

Think Tank Partnership Project
“Prospects for Fighting Corruption in Post Socialist Countries:
The cases of Hungary and Russia”.

REPORT:

**Fighting corruption in state-business relations
(small and medium business in St. Petersburg)**

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Introduction

Since the development of a robust and law-abiding business environment is considered to be the key factor in Russia's transition, the Russian case of the project "Prospects for fighting corruption in postsocialist countries: cases of Russia and Hungary" was focused on corruption in *state-business relations*. The rule of law cannot be anchored either in political institutions or in people's perceptions unless they are accepted in business.

Recent studies identify Russia's regional and municipal levels as the most corrupt levels of authority. Data on "corruption flows" in Russia's bureaucratic market gathered by the INDEM foundation, that the municipal level of authority is the most corrupt (75% of corruption market), the regional level comes in second (20%) and the federal level third (5%)¹ (Carapov, 2002). Because of this, we considered it essential to focus our research on corruption at the municipal level (the case of St. Petersburg), which currently poses such an impediment to business development. The study considered small and medium-sized business as the most sensitive and least protected business sector facing corruption.

We rejected the common assumption that legislative uncertainty forces business actors to pursue informal strategies in solving business problems. The problem has much deeper roots and, therefore, the reforming of a legal framework is not the only condition for generating a healthy business environment. In order to determine the social mechanisms and hidden conditions of corruption, we focused our empirical research on actual business behavior and examined how business and municipal authorities interact in practice. The research included quantitative and qualitative analysis of the phenomenon of business corruption in the sphere of small and medium-sized business.

The main purposes of the study were the following:

- to outline the typology of business corruption at the municipal level;
- to gauge the extent to which the corrupt practices of business are adaptive responses to the legislative, economic and social environment;
- to identify key problems facing small business that provide a breeding ground for corruption;
- to evaluate the willingness and readiness of business people to act against corruption.

Although our study was focused on the SPb municipality alone, the outcomes received in the course of the study are not specific for SPb and could be reasonably extended to the whole situation in small and medium-sized business in Russia. Naturally, the quantitative estimations of the level of corruption can certainly not be extrapolated to other municipalities and districts, although it should be mentioned here that the data received in the quantitative part of the study corresponds to the results of national Russian surveys. The broader generalizations can be made on the basis of the qualitative data which reveals the nature of corrupt relationships, particularities of informal interactions between business and the state in small and medium-sized business, and the basis for building a typology of corrupt relationships, essential in terms of small and medium-sized business, as well as recent changes and trends in the mechanisms of corrupt relations.

¹ These figures refer to low-level business corruption.

Research methodology

Research approaches towards corruption

There are many different forms of corruption implying different mechanisms and motives for corruptive behavior. Traditionally researchers distinguish corruption of the *legislative branch* and corruption in *executive* branch bodies. The mechanisms of “*top-level*” corruption, such as redistribution of state property and large-scale informal exchanges between oligarchs and high-ranked officials, has nothing in common with the mechanisms of *low-level corruption*, which includes giving small gifts and different informal services to bureaucrats and other people possessing different power resources. Sometimes people even do not consider these relations as corruption, but just an expression of their gratitude offered to “good” officials. Thus, the term “corruption” is very broad and in fact unifies different phenomena, which sometimes have very little in common. Therefore, every study on corruption should start with a specification of the research subject.

The focus of our study is *business corruption* - corruptive practices, which businessmen encounter in their relations with authorities. Business corruption differs from *everyday corruption* – which refers to common people and their relationships with authoritative structures or different public services. In our study we consider corruptive practices used by *small and medium-sized business*, the nature of which is different from those in big business.

One of the most developed research approaches to business corruption in Russian scientific discourse is an economic approach, according to which corruption is considered as an *economic action* or *economic relationship*. The economic approach is based on the rationality of human behavior aimed at maximizing revenues. The idea of rational behavior also stands behind the transaction costs approach, which is used in studies examining the business environment in Russia. According to this concept, the entrepreneur’s decision to use corrupt practices is the result of a rational choice based on the minimization of transaction costs².

