-month voluntary internship during which young people gain a basic under-

The physical design of the ASAN and DOST centers is also noticeably different: Modern and bright, they are decorated in friendly colors and offer extensive seating, space for children to play and, in some cases, markings for the visually impaired.

standing of how the organization works. It also serves to disseminate information about the service centers among citizens and increase public acceptance of government services. The radio station ASAN Radio was also established for this purpose.

The OECD’s fourth monitoring report includes the positive finding that ASAN has helped eliminate the conditions giving rise to corruption at state agencies. Moreover, it notes, the economic climate has improved thanks to the simplification of licensing procedures and the lower fees (OECD 2016: 8). In 2015, ASAN was awarded the United Nations Public Service Award in the category “Delivery of Public Service.” (United Nations Department of Economic and Social Affairs 2015).

A staff member at the State Agency for Public Service and Social Innovations under the President reported that an international ASAN Association had been established to present the service abroad. According to the staff member, a service has been set up in Kabul, the capital of Afghanistan, using the same name, and other countries have also expressed interest, such as Russia, Bulgaria, Italy and Morocco, as well as Indonesia, where workshops have already been held.

Member of the public in Baku in 2019: “It used to take up to a year to get a new driver’s license. Today, it takes seven days.”

Members of the public and opposition activists alike describe the service centers as a considerable help in everyday life. As independent activist Rasul Jafarov recounted of his own experience, applying for a new driver’s license used to take months and required paying multiple bribes, neither of which is true today. ASAN’s reputation is so good that both experts and the public are calling for it to be expanded to other services and administrative areas (Dey-erler.org 28.3.2015).

Yet mistrust and skepticism remain high. One point of criticism is that ASAN is not yet present in all regions throughout the country. There are also reports that the onboarding of services by ASAN is not going smoothly, especially in the provinces, since existing authorities are not relinquishing their powers as planned, or ASAN is

not yet in a position to take on all the necessary tasks. This is true, for example, of the agencies that manage housing, which are under the control of local executive authorities. They are responsible for collecting incidental property charges and issuing proof-of-residency certificates when these charges are paid; ASAN is also authorized to do the latter.

Azerbaijani political expert in Baku in December 2019 on anti-corruption measures in public administration: “In return for less protests, it is easy to forgo five to six million US dollars in revenue.”

5.4.2 DOST – State agency for social provision

Similarly, a state agency for social security was created in 2019 under the name DOST (Agency for Sustainable and Operative Social Provision – Dayanıqlı və Operativ Sosial Təminat Agentliyinin). The catalyst was, once again, a presidential decree signed in 2018. DOST, however, is part of the Ministry of Labor and Social Protection and only provides services for which this ministry is responsible, such as unemployment benefits, job placement, social assistance, social insurance and pensions.

In 2019, the first two DOST centers in Baku opened. According to Farid Mammadov, the agency’s chairman, DOST is set to expand in Baku in 2020, and then rapidly into the country’s various regions. Yet buildings will only be rented, not bought, he said, since investments are to be made in the computer system and in employee capacities; at some point in the foreseeable future service centers will no longer be necessary. The plan is to provide all services online, making it possible for pensioners or recipients of social welfare benefits to obtain payments by smartphone. DOST is also looking into digitizing state-issued documents, such as birth certificates, held in state archives.

However, DOST customers are often elderly or disabled, and it is uncertain to what extent these groups have benefited from the services up to now. Mammadov also talked about the skepticism encountered among the public. He described the agency’s work as an “educational program” aimed at communicating information about the new service and gaining the public’s trust. He emphasized that DOST is intended to realize the president’s call to focus on the country’s citizens and their needs.

At DOST, as at ASAN service centers, no cash changes hands between customers and staff. Payments are made through banks; two

There are concerns about whether the agency will be self-financing, also in view of the ongoing need to invest in the network’s nationwide expansion. So far, this has been financed by contributions from the president’s reserve fund. Another issue is how the money that the agency collects is used. According to a staff member at the State Agency for Public Service and Social Innovation, 50 percent of the organization’s revenues help fund the government budget, the other 50 percent go to ASAN employees. According to the staff member, ASAN received the equivalent of \$80 million from the state over the past seven years and earned \$90 million. An agency publication on expenditure and income for the year 2018 reports revenue of 10,752,609 manat – about €5.7 million (VXSIDA 2019: 18)

have installed ATMs in DOST branches. Customers have to pass a security barrier when entering the service center; display boards indicate the names of the employees and processing times. At all service points, cameras record the interactions between staff and customers, which Mammadov said was necessary because customers do not always follow the rules. Display boards also show photos of customers along with the numbers they receive when waiting so that people feel obliged to behave correctly, he explained.

DOST produces audio recordings and videos describing its services, as well as a talk show format. The communications department also operates channels on YouTube and Facebook. Training for senior citizens is also offered. As part of a corporate social responsibility program, moreover, DOST is looking for companies that can provide cars to transport people with physical disabilities, Mammadov said.

Ilgar Mammadov, leader of the opposition ReAI Party in December 2019 in Baku: “ASAN and DOST require major investments. They are not designed to be sustainable and will therefore not pay for themselves in the long run.”

According to Farid Mammadov, programs in Chile, Canada, Australia and Norway served as models for DOST, and the Bulgarian Ministry of Labor has shown interest in such an agency. In spring 2020, the consulting firms PricewaterhouseCoopers and Ernst & Young will present a monitoring report, he said. DOST’s current chairman has an MBA in process management from Vienna University, and has worked for international businesses and on projects for the World Bank, the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank.

5.4.3 Educational system

Due to poor quality and widespread corruption, the education sector was considered very weak at the beginning of the 2010s – at all levels, from preschools to universities. The only exceptions were new institutions such as ADA University, the French-Azerbaijani University and the Baku Higher Oil School (Bertelsmann Stiftung 2020: 31). Around 2010, protest movements arose such as Education Without Corruption (Rüşvətsiz Təhsil Hərəkatı) and, as a result, a number of scandals were uncovered, for example at Sumgait State University (Dia.az 1.10.2012). Between 2010 and 2012, public prosecutors received 535 complaints about corruption at various educational institutions, 72 of which led to criminal proceedings.

Reforms were initiated in 2012 by the Ministry of Education, whose new head as of 2013 was a young technocrat, Mikayil Jabbarov. (He has been the minister of economy since October 2019). During an interview, the head of the department responsible for the ministry's education development program explained that systemic corruption in the sector has been successfully eliminated as a result.

According to the department head, in a first step, a comprehensive program of tests established the educational level of some 140,000 teachers, not all of whom had valid diplomas due to the chaotic conditions in the country at the beginning of the 1990s. Mandatory training and tests were introduced, combined with incentives. Those who do well in annual, centrally organized training courses are allowed to teach more hours and can thus increase their salaries. In 2019, teachers' salaries averaged 600 manat per month, which corresponds to around €300 (Modern.az 14.6.2018).

Scholarships are awarded to university students studying education in order to attract more young people to the field, the department head explained. Candidates for teaching positions must pass centralized exams, he said, and school principals are appointed using a step-by-step selection procedure involving tests and interviews. The same applies to universities.

According to the department head, a preschool year was introduced in 2016 to prepare children for school, and 85 percent of five-year-olds now participate in it. The allocation of places at elementary schools has been digitalized and made anonymous, and complaints about irregularities can be submitted via a hotline run by the ministry and on Facebook, he explained. The ministry's investigators forward cases to public prosecutors when necessary.

In the annual report published by the city of Baku's Education Department, the section on quality improvement measures implemented in 2018 does not discuss corruption, but refers instead to

“misuse” or “exceeding one's official authority” (Azedu 13.9.2018). Out of 307 municipal schools, 30 principals and assistant principals, nine teachers and one city employee were dismissed because of “negative cases.” Charges were filed in light of activities at five schools.

Interviewees reported that, during his tenure as minister of education until 2017, Jabbarov's decisions could not always be enforced in the provinces. For example, one teacher said that when she was hired to work at a provincial school in 2015, she was expected to pay 2,000 manat (about €1,700 at the time) to school officials. In 2016, a school principal in the city of Lenkoran, who had been appointed by the minister of education because of his good test results, was allegedly forced to resign because he did not want to pay the required bribe to the head of the local school authority.

Another instance that came to light was the attempt by an employee at a school authority to manipulate the digitalized admission procedure for elementary schools and to persuade parents to pay bribes so that their children would be admitted to their preferred institution. A report by the organization Open Azerbaijan for the years 2013 to 2018 lists other cases of bribery in the education sector (Open Azerbaijan 2019).

On Facebook, a political expert regularly discusses the fact that parents of school students are asked to pay into “funds.” Comments indicate that school classes usually collect between 30 and 50 manat (currently between €16 and €27) on Teacher's Day, the first Friday in October, and International Women's Day, March 8. Many parents eagerly participate in these activities and suggest even higher sums because they expect a better evaluation of their child's performance in return. Usually, no distinction is made between gifts for teachers and requests to help pay renovations, cleaning and equipment. Due to a lack of transparency and trust, all such activities are considered to be corruption. However, as one parent reported in October 2019, some schools have made a point of distancing themselves from corruption and have asked parents not to give gifts to teachers.

A centralized, anonymous procedure has been used since 1992 for conducting university entrance exams, which are organized by the State Examination Center – as mentioned, formerly the commission responsible for placing students at universities. University entrance exams have been regarded for years as a process that can generally be completed without having to pay bribes.

The demand for university places is great, however, especially by young men, who are exempt from military service during their studies and thus from possible service on the borders to Na-

gorno-Karabakh and Armenia. Only secondary-school graduates with the highest scores are admitted to the most sought-after universities in Baku. These include ADA University, which was formed in 2014 from the Azerbaijan Diplomatic Academy and the Information Technologies University in accordance with a presidential decree. It is headed by the experienced diplomat Hafiz Pashayev, an uncle of Vice-President Mehriban Aliyeva. ADA University, along with four other universities in Baku, is considered transparent and free of systemic corruption.

At most universities there are a number of educators who are needed because of their professional qualifications and who can therefore avoid corrupt practices. Many of them also earn their living by providing private tutoring – which has been common since the 1990s due to the poor quality of schools – in preparation for university entrance examinations. Educators who prepare students for these exams thus have an incentive to focus less on the exams during regular lessons, and thus risk having a conflict of interest (OECD 2016: 86).

In past years, moreover, exam-takers and examiners found ways to circumvent anonymization procedures during the exams. As a university lecturer reported in August 2019, secondary-school graduates marked their answer sheets in a previously agreed manner and the examiners scored the results according to the bribes paid. An education expert explained that closed groups on social networks negotiated the prices, which started at 50 manat (about €43) per exam in 2016. However, since 2019, the final secondary exams have been considered along with the entrance exams, so that university places are no longer allocated based solely on points. The overall results of both exams are considered when the decision is made about the student's aptitude for the chosen course of studies and whether he or she should be allowed to compete for a place from among all those available at the country's various universities. In addition to multiple-choice questions, open questions have been incorporated into the procedure. No reports are available as yet on how this has been received. The procedure seems to be transparent, given that no complaints have appeared on online platforms.

In November 2018, the rector of Baku State University was dismissed, an event that met with considerable approval on social media in view of corrupt practices at the university.

In order to get places at coveted universities, students used to take a detour: After graduating from secondary school, they first applied to universities in the provinces or private universities that only require a low score. During their first year, they requested a transfer to their university of choice, a procedure that has been handled by the Ministry of Education and not the State Examination Center. According to the Ministry of Education's annual re-

port, 2,646 out of 3,510 applications for university transfers were approved in 2019, corresponding to 1.4 percent of all students (Ministry of Education of the Republic of Azerbaijan 29.12.2019). Even though there is a law governing this procedure and an Internet platform was set up in 2016 to increase transparency (Ministry of Education of the Republic of Azerbaijan – Təhsil nazirliyi), the criteria for changing places – according to a university lecturer, speaking in mid-2019 – left a lot of room for interpretation, which has resulted in a sizeable shortage of qualified students. A new system has therefore been introduced to monitor universities more strictly.

The fourth OECD monitoring report from 2016 on the Istanbul Anti-Corruption Action Plan discusses positive steps in the fight against corruption, for example in the training and employment of teachers, but it also calls for significant improvements to the second anti-corruption program (2016–2018). According to the report, implementing the reform process requires better planning, including comprehensible indicators of timeframes and clear evaluations of results. Moreover, it should be made more transparent, involve more civil society actors and promote contact between parents and educators (OECD 2016: 9, 108).

The described shortcomings can plausibly explain that, despite the reform efforts, cases of corruption continue to be reported: Insufficient transparency and the lack of involvement of the relevant actors in reform measures can prevent people from understanding how problematic corrupt behavior is and cause them to find ways to manipulate even recently developed procedures instead. Yet the complaints from parents, the reports of corruption and its punishment, and the calls from schools to stop giving gifts to teachers all show that not only are the measures being applied top-down, pressure is also being exerted from within society.

The demands described above occasioned a reaction in July 2019: The newly appointed minister of education, Jeyhun Bayramov, established a public advisory board, which includes 11 representatives of state and independent educational institutions and non-governmental organizations. In addition, Azerbaijan again participated in the PISA study in 2018, the first time since 2009.

The problem of political corruption also exists in this sector. As is true elsewhere, teachers in Azerbaijan are members of election committees, giving rise to the question of whether and how the state leadership intends to continue ensuring their loyalty in the future. In the past, teachers were kept in a dependent position through low salaries and were subsequently forced to engage in corrupt practices, something that does not align with today's need to provide young people with a sound education, since they are what the new economic sectors require if the country and its leadership are to have access to new sources of income.

5.4.4 Health-care sector

In recent years, the health-care sector has been regarded as an area marked by systemic corruption. According to data from a 2020 survey by the European Bank for Reconstruction and Development (EBRD), nine out of ten respondents in Azerbaijan said they had to pay or give gifts for a medical treatment received at a state institution that was supposed to be free of charge. This puts Azerbaijan ahead of all other countries in Europe and the post-Soviet region (World Bank 2017: 177; EBRD 2010).

A 2016 report by the organization Open Azerbaijan cites examples in which patients were expected to pay for ultrasound scans or chemotherapy (Open Azerbaijan 2019: 32). One reason given for such corruption is the low remuneration medical staff receive. Occasionally, there are reports that patients and their relatives refuse to accept the situation: In June 2019, the journalist Teymur Karimov staged a protest after his mother had to pay for medical care at a state clinic. He was detained for his “Stop the Corruption” demonstration in front of the Ministry of Health (Turan 14.6.2019).

According to the 2017 World Health Statistics published by the World Health Organization, Azerbaijan is among the 15 countries that spend the least on public health as a percentage of GDP. In 2014, it amounted to 3.9 percent of government spending (WHO 2017: 21 and 94; including data from the WHO’s Global Health Observatory). Public discussion focuses on malpractice, incompetent medical staff and a general lack of doctors. Corruption is considered one reason for the high rate of physicians leaving the country – since it impedes recruitment and the licensing process. The Ombudsman’s 2012 report lists 41 cases of falsified diplomas (Ombudsman 2012: 31).

Trust in the state health-care facilities is correspondingly low. In the summer of 2019, a woman with diabetes reported that a polyclinic regularly invited her for check-ups and provided a measuring device free of charge, but even though she found the care there good and no expensive drugs were prescribed, she preferred treatment in a private clinic that the family could afford. Independent activists also expressed suspicion about medical treatment received by colleagues and relatives. There were also allegations that medical professionals ignored situations in which they should have provided assistance.

In 2017, the private sector accounted for 70 percent of physician visits (GTAI 24.12.2018). Beyond that, anyone who can afford it, or who has no other choice, goes abroad for treatment – to Iran or Georgia for cheaper procedures, to Western Europe for more complex operations or therapies.

In a survey for the EBRD’s Life in Transition III report in 2016, only 46 percent of those queried said they rated their health as “good” or “very good”; in Germany the figure was 68 percent and in Italy 54 percent (EBRD 2016: 78).

The State Agency on Mandatory Health Insurance (ITSDA) was founded in 2007. The agency carried out three regional pilot projects in 2016: In the city of Mingachevir and the districts of Yevlakh and Agdam, local medical facilities were restructured, skilled personnel were given raises, medical technology was made available and a system of general practitioners was organized to provide care (GTAI 24.12.2018). There were 11 regional offices by the end of 2019. The head of the agency, Saur Aliyev, studied finance in the UK and worked for Ernst & Young in various countries. The consulting firm McKinsey & Company was commissioned to plan how the health insurance system would be introduced throughout the country.

One of the agency’s organizational divisions is TEBIB (see section 5.4), which has been responsible for managing most of the state hospitals since the end of 2019. The hospitals were previously under the control of the Ministry of Health, which is also the regulatory authority. According to GTAI, other regional and local hospitals are under the control of the city councils and local authorities.

At the beginning of 2020, compulsory statutory health insurance was introduced that covers basic medical services. The employer and employee each pay half of the total amount to the relevant health insurance fund every month. The amount due is 1 to 2 percent of the employee’s income, based on a sliding scale. People working in the oil industry pay different rates than employees in other sectors. According to the state health insurance agency, pensioners, the unemployed and children will continue to receive free medical treatment. A price list is available on the Internet.

In 2018, foreign trade representatives said that, overall, the changes expected for Azerbaijan’s health-care sector are “severe” (GTAI 24.12.2018).

In contrast to Armenia and Georgia, the Azerbaijani government reacted late to the coronavirus outbreak in Iran, a neighboring state. Its restrictions included medical checks of people entering the country and closing the border to Iran. The first person infected with corona was discovered by Georgian officials on the Azerbaijani-Georgian border. The first case in Belarus was also someone who had travelled unhindered through Azerbaijan. The public mistrusts official information about the number of infected,

sick and dead, and the Azerbaijani media and opposition are sometimes sharply critical. In a speech on March 19, President Aliyev accused opposition groups of provocations against the state, describ-

ing them as enemies and a “fifth column” that should be isolated. The police cracked down on such groups over the following days (Eurasianet 19.3.2020).

5.4.5 Real estate sector

In Azerbaijan it is common practice to own apartments and houses instead of renting them. Property ownership was given a boost by a construction boom caused by rising oil revenues that began in 1995. The boom was accompanied in turn by arbitrary decision-making on the part of the authorities when it came to granting building permits and registering residential property.

