



Ευξεινος

Governance and Culture in the Black Sea Region

7 / 2012

CORRUPTION AND INFORMAL PRACTICES IN RUSSIA

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Online Journal of the Center for Governance and Culture in Europe
University of St. Gallen
www.gce.unisg.ch, www.euxeinos.ch
Managing Editor Maria Tagangaeva

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Center for Governance and
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Corruption and Informal Practices in Russia

Corruption remains one of the most important political and economic problems in Russia. Over the last fifteen years, Russia's ranking in the Corruption Perception Index (CPI), compiled by Transparency International, has dropped dramatically. In 1996, Russia still held rank 46, but steadily moved down the ladder to rank 154 in 2010. President Medvedev set up a commission to combat corruption when he started his term in office in 2008. The work of this commission, however, produced few results. After the reelection of Vladimir Putin in March 2012, corruption again disappeared from the government's top priority agenda. Oppositional politicians like Boris Nemtsov openly accuse Putin of personal corruption.

Corruption is closely tied to excessive bureaucracy – a legacy from the Soviet era that still needs to be overcome in today's Russia. Even more problematic than the great number of onerous administrative procedures is the general lack of awareness. According to a survey conducted by the Levada-Center in July 2012, only 29% of the Russian population criticizes corruption in the state administration. The

good news is that the general discontent has steadily grown since 1999, when merely 3% lamented corruption. Only recently has the well known blogger Aleksey Navalny set up his anti-corruption website „Rospil“, where users may post information about dubious state operations.

In the Russian economy, informal practices are more the rule than the exception. In many cases, it is even difficult to tell where the gray zone begins and where it ends. One problem is the complexity and inconsistency of the Russian legislation. Another problem is the wide spread use of customary law that does not correspond to the code of law. International companies often find themselves in a dilemma: the implementation of a certain informal practice is necessary in order to become operational in Russia, but this very practice contradicts Western standards of ethics and compliance. The management of such challenges often amounts to a walk on the tightrope.

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Corruption and Informal Practices in Russia

by Elena Denisova-Schmidt, University of St. Gallen

The 19th century Russian writer Nikolai Gogol is said to have lamented once: 'There are two misfortunes in Russia: fools and roads'. Former president Dmitry Medvedev recently added another misfortune: corruption.¹ All state leaders, from the Russian Tsars through the Soviet General Secretaries to the current Presidents, have been trying to fight corruption. So far, they have not had much success: In its 2011 index of 183 countries, Transparency International ranked Russian corruption on a par with Nigeria, Togo, Uganda and other countries in 143rd place. Corruption and informal practices are an integral part of Russian business life.

1. DEFINITION OF CORRUPTION

It is not only very difficult to measure corruption but also hard to define it. Transparency International defines corruption as 'the abuse of entrusted power for private gain'. Academics, on the other hand, might use juridical, ethical or other definitions depending on their discipline and the research questions asked.

As seen from a juridical perspective, Russian law treats a gift to a decision maker with a value of more than 3,000 Rubles (about CHF 90) as a bribe. However, the law does not specify how often it is allowed to make such gifts which gives a great amount of wiggle room for 'creative' Russian businesspeople. For example, some pharmaceutical companies might use this loophole in the law to support

the doctors they cooperate with on a regular basis through gift vouchers – with a value of perhaps 500 Rubles (about CHF 15) - which might be distributed several times a day.

From an ethical perspective, Russian law prohibits a pharmaceutical company from providing direct financial support to a hospital. An indirect donation, such as through a third party (e.g. a club or a patients' association) is still a possibility, however. Consider the example of a hospital undergoing renovation: Its budget is unfortunately not sufficient to modernize the infrastructure, so a third-party association might make an offer of new furniture (hospital beds, examination chairs, etc.) on the condition that the hospital buys a certain amount of drugs from one of the association's sponsors, or increases the number of patients that are of interest to the sponsors.

