



CORRUPTION PREVENTION AND COMBATING BUREAU

We take action against corruption for the good of society and the national interest with the full force of law and public support, in order to achieve integrity in the exercise of power vested in officials of State.

(Mission Statement)

PROGRESS AND RESULTS IN PREVENTING AND COMBATING CORRUPTION IN LATVIA

Periodical update

**January-September
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Introduction

After evaluating KNAB results in 2011 in conjunction with overall economic situation in the country and taking into account an average salary level of population, KNAB has concluded that **corruption risks on administrative and on political levels are remaining relatively high**. In circumstances when public officials have rights to perform control and monitoring functions unilaterally but their salaries has been cut, it creates a corruption risk and increases possibility of situational corruption. The economic crisis has made the competition among businesses more aggressive and in these conditions they might chose illegal activities such as bribery to obtain state contracts. **Therefore the limited availability of financial resources is also increasing corruption risks.**

In addition the large share of shadow economy together with **a lack of political will to introduce the overall disclosure of assets by natural persons** do not allow to detect illicit enrichment of public official and its family members by using tax administration measures.

During its work KNAB has detected that there are still **a considerable number of violations in regard to public procurement on municipality level**. Providing benefits to individual businesses or economic groups in obtaining public procurement contracts and other irregularities, which points at exceeding of a public authority contrary to national interests, is a most common infraction. Another negative trend detected by KNAB in regard to municipalities is that more often there are signs when **executive power merges with decision-making power**. This, in turn, creates conflict of interest situations and increases risks when municipal resources are used inefficiently, as well as it distorts the check and balances system.

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In June 2011 amendments to the Law “On Prevention of Conflict of Interest in Activities of Public Officials” entered into force providing legal protection to persons who submitted information on public officials' conflicts of interest situations and other corruptive offences in a respective institution (**whistleblowing**). The necessary amendments to the Administrative Violations Code in were also adopted determining administrative responsibility for violations of the above mentioned prohibition of disclosure of information relating to persons who informed on public officials' conflict of interest situations. Such provisions are necessary to ensure the reporting on corruption offenses and to promote crime prevention, as well as the detection, thereby reducing the risks of corruption.

In 2011 the Parliament adopted the necessary amendments to the Criminal Law providing **criminalization of infringements in political parties' funding**.

Recent achievements

Combating corruption

Until October 2011 KNAB forwarded 14 criminal cases to Prosecutor's Office asking to start criminal prosecution against 41 persons. 15 criminal proceedings were started by KNAB investigators during this year. KNAB is increasingly involved in some of the most complex corruption investigations which go beyond the borders of Latvia. In terms of investigation these are extremely time-consuming and complicated cases. In order to investigate them, special investigatory groups have been created. During the first half of 2011 KNAB has sent more than 20 requests for mutual legal assistance on criminal matters to 16 foreign countries. The average time of investigation of a criminal case has been 318 days starting from initiation of criminal proceedings till submission of a case to the Prosecutor's Office for prosecution.

Within the investigation of the German car cooperation Daimler AG daughter company EvoBus GmbH case KNAB has recognized several persons as suspects for alleged bribery of Riga municipality officials through intermediaries. Criminal proceedings were started in 2010 on purchase of 117 Mercedes Benz buses for Riga municipality from July 2002-December 2006 German car cooperation Daimler AG daughter company EvoBus GmbH officials through other persons and companies artificially increased tender price thus gaining illegal sources for payments to public officials who have ensured that the company receives the contract. Currently it has been detected that more than 4,3 million EUR were received by bribery intermediaries however it is alleged that recipients of this money are Riga municipality officials. Investigation is led in cooperation with officials of the Stuttgart Prosecutors Office and Baden-Württemberg police which investigates bribery of foreign officials by former employees of Mercedes Benz bus manufacturer. Several investigation activities were conducted in the framework of the criminal proceedings including search of places in Latvia and other countries. KNAB investigator on basis of collected evidences several persons has recognized as suspects for several offences related to bribery. With the decision of Riga City Central District Court from 14 February arrest was applied to one of the suspects as security measure.