Newly built properties were usually occupied before the relevant ownership documents had been issued. These documents could only be provided after the Ministry of Emergency Situations and other authorities had given their approval, which, in turn, could only happen after gas lines had been installed.

Given the growing discontent, President Aliyev responded to the problem in February 2019, issuing a decree to speed up procedures for apartment buildings that had been completed by the beginning of 2019. The ASAN service centers were given the responsibility of issuing property titles. In August 2019, one interviewee expressed astonishment at how quickly ASAN had cleared up his situation, after years of unsuccessful attempts to obtain documentation proving he owned his property.

In January 2020, a new chairman of the State Committee on Urban Planning and Architecture was appointed: Anar Guliyev, born in 1977, who had previously worked for the Ministry of Economic Development, an initial key post for many young technocrats. When he was appointed, one of the responsibilities he was charged with was preventing unscrupulous practices from occurring in the future, a task for which the committee was given additional powers (President of the Republic of Azerbaijan Ilham Aliyev 8.1.2020).

5.4.6 Law enforcement

In recent years, the traffic police have had the reputation of being notoriously corrupt. In a study conducted in September 2017, 90 percent of the 6,375 respondents said corruption was prevalent in this police division. A series of video recordings on YouTube titled “YPX-Sebebsiz saxlama” (Being Stopped for No Reason) shows ten examples of corrupt behavior by traffic police. The 2012 Ombudsman Report states that 67 traffic-police officers were punished for corruption (Ombudsman Heasabat 2012: 27).

The allocation of social housing to internally displaced persons from Nagorno-Karabakh is overseen by the State Committee for Refugees, whose approach has been criticized as lacking transparency. The rules for distributing state welfare benefits are unclear, critics say. During a discussion held at a refugee shelter in Mingachevir in July 2015, local residents said that after a new housing development for refugees was completed in the area, other people moved in instead of refugees.

In April 2018, a new chairman was appointed to lead the State Committee for Refugees: Rovshan Rzayev, who has a reputation for not being corrupt and for maintaining close contacts with refugees. Rzayev is a member of the board of the Azerbaijani community of Nagorno-Karabakh and has been a member of parliament from Göy Göl since 2004, a border region with many internally displaced persons originally from Nagorno-Karabakh. However, the State Committee for Refugees is dependent on the country’s various governors – who allocate housing, for example – and it cannot guarantee full transparency as a result.

On October 10, 2019, refugees living in temporary accommodation near Baku, who had been promised new housing in Kobu, demonstrated before the state committee. According to the protesters, only some of them were given housing, while the others had to remain in their makeshift shelters under untenable conditions. According to one refugee, payments of between 2,000 and 5,000 manat (currently €1,000 to €2,600) are required to move up a waiting list to the point where an apartment is allocated (Meydan TV 2019).

Cameras have now been installed on major roads. Drivers caught violating traffic laws receive a notice that includes photographic and video evidence and a request to pay a fine, which they can do electronically at machines set up for this purpose. Cameras are not only used to monitor traffic, but have also been installed in public places, in buildings and in the subway system. According to one interviewee, some cameras in the center of Baku are equipped with face recognition technology. The official reason for this is fighting

crime. There have been few public protests, even though the authorities have already used some of the recordings against opposition members and journalists.

There are also reports that people who fail the exam for a driver's license can purchase one instead. Comments posted on social media mention prices ranging from 740 manat in 2013 (€690 at the time) to 1,500 manat in 2019 (€770). However, the relevant division of the Ministry of Interior Affairs has rejected this as being

nothing but a rumor. Nobody could be found who admitted to having bought a driving license.

Since there was considerable resentment among the public over their interactions with the authorities when a driver's license was lost or needed to be renewed, these procedures have been assigned to the ASAN service centers. For technical reasons among others, it has not yet been possible for ASAN to assume responsibility for administering driving tests.

5.5 Investment conditions

President Ilham Aliyev and the country's other leaders are working to improve investment conditions so the country will be well positioned to generate new, post-oil-boom revenues. As early as 2011, they passed a law to regulate state controls, prevent duplicate inspections by different authorities and introduce a standardized system for monitoring businesses. Companies were divided into three risk groups, which meant that they were assigned a maximum inspection frequency: Medium-risk companies can be inspected only once a year, low-risk companies only once every two years and those with the lowest risk only once every three years.

In a speech he gave in 2015, President Aliyev expressed harsh criticism of continuing arbitrary controls by executive and law enforcement agencies, which, he said, "suppress," "skin" and put pressure on entrepreneurs (President of the Republic of Azerbaijan Ilham Aliyev 12.10.2015).

On October 20, 2015, parliament subsequently passed the law "Suspension of checks in the field of entrepreneurship" (Law No. 1410-IVQ, available at the Ministry of Justice), which eliminated all state controls of businesses for two years. The law was designed to protect small businesses from arbitrary acts by the authorities and from corruption. In 2017, the law was extended to January 1, 2021. Tax inspections were not included for the first two years. A number of inspections were added when the law was extended, for example in the areas of food and medicine, building safety, and fire and radiation protection. According to staff member at the Ministry of Economy, the relevant authority is to be reorganized in order to reduce "artificial barriers" for companies.

"Mobile tax inspections" were also greatly reduced after Mikayil Jabbarov, formerly minister of education, was appointed minister of taxes at the end of 2017. Jabbarov's declared aim was to help companies "step out of the shadows" (Ministry of Taxes 2019).

There are also indications that, on an informal level, small and medium-sized entrepreneurs have also been given more freedom. As

one policy expert reported, entrepreneurs are no longer pressured to sell their companies to oligarchs or their associates, something that had often been the case as soon as a company became successful. If an entrepreneur was not prepared to sell, the expert said, the frustrated buyers would attempt to ruin the company, for example by offering employees high salaries to entice them to leave.

Entrepreneurs from abroad could also be put under similar pressure and forced out of the market. One possibility for avoiding this was participating in official or informal joint ventures, as the Lebanese businessman and chairman of the International Chamber of Commerce in Georgia, Fady Asly, describes. To end ongoing problems with the customs bureau, he entered into an "unofficial joint venture" with a senior customs agent, he says. The latter determined which imported goods would be subject to duties and which would not. He also promised to protect the company from competitors and received 50 percent of the profits in return. According to Asly, the customs bureau kept two sets of books, one for official and one for unofficial transactions (Asly 2016: 73ff.).

In December 2016, President Aliyev signed a decree meant to make foreign investments easier and safer. As a result, the Ministry of Economy set up industrial and agricultural parks where international companies can establish a business, with the ministry itself as a direct contact. At the port of Alat, 65 kilometers south of Baku, a free-trade zone is being established, modeled on British law, in which no taxes or customs duties will be imposed, in keeping with the presidential decree of March 17, 2016.

Customs duties are now paid via an electronic system and the revenue goes directly into state coffers (The American Interest 17.10.2019). The State Migration Service, which plays a key role for foreign investors, is headed by Harvard graduate Vusal Huseynov.

In the World Bank's current *Doing Business* report, Azerbaijan ranks 34th out of 190 countries (World Bank 2020). Among other

positive aspects, the report emphasizes that the registration of property has become simpler and more transparent.

In a survey of 100 business leaders conducted by the Baku Research Institute in late summer 2018, 50 percent said that the economic climate had improved, while 23 percent felt it had deteriorated. When asked why they perceived an improvement, 18 percent ascribed it to better tax relations and to fewer inspections, 14 percent to more transparent customs procedures, and 7 percent to the increase in e-government services. The decline in corruption is grouped under "Other reasons," cited by 25 percent (Baku Research Institute 2018).

At the beginning of 2020, Mikayil Jabbarov, who was appointed minister of economy in October 2019, declared that the shadow economy had declined significantly thanks to tax reforms. The economy had grown by 2.2 percent and tax revenues had risen by 3.4 percent, reaching a historic high of 7.6 billion manat (€4.03 billion), he said. The number of taxpayers had increased by 12.3 percent, with the highest increase in the non-oil sector – despite the abolition of income tax on salaries below 8,000 manat (€4,240). The tax relief had in turn led to 18.3 percent more work contracts.

5.6 Grand corruption

During the crisis management phase, President Aliyev spoke of rejuvenating the government team and regenerating the political class. In a speech to state ministers on October 15, 2019, he criticized those in the government who were hindering the reform process and pursuing their own personal interests (President of the Republic of Azerbaijan İlham Aliyev 15.10.2019).

Ramiz Mehdiyev was removed from his post as head of the presidential administration in autumn 2019, a position he had held since 1995 and one that made him the second most important person in the government (Bertelsmann Stiftung 2020: 11). Under his leadership, the presidential administration selected members of parliament and gave them direct instructions, thereby determining the legislative process (Guliyev 3.2020; Bertelsmann Stiftung 2020: 13). Mehdiyev was appointed president of the National Academy of Sciences. Like Heydar Aliyev, he was born in the Nakhichevan exclave and thus belongs to the Nakhichevan clan. According to observers, however, membership in these patronage networks has played less of a role when posts need to be filled since Aliyev's son İlham came to power.

In 2017, Minister of Transportation Ziya Mammadov was dismissed. There had been scandals in his organization involving Swedish firm Bombardier (OCCRP 17.3.2017) and the Trump Or-

ganization (New Yorker 6.3.2017), among others. The ministry's portfolio was integrated into the Ministry of IT & Telecommunications the following year. Corruption in the transport sector had delayed the development of infrastructure projects and made conditions for foreign companies more difficult (Cornell 2019).

According to Jabbarov, tax revenues from the non-oil sector accounted for 70.8 percent of total tax revenues (Ministry of Economy 22.1.2020; Trend News Agency 16.1.2020).

In an economic report published in September 2019, GTAI wrote that there is still much to be done in terms of reducing the shadow economy and ensuring fair competition. The economy's informal sector accounts for more than 60 percent of GDP, resulting in weak corporate investment, the report said, and the expansion of new industries beyond the oil sector is "not progressing at the desired pace."

According to the report, the public's purchasing power is affected by high unemployment and poverty rates, low wages and the devaluation of the manat. In the first half of 2019, average monthly per capita income was \$271, of which each person spent an average of \$89 on food and other products and \$41 on services. The percentage of high-income groups, which are mainly found in Baku, has declined in recent years. At the same time, reductions in income tax and social security contributions, along with higher wages and debt relief, are likely to result in consumption growing slightly in real terms, the report said (GTAI 3.9.2019).

After the devaluation of the manat in March 2015, the head of the International Bank of Azerbaijan was dismissed and later sentenced to 15 years in prison for embezzlement, abuse of office and fraud (BBC 14.10.2016). In October 2015, one of the banker's relatives, the head of the Ministry of National Security, was dismissed without any reason being given (RFE/RL 17.10.2015).

On December 19, 2019, the governor of the Agstafa region, his deputies and a former governor were arrested on charges of misappropriating public funds, using funds for public tenders in their own interest and collecting the salaries of bogus employees.

The minister of emergency situations, Kamaladdin Heydarov, has so far remained in his post, which he assumed in 2006 after serving as head of the customs authority. He has apparently taken action against corruption in his department (The American Interest 17.10.2019). Like the president, he comes from Nakhichevan.

The reduction of corruption, the creation of new institutions and the filling of important posts with young, loyal technocrats mostly from the Baku elite and PASHA Holding have occurred parallel to the weakening of the clans, some oligarchs and the post-Soviet elite that presided during the time of Heydar Aliyev. The office of the president and the newly created post of first vice-president have been strengthened (Guliyev 3.2020: 8). “The net winner of this struggle is the country’s first lady and first vice-president Mehriban Aliyeva and her extended family, the Pashayevs. Aliyeva is now chairing meetings on economic issues in the government,” wrote South Caucasus expert Tom de Waal in November 2019 (Carnegie Europe 5.11.2019).

Azerbaijani journalists researching the business activities of the presidential family and other high-ranking officials have come under pressure in recent years. One of them is the investigative journalist Khadija Ismayilova. She was sentenced to seven and a half years in prison in 2015, released on probation in May 2016 and is subject to a travel ban. The rapper Paster was sentenced to 30 days of house arrest in December 2019 after he released a song with lyrics about PASHA Bank. An Azerbaijani MP filed a lawsuit in the UK against the research network OCCRP; an out-of-court settlement was reached in January 2020.

The Azerbaijani leadership’s desire to be transparent about corruption has its limits. The Council of Europe’s Group of States Against Corruption (GRECO), for example, noted in 2017 that the government had made no progress in establishing a register in which state officials must disclose their property – a recognized tool for preventing large-scale corruption.

The State Oil Fund of the Republic of Azerbaijan (SOFAZ) was founded almost 20 years ago, in 2001, to pool oil reserves based on the Norwegian model. It is generally seen as being professionally and transparently managed and its activities are regularly reviewed by international auditors. Its transparency applies to revenues, but not sufficiently to expenditures (Cornell 2011: 235). Public investments that have taken place through SOFAZ, the

state budget and the State Oil Company of the Azerbaijani Republic (SOCAR) have been indirectly used for corruption, Meissner wrote in 2011 (9).

In 2004, in accordance with the Council of Europe’s conventions against corruptions, a law came into effect that provides for establishing an anti-corruption department within the public prosecutor’s office. Azerbaijan ratified the UN Convention against Corruption in 2005.

In 2007, Azerbaijan became a member of the Extractive Industries Transparency Initiative (EITI), a voluntary association of resource-exporting states committed to greater transparency. The government declared its withdrawal from the organization, however, after the country was reprimanded and suspended at a meeting in April 2015 for its treatment of government opponents (EITI 2018).

Azerbaijan is a participant in the Open Government Partnership, an association of 70 states founded in 2011, although it was downgraded to an inactive member in May 2016. Its suspension from active membership was extended in December 2018 (Open Government Partnership 11.12.2018).

Even though Azerbaijan is one of the countries in the EU’s Eastern Partnership, created as part of the European Neighbourhood Policy (ENP), and President Aliyev was present at the partnership’s founding in Prague in 2009, the government in Baku did not conclude an association agreement with the EU. The reason given was that this was not in Azerbaijan’s interests and would restrict the country’s independence and sovereignty. Since the end of 2016, the European Commission and the Azerbaijani government have been negotiating a new agreement to replace a partnership and cooperation agreement concluded in 1996. The talks were still ongoing in early 2020. According to both sides, the problem areas include trade and the economy, especially energy prices. The fact that Azerbaijan has not yet joined the WTO also plays a role, which would require compliance with international standards for customs duties, taxes and other economic policy elements.

5.7 Political corruption

Personnel changes in the government apparatus in the 2010s led observers to believe that the leadership around President Aliyev might be willing to open up on a political level as well. This included the reorganization of the Ministry of Internal Affairs and the security authorities, and the replacement of Ramiz Mehdiyev as head of the presidential administration, as well as his department head for public and political affairs, who was notorious for verbally attacking opposition members and journalists (Eurasianet 17.1.2020).

Another reason for believing an opening was occurring was the early parliamentary election of February 9, 2020, in which a number of young and independent candidates and opposition forces took part, such as the still young ReAl (Republican Alternative) Party. However, two independent candidates were summoned to the public prosecutor’s office, where they were put under pressure. Nor were as many young people or new faces selected as candidates for the ruling New Azerbaijan Party as observers expected

following the government's restructuring. The European Parliament decided on January 8, 2020 not to send election observers to Azerbaijan. Ultimately, voter turnout for the election was low (as was true of a local election in December 2019) and there were multiple irregularities indicating fraud. The OSCE election observers on the ground criticized unfair conditions for the opposition and significant violations during the vote count, among other aspects (OSCE 10.2.2020).

Opposition politicians like the head of ReAl, Ilgar Mammadov, describe the political sphere as generally corrupt, saying that even

the "traditional" opposition parties have entered into deals with the state leadership. In contrast, Mammadov described his most important concern as being able to continue representing himself to the public as being clean and honest. In particular, he feared that his party would be given seats in the February 2020 parliamentary elections as a political ploy. In fact, his fellow party member Erkin Gadirli was the only opposition candidate to receive a mandate. On election night, Gadirli declared that he had received too many votes in light of the low voter turnout (ReAl 9.2.2020). He nevertheless accepted his mandate and was criticized by many civil society representatives for doing so.

5.8 Judiciary

In April 2019, President Aliyev signed a decree meant to "deepen reforms in the judicial system," justifying it by the need to adapt the judiciary to changes in the economic sector. In the decree, the president cited a number of problems, including the lack of transparency and different interpretations of the law being applied to similar cases. He called for reforms capable of combatting corruption and creating transparency and fair conditions, describing them primarily in terms of their economic implications (The American Interest 17.10.2019).

These shortcomings also reflect the findings from surveys of foreign companies operating in Azerbaijan that have been carried out by international organizations. Legal certainty, for example, has been one of the three areas most cited as needing reform in polls conducted by the German Chamber of Commerce in Azerbaijan over a number of years.

The presidential decree dissolved the courts responsible for business and public administration at the beginning of 2020 and created new administrative courts and courts for commercial affairs, with the latter gaining an additional 200 judges. The decree provided for concrete measures that promote the fair administration of justice, including strengthening the financial independence of judges by paying them higher salaries, distributing cases randomly using an electronic system, and creating disciplinary procedures for lawyers attempting to influence the courts.

This judicial reform primarily involves civil law as a means of promoting economic development. The area of human and civil rights was not included for the time being. The decree also addressed the criminal justice system, however: Legislative changes were proposed to "humanize" punishments, and there were more pronounced expressions of support for "decriminalization." Concrete changes here are to be proposed by the relevant ministries.

Independent lawyers have a difficult relationship with the bar association, which should ideally represent the interests of its members. In 2019, the association suspended the prominent human rights lawyer Shahla Humatova, and public prosecutors began investigations against her. Humatova has represented numerous political prisoners, including prisoners held in a penitentiary in Ganja who claim to have been the victims of torture, forced confessions and fabricated evidence. The association's admission procedure can be used to prevent lawyers from practicing their profession (Civil Rights Defenders 4.12.2019).