In our study business corruption is considered not only as economic action, but as a complex *socio-economic phenomenon*, which is predetermined by economic rationality and the social and cultural context of the business environment. This understanding of corruption corresponds to the institutional approach according to which corruption is seen as closely interrelated with social institutions – political, economic, cultural, etc. Our study is focused on a *micro-level analysis*, where institutions appear in the form of regularly maintained social practices. Thus, the main focus of our study is corruption practices which are understood as informal means of solving problems encountered by small and medium-sized business in “everyday” communications with officials.

Research methods

With this purpose in mind, we employed a combination of qualitative and quantitative methods. The quantitative data came from a survey of business people in St. Petersburg. The survey included 355 respondents - top managers representing different types of business organizations in terms of size, form of ownership, and sphere of activity (the description of the sample is presented in Appendix 1). The survey questionnaire “Small business and corruption” included four thematic blocks (see Appendix 2):

² For a more detailed description of the different approaches to corruption in the Russian scientific discourse, see our interim report, in particular the essay entitled “General overview of recent corruption research results and main research approaches to corruption in Russia using domestic sources of information”.

1. how business people evaluate the scale of corruption (in the country in general and in their business sphere);
2. what business people mean under the term “corruption,” what kinds of interactions between businessmen and officials they consider as corrupt relations;
3. the scale of real practices of corruption (in terms of authority level, type, frequency of corruptive practices, etc.)
4. the attitudes of businessmen towards anti-corruption policy (what kinds of anti-corruption measures are considered by businessmen as effective, whether they could propose their own recipes on how to reduce corruption, etc.)

For the processing of quantitative data, standard methods of statistical analysis were implemented.

The qualitative analysis was based on 30 in-depth interviews with business representatives - top managers and key persons in different kinds of business organizations (the description of the database is given in Annex 3). Since the research topic was very sensitive and personal trust was a necessary precondition for establishing contact with an informant, we applied a ‘snow-ball’ technique, starting with our personal networks and moving outwards to interview contacts our initial contacts gave us.

The methodological framework of the qualitative analysis was based on the “understanding” or “interpretative” approach, which is rooted in *Understanding Sociology* by Max Weber (Weber 1978). The main idea of this approach is based on the assertion that people behave not according to “objective facts” of reality, but according to *their own, subjective and inter-subjective understandings and definitions of the situation*. Therefore the aim of a study based on the interpretative paradigm is to “catch” subjective meanings and interpretations of informants regarding “objective facts”. In this case “representativeness” of the sample is not as important as acquiring a better correspondence of attitudes expressed by informants to their real subjective meanings. This requires special interview techniques and poses special demands on interviewers’ professional skills.

The interview guide contains “open ended” questions as well as a number of generally outlined topics for conversation (see Annex 3). The interviewer’s task was not only to follow the guideline, but to reveal topics and issues which the informants are anxious about, as well as their interpretations of these “hot” topics. The interview guide included the following main thematic blocks:

1. ‘History’ of the enterprise and entrepreneurial activities
2. Experience and attitude to laws and rules regulating relations between business and authorities
3. ‘Related Definitions’
4. Attitudes towards ‘anticorruption policy’ and civic activism.

For analytical work we used the elements of *discursive analysis* and *conversational analysis*, the aim of which was to understand how the situation is seen and interpreted by the informants themselves, what are the subjective meanings which they prescribe to the situation and to other players in the “field of corruption,” and how they see their own roles.

2. Outlines of corruption in the sphere of small and medium-sized business in SPb

2.1. The market of bureaucratic services – key players

In order to outline the structure of the corruption market, it is necessary first to distinguish the key players and important dimensions of a bureaucratic market. In the course of the study 4 main groups of agents were distinguished in the market of bureaucratic services:

1. Bureaucratic institutions (and the officials who work in them) that SME businessmen interact with.
2. The natural monopolies - commercial and semi-commercial structures, which have monopoly rights for certain activities or provide certain services without which the SME would not get permission to run its business.
3. SMEs (or to be more precise – SME employees who are responsible for communication with officials)
4. Intermediaries: commercial enterprises which provide intermediate services, connecting private enterprises and businessmen to officials and official institutions

1. First of all, *bureaucratic institutions* that SME businessmen interact with could be divided according to the level of authority, which they represent. Here we can distinguish between the federal level; municipal level branches of federal agencies; and local/district level (i.e., the district branches of municipal structures and committees).