From a cultural perspective, some scholars have argued that a western concept of corruption might not be applicable to the rest of the world, because corruption is also a culture based phenomenon. They might be right: What is and is not corrupt might differ from country to country. A prominent case in point is the power network of the Russian president Vladimir Putin. On paper, Putin only owns a modest apartment of 77 m² and a small dacha (cottage). However, he is allowed to build new villas and palaces using state funds. New residences are, for example, built for international events held in Russia. The summit of the Asia-Pacific Economic Cooperation (APEC) of September 8-9, 2012, which will take place in the Russian Far East, will require a new 'convention center' with estimated costs of about 200 million EUR. To date, more than ten 'houses'

1 <http://korrespondent.net/russia/1282099-duraki-dorogi-i-korrupciya-medvedev-nazval-glavnye-bedy-rossii> accessed 30 August 2012

have been built in different Russian regions from the state budget.² The same holds true for Putin's official income. He declares earnings 140,000 USD per year, but his real fortune is considerably higher, with estimates up to 40 billion USD.³

Putin does not interact with 'curious' journalists directly. His staff usually does this. Moreover there is a special policy when covering Putin's activities. Journalists who do not adhere to these rules might lose their jobs and even their lives (Tregubova, 2003, 2004). According to the Committee to Protect Journalists, Russia is one of the most dangerous countries to work as a journalist. Physical attacks occur often and it is almost impossible to seek protection.

Putin's power is based on personal relations and system of loyalty. Kryshtanovskaya (2008) confirms that almost 80% of all administrative positions are held by Putin's people. Albats and Ermolin (2011) developed a scheme for representing Putin's friends in key positions in government and business structures (see Figure 1). The two authors divide Putin's friends into four categories: 1) people with 'shoulder boards' (i.e., from Putin's career in the KGB); 2) people from St. Petersburg without shoulder boards (Putin's career in the St. Petersburg government); 3) cooperative 'Ozero' (the society Putin and his friends established consolidating their *dachas* near St. Petersburg); 4) children, relatives and friends of '*svoi liudi*' (Engl.: 'our people').

Corruption is often considered within the context of institutional theory. In each social community there are not only formal but also informal institutions in existence (North, 1990). Informal institutions may be more or less in evidence, but together with formal institutions, they influence the functions of a state and life in the state in general (see Figure 2). Informal institutions might include corruption, personal networks; clans and mafia; *kompromat* (the collection of compromising evidence), telephone justice, or informal pressure from representatives of federal and regional authorities; and

Figure 1: Putin's personal web of power (adapted version of Albats and Ermolaev 2011)



2 <http://www.putin-itogi.ru/putin-korrupciya-2/#4> accessed 30 August 2012

3 <http://www.reuters.com/article/2011/12/22/us-russia-putin-income-idUSTRE7BL12920111222>, <http://www.guardian.co.uk/world/2007/dec/21/russia.topstories3> accessed 30 August 2012

legislative, judicial, and bureaucratic norms. Informal institutions are ‘socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels’ (Helmke/Levitsky, 2004, p. 727). Put another way, informal practices are concrete steps for assuring activities within informal institutions (Denisova-Schmidt, 2011b).

Helmke/Levitsky (2004) enumerated the spheres in which formal and informal institutions overlap and under what circumstances: Informal institutions might occur even where formal institutions are in existence and function effectively. In this case informal institu-

Figure 2:
Typology of informal institutions Helmke, Levitsky 2004, p. 728.

Outcomes	Effective Formal Institutions	Ineffective Formal Institutions
Convergent	Complementary	Substitutive
Divergent	Accommodating	Competing

tions might complement formal institutions, for example, through loopholes in official laws and procedures, or they might accommodate formal institutions by applying some practices that deviate from official procedures but do not break them, such as blat in the USSR: the use of informal networks ‘to obtain goods and services in short supply and to find a way around formal procedures’ (Ledeneva 1998, p. 1).

Informal institutions come into being when formal institutions do not function properly. In some cases, informal institutions might substitute or compete with formal institutions. For instance, when four French people were

kidnapped in Chechnya in 1997, the French president Jacques Chirac personally asked the Russian president Boris Yeltsin for help. Yeltsin was not able to manage it, but Leonid Bilunov – ‘the thief in law’⁴ – was able to assist in obtaining the release of these people: All came home alive and healthy. With regard to corruption, informal institutions usually compete with formal ones, because in order to function, a law must be broken.