According to the *BTI Country Report 2020*, loyalty to the political leadership has been an important criterion for deciding which judges are appointed. According to the report, the government intervenes in legal proceedings and has the final say in sensitive cases; corruption plays an important role, moreover, in decisions made in everyday civil and criminal cases (Bertelsmann Stiftung 2020: 14).

5.9 Organized crime

At the beginning of the 1990s, when the state was weak and the war over Nagorno-Karabakh was taking place, more possibilities emerged for organized crime to take hold. Heydar Aliyev, however, unremittingly fought all rival groups, including a 200-man contingent of special forces under former Deputy Minister of Internal Affairs Rovshan Javadov, who had repeatedly attempted to organize a coup against Aliyev. Javadov's forces gradually developed into a criminal gang involved in smuggling that cooperated with right-wing extremists in Turkey. Javadov died during the suppression of a revolt in 1995. He was the last of Aliyev's opponents, leaving him with a monopoly on the use of force (Cornell 2011: 86f.).

Afterwards, organized crime – drug smuggling, for example – took place within existing power structures (Kupatadze 2012: 198; Galeotti 2018: 186). By banning casinos in the country, the leadership thwarted a method for laundering money between Turkey and Azerbaijan, one that had previously involved state employees (Cornell 2011: 177).

In its annual reports, Germany's Federal Criminal Police Office classifies Azerbaijani gangs as part of Russian-Eurasian organized crime, a category that brings together perpetrators from the post-Soviet states due to their common elements, such as their criminal culture and their use of the Russian language. Azerbaijani gangs have become known in Berlin for property crimes (*Berliner Zeitung* 16.8.2019) and human trafficking.

In November 2019, Germany's federal police searched apartments in several German cities and issued two arrest warrants for "commercial and gang-related smuggling of foreigners, forgery of documents and money laundering" (Federal Police Headquarters Koblenz 13.11.2019). According to media reports and observers, Azerbaijanis posed as opponents of the regime in their native country in order to apply for asylum in Germany (Global Voices 21.12.2019).

5.10 International implications

While journalists in Azerbaijan have been put under massive pressure because of their research into the economic and financial activities of people associated with the presidential family and members of the government, international research networks such as the Organized Crime and Corruption Reporting Project (OCCRP) have succeeded in identifying suspicious connections. The latter suggest that the relevant actors are successfully using their positions of power to acquire income, transferring it abroad via offshore entities and using it for political purposes.

In recent years, OCCRP and journalists have presented the results of their research, demonstrating that family members of the country's leaders are involved, via holding companies and banks, in businesses in sectors such as telecommunications, construction, transport, mining, gas and oil (OCCRP 15.6.2015; Bullough 2018: 58).

In light of these examples, Judah and Sibley note that financial institutions which have cooperated with the banks in question have promoted the geopolitical influence of "authoritarian kleptocrats" (Judah and Sibley 2018: 15). After evaluating the Panama Papers, leaked from the law firm Mossack Fonseca, the International Consortium of Investigative Journalists (ICIJ) described the network of secret companies located in tax havens as an "offshore empire" that also involves members of the Azerbaijani leadership and their relatives (ICIJ 4.4.2016).

In recent years, the Azerbaijani leadership has used various means to lobby for its own interests abroad – in order to present itself as an indispensable strategic partner, for example, and to gain legitimacy among its own people through laudatory statements by foreign politicians. The state oil company SOCAR is thus said to have financed various lobbying activities in the US (Weiss 10.6.2014; OCCRP 19.6.2015).

The European Azerbaijan Society (TEAS) lobbied in the UK, France and Germany. MPs from Western Europe traveled to Baku and, upon their return, expressed positive opinions about the Azerbaijani leadership. According to a Swedish politician who worked for TEAS, these trips were financed with money that TEAS received via offshore companies. TEAS was managed by a relative of an Azerbaijani minister (Bullough 2018: 277).

One scandal involved the Council of Europe. Government representatives – including an Italian parliamentarian, a Spanish politician and a member of the German Bundestag – were invited to Azerbaijan and subsequently received money or expensive gifts. All of them later attracted attention after making favorable remarks about Azerbaijan. A resolution on political prisoners in Azerbaijan was rejected by the Council of Europe in 2013 – the Italian parliamentarian and others had voted against it. In 2017, Italian prosecutors began investigating the parliamentarian for money laundering (*Tagesspiegel* 16.1.2018).

In June 2019, conversely, Azerbaijani members of the Council of Europe supported then Prime Minister of Malta Joseph Muscat by consistently voting to “water down” a Council of Europe resolution criticizing the sluggish investigation into the murder of journalist Daphne Caruana Galizia (Times of Malta 30.6.2019). Before her death, Galizia had reported on offshore companies owned by people close to Azerbaijan’s state leaders (OCCRP 23.4.2018).

The Swedish company Bombardier Transportation AB was investigated for bribery in Azerbaijan (OCCRP 17.3.2017). A case against the Swedish-Finnish telecommunications company Telia was closed in 2016 after Swedish prosecutors were unable to prove that a bribe had been paid to a local partner (OCCRP 5.5.2016). On the other hand, the Trump Organization, owned by the current US President, was apparently involved in a dubious hotel deal in Baku, according to the New Yorker magazine (New Yorker 6.3.2017).

The wife of the director of the International Bank of Azerbaijan, which played a crucial role in Azerbaijan’s financial crisis, was the target of the UK’s first Unexplained Wealth Order (UWO), introduced to combat money laundering, after she attracted attention in London because of her lavish spending (Guardian 6.11.2018; Die Welt 30.5.2019). UWOs make it possible to investigate people who spend more than £50,000 and cannot prove where the money came from. At the same time, a London court ruled that the woman could not be extradited because she could not expect a fair trial in her native country (Financial Times 26.9.2019).

International enterprises such as farm equipment manufacturer John Deere are taking precautions to reduce the chances that corruption occurs. For instance, they are establishing clear rules and regularly communicating them during training sessions and meetings with employees – a prime example of how international corporations can help create fair business conditions.

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Georgia

An anti-corruption role model
with dents

6. Georgia

6.1 Introduction to the current situation

Georgia has long been considered a pioneer in promoting the rule of law and fighting corruption. As early as 2003, after the Rose Revolution, the new leadership under President Mikheil Saakashvili initiated far-reaching reforms. Since 2016, an EU Association Agreement combined with a Deep and Comprehensive Free Trade Area has been in force.

While the fight against petty corruption in many areas proved effective over a long period of time, shortcomings in the political sphere and in the fight against grand corruption increased. The radical privatization and deregulation measures implemented to combat corruption also produced outcomes that were detrimental to the public.

Having few resources of its own, Georgia sought under the leadership of President Eduard Shevardnadze a rapprochement with and integration into Western European and transatlantic structures soon after gaining its independence in 1991. After violent separatist conflicts and internal power struggles, he succeeded in securing a monopoly on the use of force and, with it, control. At the same time, however, massive corruption was destroying the economy, and the state could no longer provide basic functioning infrastructure such as a reliable power supply. The leadership around Shevardnadze rigged elections, which meant Georgians could not vote their way to a change in power. The result was an uprising against the failed state: the Rose Revolution. Subsequently, the new leadership under President Mikheil Saakashvili launched a radical program to fundamentally rebuild public institutions and fight the corruption that was widespread.

For the most part, the leadership around Saakashvili used every possibility for fighting petty corruption, receiving recognition for its efforts from the public and internationally. However, there was insufficient political will to seriously combat corruption at the higher levels of business and politics, or to address weaknesses in the judiciary. Members of the leadership team abused their positions to intervene informally in citizens' lives, for which there were no control mechanisms. For example, private individuals and companies were forced to give land and property to the state "voluntarily." Although reforms were initiated in the judiciary and implemented in public procurement, for example, problems remained in the area of grand corruption.

Thea Tsulukiani, Georgian minister of justice, in September 2019: "Ten years ago, fighting corruption in Georgia was a matter of learning-by-doing. That was probably one of the reasons why the government made mistakes. What counted was the result, not the path to it. Corruption was fought at the price of human rights."

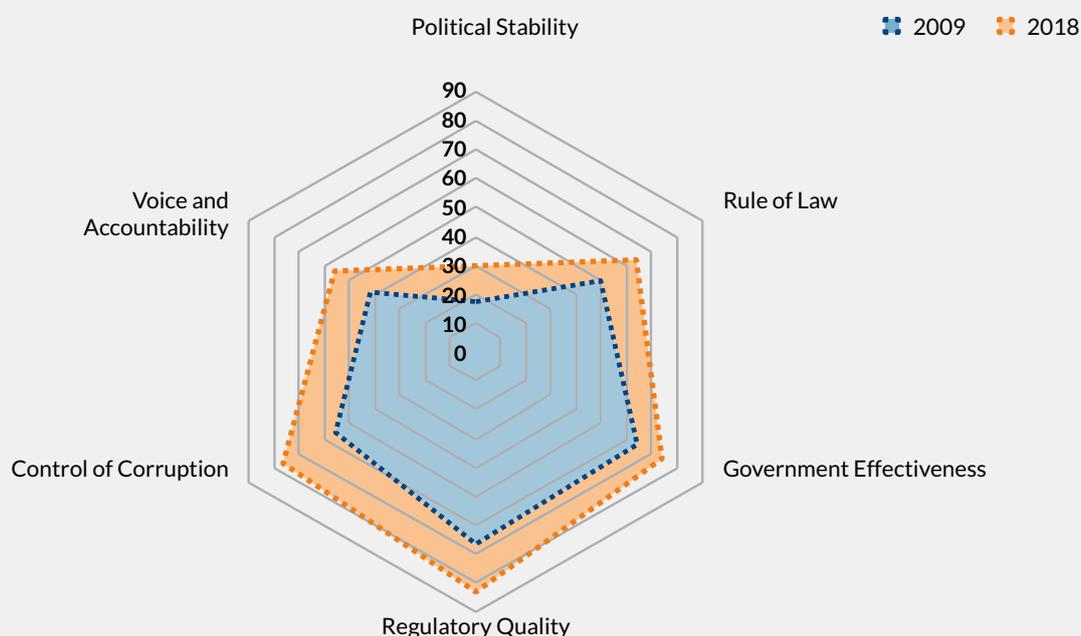
The blatant dissatisfaction led to Saakashvili's party losing power following the 2012 parliamentary elections. It was replaced by the Georgian Dream Party, which was founded by Bidzina Ivanishvili, who made his fortune in Russia in the 1990s (Genté 2013). After a year as prime minister, Ivanishvili officially withdrew from politics. According to former cabinet members, however, government ministers and other high-ranking officials have continued to seek him out for advice. He has retained his influence even beyond those contacts, since numerous ministers and other figures such as the public prosecutor previously worked for him. In 2018, Ivanishvili again took over the party chairmanship and has appeared in public more frequently since then to make political statements.

While the reforms targeting petty corruption have largely continued to have an impact, the consequences of failing to take on grand and political corruption have worsened, especially during Georgian Dream's second term. NGOs and opposition parties have never tired of declaiming this. Yet they have not succeeded in generating sufficient public support.

The corona pandemic has shown the degree to which the Orthodox Church exercises informal power over elected officials and security agencies. Despite a state of emergency and curfew having been imposed, the country's priests kept churches open, risking a significant increase in infections and overloading Georgia's weak health-care system. The Orthodox Church is thus a significant actor, one that operates outside of politics and without accountability.

In 2019, Georgia's position in Transparency International's Corruption Perception Index declined slightly. The country ranked 44th among 180 states, falling three places compared to the previous year. Yet according to the index Georgia still outperforms the EU member states Malta, Italy, Slovakia, Hungary and Bulgaria (Transparency International 2019).

FIGURE 3 Institutional framework for Georgia – Comparison of 2009 and 2018



Georgia stands out for its steady improvement in all areas except “Political Stability.”

Source: World Bank – The World Governance Indicators 2019
<https://info.worldbank.org/governance/wgi/Home/Reports>, own illustration
 Scale: 0 – 100, with 100 as highest value

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In January 2020, Transparency International Georgia criticized the stagnation that has persisted for years. In 2019, the government again did nothing to overcome the greatest challenges facing the country, the organization said. These include corruption and political influence on the judiciary, the appropriation of key

state institutions by private interest groups, the lack of an independent agency tasked with investigating corruption, and government-sponsored attacks on civil society (Transparency International Georgia 23.1.2019).

6.2 Historical background

Corruption and organized crime persisted in the Soviet Republic of Georgia after the Russian tsarist empire fell and the revolutionary movement ended that had begun at the beginning of the 20th century. Joseph Stalin was known in the South Caucasus not only as a political activist and agitator, but also as a criminal (Montefiore 2007). Under his rule, informal structures in the Soviet Union lost power to the party apparatus. Corruption returned in the 1960s, however.

During Soviet times, systemic corruption and a shadow economy were seen as endemic to the South Caucasus, and Georgia in

particular. One notorious case was that of Otari Lazishvili in the 1960s. He built an informal business empire by diverting raw materials from legal production sites and having sought-after items such as handbags and raincoats made. The necessary protection (known as *krysha*, or “roof”) was provided by then First Secretary of the Georgian Communist Party Vasil Mzhavanadze. In 1972, both became the target of an anti-corruption campaign by KGB chief Yuri Andropov, assisted by Eduard Shevardnadze, who succeeded Mzhavanadze as first secretary (Galeotti 2018: 94).

Professional criminals, black marketeers, party bureaucrats and members of the security apparatus were all involved in corrupt structures in the Georgian Soviet Republic. So-called “thieves in law” served as middlemen (Galeotti 2018: 94): These criminal gangs with their own code of honor and strict hierarchy emerged in the Soviet Union’s penal camps, establishing an underworld sub-culture that developed into a new type of mafia in the post-Soviet era (Koehler 2000: 27).

The “thieves in law” became politically active during perestroika. A significant role was played by the convicted criminal Jaba Ioseliani, who founded the paramilitary-nationalist group Mkhedrioni (“knights”). Ioseliani was briefly an ally, then a rival of Zviad Gamsakhurdia, the first president of Georgia after independence in 1991. Critics described Gamsakhurdia as authoritarian, national-chauvinist and incapable of compromise. During his time in office, there was a violent escalation of the conflict over South Ossetia, and civil war erupted among the Georgians. Gamsakhurdia formed a national guard, which ultimately functioned as his protective force and violently suppressed demonstrations against him. In early 1992, he fled with a number of comrades-in-arms to West Georgia, while the National Guard and the Mkhedrioni, along with other paramilitary and criminal gangs, continued to terrorize and rob the population.

In this situation, Ioseliani and others asked Shevardnadze to return to Georgia as its leader. Shevardnadze did not succeed in defeating Gamsakhurdia’s troops until 1993, with Russian support. It took him until 1995 to disempower the National Guard, the Mkhedrioni and other armed groups and restore the state’s monopoly on the use of force. Criminal organizations, however, managed to maintain their structures even inside public agencies, where most employees had retained their posts. According to a 2004 study, they controlled 30 percent of revenues from the banking system, 40 percent from restaurants and hotels and 40 percent from the construction sector (Stefes 2006: 90).

Shevardnadze occupied government posts with old Soviet cadres. The systemic corruption within state institutions remained as it had been in the Soviet era, including the practice of selling jobs. There were multiple kidnappings with ransom demands that pointed to accomplices in the ministries (Asly 2016). The World Bank wrote that it was not possible to distinguish criminals from government employees, and that the country was a failed state with empty coffers (World Bank 2012: 6). Shevardnadze barely succeeded in gaining control of the state apparatus. He himself was not considered corrupt, although members of his family and the government were seen to be.

Serious cases of corruption in the Ministry of Defense threatened Georgia’s national security. For example, in 1995, then Defense

Minister Giorgi Karkarashvili was involved in selling secret military information to leaders of the breakaway region of Abkhazia. Members of the military also sold equipment and weapons. Criminal gangs inflamed tensions with Abkhazia and South Ossetia because a peaceful solution of those conflicts would have ended the smuggling business there (Stefes 2006: 88).

In order to demonstrate Georgia’s willingness to engage with the West, fight corruption and develop a state governed by the rule of law, Shevardnadze voted to join the Council of Europe’s Group of States against Corruption (GRECO), among other measures. He also established a council to coordinate the fight against corruption and ordered steps to be taken to this end – although no consequences ensued for high-ranking government officials (ibid.). Western governments, the IMF and the World Bank reduced or cancelled their financial aid and loan programs as a result. Reform-minded members of the government, such as Zurab Zhvania, Mikheil Saakashvili and Nino Burjanadze, disaffiliated themselves from the existing structures and founded their own parties. After the fraudulent parliamentary elections of November 2003, they led nationwide protests, during which participants called for an end to corruption and the creation of a functioning state.

Saakashvili received 96 percent of the vote in the presidential election held in early 2004. Burjanadze became parliamentary speaker and Zhvania served as prime minister until his death in 2005. An alliance led by Saakashvili’s United National Movement (UNM) won two-thirds of the votes in the parliamentary election held at the end of March 2004 following annulment of the 2003 electoral results. Emboldened by its decisive victory and Western support, the government began fighting corruption and fundamentally rebuilding the state to make it functional. Using the slogan “Georgia without corruption,” the government made swift decisions without developing overall strategies and without considering recommendations from international organizations advocating a well-thought-out reform process (Kupatadze 2015: 9).

Initially, the focus was on prosecuting criminals, corrupt government officials and business managers. At the same time, the government reorganized the tax system to replenish state revenues. The police force underwent a massive restructuring, public authorities were aggressively deregulated, and there were across-the-board privatizations. Public administration was digitalized and the public could no longer pay administrative fees in cash. The government thus eliminated systemic petty corruption, but failed to achieve the same results when it came to grand and political corruption. The latter was evident in the judiciary and in public procurement processes, for example, as some businesses benefited when the anti-trust authority was abolished.

6.3 Consequences of the change of power in 2012

After Georgian Dream won the 2012 parliamentary elections and formed a governing coalition, the ruling parties initially gained public approval due to their social policy measures, such as pension increases and a system for providing basic health insurance. The government worked to combat corruption based on long-term plans and by involving actors representing a wide range of interests. It presented its first anti-corruption strategy, along with an action plan, in 2015.