On 31 January 2011 KNAB detained official of the Ministry of Finance for giving a bribe of more than 50 000 EUR to official of the State Revenue Service in order to ensure that the latter fails to perform properly his duties in fighting smuggling, controlling of tax payment and fail to detect violations committed by certain persons. This cases on bribery related to smuggling has been successfully investigated by KNAB and forwarded for prosecution and has been already submitted to a court for a trial.

In 2011 KNAB started investigation concerning illegal activities of several public officials - laundering of criminally acquired assets, providing false statements in the declaration of public official, misuse of the position, receiving and giving of bribes, illegal participation in property transactions and violation of

restrictions imposed on public officials. KNAB believes that several officials have taken active part in management of several companies, participated in decision making process and received dividends from shares in companies – SIA (limited liability company) "Rīgas tirdzniecības osta", SIA "Zaķusalas Estates", SIA "Jaunrīgas attīstības uzņēmums", SIA "Eurolines", SIA "Baltijas aviācijas sistēmas", SIA "Abi krasti" and other companies ownership of which has not been openly declared. Materials of criminal proceedings also show that from 2004 public official who is currently elected member of the parliament is alleged to take decisions and exert pressure on decisions taken in relation to SIA "Rīgas tirdzniecības osta", company actually owned by this public official. It was detected during the investigation that from February 2010 member of the Saeima by involving trusted representatives was responsible for planning and organisation of financial schemes with the purpose to ensure legal and actual ownership of the company "ZeinHolding AG" which indirectly owns 36 % of SIA "Rīgas tirdzniecības osta" shares. It was established during KNAB investigation that member of the Saeima in order to keep the influence after 10th Saeima elections in the Freeport of Riga management Board and to affect decisions taken by the Board concerning companies actually owned by this person ensured that representative of his party is elected chairman of the Freeport of Riga management Board. In exchange for supporting vote member of Ventspils City Council demanded illegal financial benefit in terms of signing agreement with a company providing that Riga Free Port advertisement is placed in press editions of this company. Another episode of criminal proceedings shows that in 2009, during preparation period for 10th Saeima elections, member of the Saeima asked another public official to commit illegal activities with financial resources of the stock company "Air Baltic Corporation" or "Live Riga" by signing fictitious agreements with several media enterprises as though promoting services of "Air Baltic Corporation" or Riga City. The public official is alleged to have misused the position since signing of these agreements on behalf of the stock company concerning distribution of advertisement has ensured exposure of one member of the parliament and his political party.

Financing of political parties

KNAB is the authority in charge of monitoring **political parties'** compliance with party financing rules violations of which are subject to sanctions. In the light of the parliamentary in September 2011 KNAB had increased work load.

Until 15 September – a day before elections when a ban on pre-election campaigning enters into force - KNAB did not detect that during a pre-election period any of 13 political parties which participated in the Parliament elections has exceeded a threshold of expenses allowed for placement of advertisement, postage and charity.

In accordance with the information at KNAB's disposal two political parties have spent 97% and 95% accordingly from amount allowed for pre-election campaigning. Two more parties have reached 79% and 77% but one – 65%. At the same time – 5 political parties have spent less than 19% from allowed pre-

election expenditures and there are 3 political parties which have no expenditures at all.

In regard to third party campaigning KNAB has received information about 41 such persons and in comparison with the previous elections the number has decreased as in 2010 there were 85 persons. According to the law KNAB has to examine whether campaigning performed by these persons is related to political parties' campaigns. In cases when such relation is detected all related expenses will be added to campaigning expenses of a respective political party.

After examining information in one case KNAB has detected that the third person's planned campaigning expenditures are exceeding the threshold. KNAB informed the respective person and it reacted by decreasing campaign in order to comply. In another case KNAB decided to ban further advertising by the third person as the threshold has been already exceeded.

Up until the election day KNAB received 71 complaints about the hidden campaigning. For comparison in 2010 KNAB received 112 complaints. However it should be noted that this year the pre-election campaigning period was two times shorter.

On September 8, 2011 the Parliament finally adopted amendments to the Criminal Law providing the criminalization of illegal financing of political parties which will reduce the possibility of avoiding liability for serious violations of party financing.