2. MEASUREMENT OF CORRUPTION

Corruption is a phenomenon that is usually hidden, and can be difficult to document. There are some methodological tools for measuring corruption, though. Karklins (2005) suggests the following instruments:

1. Representative sociological surveys
2. Targeted surveys of firms, experts, and officials
3. The compilation of case study data
4. The collection of ethnographic and discourse data
5. Reviews by the press

2.1 REPRESENTATIVE SOCIOLOGICAL SURVEYS

According to Karklins (2005) representative sociological surveys are a major source of gathering data. This technique indicates unlawful acts people are involved in, their frequency and how actors judge it. This tool usually helps to discover low-level corruption in everyday contexts.

4 ‘Thief in law’ – the ‘godfather’ of the Russian mafia

Figure 3: Sociological Survey of the Levada-Center from June 27, 2007

Institutions	Contacts (% of respondents)	Bribe (% of respondents who had contacted officials)
Kindergarten	12 %	12 %
Schools	16 %	6 %
Hospitals	61 %	6 %
Municipal Housing Office	34 %	8 %
Registration Office	18 %	6 %
Militsia (without Registration Office)	7 %	3 %
Military Commissariat	7 %	8 %
Social Security Offices	20 %	4 %
Courts	7 %	10 %
Local Representatives	3 %	12 %

Sociological Survey of the Levada-Center from June 27, 2007⁵

1. Have you or a member of your family contacted one or more of the following public institution in the last 12 months?
2. If so, did you bribe somebody to solve your problem?

People might offer bribes not because they expect illegal things to be done or 'ignored', but in order to speed up the process and not to lose time waiting in queues: A sufficient sys-

5 Original: <http://www.levada.ru/press/2007062701.html> (in Russian)

tem for the management of public institutions is still in development in Russia. Bribery can have many forms: cash ('money in envelope'), gifts (cognac or chocolate) or a donation to a third party. It depends on many factors: the nature of the public institution, the task needed to be done, the people involved and, most importantly, their perception of 'bribery'. For example, young parents, thus, might be asked to make a voluntary donation for kindergartens, and the children of those who give generously will get a place immediately and are not put on the waiting list. The situation arises from the fact that there are not enough kindergartens⁶ to meet the demand, and they do not receive an adequate amount of financial support from the state.

Sometimes people are 'forced' to find a way around official procedures. The Russian army, for example, is not considered to be an enriching experience for young Russians; on the contrary, soldiers usually come home physically and morally broken. Poor living conditions, unclear future prospects as well as *dedovshchina*⁷ all counteract the desire of the young men to serve their country. Officials from the Military Commissariat are usually underpaid⁸ and hence look for additional sources of income (Denisova-Schmidt, 2011c).

6 Due to privatization reforms, many kindergarten classrooms were purchased by individuals and are not used as kindergartens anymore.

7 *Dedovshchina* is psychical and physical violence directed at young recruits. According to official statistics, 149 cases of suicide were registered in the Russian Army in 2009; see <http://inosmi.ru/social/20110906/174294512.html>

8 Since January 1, 2012 the situation has changed. Many officials now receive a very good salary.

2.2 TARGETED SURVEYS OF FIRMS, EXPERTS, AND OFFICIALS

Targeted surveys of firms, experts, and officials usually measure corruption among intermediate and high-level public officials and politicians. Many rankings are based on this approach (figure 4). They are usually conducted on a regular basis and might be seen diachronically and synchronically (see figure 4).

All of the surveys use different methodology. For example, the TI Corruption Perception Index ranks countries in terms of the degree to which corruption is *perceived*. Respondents are businesspeople and country analysts, and surveys of residents (local and expatriates) are included. Expatriates with previous professional experience in other Eastern European countries as well as China and Brazil would perceive corruption in Russia differently than their colleagues with almost zero international experience. Some surveys show that corruption has declined slightly in recent years, but this is because people have become used to it and consider corruption as a part of the business environment in Russia (cf. Hopkins, 2011). Nevertheless TI's Corruption Perception Index, together with other sources, provides a unique opportunity to compare data from almost all the countries in the world.