Georgian Dream maintained the previous government's European-transatlantic orientation. On June 27, 2014, Georgia signed an Association Agreement with the EU, which came into force on July 1, 2016 and which includes the creation of a Deep and Comprehensive Free Trade Area (DCFTA). The economic integration envisaged by the agreement entails considerable costs and reforms, the results of which will only become tangible to the Georgian public in future years (Wiener Institut für Internationale Wirtschaftsvergleiche and Bertelsmann Stiftung 2017).

In implementing the agreements, the government – in a departure from the former government's deregulation policy – passed new laws and regulations, including in the areas of food production, vehicle safety and construction. Designed to establish quality standards, the requirements also opened the door to new forms of corruption.

As they implemented reforms, government employees often lacked expertise and management skills, not to mention clear leadership by the prime minister – who was, moreover, repeatedly replaced. Delays occurred within the state apparatus, from the highest to the lowest level, due to frequent staff changes, insufficient coordination between state institutions and too few strategies or too little capacity for realizing policies. Companies, too, continue to look for employees with the technical know-how to implement EU standards and regulations (Bertelsmann Stiftung 2020: 31).

A key event galvanizing the public was the easing of visa requirements for the Schengen area, which occurred on March 28, 2017. Negotiations had begun in 2008 and only ended after EU interior ministers agreed on a suspension mechanism, which could be deployed should there be a significant increase in the number of ineligible asylum seekers.

Ambassadors of EU member states and the US have played an important role as mediators and admonishers in conflicts between the government and the opposition, NGOs and the media – during the 2020 crisis over electoral-law reform, for example, and the sentencing of opposition politicians to prison terms (Eurasianet 11.2.2020). The public perceives them as “referees” and they thus play an informal role in the political process.

The EU remains Georgia's largest donor, providing up to €746 million from 2014 to 2020 for reforms in the areas of public administration, agriculture, rural development, the judiciary, capacity development and civil society. The second most important donor continues to be the US, which provides around \$40 million annually for various programs (Bertelsmann Stiftung 2020: 38).

While approval ratings for joining the EU and NATO have remained consistently high in recent years, as measured by surveys conducted by the National Democratic Institute (NDI) and the International Republican Institute (IRI), a different picture emerges when it comes to Georgia's most important allies. According to the 2019 Caucasus Barometer published by the Caucasus Research Resource Center (CRRC), only 1 percent of those surveyed consider the EU to be a friend of Georgia; with regard to the US, the figure is 21 percent. “No one” or “Don't know” were the answers given by 46 percent. According to CRRC researcher Rati Shubladze, the reason for the frustration is the lack of progress on Euro-Atlantic integration as promised by domestic and foreign politicians (Civil.ge 7.2.2020).

Liberal-democratic politicians in Georgia have also been critical that Saakashvili and his party, along with foreign allies, gave the people too much hope (tagesschau.de 10.6.2016). According to the CRRC, proponents of EU membership largely associate accession with improving the economic situation of ordinary citizens.

Bidzina Ivanishvili, businessman and founder of the Georgian Dream Party, in December 2011 shortly after announcing he would run against Mikheil Saakashvili's United National Movement Party: “Of course it is important to support those in need. It is even more important to give people jobs. This creates more responsibility. My goal is to strengthen democratic institutions and ensure the state stays out of the economy. I am sure that I will win. Saakashvili is lying and people respect me. But that has nothing to do with my wealth.”

Despite the hopes raised by Ivanishvili in his role as businessman – he had paid for roof repairs, health insurance, a hospital and a swimming pool for residents of his home region (Neue Zürcher Zeitung 29.12.2011) – the economic situation did not improve noticeably for people throughout the country. Even during Georgian Dream's first term, the public sensed that businesspeople were trying to use the party to advance their own economic interests. Confidence in the former bearer of hope dissipated accordingly.

Numerous cases of corruption were uncovered, especially by the media Rustavi 2 and Tabula, which were associated with Saakash-

vili's former ruling party, and by Transparency International Georgia and the Institute for Development of Freedom of Information (IDFI) (Kupatadze 2015: 9).

In September 2019, a group of 14 civil society organizations denounced an "utmost concentration of power in the hands of the ruling political party" and an informal exercise of power by Ivanishvili, leader of the ruling party, who retained control over gov-

ernment decisions even after stepping down as prime minister in 2013 (IDFI 9.9.2019).

Surveys conducted by the International Republican Institute in the fall of 2019 (IRI 10.2019) showed that 39 percent of the respondents felt that the fight against corruption had weakened. At the time, however, this issue was less of a concern to the public than unemployment, high prices and poverty.

6.4 The Georgian state today

The basic reforms enacted by the Saakashvili government after the Rose Revolution still determine to a significant degree how the Georgian state functions today. Within a short time, the government succeeded in restoring the state's monopoly on the use of force. The measures were effective in the face of deep-rooted corruption and organized crime, but were also controversial because, given their radical nature, they resulted in human rights violations. Moreover, the leadership around Saakashvili strengthened the of-

fice of the president in a way that allowed him to exhibit increasingly authoritarian behavior over the years. Conversely, the creation of service centers, whose employees provide the public with government services effectively and transparently, had an exemplary effect throughout the region. Tax and customs reforms have shown that, with political will, even sectors that are rife with bureaucracy and corruption can be reorganized and thus made functional.

6.4.1 Law enforcement and the fight against organized crime

After the change of power in 2003, many people were quickly arrested, including government ministers and the heads of the civil aviation authority, the railroad, the soccer association and the state-owned gold mine, not to mention business leaders. Many of the accused were spared criminal proceedings after negotiating controversial plea bargains. The resulting payments of up to several million euros were added to the state coffers. One of the most famous cases was that of Shevardnadze's son-in-law, who paid the equivalent of \$15 million to the state. Introduced in 2004, this procedure was increasingly used in the following years; in 2008, more than half of 17,639 criminal cases were resolved in this fashion. While supporters praised its effectiveness, human rights lawyers argued that it allowed criminals to buy their way to impunity, provided they had the financial means to do so (Transparency International Georgia 2.2010).

Also for reasons of effectiveness, the government made it easier to arrest government employees suspected of corruption. Their property could be confiscated if they were unable to prove they had acquired it legally. A tax amnesty was introduced, allowing them to declare their property by the end of 2005. They became its legal owners if they paid the equivalent of 1 percent to the state (World Bank 2012: 28).

The authorities moved to combat organized crime quickly, publicly, relentlessly and – in keeping with a decree issued by the

Ministry of Interior Affairs – even violently. In 2005, 21 criminals and 16 police officers were killed in the course of these operations. Laws in Italy, the UK, the US and New Zealand served as models for the revamped penal code. One law from 2005 made admitting to being a "thief in law" or belonging to the "world of thieves" a punishable offense. This referred to a rule prevalent in the underworld, according to which "thieves" had to reveal themselves when asked a coded question. Between 2006 and 2010, 180 members of the "world of thieves" – organized crime – were convicted. In 2011, 35 were still in prison, and many had left the country in the meantime.

The crime rate fell by more than half between 2006 and 2010. This largely undermined the respect and admiration many had for the criminal subculture and, conversely, established the authority of formal institutions over informal ones (World Bank 2012: 15ff.). After the change of government in 2012, the new leadership around Ivanishvili issued an amnesty, which also benefitted individuals involved in organized crime. Fears that there would be a significant resurgence in crime proved unfounded in the following years, however. At 252 prisoners per 100,000 inhabitants, Georgia still has the second highest incarceration rate in Europe after Russia (Council of Europe 2.4.2019). At the same time, many criminals managed to establish themselves in Western Europe after leaving Georgia.

6.4.2 Tax revenues

At the end of Shevardnadze's tenure, tax revenues amounted to 14 percent of GDP (World Bank 2012: 3). People used sophisticated methods to avoid paying taxes, and the misappropriation of tax revenues rendered the state largely insolvent. Government ministers repeatedly had to ask the Minister of Finance for funding (World Bank 2012: 27). The new government passed a tax law in 2005 that radically simplified the tax system: 14 of 21 taxes were abolished. Progressive income taxes were changed to a flat tax of 12 percent, and the value added tax was reduced from 20 to 18 percent. According to the World Bank, losses were offset by lower tax rates, a broader tax base, the elimination of tax exemptions,

and stricter enforcement that included heavy penalties. One controversial change was the introduction of cash registers at all commercial enterprises and their mandatory use for every transaction. Tax returns were simplified and, as of 2009, companies could only submit them digitally.

Between 2003 and 2011, revenues from taxes on profits, from the value added tax and from excise duties increased fivefold. Starting in late 2004, the government was in a position to pay all salaries and pensions (World Bank 2012: 25ff.). The measures thus gave the state an income base again, one that remains solid to this day.

6.4.3 Privatization and deregulation in the fight against corruption

Before the change of power in 2003, commercial activity in Georgia was massively hampered by red tape, which was also a major factor in corruption. Several hundred business activities required a certificate or permit. In addition, there were dozens of monthly and annual inspections. Obtaining a license could take up to a year.

In 2005, then Economics Minister Kakha Bendukidze introduced ambitious measures to spur privatization and deregulation. He assumed that most public authorities and regulations were not fulfilling their purpose and merely contributing to corruption. For example, he called on the public to simply boycott restaurants where diners had contracted food poisoning, instead of relying on state regulation (New Statesman 25.3.2020).

Thus, the government reduced the number of licenses and permits from 909 to 137, which applied only to the areas of health, the environment and national security, along with dual-purpose goods that could also be used as weapons. Food, fire and vehicle inspections were partially or completely abolished, as were state controls on competition, and occupational health and safety regulations.

Entrepreneurs only had to register a business once. The public received all necessary documents at service centers, where they paid any required fees via bank transfer instead of in cash, thereby limiting the possibility of bribery. Licenses and permits had to be processed by the relevant authorities within 30 days (World Bank 2012: 53ff.).

By reducing state oversight and the number of regulations, the government weakened formal institutions as instruments for distributing resources – and some of the distributive mechanisms shifted into the informal sphere (Timm 2015). Once the anti-trust

authority was abolished, for example, monopolies could be readily created, which often happened in the import sector.

After the change of power in 2012, the government led by the Georgian Dream alliance introduced a series of corrective regulations, primarily to bring the country into alignment with the EU. For example, an expanded law on occupational health and safety came into force in September 2019, allowing unannounced inspections which could result in fines. The new law was, however, only applied to a limited number of areas (European Commission 2020: 13). Serious accidents with fatalities occurred again and again, especially in the mining and construction sectors. They were often followed by protests by workers against poor working conditions.

Severe food poisoning has also been a topic of frequent public discussion. Since 2010, Georgia has been working on adapting and introducing 272 EU ordinances in the agricultural and food sector, an undertaking it wants to have completed by 2027. In 2019, 101 regulations were in place in this area. The endeavor has been particularly important for wine producers, who would like to gain new customers on the European market. So far, Russia has remained the largest consumer of Georgian wine, partly because standards are lower there. At the same time, the Russian authorities have used complaints as an excuse for politically motivated boycotts.

While implementing the EU Association Agreement, the ruling coalition gradually reintroduced vehicle inspections beginning in 2018. The response was generally positive – especially in the capital – in view of the expected reduction in air pollution and accidents. The technical requirements, however, have resulted in additional costs, especially for small and micro-businesses in the transportation industry, such as cab drivers and passenger trans-

port firms. To avoid this, auto mechanics offered to rent vehicle owners catalytic converters for the duration of the inspection. Suspected cases of corruption were also uncovered at inspection cen-

ters, which were said to have issued fake certificates. The State Security Service arrested several people in connection with these irregularities (Georgia Today 22.10.2018).

6.5 Petty corruption

The onerous life people experience in a state crippled by corruption is so palpable in the memories of many that they oppose a return to such practices. That is one explanation for why the reforms implemented to root out petty corruption in Georgia have largely proven sustainable. The draconian measures taken in the first years after the Rose Revolution – including the public humiliation of accused individuals – also left a lasting impression. The finishing touch has been the positive image now enjoyed by the police and by customer representatives in the country’s revamped service centers.

People still see a difference, however, between paying bribes and using ties to family or friends, for example to get ahead in their career. The latter seems to be much more widely accepted and still reflects social expectations. This is indicated by instances of nepotism that have come to light in the political sphere and statements made by politicians in this context.

Member of the public in Tbilisi in September 2019: “I have a cousin who no longer talks to me because I didn’t get her a job in 2005. She thought I had something against her personally. We work at the same institution and she still won’t say ‘hello’ to me.”

6.5.1 Law enforcement

The most visible form of corruption during Shevardnadze’s reign was the traffic police, who demanded money at every available opportunity. This is where the Saakashvili government carried out one of its most radical and internationally recognized reforms: All 16,000 officers were dismissed from one day to the next. Anyone who wanted to be hired after that had to undergo training and take an oath. Administrative operations were digitalized and unnecessary procedures were eliminated. One important incentive was the tenfold increase in salaries, which could then total up to €500 per month.

conscientious; 2 percent still considered them corrupt (World Bank 2012: 22).

In order to change the police officers’ mindset and how they were seen by the public, they also received new uniforms – modelled on those of the New York police force – along with new vehicles and other equipment. All of these actions were supported by a PR campaign. Undercover officers, who posed as normal drivers, tested whether the policemen adhered to the new rules. Cameras were installed on all major streets in the cities and a telephone number was created that drivers could call to complain. Fines could only be paid at banks.

Experts noted that the greater financial resources the police had at their disposal allowed them to do their job more effectively, but also resulted in disproportionate power being exercised by the police and secret services – accompanied by an increasingly authoritarian mode of governance (Kupatadze 2012: 13).

The public’s trust in the police increased as a result – from 10 percent in 2003 to 84 percent in 2010, according to IRI. In other surveys, respondents confirmed that the police were friendly, fair and

Since Georgian Dream came to power, the public’s esteem for the police has declined. According to NDI surveys, in 2012, 58 percent of respondents said the police did a good job, whereas this figure had dropped to 43 percent by November 2019 (NDI 12.2019). People trust the army and the Orthodox Church more than the police; according to an IRI survey in October 2019, they also feel the Georgian media are more trustworthy. In the latter survey, the police received average scores for openness and transparency, with 34 percent saying the police are reasonably transparent and open, and 30 percent saying they are somewhat nontransparent and inaccessible. This assessment may well have been influenced by the large-scale presence of security forces at major protests, as in June 2019 in front of parliament in Tbilisi and in April 2019 in the Pankisi Valley, where riot police clashed violently with protesters.

6.5.2 Health-care system

Between 2007 and 2012, Saakashvili's government decentralized and privatized the health-care system. During this period, state spending was channeled primarily through private insurance companies, which had to provide basic benefits to households living below the poverty line. A 2007 plan called for a complete transformation of existing hospital infrastructure within three years and for property to be transferred from the state to the private sector by means of a tendering process. In 2010, insurance companies were required to invest in upgrading hospitals and primary-care facilities in certain regions if they insured households below the poverty line there (Richardson and Berdzuli 2017).

In 2012, 40 percent of hospitals were owned by insurance companies; other major investors were pharmaceutical companies and real estate firms. For-profit providers thus had a commanding presence in the market, which was subject to little regulation and whose products and services were subject to little control. As a result, a few companies dominated the health-care sector, covering a wide range of services and, consequently, dictating prices. "The structure of vertical integration of pharmaceutical companies, private insurance companies and medical service providers is unusual in the European context and these companies are influential in the system," Richardson and Berdzuli wrote in 2017 (xvi).

For example, PSP Insurance was part of the PSP Group, which dominated the import and sale of medicines in Georgia and also maintained a network of service providers. The owner of PSP, Kakhaber Okriashvili, was a member of parliament for Saakashvili's UNM Party from 2004 to 2012. He was also a member of the Committee on Health and Social Affairs and the Committee on the Economy and Economic Policy. PSP Pharma and the company Aversi Pharma were among the largest donors to the UNM Party. Aversi Pharma contributed 200,000 lari between 2007 and 2010, about €82,000 in 2010, and won public contracts worth almost 824,000 lari, about €340,000 in 2010 (Transparency International Georgia 2012: 79f.). Aversi Pharma was also a major importer and retailer of pharmaceutical products and the second largest manufacturer of such products in Georgia. Owned by the Bank of Georgia, the Georgia Healthcare Group was one of the largest health-care providers and also the largest pharmaceutical retailer in the country (Richardson and Berdzuli 2017: 14).

The Georgian Dream alliance made some changes to the health-care system after winning the 2012 parliamentary elections: The government introduced basic health insurance for more than 90 percent of the population as of July 1, 2013. Benefits are based on income – the lower the income, the more comprehensive the coverage. In a 2016 NDI survey, the only area in which a majority of respondents said the situation had changed for the better since 2012 was "affordable healthcare" (Civil.ge 11.4.2016). In order to help

the weakest households, in July 2017 the government began covering the cost of basic medicines for four chronic ailments (cardiovascular, pulmonary and thyroid conditions and Type 2 diabetes).

Nevertheless, in 2017 almost 55 percent of all Georgians still paid for medical care out of their own pocket instead of through health insurance (World Bank n.d.). Drug prices were high and put an exceptionally heavy burden on ordinary citizens (Richardson and Berdzuli 2017: xix; BTI 2020: 24). When someone in the family fell ill, people were sometimes forced to go into debt – by taking out loans on a largely unregulated financial market. In 2019, the National Bank of Georgia introduced rules for commercial banks and other financial institutions regarding microcredit, according to which customers must first be checked for solvency, among other requirements (agenda.ge 14.11.2018).

In recent years, the reasons that Georgian asylum seekers have cited for coming to Germany include the need for medical treatment and the desire to find work to pay off debts (Jam News 4.7.2018). Distrust of medical staff in Georgia also plays a role in motivating people to go abroad for treatment. In September 2019, for example, interviewees reported that doctors prescribe certain drugs and recommend specific pharmacies. This makes patients suspicious that prices could be higher than they should be, the interviewees said, and makes them wonder if the recommended medical procedures are in fact the ones they actually need.

The Georgian government reacted immediately to the corona pandemic, taking rigorous action to prevent the health-care system from being overwhelmed. The first infected person was taken to the hospital from the Azerbaijani-Georgian border on February 26, 2020, and the people he had been in contact with were quarantined. By imposing travel restrictions, a state of emergency, a curfew and quarantines in affected areas, and by banning the use of private vehicles over Easter, the government was able to minimize the number of infections and mortalities. It followed the advice of specialists from the national health institutes, who were recognized by the public for their expertise, thereby gaining its trust.