Specialization and sphere of activities are another important criteria for categorizing official structures. The list of institutions businessmen must communicate with on a regular basis is not the same for every business and is defined by a sphere of activity. We divided all bureaucratic institutions into three echelons (see table 1): the first echelon includes institutions that almost every businessman has to deal with; the second echelon allows some exclusions, and the third echelon represents institutions which serve specific spheres of business activities.

Table 1

<i>First echelon</i>	<i>Second echelon</i>	<i>Third echelon</i>
<ul style="list-style-type: none"> - Tax service - Fire protection service - Sanitary service 	<ul style="list-style-type: none"> - Certificate department - Licensing department - Department for municipal and state property 	<ul style="list-style-type: none"> - Police (including its various departments) - Municipal services (the city/district chief architect etc.) - Commissions for tenders - Customs - Municipal/district communal services

2. *The natural monopolies - commercial and semi-commercial structures, which have monopoly rights for certain activities or provide certain services without which the SME would not get permission to run its business.*

These structures are not proper state bureaucratic institutions, rather they are joint-stock companies where over 50% of the shares belong to the state. They can be characterized as “permitting” structures without whose permission enterprises could not run their business.

The biggest representatives of this type of players in the SPb bureaucratic market are organizations possessing monopoly rights on the following resources:

- Gas – “Lengas”
- Electricity – “Lenenergo”
- Water– “Vodokanal”

3. *SMEs or SME employees who are responsible for communication with officials*

For small and medium-sized business, the situation when a top person is responsible for communicating with the authorities used to be the most typical, especially in the cases when informal means of solving problems are involved. Judging by interviews, with the development of business or in larger firms, the director rarely deals with these questions, instead forwarding them to special departments or people with special skills. For instance, the chief accountant deals with fiscal bodies on a routine basis. In firms with law departments, lawyers increasingly act as players in the bureaucratic field.

Since communication with the authorities is a very special task, requiring time and certain personal skills, business organizations often hire a “special person” exclusively for these purposes. For instance, some of our informants described those people in the following way:

“We had X for solving these questions. He talks to them in a special way... I would not be able to be like him. When he opens his mouth, all questions get solved fast; nobody can stand long arguments with him...”;

“We had a special girl. She was a former ballet dancer. She was tall and slender, so she put on a short skirt and went to communicate with them [officials]”.

4. *Intermediaries: commercial enterprises which provide mediating services, connecting private enterprises and businessmen to officials and official institutions*

These organizations are not state owned and their employees cannot be considered as officials. Formally they are independent business organizations providing different kinds of services such as :

- auditing and tax consulting (to deal with the tax service)
- law consulting
- customs brokers, cargo and “customs inspection” providers (to deal with customs)
- “certificate’ brokers”
- fire accessories providers (to deal with anti-fire protection services)
- real estate agencies (to deal with state monopolies and the State property

department).

At the same time, as our interviews explicitly demonstrated, these organizations could be with good reason considered as important players in the field of bureaucratic interactions, mediating interactions between business and bureaucratic bodies.

2.2. *The scope of corruption*

Three types of assessments were used in the questionnaire to evaluate the scope of corruption: evaluation of corruption in Russia in general; corruption in respondent’s business sphere; and also corruption in his/her own business practices - how often during the last year they encountered corrupt situations. We did not seek “objective” figures on the scope and diffusion

of business corruption, ³ nevertheless it was important to find out how businessmen themselves evaluate the scale and contours of it.

In table 2, two dimensions of corruption are combined: considerations of the scope of corruption in general and the possibility of avoiding corruption practices in doing business (in other words, to what extent corruptive practices can be seen as forced measures caused by conditions of the business environment).