2.3 THE COMPILATION OF CASE STUDY DATA

The compilation of case study data integrates various materials. In-depth analysis with anti-corruption experts and commentaries by experts provide valuable insight information for the analysis. One of the examples of this type of analysis can be seen in the monitoring reports made by GRECO (Group of States against Corruption, Council of Europe). Eval-

International Sources:

Study	Institution
Corruption Perception Index	Transparency International
Worldwide Governance Indicators - Corruption control	World Bank
Freedom House: Nations in Transit -Corruption	Freedom House
Ease of Doing Business	World Bank
Surveys on the business climate in Russia	German-Russian Chamber of Trade and Commerce
Survey on Russia Investment Destination 2006	The PBN Company
Business Environment and Enterprise Performance Survey (BEEPS)	EBRD

Russian Sources:

Study	Institution
The Surveys on corruption and business practices	The Levada-Center
The investigations on corruptions and informal practices in the business environment	The INDEM foundation
Industrial Surveys	Gaidar Institute

Figure 4: Denisova-Schmidt (2011b)

uating Russia in 2008, GRECO experts found that corruption was a: widespread systemic phenomenon in the Russian Federation which affects the society as a whole, including its foundations and more specifically the public administration and the business sector, as well as the public institu-

tions in place to counteract corruption, such as the law enforcement agencies and the judiciary (GRECO 2008: 75⁹).

GRECO auditors prepared a report that included a set of 26 recommendations and planned to inspect Russia again in the second half of 2010 for its compliance with these recommendations. This second inspection did not happen however; the visit was rescheduled for many reasons, including the Russian Prosecutor General's Office report, which stated that only 12 of the recommendations had been implemented and that several could not be fulfilled in any case (Adelaja, 2010, Kostenko, 2010).

2.4 THE COLLECTION OF ETHNOGRAPHIC AND DISCOURSE DATA

The collection of ethnographic and discourse data usually covers individual experiences in dealing with corruption, and how real people perceive and talk about it. This tool provides much more detailed and in-depth information than what is available through other data collection techniques – something that is very important when examining such delicate topics. Ledeneva, for example, has conducted several investigations using this approach, examining blat ('the use of personal networks and informal contacts to obtain goods and services in short supply and to find a way around formal procedures') (Ledeneva, 1998), kompromat (the use of compromising information in informal politics), double accountancy, different financial scheming, alternative enforcement and the use of law (Ledeneva, 2006).

9 [http://www.coe.int/t/dghl/monitoring/greco/evaluations/round2/GrecoEval1-2\(2008\)2-RussianFederation_EN.pdf](http://www.coe.int/t/dghl/monitoring/greco/evaluations/round2/GrecoEval1-2(2008)2-RussianFederation_EN.pdf)

2.5 REVIEWS BY THE PRESS

Reviews by the press produce a broad range of material. The media covers some scandals through many perspectives and different views. All materials are 'structured' in a chronological way. Selected publications in Russia, for example, might be influenced by certain groups of people and hence should be viewed with caution. Nevertheless, particularly for such a delicate topic as corruption, reliable sources in the mass media could be used to validate statements made by interview partners who want to remain anonymous, for example. This is possible, however, only in 'famous' cases. Adachi (2010) used this approach in her book about three large Russian enterprises – Yukos, RusAl and Norilsk Nickel.

3. DIFFERENT TYPOLOGIES OF CORRUPTION

Different typologies of corruption exist. Karklins (2005), for example, structured corruption into three levels (see figure 5).

Public officials can be bribed not only to bend rules, but also to 'speed up' the consideration of some paperwork (Denisova-Schmidt, 2011b). Nevertheless all of these practices should be considered in the Russian context. Overspending on luxury cars, travel, or receptions, for example, might occur in many organizations in Russia, but without setting limits on purchasing corporate cars and hospitality expenditures, all of these charges of corruption lack enforceability.

Cheloukhine and King (2007) rank the most corrupted spheres of Russian economy in a pyramid (see figure 6).

For example: Russia's licensing and environmental authorities were involved in the Sakhalin II case.¹⁰ The state claimed that the