Efforts to contain the pandemic were endangered, however, when the Orthodox Church, contrary to government orders, said it intended to hold services with parishioners, especially over Easter, and wanted to continue giving Holy Communion using a common spoon. The crisis made even more apparent the degree to which the Orthodox Church's informal influence supersedes existing laws and executive orders. Last year, the Church lost its long-standing position as the most respected institution in the country after priests, during a power struggle within the Church, publicly accused each other of corruption and even conspiracy to commit murder.

6.5.3 Higher education

Before 2003, it was common practice to pay a bribe of at least €8,000 for a place at university. Usually, students took preparatory courses for entrance exams with tutors who sat on the university committees that decided on admission. During the exams, the students used certain phrases, making them recognizable to the examiners. Bribes were also paid for tests and diplomas. Only exceptional students were awarded places and marks based on their performance. Paying bribes was considered acceptable, since professors earned less than half of the minimum subsistence income at the time (World Bank 2012: 75f).

The reforms implemented beginning in 2003 thus included several elements. The first was the creation of a centralized, secure and transparent entrance examination according to Western standards and without the participation of teachers. The National Assessment and Examinations Center (NAEC) was founded for this purpose. Plans were also made to improve the quality of higher education institutions and to communicate with the public (World Bank 2012: 77).

NAEC is seen as being fair and transparent. The entrance exams are usually free of bribery and, according to people interviewed for this report, can be passed without preparation courses. However, private tuition is usually still necessary, they said, in order to obtain a high score and thus the possibility of receiving a scholarship. The education young Georgians receive has proven to be weak compared to their international peers, which indicates further shortcomings in the funding of educational institutions and in teacher training, especially in rural areas and among the socially disadvantaged. The higher education sector has also been extensively privatized (Bertelsmann Stiftung 2018: 26; Bertelsmann Stiftung 2020: 27).

The reformers under Saakashvili attempted to solve a problem involving political corruption that had arisen in the educational sys-

tem in many post-Soviet states: the traditional use of teachers as election workers. This situation arose for pragmatic reasons, especially in the provinces, because teachers know how to deal with documents and carry out legal procedures. Moreover, preschools and schools are often the only public institutions in which polling stations can be set up. Thus, there have been repeated cases in recent years in which threats of dismissal, salary cuts or budget reductions have been used to put pressure on teachers and educational institutions.

Education expert Simon Janashia, who led reform efforts at the Ministry of Education from 2004 to 2009, reported that, at the time, he and his team tried in various ways to reduce political influence on schools. These included changing the country's Education Act, which banned politicizing schools for private or public purposes. They also made an effort to convince school principals not to become politically active in their role as educational professionals. Another point was the allocation of school funding, a responsibility that was shifted from local governments to the central government based on predetermined financial guidelines, since it had been common practice for schools to negotiate their budgets with local politicians, which made educators susceptible to coercion.

Despite these attempts at reform, Janashia believes the problem has not been solved. In the 2018 presidential election, he said, a widely discussed issue was that the Georgian Dream Party had put pressure on school principals to have teachers manipulate the vote count. According to the Georgian Young Lawyers' Association (GYLA), the ruling party used school inspections to exert political pressure (Jam News 28.3.2019). Salome Zourabichvili, an independent candidate for president who was nominated by Georgian Dream, won only in the second round of voting.

6.6 Grand corruption and political corruption

In a letter to the international community dated September 9, 2019, 14 civil society organizations expressed serious concerns about the prevalence of corruption in Georgia. Even if petty corruption in the civil service remains very rare, they wrote, the authorities have repeatedly failed to respond to credible allegations of corruption made against high-ranking government officials and other influential individuals with ties to the ruling party (IDFI 9.9.2019).

According to the letter's authors, the ruling party's leadership influences key institutions and prevents them from carrying out their responsibilities independently and professionally. Ivanishvili, the party chairman, interferes in all important issues and appoints people who are loyal to him to head all major institutions, they wrote, including the public prosecutor's office, the executive organs, the judiciary, government ministries, public authorities and the position of prime minister.

Yet the fact that Ivanishvili can assume a powerful, informal position outside the government and presidency also reflects Georgians' expectations that the country should be ruled by a strong leader, which Georgia has always had since gaining its independence in 1991. Thus, former ministers from the coalition government in power from 2012 to 2016 report, as do diplomats, that weightier decisions are always referred to Ivanishvili, giving him the responsibility both for finding the solution and for negotiating compromises. Moreover, after the constitutional reform which took place under Saakashvili and which transformed the country from a presidential to a parliamentary democracy, Georgia lacks a strong president who could serve as a counterweight to Ivanishvili. Additionally, important posts are now held by people who previously worked in Ivanishvili's circle.

Erekle Urushadze, program manager at Transparency International Georgia in September 2019 in Tbilisi: "The biggest problem is the high concentration of power in the hands of Ivanishvili and a circle of close confidants who instrumentalize the party. It is, de facto, a one-party state with a constitutional majority."

What is more, there was an attempt to exert political influence before the second round of the 2018 presidential election, when Ivanishvili's Cartu Charity Foundation freed financially strapped citizens from their debts: In the fall of 2018, Prime Minister Mamuka Bakhtadze announced that the Cartu Charity Foundation would assume the debts of 600,000 people amounting to 1.5 billion lari (nearly €490 million at the time). NGOs, the opposition and international organizations criticized this as an obvious attempt to buy votes, since the second round of the presidential election was to take place shortly afterwards, on November 28, 2018 (OC Media 19.11.2018). The OSCE's Office for Democratic Institutions and Human Rights (ODIHR) evaluated the presidential election accordingly, saying the ruling party had enjoyed an undue advantage. It also noted that the increased misuse of administrative resources had further blurred the line between party and state (OSCE 28.2.2019).

According to the business magazine *Forbes*, in 2012 Ivanishvili had assets equal to Georgia's gross national product. No one else in the country is known for having such wealth. Ivanishvili financed a campaign for the 2012 elections that relied on foreign advisors, defeating Saakashvili's ruling party, which, it must be said, had also lost the support of the public.

According to statements he himself made, prior to the 2012 election Ivanishvili withdrew his assets from Russia, where he had been active as a businessman since the 1990s. In Georgia, he is known for his involvement in a number of organizations and undertakings, such as the Cartu Charity Foundation, the Cartu Group (which includes a bank), and the Tbilisi Panorama construction project, as well as other economic activities in his home region of Imereti. Transparency International Georgia lists nine offshore companies and 70 organizations registered in Georgia that are purportedly connected to Ivanishvili directly or to family members or other associates. The NGO notes that potential conflicts of interest and possibilities for corruption exist due to Ivanishvili's informal proximity to the government, including advantages his companies could receive from the state, and, conversely, party financing which is so substantial that hardly any other person in Georgia could match it (Transparency International Georgia 8.11.2018).

Numerous journalists who had worked for Ivanishvili's company Georgian Dream Studio joined the public broadcasting station GPB (IREX 2018: 3). In 2019, charges were brought against Nika Gvaramia, director of the newly founded opposition channel Mtavari Arkhi, and against a relative of the owner of the independent television station TV Pirveli. In the Economist Intelligence Unit's Democracy Index, Georgia slipped from 78th to 89th place in 2019.

Businesses and networks associated with Ivanishvili have used the state for personal gain. For example, the Ministry of Culture decided in 2013 to no longer recognize one of the world's oldest gold mines in Sakdrisi as an archaeological site of national importance, which allowed the RMG company to begin mining operations there. According to Green Alternative, an NGO, there are connections between RMG and the government (Kupatadze 2015: 10).

The practice has existed in government ministries of paying bonuses to high-ranking state employees without there being any concrete criteria for doing so. According to surveys by the Caucasus Research Resource Center (CRRC), nepotism has once again been playing a growing role. A contributing factor here were statements by a former prime minister, who called nepotism an acceptable practice (Georgia Today 23.11.2015).

6.6.1 Public procurement

The European Commission's "Association Implementation Report on Georgia" of February 6, 2020 notes that Georgia is continuing to align its public procurement legislation with EU regulations. Legislative amendments have been prepared to establish an impartial Dispute Resolution Council, to which all legal and physical persons with concerns about tendering procedures can appeal. The amendments should give the review body sufficient powers to assess direct procurement (European Commission 6.2.2020: 4).

According to a staff member at the Institute for Development of Freedom of Information (IDFI) in Tbilisi in September 2019, the government used all of its resources to adapt legislation to EU regulations, and the improvements that needed to be made to the country's digital system for public procurement had been neglected as a result. Although the system is sufficiently advanced for it to serve as a model for Ukraine, the staff member said, shortcomings and the resulting need for improvement have become apparent during its nine years of operation, allowing potential contractors to identify the system's weaknesses and use them to their advantage.

One possibility of circumvention is that subcontractors do not have to be named, the staff member said. Contracts can also be awarded directly instead of through public tenders, for which the government maintains emergency funds equaling 2 percent of the budget. This allowed the Foreign Ministry to assign the contract

for designing a new building to the relative of a government minister. The chosen company was unknown, the staff member said, and only incorporated one day before the contract was awarded.

According to the IDFI employee, the process for awarding direct contracts has now been made more complex, so that it requires more effort than the relatively time-consuming tenders. Other problems in public procurement can be found on the bidder side, he reported. For example, it is difficult to find contractors, especially in the provinces, or only one or very few companies exist that are capable of delivering the desired quality.

A number of cases, especially in the regions, have indicated that secret agreements between politicians and entrepreneurs continue to be made (Kupatadze 2015). This applies to companies that belong directly or indirectly to high-ranking government employees. In 2014, for example, two companies with ties to a local chairman of Georgian Dream won a tender. In Gori, a relative of the mayor won a simplified public procurement procedure. As was true during Saakashvili's time in office, companies that are awarded contracts have donated to the ruling party, in this case Georgian Dream. Thus, following the change of power in 2012, private agreements have still been made and manipulation of the state has continued. Before 2012, however, the goal was more the consolidation of political power than private profiteering (ibid. 2015: 9).

6.6.2 Economic and competition policy

According to the BTI (Bertelsmann Stiftung 2018: 18f.), the ambitious deregulation of Georgia's economy, which took place in part to fight corruption and which left few legal and administrative hurdles in place, has not led to an increase in competition. On the contrary, some very well-established market players have used anti-competitive practices. Georgian Dream has tried to counteract this by improving the legal framework for monitoring the market within implementation of the DCFTA (part of the Association Agreement).

The "Association Implementation Report on Georgia" of February 6, 2020 describes the ongoing application of the DCFTA provisions on competition. According to the report, the aim is to extend the investigative powers of the country's Competition Agency (which has not been involved in public procurement since 2014), introduce anti-trust procedures and establish a two-phase merger process.

6.6.3 Property rights

While Georgia has regularly been at the top of the World Bank's ranking for the registration of private property, violations of property rights before 2012 helped create massive discontent with the Saakashvili government. Under pressure from the government, for example, people had to "gift" property such as land or real estate to the state. According to the 2018 BTI country report for Georgia,

the new government began making efforts to guarantee property rights after the 2012 elections (Bertelsmann Stiftung 2018: 21).

At the same time, however, shortcomings in the judicial system disadvantage foreign companies. A decision by the Tbilisi City Court on February 10, 2017 met with criticism: In a dispute over the price

of a certain brand of cigarettes, Philip Morris had to pay the equivalent of €32 million to the Georgian company JSC Tbilisi Tobacco. Transparency International Georgia and other organizations accused the court of not giving sufficient reasons for its verdict and of conducting the trial as a summary procedure with possible procedural errors that benefitted the Georgian plaintiff (Transparency International Georgia 30.3.2017).

Calling them politically motivated, civil society organizations drew attention to the charges brought against the founders of TBC Bank, a commercial institution, and owners of the Anaklia Deep

6.6.4 Judiciary

The judicial system's lack of independence is one of the most problematic legacies of the Saakashvili era. Saakashvili himself admitted in an interview with the author in 2015 that there were many missed opportunities in this area (tagesschau.de 23.6.2015).

Human rights violations occurred as law enforcement officials carried out their fight against corruption and crime. While Saakashvili was in office, prosecutors received almost 20,000 allegations of torture, abuse and the forced appropriation of property (Bertelsmann Stiftung 2018: 11). Violence against prisoners and the conditions in overcrowded prisons were an important topic in the run-up to the 2012 parliamentary elections, which Saakashvili's party lost.

After leaving office in 2013, Saakashvili's actions during his time leading the country became the subject of investigation. In 2018, he was sentenced in absentia to six years in prison for abuse of power. Previously, a court had given him a three-year prison sentence for allegedly covering up evidence that a banker had been murdered (Reuters 28.6.2018).

The way the judiciary has dealt with Saakashvili's former comrades-in-arms prompted social-media commentators in 2020 to speak of the "end of the separation of powers and of democracy." The occasion was a ruling against the former mayor of Tbilisi, Gigi Ugulava, on February 10, 2020, in which the Supreme Court found him guilty of embezzling the equivalent of €16.6 million in public money from the Tbilisi Development Fund during his time in office. He was sentenced to 38 months in prison. The verdict drew international criticism because Ugulava had already been sentenced to imprisonment once before in the same case (civil.ge 10.2.2020). On April 13, 2020, former Defense Minister Irakli Okruashvili was sentenced to five years in prison for allegedly organizing and leading mass violence in connection with protests on June 20, 2019. The opposition saw the verdict as politically motivated and called

Sea Port project, which was temporarily suspended on January 9, 2020. Initiated in July 2019, the case was based on an accusation of money laundering said to have taken place in 2008 (IDFI 9.9.2019). During a public hearing before parliament, one of the two defendants, the businessman and TBC bank founder Mamuka Khazaradze, declared that state officials had put pressure, formally and informally, on him and his bank (Radio Liberty Georgian Service 4.3.2019). Khazaradze subsequently founded a political party, Lelo, which has attracted liberal politicians and leftist activists from civil society as members.

both the former defense minister and the former mayor "political prisoners" who should be released along with others (civil.ge 14.4.2020). President Zourabichvili pardoned both politicians in mid-May 2020 partly due to international pressure.

The public had its doubts that the law in Georgia applies equally to all following the deaths of 19-year-old Temirlan Machalikhvili and 16-year-old Datuna Saralidze and the unsatisfactory resolution of both cases by the legal authorities. Machalikhvili died during deployment of security forces in the Pankisi Valley. Saralidze is said to have been killed by a classmate whose father had connections to the public prosecutor's office. Both cases triggered major protests led by the fathers of the young men killed.

In September 2019, Justice Minister Tsulukiani, in office since 2012, declared that the main objective of her reform efforts was ensuring judges can act independently. The laws passed were intended to protect judges from outside influence by separating the courts from the Ministry of Justice, she said. In addition, hierarchies within the courts had been broken up by no longer allowing court presidents to make decisions about subordinate judges, for example during disciplinary proceedings.

The best way to combat grand corruption is to reform the system instead of focusing on individuals, as the public does, the justice minister explained, referring to a group of judges in Georgia's judicial system commonly described as a "clan." She also remarked on one aspect of the conflict concerning the Supreme Court: the appointment of judges for life, which Georgian NGOs and the Council of Europe's Venice Commission had recommended in order to increase judges' independence. The minister argued that, given the situation in Georgia, lifetime appointments should be introduced at a later date.

Appointments to the Supreme Court and the High Council of Justice have long been the cause of conflict between the ruling party, on the one hand, and the opposition and civil society organizations, on the other. The latter accused the ruling party of having strengthened the “clan” since 2015, i.e. a group of judges with various ties to each other that determines who will join the High Council of Justice. The Supreme Court nominees that the group has proposed to parliament have given rise to protests, as has the group’s procedure for selecting nominees. In September 2019, two rapporteurs of the Parliamentary Assembly of the Council of Europe expressed “serious concern at the manner in which the High Council of Justice prepared the list of candidates recently sent to parliament.” They also noted that there were questions regarding conflicts of interest and the qualifications of the selected candidates (civil.ge 26.9.2019). Parliament, in turn, had established selection criteria in March 2019 that only partially took into account the recommendations made by the Council of Europe’s Venice Commission. Nevertheless, in December 2019 the ruling party used its parliamentary majority to appoint 14 of the 20 proposed judges, with the selection of six additional judges to follow. According to the “Association Implementation Report on Georgia” of February 6, 2020, “the overall process failed to ensure the necessary transparency and meritocracy” (European Commission 6.2.2020: 7).

Furthermore, parliament passed a number of legislative amendments in this area in December 2019, such as improvements to disciplinary procedures and changes to Supreme Court proceedings, including the obligation to provide written justification for all decisions. Furthermore, the Ministry of Justice focused its fourth wave of reforms since 2012 on separating the responsibilities of investigators from those of prosecutors. The public prosecutor’s

office had already been separated from the Ministry of Justice by 2015, and laws had come into force to increase its independence (Bertelsmann Stiftung 2018: 11). The number of acquittals has increased significantly since 2012, along with the number of cases dismissed (ibid.: 10). This suggests that the courts are now more independent, even if it does not dispel observers’ doubts about any such independence.

Corruption charges have been brought mostly against low- and mid-level government employees and politicians. Interviewed for this report, a contact at Transparency International Georgia noted, however, that NGOs and journalists have published extensive information on suspected cases of corruption in recent years, but investigations have either not been initiated or have come to nothing. Scandals involving Georgian Dream leaders have been resolved through resignations, the contact said, and not through investigations of the information provided by the media about legal infractions (Kupatadze 2015: 10).

According to a survey commissioned by Transparency International Georgia in the spring of 2019, 53 percent of respondents thought the judiciary was influenced by the ruling party, 35 percent thought it was corrupt, and 43 percent thought it was under the influence of a “clan.” Moreover, 87 percent said this “clan” was supported by government officials (Civil.ge 5.4.2019).

In July 2019, the Georgian Anti-Corruption Council adopted a new strategy for 2019 and 2020. Despite demands from civil society and international organizations, however, the government did not establish an independent anti-corruption agency.