Table 2 Evaluations of the scope of corruption in Russia (the possibility to avoid corruptive practices)

	Significant	Not as large as we used to think
it is possible to manage without getting into corrupt relations	44,2	2,7
it is impossible to avoid corrupt relations in running a business	31,9	18,8

2,4% gave their own answers to this question

As it can be seen from the table, about 76% of respondents consider the scope of corruption as significant (31,9% of them are “extreme pessimists” who have pointed out that “absolutely everything is corrupted in Russia”). Including the second part of the question, the opinions divided approximately in half. About 47% think that it is possible to manage without corruptive practices, while 51% expressed the opinion that it is impossible to avoid corruption.

When we look at the responses of business people, the share of “extreme pessimists” drops. Only 16,1% (compared with 31,9% overall) think that everything is corrupted in their sphere of business. At the same time, the share of “optimists” who pointed out that it is possible to run a business without resorting to corrupt practices also decreases (33,4%). And 42,4% consider not getting involved in corruption as an exception.

The picture becomes even more pessimistic when we look at the data on using corrupt practices by the respondents themselves, and especially by those 33,4% that suggested it was possible to run a “white” business. As the table shows, only 42,9% of them did not use any informal stimulation of officials during the last year (table 3).

Table 3 Frequency of corruption practices in the recent year and evaluation of corruption in business sphere (%)

	Regularly (once a month and more often)	From time to time	Seldom	Not once	total

³ We share the opinion (expressed also in the works of Rose-Ackerman) that the real scale of corruption could not be measured with any methods including statistical ones.

In our business sphere, everything is based entirely on corruption and informal relations (bribes, services, different kinds of informal rewards and etc.)	57,4	35,2	7,4	0,0	100,0
					16,1
In our sphere to run a business not getting involved into corrupt relations is an exception	26,8	41,5	19,0	12,7	100,0
					42,4
In our business sphere it is possible to run a business not resorting to corruption practices	2,7	17,0	37,5	42,9	100,0
					33,4
It is difficult to say	3,7	40,7	29,6	25,9	100,0
					8,1
Total	21,8	32,2	24,2	21,8	100,0

21,8% of respondents used “informal payments” for officials regularly during the last year (once a month or even more often), 32,2% did it from time to time, and 24,2% seldom. Only 21,8% of respondents pointed out that they did not resort to different kinds of “informal means” during the last year (and we consider this figure as very approximate since people are usually reluctant to confess things of this kind).

The attitudes towards pervasiveness of corruption expressed by businessmen in interviews are characterized by *general distrust*: all our informants mentioned that they do not believe in the existence of a “fair (honest) bureaucrat”. Everyone is sure that all officials take bribes – bigger or smaller, they all are corrupted and all belong to the group of people who “will not lift a finger” without money:

Q. - So you think that any contact with officials involves corruption?

A. - I am absolutely sure about this! Absolutely sure!”

According to our informants’ opinion, corruption in Russia is incorporated into the bureaucratic system in general; they believe that corruption is an integral part of this system. This is a dominating discourse on corruption shared by all our informants:

“In reality, when the inspectors come to your business and find problems, you will understand that they have come here not to shut you down as soon as possible. No, they have come here in order to get some money from you”.

“Because in principle the idea of corruption lies at the foundation of the Russian state structure. As they say, ‘you have been given a gun – now do the best you can’. And he does...”.

It means that all businessmen are ready to give bribes to officials *a priori*; many businessmen do not even try to find legal and official ways of resolving their problems – they start looking for access to corrupt officials to give them money to solve their problems in this way – “fast and easy” (in comparison to the official way).

2.3. The structure of the corruption market

The structure of the corruption market by level of government can be traced from the answers to the question: *If you have ever resorted to “informal payment” for officials’ services, what level of authority did these officials belong to?* The majority of corrupt deals take place at the level of the district (66,0% of respondents mentioned that level) and city (50,7% of respondents) (which is not surprising if we take into consideration the size of business (small and medium) and the fact that the majority of firms in our sample sell their products at the local market).