10 Sakhalin II is one of the largest integrated greenfield oil and gas projects.

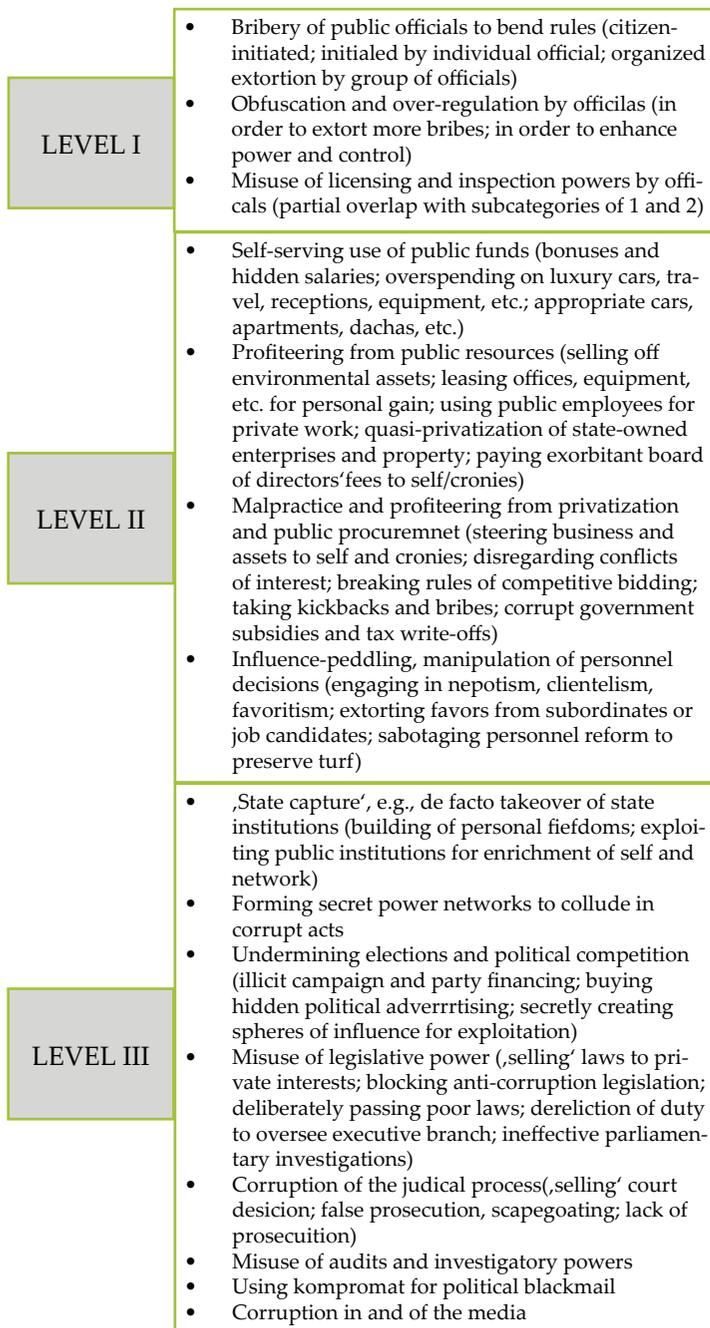


Figure 5: Slightly adapted version from Karklins (2005, p. 25)

project being run at that time by Shell, Mitsui, and Mitsubishi would damage the ecosystem. This was preceded by the sequence of conflicts between foreign companies and Russian officials, apparently trying to stop their business activities by all legal means. In December 2006 their obvious aim was reached: The project was transferred to a new major shareholder, Gazprom. Gazprom took the ecological problems very seriously and, in 2008, was even recognized for its activities in the protection of the Western Gray Whale population by Yuri Trutnev, the Russian National Resources Minister (Denisova-Schmidt, 2010, Denisova-Schmidt, 2011b).

Based on their empirical research, Ledeneva and Shekshnia (2011) worked out a typology showing current business practices used by Russian and foreign companies operating in Russian regions. Those are called:

- 'Dinosaur' practices
- 'Predator' practices
- 'Black cash' practices

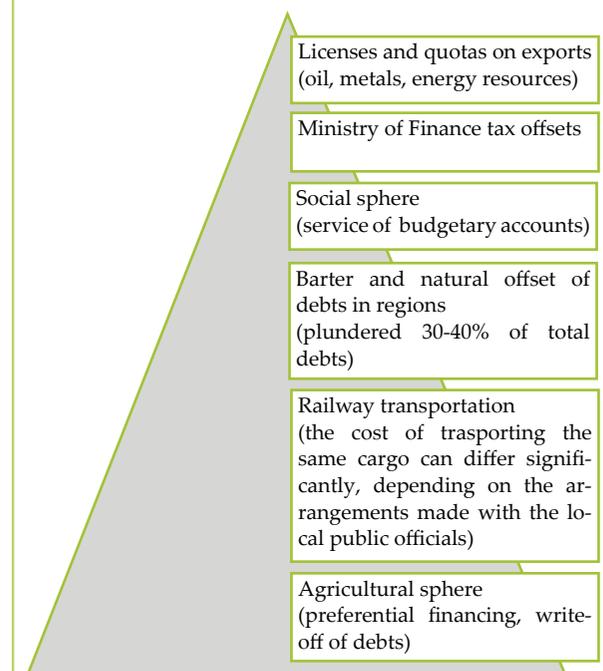


Figure 6: Slightly adapted version from Cheloukhine/King (2007)