6.7 International implications

6.7.1 Migration

Following the influx of refugees in 2015, public discussion in Germany focused on migration from Georgia, among other countries. The topic received additional attention in light of the planned loosening of visa requirements for Georgians traveling to the Schengen area, which finally came into effect on March 28, 2017. Several EU member states demanded a suspension clause be included in the agreement should the number of asylum seekers increase significantly once restrictions were loosened, something that had happened after limits were relaxed for the Balkan states. This also occurred at first with Georgia, but after warnings from the EU, the government in Tbilisi increasingly checked those leaving the country and carried out two communications campaigns informing the public that the new freedom must not be abused.

Corruption and its consequences are one reason why Georgians travel to Germany and apply for asylum; so, too, are the undesirable developments that ensued after Georgia’s health-care sector was deregulated and privatized. That is the conclusion reached by a 2018 study by a Dutch advisory committee on immigration, which questioned asylum seekers from Georgia, among other nations. The majority of Georgians had entered the country from Germany. According to the study, push factors of this sort are stronger than pull factors, such as the attractiveness of the destination country and the expectation of a better life there (Adviescommissie voor Vreemdelingenzaken 2018: 139).

6.7.2 Organized crime

One consequence of the consistent and radical approach to combatting organized crime taken by Georgia from 2003 onward was the displacement of the related criminal structures to destinations abroad, including Spain, Austria and Germany. Investigators and prosecutors in Germany were not prepared for this, and the legal situation was only partially suitable for dealing with the shoplifting and burglary committed on a large scale by well-organized gangs.

The gangs also took advantage of the dire situation many of their compatriots faced: Georgians who had applied for asylum in Germany in the hope of finding work or medical treatment were recruited from refugee shelters. This resulted in a large number – relative to the size of the Georgian population – of asylum applications and a large share of Georgians among foreigners suspected of committing crimes (Tagesschau.de 3.6.2018).

According to a former FBI agent, criminal gangs were able to adapt quickly to new conditions when moving to other countries. Close international cooperation between investigating authorities

proved essential. Due to the increased activities of Georgian criminals, the German Federal Criminal Police Office stationed a liaison officer at the German Embassy in Tbilisi. Police attachés in Georgian embassies cooperate with the authorities in several EU countries to fight cross-border crime. A Eurojust cooperative agreement with Georgia came into force in July 2019, enabling a rapid and secure exchange of information and evidence. Cooperation with Europol has also been increased.

Minister of Justice Tsulukiani has noted that Georgian law enforcement agents share their experience fighting “thieves in law” with German investigators, for example when it comes to understanding key phrases used in wiretapped conversations. The EU has signed a readmission agreement with Georgia, and Georgian nationals who are not authorized to reside in Germany are regularly deported. A Skilled Immigration Act, which came into force in Germany on March 1, 2020, makes it easier for skilled workers to come to Germany for a limited period of time according to reliable rules.

6.7.3 Offshore activities

When entrepreneur and party leader Bidzina Ivanishvili became prime minister in 2012, he was required by Georgian law to submit a statement of assets. The 72-page statement listed numerous pieces of property and buildings, joint stock companies, bank accounts and businesses. When the Panama Papers were published in 2016, it became clear that the list was incomplete (OCCRP 3.4.2016).

Until 2011, all major media outlets in Georgia were owned by offshore companies. A law was then passed stipulating that, to obtain a broadcasting license, media companies must disclose their “beneficial owners,” i.e. the individuals to whom they actually belong. Transparency thus increased in the media sector, in which business

relationships had been unclear for a long time. One example here is the opposition broadcaster Rustavi 2, which had been under pressure due to legal proceedings until it was reacquired by a former owner in 2019. Most employees left the company as a result, and it subsequently became much more pro-government.

The Ministry of Finance’s Investigation Service announced in Tbilisi in August 2019 that its agents were investigating 53 business managers for money laundering and tax evasion. According to officials, the executives had developed a criminal scheme in which government employees may also have been involved. The scheme was believed to deprive the state of €30.6 million in revenues (agenda.ge 17.4.2019).

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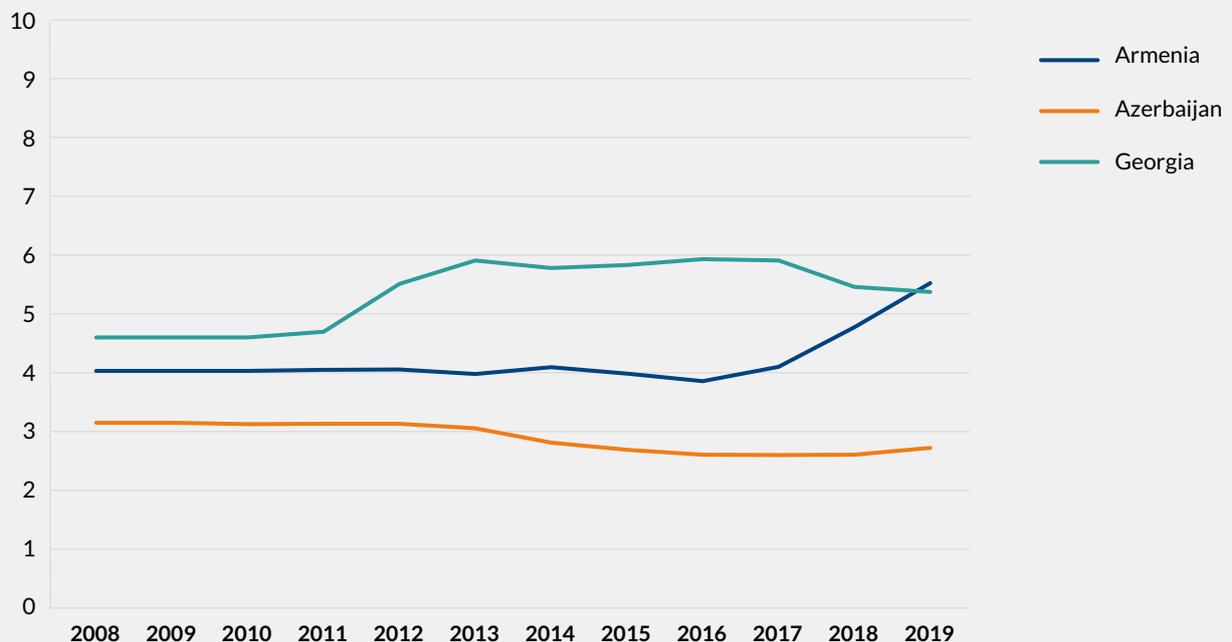
7. Comparison of the three South Caucasus states

Armenia, Azerbaijan and Georgia offer numerous examples of the serious impacts resulting from corruption. At the same time, these countries, which for decades were marked by systemic corruption and dysfunctional institutions, have also demonstrated considerable success in fighting corruption. Their varied development sheds light on the conditions under which corruption can be successfully curtailed.

Altogether, the three South Caucasus states cover an area half the size of Germany, and their combined population is equivalent to that of the Netherlands. The historical developments experienced by the people living there were more or less congruous until the

dissolution of the Soviet Union in 1991. Today, however, the three nations find themselves ranked very differently by the international indices measuring democracy development and corruption. Of the 180 countries in Transparency International's Corruption Perceptions Index, Georgia, for example, is found in the top third with comparatively little corruption, while Armenia is in the second and Azerbaijan in the bottom third. The three countries are positioned similarly in the Economist Intelligence Unit's annual Democracy Index: In terms of democratic development, Georgia has made more progress than its two neighbors, although it ranks somewhat lower in the 2019 index, while Armenia ranks somewhat higher.

FIGURE 4 Comparison of democracy's development in the three South Caucasus states



Source: The Economist – The Economist Intelligence Unit's Index of Democracy 2019
https://www.eiu.com/topic/democracy-index?&zid=democracyindex2019&utm_source=blog&utm_medium=blog&utm_name=democracyindex2019&utm_term=democracyindex2019&utm_content=top_link
 own illustration
 Scale: 1–10, with 10 as highest value

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7.1 Prerequisites for corruption

After regaining their independence, the three countries were still united by the historical legacy of systemic corruption in their administrative structures, a legacy that persisted during the transformative processes of the 1990s. Only the form and purpose of corruption changed: Instead of scarce products, the focus shifted to accessing resources – such as a job or a slot to study at university, and, at a higher level, government contracts, licenses, land and monetary benefits. Given the lack of reforms in administrative structures and the mostly unchanged personnel, sufficient trust in state institutions did not develop in any of the countries. Instead, people continued to rely on bonding social capital: connections with relatives, former schoolmates, colleagues and neighbors.

If there is a lack of trust in the political leadership, other actors can gain considerable influence of an informal nature. This can be seen in the Orthodox Church in Georgia, which is held in higher esteem by the population than the government and most other institutions. At the same time, a public power struggle, including accusations of corruption, puts a reputation at risk. Similar accusations against the Apostolic Church in Armenia, which have been made for years, however, prevent it from having a comparable influence on society, even if the Christian faith is equally important there. In Azerbaijan, on the other hand, the state leadership exerts so much pressure on the Islamic, Jewish and other religious communities that they have no political influence whatsoever.

For many years, the lack of bridging social capital – between urban dwellers and residents of rural areas, for example – prevented people from jointly expressing in public their displeasure about large-scale corruption. In Armenia, a generation of young activists only succeeded in doing so in the 2010s since they were committed to specific causes, such as the health and environmental concerns of people living near mines. In Azerbaijan, the state leadership continues to stifle such attempts, thereby preventing the pressure for change from arising within society at large.

The violent conflicts that took place in these three countries in the early 1990s encouraged corrupt structures in different ways. First, they promoted the development of oligarchic structures and

helped strengthen organized crime involving the leaders of non-state militias. As early as the 1990s, authorities in Armenia and Azerbaijan regained their monopoly on the use of force – in some cases through brutal violence and massive human-rights violations – and stabilized state structures, while Georgian President Eduard Shevardnadze only achieved this in rudimentary terms. Georgian society was divided, since Shevardnadze's predecessor, Zviad Gamsakhurdia, had promoted separatist conflicts and sown discord within the country. The leaders of Armenia and Azerbaijan used the conflict over Nagorno-Karabakh to unite the people against an external foe and justify their authoritarian rule by depicting dissenters as allies of the enemy and traitors to the fatherland. These conflicts and their long-term consequences in the three countries and beyond – including the spread of organized crime all the way to Western Europe – show the importance of avoiding violent conflicts and, thus, preventing corrupt structures from emerging or growing stronger, especially in connection with armed organized crime.

Furthermore, the comparison of the three countries shows that natural resources can play a significant role as a source of power: By developing his country's oil reserves and exporting oil abroad, Azerbaijani President Heydar Aliyev generated the proceeds that enabled him to bring power groups under his control and secure his family's claim to leadership. The foreseeable end of the oil boom was, subsequently, a decisive factor motivating his son Ilham to introduce reforms. In contrast, Armenia is financially dependent on Armenians who have moved abroad and on Russia. Emigrant Armenians use their economic power to exert political influence, but also to promote economic and social projects. Moscow's leadership uses its economic and security policy to advance its own interests. The Armenian government is interested in close relations with the EU as a counterweight to Russian influence. EU-Armenian relations can serve as a model for those states which, like Armenia, are members of the Eurasian Economic Union (EAEU). Without any significant resources of its own, Georgia, conversely, has relied on European-transatlantic ties since the 1990s. It receives massive financial aid from the EU and other international organizations, and adopts the standards they endorse.

7.2 Consequences of corruption

A lack of trust in institutions is a consequence of systemic corruption and facilitates its persistence. Yet informal structures are costly and ineffective when they have numerous participants who must cover for each other. This applies, among others, to the process of filling lucrative positions. Such procedures

promote dependencies, but not trust. They ignore competence and make those involved susceptible to blackmail. Yet qualified staff are necessary if public authorities are to function well, which is why Azerbaijan introduced transparent and fair procedures for accessing education and employment in public admin-

istration. This at least ensures that employees are hired based on their skills.

Developments in the three South Caucasus states make it clear that stable and centralized power structures, as in Armenia and Azerbaijan, are more durable than those that existed until 2003 in Georgia, where President Shevardnadze was unable to exert sufficient control over corrupt actors. Yet even authoritarian governments require a minimum of legitimacy and loyalty to maintain their power base, and they have only limited possibilities for implementing repressive measures. If the general population is no longer able to satisfy its economic needs through legal or illegal channels, such governments could also find themselves bereft of power. The power groups in Armenia failed to recognize and react to this, resulting in their downfall. In contrast, Azerbaijan's President Aliyev was able to reduce petty corruption by reforming state services and prosecuting civil servants who took bribes, thereby gaining legitimacy and mitigating the effects of the financial and economic crisis of 2014/15.

In view of the corona pandemic and the further drop in oil prices, however, it is questionable whether Aliyev's efforts will be success-

ful, namely the strategy of presenting him – as in a speech on May 13, 2020 – as a trailblazer fighting corruption in order to reduce the public's dissatisfaction with the economic situation. At the same time, the country's leadership has opted for repressive measures against the opposition and civil society actors. That, in turn, increases the risk of spontaneous uprisings, which are less easy to control and contain than organized protests.

In Georgia, the growing unrest in recent years confirms the results of surveys that reveal less trust in state institutions, something that can be explained by increasing grand and political corruption. For example, the public expressed less trust in the office of the presidency after the 2018 presidential election. Yet there was also less trust in the media, NGOs, political parties and the European Union, and no strong, credible political actors are present that can serve as alternatives to the ruling party.

During the corona pandemic, on the other hand, the government has gained standing for following the advice of leading scientists and for successfully implementing rigorous measures early on. Whether this support will continue, however, remains to be seen, given the pandemic's massive economic consequences.

7.3 Willingness to fight corruption – crises as opportunities

When the political will existed in Georgia, Armenia and Azerbaijan, it was possible for reforms to succeed that combatted corruption in sectors which had been prone to it for decades. Yet political will developed in different forms in all three countries only after they were struck by serious crises, namely when state structures and infrastructure proved dysfunctional. Bureaucracy and corruption robbed the state of revenue, and citizens were no longer willing or able to support power groups' corrupt income models while being denied access to resources.

The example of Azerbaijan, in particular, shows it is possible for elites to realize that the benefits of reducing petty corruption can outweigh the costs: Public pressure subsides, legitimacy increases. This can also be achieved by penalizing corruption on various administrative levels, which in turn can improve economic performance. For example, Azerbaijan reorganized the ministry responsible for infrastructure, making it possible to overcome shortcomings that had hobbled the country in the international competition for transport routes between Asia and Europe. To develop the economy beyond the oil and gas industry, the Azerbaijani leadership also proved willing to increase access to the state apparatus and the monopolized economy, so that young technocrats could contribute their skills as public administrators, employees or entrepreneurs founding new businesses, thereby benefitting the

state. Such measures can improve the lives of ordinary citizens – who recognize the advantages functioning public authorities offer over a system based on bribery and, consequently, demand that more sectors be reformed. At the same time, political leaders benefit when their legitimacy increases and they are better able to control state revenues because of diminished corruption.

A similar situation can be observed in Georgia, where the government of President Saakashvili, who was elected in 2004, undertook all the reforms needed to eliminate petty corruption, so that the public no longer had to pay bribes for state services. Tax and customs reforms gave the state a solid revenue base. Yet Saakashvili also concentrated power within the office of the president and many forms of political and grand corruption remained, or they were facilitated by the abolition of oversight authorities.

Two years after the change of power in Armenia in 2018, it is still too soon to draw any conclusions about the reforms there. Yet findings from throughout the region suggest that power groups are more likely to disengage from unscrupulous practices of petty corruption and maintain their privileged access to resources instead, as this promises higher profits, is less transparent to the public and seems to have less impact on people's everyday lives.

7.4 Anti-corruption measures

Constitutional reforms aimed at producing a functional separation of powers can also be misused by politicians to remain in power. Yet Mikheil Saakashvili and Serzh Sargsyan did not succeed in switching to the post of prime minister after their second and thus last term in office as president – unlike Vladimir Putin in Russia.

The example of Georgia in particular shows the persistence of informal structures. The influence exerted on the legislative, executive and judicial branches by the businessman and leader of the Georgian Dream Party, Bidzina Ivanishvili, can also be ascribed to the widespread expectation among the public that a strong leader should make decisions and assume responsibility. Even the constitutional reform towards a parliamentary democracy could not prevent him from informally influencing members of his party and the candidates for the posts of prime minister and president.

Targeted solutions are needed for the pro forma legality and lack of legitimacy that result from political corruption, especially in periods when a transfer of power is taking place. This applies, for example, to parliaments whose members have obtained their mandates through election rigging. Such was the case with the peaceful uprising in Armenia in 2018, when mass protests showed that the public did not feel represented by the country's parliament and government. The solution here was that parliamentary representatives gave in to pressure from the streets and elected opposition leader Nikol Pashinyan prime minister. The problem of lack of legitimacy arose again later in the country's Supreme Court, whose judges had been appointed by the previous president, and whom the new government could not legally dismiss. Similar problems exist in Georgia's judiciary, where the rule of law protects a group of judges commonly perceived to be a "clan." When the profiteers of political corruption are able to invoke legitimate legal principles, it is a challenge to which there is no ready solution.

Political corruption's ability to thwart reform can extend deep into various societal sectors. This can be seen, for example, in the three countries' schools, where polling stations are traditionally set up and teachers are deployed as election workers. As a result, politicians put pressure on civil servants in the educational system by threatening to reduce their budgets. An inherent interest thus exists to ensure educational institutions remain dependent on political structures – one reason why the educational systems in all three countries underperform.

The impact of political corruption is also evident in Georgia's police force, a prime example of an institution that has undergone successful reform, resulting in an increase in public trust. The latter has diminished in recent years, however, even though there is no credible evidence of a resurgence in petty corruption involv-

ing law enforcement. What can explain the decline are incidents in which politicians have advanced their own interests by putting pressure on the police.

Amending laws to investigate and punish corruption is proving to be a challenge, as is prosecuting wrongdoing, since they can always be seen as politically motivated. One example is a new law in Armenia that allows prosecutors to seize property if its owners cannot prove that they acquired it legally. The law has been the target of criticism, because it could be used for politically motivated persecution of people associated with the former ruling party.