We also asked respondents what regulatory body had been the most troubling for them, forcing them to resort to informal means of solving the problems (different payments, services and etc.) during the last year. The distribution of the answers (table 4) confirms that nothing has changed in recent years – as in previous studies on corruption in Russia, the most corrupt regulatory bodies are tax inspectors, sanitary inspectors, fire inspectors, police and customs.

Table 4 - During the last year what regulatory agency has been the most troubling for you, forcing you to resort to informal means of problem solving (different payments, services and etc.)?

Rating	Authority, regulatory body	Frequency of mentions (%)
1	Fiscal bodies	26,9
2	Sanitary inspectors	16,0
3	Fire inspectors	13,3
4	Ministry of Internal Affairs (MVD) – police, power structures	8,5
5	Customs	5,4

According to the interviews, the territorial factor is also an important dimension of the corruption market. The city is divided into different local “principalities” (our informant’s expression) where the same official rules and regulations could be interpreted by authorities in different ways:

The city is divided into principalities. Every principality has its own rules. [...] I.e. there are no common rules in the taxation system, or in prices, or in any other sphere... ! For instance, in the F. district we faced problems with a fire alarm system. In the city there are many enterprises which install security and fire alarm systems, they work according to the norms, they fulfill all the requirements, etc. But we were told that: “Guys, if you find a firm and install an alarm system, it will not be accepted here!” Because there is a monopoly in this district. A certain firm sets up alarm systems, and this firm is run by a high police official in the Central district of the city. This is the answer.

As for state monopolies, they set unofficial prices for getting certain services, which in many cases makes entrepreneurs change their plans regarding a needed service and forces them to try to find a compromise solution between their needs and the amount of money:

It is simply a state racket. In an industrial zone we have a plot of land and are going to build a shop, so we need to get heat. Answering our request, we received a letter that said "no, there is no possibility to give you heat," BUT there is a way out – please, transfer \$100 thousand for the boiler-house reconstruction. It is a huge sum for us. But otherwise we will not get anything. Well, we checked the costs and came to the conclusion that instead of paying \$100 thousand for the boiler-house reconstruction, we would rather build our own autonomous gas house. Again, to get gas, we need to give a bribe, but much smaller...

2.4. Breeding ground for corruption – problem zones

By “problem zones” we mean those factors and conditions, which, in the opinion of our informants, make it possible for bureaucratic extortion. In almost all interviews the following in-depth reasons of corruption can be found:

- *imperfection of bureaucratic system: its inefficiency, inflexibility, slowness etc.*

Our informants stressed imperfection of the whole bureaucratic system, where even a small bureaucratic decision “needs ages” to be made. Moreover, these procedures seem to be artificially overcomplicated by officials. Many informants refer to Western experience where only one notifying letter to officials is needed to start a business, a small amount compared with the kilos of papers, hundreds of stamps, and months of time one needs to start business in Russia:

“In the middle of the summer, in the middle of our process they dismissed the local officials and replaced them with new ones. And correspondingly – now a comma should be not there, all the documents need to be remade, something needs to be added, something to be removed. Nothing depends on me! And in the end again they do not allow it (our enterprise) to open”.

- *old fashioned rules and regulations: lack of logic and lack of correspondence to real life.*

A widespread opinion among businessmen is that many rules and regulations inspectors use are totally outdated and do not correspond to contemporary business conditions. This statement is valid for some department’s instructions (not laws), for instance, in sanitary and fire protections services. Some of these instructions go back to the 1960-70s, some of them even to the 1930s. Thus, they are totally outdated and cannot be followed in real practice. Officials who conduct inspections of enterprises are well aware of this situation. So the only way to deal with this issue is to bribe officials, to make them “close their eyes” to the violations of ridiculous rules, but ones that are still in place:

“We belong to public catering, but we don’t cook anything ourselves. They insist on installing three new sinks, for example. We don’t need them! We don’t cook anything! But if they want, they can shut us down because of this. And these norms, these rules, they have not been changed practically from 1974. 1974 and 2004!?”.