- 'Rat' practices
- 'Penguin' practices
- 'Hook' practices

1) 'Dinosaur' practices are business practices that are currently rarely used but were common in the early 1990s, in the first stage of the development of market economy in Russia (cf. Ledeneva, 2006):

'Dinosaur' practices	<ul style="list-style-type: none"> • Extorting favors from job candidates • Leasing company facilities, offices, and equipment for personal income • Paying exorbitant board of directors' fees to cronies • Extortion of bribes by regional officials
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2) 'Predator' practices are business practices involving informal cash flow when dealing with state controlling organs.

'Predator' practices	<ul style="list-style-type: none"> • Bribing representatives of regional control and enforcement bodies - fire inspection, police, customs, etc. • Extortion by the regional control and enforcement bodies - fire inspection, police, customs, etc. • Use of 'telephone law' - informal pressure from federal and regional officials • Pressure from regional governments to finance their pet projects and programs • Paying for tax and other inspections with pre-agreed results
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Some companies might 'pay' the representatives of regional control and enforcement bodies (sanitation service, fire inspection, police, customs). For example, one large transportation company located in one Russian region has a service center (an auto repair shop, car wash, etc.) that provides services for 'useful' people such as the GIBDD (the Russian traffic police) free of charge. The management of the company explains: 'They (the traffic police) have such a small budget for repairing their police cars'. In return, the company might expect that all possible deals with the GIBDD such as regular official checkups will go very

smoothly.

3) 'Black cash' practices are business practices involving informal cash flow to other agencies and actors (excluding state controlling organs).

'Black cash' practices	<ul style="list-style-type: none"> • Paying for mass media coverage • 'Buying' court decisions • Payment of cash salaries and bonuses to avoid social charges • Paying or providing services (trip abroad, medical etc) to the members of a regional executive body • Paying prosecutors or police to open or close criminal investigations • Subsidies and tax allowances from regional authorities • Paying or providing services (trips abroad, medical etc) to the members of a regional legislative body
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Some Russian companies tend to pay official and unofficial salaries. Russian enterprises have long traditions of keeping two sets of books: one with actual results for internal usage and one with desired results for external audits and/or reports to the old Soviet ministries. There are still some reasons for paying in official and unofficial ways, such as the reduction of social taxation¹¹ and additional options for non-authorized work on holidays, vacations, and overtime hours. This fact of unofficial income is even accepted by international banks operating in Russia who provide loans for Russian citizens (Denisova-Schmidt, 2008, 2011a).

4) 'Rat' practices are business practices 'allowing' the usage of corporate property for personal gain.

Some Russian managers often use corporate property (such as hospitality expenditures, mobile phones, notebooks, expensive cars, etc.) for their own private ends. This is caused

¹¹ Social taxation in Russia is high, amounting to about 28% at least (before January 1, 2010) and about 32% at least (after January 1, 2010). Thus the practice of paying salaries in cash might increase.

‘Rat’ practices	<ul style="list-style-type: none"> • Regional managers receiving kick-backs or other informal rewards (for example, expensive gifts) from vendors, suppliers, buyers • Selecting winners of open tenders on the basis of informal relationships and agreements • Heads of regional subdivisions using company funds to buy expensive cars, telephones, to pay for travel, etc.
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most likely due to a fuzzy perception of the boundary between ‘public’ and ‘private’ in the minds of many Russians – and also due to the wish to demonstrate their position of power. In contrast to the West, this can go quite far beyond normal expectations of using company property for private purposes.

5) ‘Penguin’ practices are business practices associated with the usage of personal networks and good relationships.