Apropos of former leadership, the governing coalition in Yerevan lacks a strategy for bringing moderate and reform-minded actors from the old elite on board – with two exceptions: the heads of the defense and foreign affairs ministries, both of whom served in the former government. The governing coalition has used populist methods to intensify polarization in the country. It has also tended to adopt measures that could weaken the separation of powers and permanently limit basic rights. However, unlike in Georgia, the old elite has still been able to exert influence and has succeeded in winning over parliamentary representatives affiliated with the opposition. Instead of convincing members of the old guard to support reform, a power struggle is taking place between old and new elites.

Political activists in Azerbaijan developed a model for transferring power because they were well aware that the elites feared a change of power would leave them without a livelihood in their own country, and that many civil servants would lose income. The model was designed to grant the elites impunity, and only called for payment of back taxes; there was to be no expropriation if an individual facing censure participated in the reform process. However, it is unrealistic to expect the model will be adopted any time soon. If oligarchs and members of clans and the post-Soviet elite have lost influence in Azerbaijan, it is due to competition within the power pyramid. Whether the development of new economic sectors will give rise to new, independent companies remains to be seen. On the whole, the three countries show that the fewest successes have been achieved in the area of grand corruption, and that these successes are the ones most likely to be reversed first.

There is evidence, particularly from Armenia, that people dislike payments (e.g. bribes or money collected for teachers) more than favors done as a quid pro quo. Demands for money can be humiliating, something seen in Georgia prior to 2003, where motorists referred to the stop-and-pay tactics of police officers as "highway robbery." It is easier for everyone to renounce bribery if wages reflect the training required (by government employees and salaried

staff, for example) and the responsibilities demanded (e.g. of doctors), and if they are sufficient to earn a living. On the other hand, it hardly seems realistic for salary adjustments to compensate for bribes no longer paid. In Armenia, for instance, there is evidence that functionaries working in the executive branch were much less motivated following the change of power and that some even quit their jobs.

Resistance arose in Armenia after the new government took power, when job and income losses loomed as a result of anti-corruption measures – for example at universities, where older employees in particular feared for their livelihoods. To secure their jobs, many people were prepared to join My Step, the new governing party.

Asking favors from relatives, friends and neighbors in influential positions is not considered as corrupt as bribery, since the dividing line is not always clear between what counts as giving someone appropriate assistance and support, on the one hand, and illicitly favoring family or friends, on the other.

In order to prevent a recurrence of corruption, it is necessary to establish a new and complex regulatory system that takes into account what the individuals subject to the system can afford.

One successful response to petty corruption is reorganizing public authorities and hiring new personnel, thereby dismantling old structures (e.g. the overhauled police force in Georgia and the new public service centers in Georgia and Azerbaijan). Another not insignificant aspect is designing and furnishing new administrative offices so they are modern and open, or, as with the Georgian police, providing staff with new uniforms, thereby symbolizing the state's shift from the unhelpful and alienating bureaucratic mindset of the Soviet era to a service-oriented mentality, not to mention the new relationship between citizen and state. In addition to adequate pay, staff thus gain prestige, making them less corruptible. Such measures, which are comparatively easy to implement and visible to the public, can also enhance the prestige of the government carrying out the reforms. In Armenia, however, the Pashinyan government has chosen not to implement prestige-enhancing measures that would signal a quick victory. Instead, it has conducted a campaign in which it presents itself as the public's partner in the fight against corruption perpetrated by former elites.

Introducing technical innovations for government services can in some cases merely shift corruption to the new mode of operation. Digitalizing administrative processes increases transparency and makes cashless payments possible – and bribery more difficult. But in Azerbaijan, for example, there are indications that government employees who are responsible for entering data have simply continued to accept bribes.

In Georgia, machines were installed that allow consumers to pay electricity and water bills electronically, a move that was welcomed by the public. Yet the banks operating the machines levied a fee each time someone paid a bill – a feature that proved less popular. If fees are introduced for digital services, people will be more willing to accept them if the new system is transparent and subject to oversight.

Although a camera system for monitoring roads was introduced in Armenia prior to 2018, leading police officers to demand fewer bribes from drivers, companies involved in the monitoring systems were able to divert part of the traffic fines that were paid. This example illustrates how mechanization can simply shift corruption to other channels.

Moreover, cameras and the large-scale collection of data can be used to surveil and control independent actors and members of the opposition. There are signs that this could be taking place, in that cameras in Baku, Azerbaijan, for example, are increasingly being equipped with face recognition technology.

In Georgia, unfavorable developments have encouraged new forms of grand corruption, monopolistic structures and conflicts of interest between the business and political spheres. One such development is deregulation coupled with virtually complete privatization, without the creation of new supervisory authorities – as in the country's health sector. The latter is dominated by a handful of corporations, which has led to price distortions. Lack of oversight in the financial sector has, in turn, led to thousands of customers lacking sufficient creditworthiness borrowing money at excessive interest rates, even to pay for everyday needs, thereby sending them further into debt. While reforms and deregulation have eliminated numerous public-sector jobs, economic policies have not created enough new companies able to hire those now out of work. Many of the people officially registered as self-employed are actually subsistence farmers, taxi drivers and street vendors with very low incomes. At the end of Saakashvili's time in office, Georgia was among the countries with the greatest social inequality worldwide. Support for his reforms declined as a result.

These examples show that reducing opportunities for illicit activities is, in and of itself, not enough to reduce corruption over the long term. Such efforts should be accompanied by measures to protect employees and consumers, provide the public with an adequate safety net, and prevent new forms of corruption from taking root.

7.5 International ramifications

According to surveys carried out in 2019 and funded by the EU, respondents in all three countries generally rate relations with the European Union as good or very good. According to its own data, the EU is Georgia's largest foreign donor. In light of this generally positive picture, a survey conducted by the Caucasus Research Resource Center in Georgia in 2019 is all the more notable, in that only 1 percent of the respondents said they view the EU as one of Georgia's friends. This low approval level can largely be explained by the gap between expectations and reality. For example, there is widespread frustration in Georgia that the country currently has no realistic prospect of acceding to the EU, a goal declared by politicians both at home and abroad. At conferences on European-Atlantic integration, the need to "manage expectations" is now an often-mentioned topic. In their everyday lives, moreover, most people in the country have yet to feel the advantages of the bureaucratic and complex EU Association Agreement, which is still in the process of being implemented.

When people in Armenia and Georgia say they want improvements in their lives, surveys show that they are primarily referring to their economic and social situation. What they are aspiring to are conditions akin to those found in the European Union, which means the EU remains attractive compared to Russia and China. Programs aimed at improving everyday life – such as better health care, fairer terms for credit, and less pollution – reduce the pressure to emigrate to Western Europe. The demands made at demonstrations in all three countries relate mainly to the current political and economic situation: less corruption, equal opportunities, participation in political decision-making processes, and social and economic security. Democracy, on the other hand, as a normative and ideological goal, rarely plays a role anymore – in part because of the anti-democratic tendencies in Europe and North America. Moreover, authoritarian leaders often use the term to improperly cast political conditions in their own countries in a positive light. At the same time, propaganda from Russia portrays democratic countries as weak and decadent, and therefore as undesirable role models. Both trends are helping to discredit the entire concept of democracy.

The education Armenians, Azerbaijanis and Georgians have received in the EU, UK and US can be regarded as successful. The majority of reformers in the three countries completed university there, where many also gained experience working for foreign companies and organizations. In addition to management skills and ideas for reform, young people also take back to their native countries the desire for change, to the extent that viable prospects for it exist.

Non-governmental organizations and media receiving support from abroad play an important role in exposing corruption and calling for political reform, especially in Georgia. The general population usually pays them scant attention, however, especially outside the main cities. In Azerbaijan, the NGO sector, media and civil society are closely monitored by state authorities and by government-adjacent organizations and actors.

Activists from Armenia's civil society had viewed part of the NGO sector linked to international organizations as being corrupt before the change of power in 2018, although many of them had gained experience at such NGOs. Leaders of the protest movement never tired of saying that they were not receiving any support from abroad, emphasizing instead that their movement had originated with the local population. Their intention was to legitimize themselves to the people and prevent the change of power from being assigned a geopolitical dimension, especially by the Russian leadership.

In Azerbaijan, too, there are opportunities for promoting anti-corruption efforts from outside the country, as falling oil revenues are leading to the need for foreign investment and the development of other economic sectors requiring new types of know-how. In addition, the state leadership wants to increase its legitimacy among the public by gaining international recognition and achieving political goals abroad. This demonstrates the need to prevent corruption which is geared towards buying political influence in Western Europe – as was attempted in the Council of Europe – or in the US.

Measures are also needed to combat money laundering, which deprives countries of origin of income generated by grand corruption. International research has shown that money can be channeled via Eastern Partnership countries to various destinations, including the EU, where it can be used to achieve political goals.

The unexplained wealth orders (UWOs) recently introduced in the UK are one tool for fighting money laundering. The first UWO was issued against the wife of a bank director convicted in Azerbaijan; additional UWOs have been used to compel relatives of the former president of Kazakhstan to disclose their sources of income. However, much more international effort is needed if money laundering is to be combatted effectively, something that also applies to the fight against organized crime. Cooperative efforts between the German authorities and the Georgian government are one positive example in this area.

7.6 Conclusions

If the political will exists, if the state is able to assert itself and if people are open to reform, corruption can be reduced, at least in some areas, and citizens can develop trust in public institutions.

These conditions were present when crises struck each of the three South Caucasus states, threatening the economic security of both the public and the relevant power groups. Even corrupt business models can reach their limits, especially if they rely on income generated through interactions with the public, for example through excessive prices for everyday products that are only made possible by the existence of a monopoly.

As the comparison of the three countries shows, a limited access order can only successfully transition to an open access order over the long term if fundamental reforms are achieved in all three areas of corruption: Progress in the fight against petty corruption can be thwarted, or corruption shifted to other levels, if power groups are still capable of engaging in grand corruption and can use methods of political corruption.

Successes in combating petty corruption can be viewed as fundamentally positive, since they make life easier for the general public and pave the way for more measures of the same kind: People see that not having to pay bribes is advantageous, leading them to demand further reforms. Political leaders benefit when improvements become visible quickly, something that can increase their legitimacy. Yet as the example of Azerbaijan shows, leaders can also use increased legitimacy to strengthen their own position within the power structures and better control revenue flows.

All three countries demonstrate that grand corruption, in the form of privileged access to resources, and the exploitation of monopoly structures are generally more lucrative than petty corruption; moreover, they are easier to conceal from ordinary citizens. Hiding illicit activities is achieved through offshore companies and money laundering, which complicate efforts by law enforcement, the media and independent organizations to establish wrongdoing.

Political corruption – restricting political participation, for example – risks discrediting political institutions and prevents individuals and organizations representing various social interests from contributing to decision-making processes. This, in turn, increases the risk of political instability. The more that power groups benefit from corruption, and the longer they do so, the greater their fear of punishment, of having their wealth expropriated and of being left without a livelihood in their native land – although there are cases where compromises have been found.

An essential prerequisite for the transformation into an open access order is the restructuring of the economy in a way that guarantees as many people as possible diverse opportunities for participation. Reforms must therefore move society towards a governance and economic system that serves the interests of everyone, not just select powerholders who determine political and economic processes without having been legitimized through elections. As the case of Armenia shows, this is possible if alliances are formed between a pro-reform civil society, independent media, politicians, and entrepreneurs who are not part of the oligarchy. They must establish transparent, stable rules in order to advance the country's modernization efforts, demand accountability from those in power and prevent reforms from being rejected. International partners can support these processes by insisting that governments keep their promises to implement reform and by laying out clear rules for allocating financial aid. They can also partner with those in favor of reform, especially when crises increase the desire to implement change and to introduce mechanisms for fighting corruption.

After a change of power as in Yerevan, the new government needs a strategy for dealing with the old elites. Ideally, at least some of them are interested in having a stable regulatory framework and a level playing field for all market participants, and are therefore prepared to limit their monopolies and the practices that protect them. The old elites, however, must not remain so secure and unassailable that they are able to block change. Punitive measures of varying leniency are possible, including amnesties – depending on how involved officials and business leaders have been in corrupt practices and how cooperative they are. The transition processes must be made transparent and comprehensible to all. The overall goal is to ensure an ongoing willingness to renounce corruption. Efforts must be made, moreover, to prevent the public from becoming polarized and power struggles from disrupting reforms or subverting them completely.

Reforms require impact assessments of the country's specific situation. For example, a combination of deregulation, privatization and too few oversight agencies can give rise to new forms of petty and grand corruption, as the case of Georgia shows. Popular support for reform-minded governments can turn into protests if living conditions do not improve and modernization efforts are not accompanied by sufficient opportunities for political and social participation. Another key point is that reform processes are vulnerable and can be reversed. Even in a parliamentary democracy, informal structures can hold their own against formal ones. This is possible if, as in Georgia, a non-politically legitimized actor is able to influence political and economic decisions because he has de facto control of a parliamentary majority.

As all three countries demonstrate: Corruption goes far beyond demanding and accepting bribes. Systemic corruption conceals complex informal structures which permeate all of society and which are linked to a country's power structures. Moreover, the three South Caucasus states have developed in different ways, showing that each country requires its own approach to fighting corruption and to constitutional reform. Their development also shows that opportunities for successfully supporting such reforms arise at different times.

In Armenia, peaceful protests have elevated reformers into positions in which they can make policy decisions and thus fundamentally change conditions in the country. At the same time, however, old elites with no interest in effecting change still sit as gatekeepers at important junctures. It will be important to involve them, using a mixture of motivation and pressure based on the understanding that the current situation is not sustainable.

The top-down reforms initiated in Azerbaijan have been limited to selected areas and do not threaten the balance of power within the country. A social market economy with maximum opportunities for participation is not the state leadership's goal.

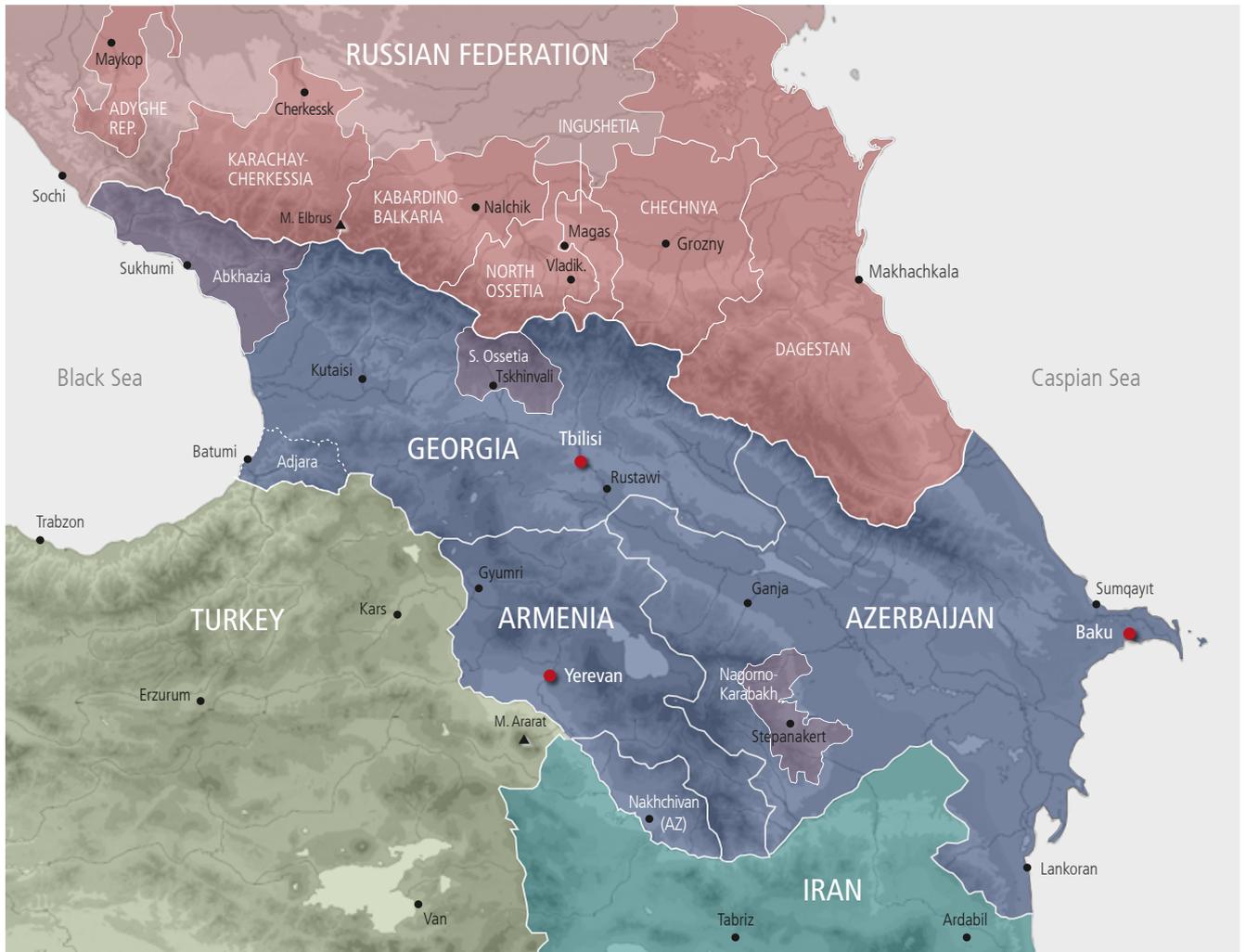
In Georgia, it is evident that forces whose power is based on wealth rather than political legitimacy are positioned to continue influencing the country's political and economic development.

In all three countries, people are willing to distance themselves from corruption. They want fair access to opportunities allowing them to participate in society, so they can build a future for themselves in their native country. Having lived for a while in the West, some feel that fair competition offers a more sustainable economic model, for example because it promotes innovation and allows more people to have a say in how resources are used. However, general dissatisfaction can arise if no noticeable changes occur – potentially leading, on the one hand, to protests, a change of power not decided through elections, a relapse into patriarchal traditions and a receptivity to populist politics, or, on the other, to the loss of society's most active and capable members through emigration.