By criminalizing illegal political party financing activities further on the KNAB will be able to hold liable persons who will accept, demand or funds in large amounts (more than 10 000 lats). For such crimes a maximum penalty of imprisonment is foreseen - depending on the gravity of an offense - for up to three, five and six years.

Further on the criminal liability is foreseen also for illegal political parties funding on a large scale, for example, persons donating to political parties from illegal incomes, from the proceeds of crime or exceeding the threshold. For such offences the maximum penalty is imprisonment for up to four years, for intermediation in illegal financing on a large scale - imprisonment for up to two years.

Taking into account that person's activities relating to illegal party financing are latent (hidden), it is foreseen to allow an exemption from criminal liability if the illegal financing is linked to extortion or if the person after the crime was committed voluntarily informs of the occurrence, thus contributing to the crime detection.

By determining criminal liability on a variety of political parties financing-related crimes, control of the political parties funding, including disclosure of so-called "slush funds" will be improved. KNAB's experience in controlling the

financing of political parties, as well as foreign experience shows that such violations are significant, and they differ from other types of infringements by the great harm to the public interest.

Control of activities of public officials

Control over activities of public officials and prevention of conflict of interest is one of main fields of KNAB. KNAB has powers to examine whether public officials follow provisions of the law "On Prevention of Conflict of Interest in Activities of Public Officials" (the Law) and to enact administrative charges in cases when breaches of the Law are detected.

According to the Government decision from October 12, 2010 starting from 2012 Bureau will check **information provided in asset declarations** of public officials and will apply administrative sanctions for false statements. Currently this is responsibility of the State Revenue Service.

Further, income and financial benefits obtained by violating the restrictions stipulated by the Law have to be reimbursed to the state budget. Until July 2011 KNAB has requested 6 public officials to reimburse state losses in amount of **75 080,52 LVL** which is two times more than last year.

During the first half a year 2011 there were 97 decisions taken in regard to violations of the Law and as result – 47 public officials had been hold liable for the total of **3 935 LVL** as penalties.

Education of the society and public officials

KNAB provides training to various institutions of public administration on topics of applying provisions of the law "On Prevention of Conflict of Interest in Activities of Public Officials", recommendations concerning internal anti-corruption measures in state and municipal institutions. During the first half a year KNAB has organized 80 educative workshops where 2 320 public officials participated. In 2011 special attention was paid to explanation of provisions of the Law "On Prevention of Conflict of Interest in Activities of Public Officials" and to improving of professional ethics, as well as to internal control and anti-corruption measures.

International co-operation

Membership in OECD Working Group on Bribery in International Business Transactions and joining the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions is one of the country's priorities. In December, 2010 Latvia in the capacity of ad-hoc observer for the first time participated in the law enforcement meeting organised for members of OECD Working Group on Bribery in International Business Transactions (Working Group) and in the regular meeting of the Working Group. At the same time representatives of the KNAB continues to participate in various

activities of the OECD, for example, at the meetings of the Anti-corruption Network for Eastern Europe and Central Asia, including 10th Istanbul Anti-Corruption Action Plan Meeting and 12th ACN Steering Group meeting which was co-chaired by a representative of the KNAB.

KNAB is a partner organization in the European Commission's financed project "Strengthening the National ARO unit: evaluation and improvement of identifying, tracing and investigating proceeds of crime". Objective of the project is to strengthen the capacity of Latvian law enforcement agencies (LEA) to perform financial investigation, especially in terms of identification, tracing and recovering of proceeds from crime. In 2011 KNAB representatives participated in several workshops where respective experiences of countries as Spain, United Kingdom, USA, Lithuania and Estonia were learned.

As the KNAB has been nominated as the contact point for the newly established European Anti-Corruption Network (EACN), its representative participated at the EACN conference in Budapest which was organized within the Hungarian EU Presidency.

KNAB also continues to participate at the various experience exchange workshops and meetings devoted to anti-corruption issues and organized by GRECO, OLAF and OECD, as well as in 2011 KNAB has welcomed several delegations from countries like Albania, Georgia and Ukraine and shared its experience and expertise on various anti-corruption related issues.