‘Penguin’ practices	<ul style="list-style-type: none"> • Using company employees for personal needs (assisting family members, building and repairing houses, arranging trips and leisure activities) • Conflict of interest of regional managers, employing relatives, hiring affiliated vendors • Use of informal ties and networks to secure government orders, contracts and loans from state-owned banks
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Employing relatives and close friends or hiring affiliated vendors is another ‘tradition’ in Russian business culture. There are many reasons for this, such as a high premium being placed on loyalty or trust. Moreover, some new employees might be relatives and close friends of other decision makers and might ‘ask’ their networks for advice and help if necessary.

Company employees might be involved in the fulfillment of not only their professional duties, but also of some personal tasks, such

as assisting the family members and close friends of Russian managers, building and repairing their houses, or arranging trips and leisure activities for them.

Some foreign managers working in Russia – expats – might arrange for such ‘personal tasks’ in official contracts with their Russian employees. For example, the job description of a personal driver of one General Manager (of a medium size company, located in one Russian Region) stipulates: ‘The Personal Driver performs the functions of driver and interpreter ... while escorting the General Director and the members of his family ... evaluates the risks of dangerous situations and performs all security activities to assure the personal safety of the General Director and the members of his family while walking, driving, during business trips and cultural events’.

6) ‘Hook’ practices are business practices intended to put informal pressure on competitors, employees and officials.

‘Hook’ practices	<ul style="list-style-type: none"> • Using such informal tools as <i>kompromat</i> and security department’s materials against competitors or to put pressure on regional officials • Using such informal tools as <i>kompromat</i>, <i>krugovaya poruka</i> (mutual concealment) and the security department’s materials for managing employees
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According to the Russian Labor Law, it is tedious and time-consuming to terminate employees. Hence many companies (particularly modern large Russian corporations that retain elements of Soviet corporate culture) might ask an employee to submit a *carte blanche* resignation without stating a date – giving companies greater control over their staff or simplifying any possible cutting of staff numbers.

4. ANTI-CORRUPTION ACTIONS

4.1 OFFICIAL ANTI-CORRUPTION ACTIONS

The Russian government has acknowledged the problem of corruption and introduced a number of anti-corruption measures, for example, by approving many international rules, such as the UN Convention against Corruption (2006), the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (2011) and by introducing new Russian laws, including the adoption of Russia's National Anti-Corruption Strategy (2010).

Russia now has its first ever legal definition of corruption:¹²

Corruption

a) misuse of official position, giving a bribe, accepting a bribe, misuse of power, commercial bribery or another unlawful use by an individual of his official position despite the legitimate interests of society and the state in order to obtain benefits in form of money, valuables or other property or services of material nature, other property rights for themselves or for third parties, or unlawful provision of such benefits to the specified person other individuals;

b) committing acts referred to in subparagraph 'a' of this paragraph, on behalf of or for the benefit of a legal person.

Moreover, Russia has launched anti-corruption campaigns aimed at improving the image of some of the state agencies most affected by corruption. One such agency is the Russian police: Russian citizens are most likely to have paid a bribe to police officers¹³. Russian busi-

12 Federal Law of the Russian Federation No. 273 'On Countering Corruption'.

13 BRIBELINE (2009), *Business Registry for*

nesspeople have also indicated that police officers are highly corrupt: About one quarter of all bribes was given to policemen (Neild, 2007). Hence some significant changes have been undertaken in the re-organization of the Russian police, including a rise in income and other incentives for officers and a reduction in direct contact with members of the public in order to eliminate opportunities for bribery on the ground (Igorov, 2010). Additionally, the name of Russian police has been changed from *militicia* to *politicia* – a symbolic change that should also contribute to the positive image of the Russian police¹⁴.

4.2 ANTI-CORRUPTION ACTIONS PERFORMED BY CIVIL SOCIETY

Civil society is still in development in Russia. Nevertheless there are several anti-corruption movements working against corruption.

Anti-corruption NGOs contribute significantly to this change, for example: INDEM (Information Science for Democracy Foundation, established in 1997), and the Center for Anti-Corruption Research and Initiative (Transparency International Russia, established in 2000). Unfortunately, Russia's 2006 NGO law has impeded the work of many NGOs, including those dealing with corruption. Excessive bureaucratic regulations often amount to a severe harassment of NGO activities.

