

Praise for Anti-Graft Drive

By Edward Verona
and Brook Horowitz

Russia's signing of the anti-bribery convention on May 25 at the Organization of Economic Cooperation and Development marks an important milestone in the country's fight against corruption.

Three years ago, President Dmitry Medvedev made battling corruption one of the centerpieces in his plan to modernize the country. Since then, corruption has slowly made its way up the political agenda. Now with a presidential election coming up next March, corruption in Russia is as close to an election issue as might ever be possible in the country's traditionally opaque political culture.

For the electorate, as for domestic and foreign business, the ability of the state to bring corruption under control is the crucial question that will determine Russia's economic and social development over the next two presidential terms. The creation of an equitable and fair society, the diversification and modernization of the economy and the attraction of much-needed investment are the co-determinants of longer-term social stability.

Interestingly, there are quite radically contradictory views. While the Russian government has introduced new legislation and Medvedev has made anti-corruption his cause celebre, surveys of the population and the business community indicate that corruption has been getting worse. By the president's own admission, corruption in state tenders amounts to 1 trillion rubles (\$36 billion) a year. While the more bullish and long-term-looking foreign investors have not been put off — Pepsico's \$5.4 billion acquisition of Wimm-Bill-Dann is a good example — capital outflows in 2010 were more

than double the capital inflows. Several Russian companies have had to cancel their initial public offerings from the London Stock Exchange because of "poor market conditions."

On the positive side, there have indeed been some notable improvements since Medvedev took office. For example, his initiative that forces public officials to declare their earnings deserves praise. Just in the last month, the State Duma gave a third reading to new anti-corruption legislation that will bring Russia in line with the requirements of the OECD, in advance of Russia's ac-

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cession to the anti-bribery convention.

Of course, even with new legislation the biggest challenge has always been enforcement. But there are some successes that should give business a renewed sense of confidence. Russia's commercial courts have created an Internet database of court-proceedings and interactive programs to allow interested parties to follow the course of adjudications, increasing the level of transparency in the judicial system. By general consensus, the training of commercial court judges has greatly increased their skill and professionalism.

This progress belies those critics who say Russia has done nothing to improve the quality of justice in recent years. Nevertheless, the challenges confronting Medvedev and his aspirations for re-

forming the Russian legal system — and the quality of government as a whole — are daunting.

Medvedev's promotion of these issues has exposed the weaknesses of the legal and regulatory system. At the same time, it has created expectations about the quality of the legal and regulatory system. The anti-corruption public discussion has gathered a self-fulfilling momentum, creating greater public and official awareness of the problem and more exposure of wrongdoing. It has created a new expectation for change at all levels of society.

There is a new sense of civil activism, which is reflected in popular demonstrations against corruption linked to projects that are damaging to the environment.

In addition, whistleblower and shareholder rights activist Alexei Navalny has developed an enormously popular anti-corruption blog that has exposed dozens of cases of graft in public tenders.

Whether these concerns will be given the proper attention — and, more important, followed up by decisive action — will largely depend on who becomes the next president. If those hopes are dashed, Russia will continue its slow downward drift to the second tier of developing markets. If it acts, there is every chance that it might maintain its place among the leaders of the BRIC countries, raise per capita income to Western European levels and attain its goal of being a major global financial center.

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