Finally, it must be said that measures for preventing and combatting corruption seldom have a constant effect – even when the political will for it exists and the general population gets involved, and even when foreign actors have provided decades of support and conditionality. This means modesty is called for, as is an ongoing critical review of the approaches used and actions taken, not to mention the willingness to adapt responses to local conditions whenever needed.

The following recommendations can serve as a basis for assisting partner countries in becoming constitutional democracies and combatting corruption – in order to establish and maintain inclusive, resilient structures that support both the state and society at large in the European neighborhood.

The South Caucasus states in a regional context



8. Recommendations

8.1 Strategic recommendations for preventing and combatting corruption as a prerequisite for democracy and the rule of law

1. If a systemic change is to occur that makes corruption the exception rather than the rule, political and economic monopolies must be dismantled, discretionary powers exercised by politicians and high-level state officials must be limited, and transparency must be guaranteed. Ideally, a country's political leadership would set the priorities for how this is to happen based on policy and social debates, as a way of developing measures that can attack corruption at its roots.
2. Anti-corruption programs should not only target the symptoms of corruption, but also address its causes – as a systemic and cultural phenomenon that has usually developed over decades. Corruption should not be seen as permanent per se, but neither should the assumption be made that it will disappear over time on its own, in conjunction with other reforms.
3. Since the fight against corruption is a prerequisite for successfully achieving the rule of law, it should also be at the core of any strategy promoting the rule of law. Corruption undermines the integrity of those individuals working at institutions that are essential for the rule of law, such as judges, parliamentarians or civil servants. This stymies efforts to carry out sustainable democratic reforms – even if legal structures and laws are being transformed simultaneously. It also prevents the public from believing in the supremacy of the law and from viewing state institutions as belonging to an independent normative framework.
4. Priority should be given to building state institutions that are professional and effective. Rigorous and fair selection processes serve as the basis for a new roster of public officials known for their professionalism and integrity. Involving representatives of civil society and national and international experts in this process increases trust and helps ensure the new institutions are more readily accepted.
5. Judicial reform remains a crucial element in the fight against corruption. The greatest hurdles here are a legal system dependent on political actors and a culture that favors such dependence. The judiciary, like law enforcement, has a key role to play in effective anti-corruption efforts, but in countries burdened by systemic corruption, it is often itself a hub of non-transparent and corrupt practices and therefore difficult to reform.
6. The most radical opponents of reform within power groups should be the targets of investigation and prosecution. Amnesties should be used, where possible, to involve more moderate forces in mediation and reconciliation processes, provided they do not impede the implementation of reforms. It is important to identify those forces willing to reconsider and to convince them of the long-term benefits reforms can bring. New “soft” regulations, such as disclosing assets, can facilitate this process.
7. International actors should focus more on legislative bodies, along with the judiciary and public administration, since the former are where access often is restricted, thereby protecting old power structures and undermining reforms. While it cannot be the intention of foreign partners to determine a country's policies from abroad, it is legitimate and necessary for them to take a stand if international or bilateral agreements to which governments have committed themselves are not respected.
8. In addition to criminal prosecution and sanctions, prevention and transparency are the tools needed to systemically and comprehensively transform a state and social order. Punishment is important, but it is only one of the factors that can promote a willingness to change. Reform-minded forces should also focus on preventing corruption, more than punishing individuals – except hardliners who threaten or injure reformers.
9. Activities undertaken by civil society to prevent corruption and reduce opportunities for engaging in it deserve ongoing support.
10. International rules and platforms dedicated to preventing and combating corruption in various areas should, wherever possible, dovetail with actual developments in partner countries while taking advantage of opportunities for integration.

8.2 Recommendations for international partners in consultation with civil society

8.2.1 For all three South Caucasus states

Ongoing measures should generate a greater understanding of corruption and the underlying formal and informal structures in the individual countries, so that dependencies can be considered when state sectors are transformed. Anti-corruption efforts must always be understood as a cross-cutting task, applying to a range of areas at the same time.

Communication should avoid polarization and demonstrate possibilities for overcoming divisions.

Corruption is complex and therefore requires a multidimensional approach and specific anti-corruption initiatives – for example in the health sector, which is both particularly vulnerable and directly relevant to people’s lives. This is the only way to react effectively to corrupt practices in different sectors and to control corruption over the long term.

An ongoing exchange with local civil society provides an understanding of each country’s specific situation. This is crucial when reforms are being implemented to promote the rule of law, since the danger otherwise exists that legal principles which have proven effective elsewhere could have the opposite impact and strengthen corrupt structures in the environment undergoing transformation.

A regional anti-corruption approach, on the other hand, does not appear to be advantageous given the different patterns of political and socio-economic development present in the individual countries.

Draft laws should be subjected to an impact assessment by an independent institution in order to identify how they might facilitate corruption. This is also an area where civil society can contribute.

Deregulation and privatization programs carried out within the framework of anti-corruption efforts should ensure that protec-

tive measures – safeguarding workers’ rights, for example – are implemented through independent controlling mechanisms and oversight authorities; any new requirements imposed on the public should be structured in a way that those who are expected to meet them can realistically do so.

One approach that has proven effective is to design programs and projects so that they produce concrete improvements in people’s everyday lives. Push factors driving migration can be reduced, for example through reforms in the health sector.

Efforts must continue to promote the education and training of young people from the South Caucasus. Those who have studied or worked in an EU member state should be given the opportunity to participate in any relevant projects taking place in their native country.

Corporate governance programs can contribute to open and inclusive economic development in the region. Ideally, such programs should involve international and national chambers of commerce and small and medium-sized enterprises. Networks of entrepreneurs and investors send an important signal when they show their commitment to achieving a better business climate based on greater transparency. Similarly, the topic of anti-corruption efforts can be addressed on a regular basis in investment studies.

Creating partnerships between “sister cities” or “twin towns” has shown itself to be an effective platform for exchange, and is an approach that should be expanded whenever possible.

Independent research projects and research networks can contribute significantly to uncovering corruption and money laundering, and should be supported as much as possible.

8.2.2 For Armenia

It is important to make use of the political will exhibited by the government in Yerevan and back the reforms initiated there, for example by supporting local anti-corruption measures and programs.

In particular, the opportunity should be seized for carrying out reforms in the legal system – as desired by the government and civil society – through ongoing, close cooperation.

Special attention should be paid to the electoral reform initiated by parliament.

The European Union and individual EU member states should promote bilateral cooperation in areas that are of mutual interest. This also applies to the European Investment Bank, whose activities in the region could potentially be expanded, and to the Euro-

pean Bank for Reconstruction and Development. As a member of the (Russian-dominated) Eurasian Economic Union (EAEU) that is

not striving for full integration into the EU, Armenia could serve as a model for other EAEU member states.

8.2.3 For Azerbaijan

The political leadership in Azerbaijan should be supported in its self-declared fight against corruption, as should the top-down reforms meant to upgrade administrative structures and improve investment conditions.

Expertise should be made available to analyze the effectiveness of anti-corruption measures.

The negotiations for the new EU Partnership Agreement offer a foundation for achieving greater cooperation. They could also

help establish the rule of law as a fundamental principle and make it more popular, while supporting the government in expanding reforms initiated in the legal system. In addition, they could be used to demonstrate the advantages of involving stakeholders from the general population in reforms.

Another aspect that remains important is addressing in the Council of Europe and in bilateral exchanges the consequences of corruption.

8.2.4 For Georgia

A key task is supporting cooperation between civil society and the political sphere from the local level upwards and, as part of a general dialogue within society, defining new goals for the country's Euro-transatlantic integration that appeal to the public.

Further impetus for reform could be generated if partnerships with individual EU member states were developed for specific policy areas that are of mutual interest.

Efforts must be made to ensure the parliamentary elections in October 2020 are free and fair, something that must be communicated as a fundamentally Georgian achievement.

Promoting the independence of judges (based on the Bangalore Principles of Judicial Conduct), including within the judiciary, helps ensure legal reform is sustainable. Parliamentary debates can also make a contribution here – by discussing, for example, the recommendations made by the Venice Commission and the OSCE Office for Democratic Institutions and Human Rights on the appointment of additional Supreme Court judges – and can provide a basis for the work to be done by legislators.

Another crucial element is calling for and promoting the networking of NGOs and the media within society, including beyond the capital; the problem of over-funding by international donors must also be addressed.

8.3 Recommendations for international state cooperation

- Work with governments to determine anti-corruption rules that must be complied with when investments are made
- Review one's own immigration and financial systems to see where they provide a haven for perpetrators of corruption – or for stolen assets – and how they promote the persistence of corrupt practices in countries of origin
- Analyze, compare and further develop procedures that independent courts can use to investigate assets held abroad in the event corruption is suspected
- Give higher priority to the fight against corruption on the international level, and support in particular cross-border measures for combatting money laundering
- Expand transparency requirements in the EU for lobbying done by foreign organizations
- Strengthen structures enabling cross-border cooperation in the fight against organized crime

8.4 Recommendations for civil society in the three South Caucasus states

8.4.1 Armenia

- Draw attention to the government's autocratic tendencies and demand corrections be made
- Press the government to deliver on its promise of equal opportunities for small and medium-sized enterprises and resist attempts by the old elites to retain power
- Seek ways to reduce the extreme polarization between old power groups and new elites; develop communication strategies to combat disinformation
- Demand implementation of the electoral reform announced by the government
- Communicate the advantages of eliminating bribes; identify backsliding, then document and publicize it
- Communicate the benefits of social welfare reforms for society as a whole; support and critically monitor their development
- Stimulate a political and societal discussion of ways to balance environmental and investment concerns

8.4.2 Azerbaijan

- Demand that representatives of societal interest groups participate in anti-corruption reforms
- Critically monitor the prosecution of corrupt officials, focusing on whether corruption is truly being eliminated or whether shifts are occurring within the country's power structures
- Raise awareness of problematic aspects of digitalization relating to privacy and surveillance
- Seek compromises within the country's divided civil society; identify and communicate common issues
- Analyze the government's divide-and-rule methods while maintaining independence

8.4.3 Georgia

- Build alliances pertaining to relevant issues as a way of overcoming civil society's extensive fragmentation
- Develop transparent approaches for funding political parties and for allowing political actors to compete in political processes as equals
- Address the negative consequences of liberal economic reforms and develop approaches for rectifying them, for example by implementing inclusive reforms that improve the social and economic situation, including for low-income individuals
- Encourage continuation of the health-sector reform in a way that reduces the dominant position of a small number of companies
- Evaluate new government regulations – such as food and automobile inspections – to ascertain whether they can be complied with as intended, or whether they merely shift corruption to other areas

9. The countries: facts and figures

9.1 General data on Armenia, Azerbaijan and Georgia

TABLE 1 Key figures for the three South Caucasus states

| | Armenia | Azerbaijan | Georgia |
|---|------------------------|------------------------|------------------------|
| Population (millions) | 3.0 | 9.9 | 3.7 |
| Total area | 29,743 km ² | 86,600 km ² | 69,700 km ² |
| Population growth (annual rate) | 0.2% | 0.9% | 0.1% |
| Net immigration rate (migrants per 1,000 inhabitants) | -5.5 | 0 | 0.1 |
| Life expectancy in years | 74.8 | 72.7 | 73.4 |
| Urban population | 63.1% | 55.7% | 58.6% |
| GDP per capita (in PPP) | \$10,325 | \$18,012 | \$11,421 |
| Poverty* | 12.3% | 0.0% | 16.3% |

Sources: Bertelsmann Stiftung, BTI 2020 Country Reports, https://www.bti-project.org/content/en/downloads/reports/country_report_2020_ARM.pdf; https://www.bti-project.org/content/en/downloads/reports/country_report_2020_AZE.pdf; https://www.bti-project.org/content/en/downloads/reports/country_report_2020_GEO.pdf | Net migration rates from: CIA –The World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/>

* Percentage of the population that lives from less than \$3.20 per day (international price comparison in 2011)

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9.2 Detailed data

TABLE 2 Democracy Index 2019

| | Armenia | Azerbaijan | Georgia |
|---------------------------------|---------|------------|---------|
| Democracy Score | | | |
| Rank (out of 167 countries) | 86 | 146 | 89 |
| Overall score* | 5.54 | 2.75 | 5.42 |
| Categories | | | |
| Electoral process and pluralism | 7.50 | 0.50 | 7.83 |
| Functioning of government | 5.36 | 3.21 | 3.21 |
| Political participation | 6.11 | 2.78 | 6.11 |
| Political culture | 3.13 | 3.75 | 4.38 |
| Civil liberties | 5.59 | 3.53 | 5.59 |

Source: The Economist Intelligence Unit's Index of Democracy 2019 | https://www.eiu.com/topic/democracy-index?&zid=democracyindex2019&utm_source=blog&utm_medium=blog&utm_name=democracyindex2019&utm_term=democracyindex2019&utm_content=top_link | Scale: 1–10: Democracy Score, with 10 = highest value | *Overall score: 8–10 = Full democracy; 6–7.9 = Flawed democracy; 4–5.9 = Hybrid regime; 0–3.9 = Authoritarian regime

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TABLE 3 Corruption Perception Index 2019

| | Armenia | Azerbaijan | Georgia |
|-----------------------------|---------|------------|---------|
| Rank (out of 180 countries) | 77 | 126 | 44 |
| Score (out of 100 points) | 42 | 30 | 56 |
| Sources used | 6 | 7 | 5 |

Source: Transparency International – Corruption Perceptions Index 2019 <https://www.transparency.org/cpi2019>
Scale: 1–100 for perception of corruption, with 1 = high level of corruption and 100 = Clean State

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TABLE 4 Political Transformation, Economic Transformation, Governance Index

| | Armenia | Azerbaijan | Georgia |
|---|---------|------------|---------|
| Rank in Status Index (out of 137 countries) | 35 | 98 | 43 |
| Status Index* (max. value of 10) | 6.7 | 4.3 | 6.4 |
| Political Transformation | 7.1 | 3.4 | 6.6 |
| Stateness | 8.8 | 7.3 | 6.5 |
| Political participation | 8.3 | 2.3 | 8.3 |
| Rule of Law | 6.0 | 3.0 | 6.3 |
| Stability of democratic institutions | 6.5 | 2.0 | 7.0 |
| Political and social integration | 6.0 | 2.7 | 5.0 |
| Economic Transformation | 6.3 | 5.3 | 6.2 |
| Level of socio-economic development | 5.0 | 5.0 | 5.0 |
| Market organization | 6.5 | 4.8 | 7.3 |
| Monetary and fiscal stability | 8.0 | 7.0 | 7.5 |
| Private property | 7.5 | 4.5 | 6.5 |
| Welfare regime | 6.0 | 5.5 | 5.5 |
| Economic Performance | 6.0 | 6.0 | 6.0 |
| Sustainability | 5.0 | 4.0 | 5.5 |
| Governance Performance | 5.3 | 4.0 | 5.9 |
| Level of Difficulty | 4.1 | 5.1 | 4.9 |
| Steering capability | 6.0 | 5.0 | 6.0 |
| Resource efficiency** | 5.0 | 3.7 | 6.7 |
| Consensus-building | 6.8 | 3.6 | 6.4 |
| International cooperation | 6.7 | 5.7 | 7.3 |

Source: Bertelsmann Stiftung – BTI Transformation Index 2020, www.bti-project.de, own illustration based on Transformation Atlas

* The Status Index is calculated from the overall score in the categories "Political Transformation" and "Economic Transformation."

** "Resource Efficiency" includes "Anti-Corruption Policy," which is comprised of the dimensions "auditing of state spending," "regulation of party financing," "citizen and media access to information," "accountability of office holders" and "transparent public procurement system."

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Abbreviations

| | | | |
|--------------|--|---------------|---|
| ASAN | Azerbaijani Service and Assessment Network | NDI | National Democratic Institute |
| BTI | Bertelsmann Transformation Index | NSS | Հայաստանի Հանրապետության Ազգային անվտանգության ծառայություն (National Security Service of the Republic of Armenia) |
| CEPA | Comprehensive and Enhanced Partnership Agreement | OECD | Organization for Economic Co-operation and Development |
| CRRC | Caucasus Research Resource Center | ODIHR | Office for Democratic Institutions and Human Rights |
| DCFTA | Deep and Comprehensive Free Trade Area | OCCRP | Organized Crime and Corruption Reporting Project |
| DIM | Azərbaycan Respublikasının Dövlət İmtahan Mərkəzi (State Examination Center of the Republic of Azerbaijan) | OSCE | Organization for Security and Co-operation in Europe |
| DOST | Dayanıqlı və Operativ Sosial Təminat Agentliyinin (Agency for Sustainable and Operative Social Provision) | ReAl | Republican Alternative Party |
| EBRD | European Bank for Reconstruction and Development | SIS | Հայաստանի Հանրապետության Հատուկ Ԕննչական Ծառայություն (Special Investigation Service of the Republic of Armenia) |
| EITI | Extractive Industries Transparency Initiative | SOFAZ | State Oil Fund of the Republic of Azerbaijan |
| EIU | Economic Intelligence Unit | TEAS | The European Azerbaijan Society |
| ENP | European Neighbourhood Policy | TEBIB | Agency for administering state medical institutions in Azerbaijan |
| GTAI | Germany Trade and Invest | UNCAC | United Nations Convention against Corruption |
| GRECO | Group of States against Corruption of the Council of Europe | UNM | United National Movement |
| GYLA | Georgian Young Lawyers' Association | VXSIDA | Azərbaycan Respublikasının Prezidenti yanında Vətəndaşlara Xidmət və Sosial İnnovasiyalar üzrə Dövlət Agentliyi (State Agency for Public Service and Social Innovation under the President of the Republic of Azerbaijan) |
| ICIJ | International Consortium of Investigative Journalists | WGI | Worldwide Governance Indicators |
| IDFI | Institute for Development of Freedom of Information | WHO | World Health Organization |
| IFES | International Foundation for Electoral Systems | WTO | World Trade Organization |
| IRI | International Republican Institute | | |
| ITSDA | İcbari Tibbi Sığorta üzrə Dövlət Agentliyi (State Agency on Mandatory Health Insurance) | | |
| IMF | International Monetary Fund | | |
| NAEC | გამოცდების ეროვნული ცენტრი (National Assessment and Examinations Center) | | |

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