International Bribery and Extortion (BRIBELINE) 2009 Russia Report (TRACE International), https://secure.traceinternational.org/data/public/documents/BRIBELINERussiaReport_2009-64650-1.pdf, accessed 22 January 2012

14 It might be also seen in a different context: Some private companies might benefit from this change in the form of new contracts. The estimated cost for new uniforms alone is about 16.5 billion RUB.

Some positive changes could be observed in the business sector too: the interests of small and medium-sized enterprises are represented by another NGO – OPORA Russia (The All-Russian Non-Governmental Organization of Small and Medium Business, established in 2002). In 2010 German companies operating in Russia established the ‘Corporate Ethics Initiative for Business in the Russian Federation’.¹⁵ More than 50 companies belong to this alliance – companies condemn corruption and do not participate in it. The situation with big business seems to be different, however. The Russian government regularly interferes in the activities of many large enterprises. This influence is both direct and indirect, and has been implemented by different authorities at the federal, regional and local levels, but in all cases it is legal.

CONCLUSION

‘Corruption is more complex than is often thought and has major political costs and consequences’ (Karklins 2005, p. 9). One of these consequences is the loss of international prestige. The Transparency International Index might be one indicator of this. Russia has a much higher level of corruption than would be expected for a country with its level of economic development and GDP per capita. The high number of people leaving the country (even higher than after the October Revolution in 1917) and the outflow of capital abroad should worry the Russian government as well. In the World Bank’s Ease of Doing Business statistics, Russia ranks 123rd out of 183 countries. Getting a construction permit, for example,

¹⁵ <http://russland.ahk.de/events/eventbeschreibungen/2010/corporate-ethics-initiative-for-business-in-the-russian-federation/>, accessed 30 August 2012

takes 540 days and requires 53 separate procedures. On average, 8000 experts (lawyers, consultants, auditors and staff of the state administration) are involved in documenting the economic activities of a hypothetical medium-size enterprise in Moscow.

Since the collapse of the Soviet Union, the Russian civil service has been the fastest growing sector in terms of total employment. The number of staff on the payroll of the federal state ballooned from about 500,000 in 2001 to almost 900,000 at the beginning of the 2010s. Today, becoming a civil servant is among the most popular career choices for young Russians. This is not an indicator of the attractiveness of the job as such, since salaries are low and most work is uncreative and monotonous, leaving little space for personal initiative. Rather, it reflects the fact that these positions offer easy money through opportunities for kickbacks and rent extraction. Because red tape creates a source for rent extraction, there is no rush for bureaucrats to remove it. Quite to the contrary, regular procedures are sometimes artificially complicated, delayed or rigged. Efforts to thin out the bloated thicket of rules and regulations have so far petered out with little success, due to the inertia of the system. While aiming at improving efficiency, the public administration reform of 2004 did not manage to address the more pressing problem of informal practices in the civil service that vitiate most attempts at introducing new procedures. In 2011, new efforts were launched to trim Russian bureaucracy. Former president Medvedev ordered that the number of civil servants be reduced by 20% until 2013 and signed into effect legislation that stipulated the one-window provision of a large number of services to citizens. It remains to be seen, however, whether this signifies real change or whether it is mostly window-dressing that ad-

dresses the epiphenomena but not the root of the problem.

However, waiting for the Russian state to tackle the problem of corruption is like setting a fox to keep the geese. Palpable change is not going to come about without pressure from a broad alliance of business and civil society actors. Recent events seem to suggest that there is cause for hope: The protests against electoral fraud in the winter of 2011/2012 were the biggest demonstrations in Russia since 1993. The lack of fair and free elections was only the primary concern on the surface. At a deeper level, the demonstrations called for more political participation and aimed to abolish the Putin system which had degraded into a self-service store for the elites. New media (social media, internet forums, and blogs) seem to be a breakthrough, especially among young educated Russians. Alexey Navalny, the best-known Russian anti-corruption blogger¹⁶, has been able to gain Russia-wide prominence with his calls for a profound reform of the Russian state. All in all then, Russian society seems to be on the way from passive observer to active actor against corruption.

About the author

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¹⁶ <http://navalny.livejournal.com/>, accessed 30 August 2012

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The Online Journal 'Euxeinos. Culture and Governance in the Black Sea Region' is published by the [Center for Governance and Culture in Europe](#) (GCE-HSG), University of St.Gallen, Switzerland with the financial support of [Landys & Gyr Stiftung](#).

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ISSN 2296-0708

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