“We are opening here now, and we are facing a problem with the sanitary inspection. We collect documents: we need permission from the firemen, there we need permission from someone else... And these requirements are often contradictory. Firemen want this, sanitary inspection that, security structure something else...”

- *Impracticability of laws and rules: laws and regulations are designed in a way they cannot be followed in practice.*

This is a quite popular statement: *“you cannot conform to all rules, it is just impossible – then you have to close your enterprise!”* (“It is impossible to pay all taxes” is a variation on this theme). People believe that these legal problems are created intentionally and deliberately maintained by officials. The result is that the businesspeople are always guilty – regardless of their intentions to follow the rules.

“If you had not been violating the rules... If you had been playing fair, then it would have been better not to be working at all. 60% of the profit – you have to give away!”

“In such a situation, in the real state of thing, constantly, whatever you do, you always violate the law. And you always feel yourself a criminal and in fact, you are forced to make pay offs.”

“Our legislation is built in such a way that even if you are four times right, they can find an article according to which you will be called to account”.

There are certain bureaucratic institutions and authoritative bodies which were mentioned by our informants as the most corrupt:

- **Tenders.** Our respondents are convinced that all or almost all tenders are corrupt. These statements are based on their own experience of participating in corrupt tenders and even on their own experience in corrupting tender commissions:

“The scheme is very simple. The order is defined – a big enterprise wants to conduct some works – who will be given this task? There are a big number of competitors who want to do this work. Someone is better, someone is worse. And a clear, fair choice almost never happens; things are almost never done according to the balance between reasonable criteria, quality and price, for example, or any other. The choice is made by the criterion who will cut off more”.

“We get a chance to take part in tenders very rarely. These are single cases, and as a rule, they are offered by people who have a kind of an idea that we will win, and, naturally, they ask for ‘recoil’. It is clear. The officials who distribute state money simply live on this. You increase the price of the product, and they get recoil. I don’t know, I think that it is impossible to deal with the state without this.”

- **Fire protection and sanitary inspection.** These structures have the reputation of being the most corrupt. The situation is aggravated by the fact that these inspecting bodies belong to the “first bureaucratic echelon” – the structures with which all businessmen have to deal. The majority of businessmen consider extortion by firemen a normal practice:

“Take firemen – they look for an occasion to get a bribe practically openly”
“This is a saint rule! Firemen are very straightforward: “My daughter is getting married”.
Me: “Or, really?! How can we help your daughter?!” (laughing). “Well, 200 dollars or so would be OK”. And it happens approximately once a year. Here they are all like that!”

- **The Certification Committee** is another of the “most corrupt” official institutions in St. Petersburg, according to businesspeople responses; people talked about their main office especially negatively:

“Interviewer: OK, let’s continue about the center for certification.

Informant: Yes! There are absolutely different women! Absolutely! They are just sharks...”

“Or, for instance, people from the certification department. I was amazed by bribery there. Almost every product, whether it is high quality or not, can be given a certificate”

- **Customs**: according to our informants, this is the institution where gray or black schemes just cannot be avoided; facing customs, even ‘die hards’ give up. This is well illustrated by one interview given by a person who wished to avoid corruption and work “in a white way”. As she tells, the customs agency was the only institution where they gave up their “white strategy” because it happened to be impossible - too long and too expensive – to do everything officially. To solve this problem and save money and time, they hired intermediaries who “work with customs”:

“The way through the customs – it is just horrible! We were doing everything by ‘a white scheme’. The system works as follows – we try to do everything fair, paying all customs duties and etc. But the custom rules and custom laws are very complicated, they can cavil at anything, and won’t let a commodity through. But it can be done very easily... We tried once to go through customs procedures using a ‘gray’ scheme. And it turned out to be much easier and much cheaper. And now we are thinking: what for? Why have we suffered so much for five years? Every time we bring a commodity through customs costs four days of my life”.

2.4. Intermediaries’ boom as a new feature of the corruption market

Interviews with businessmen have explicitly demonstrated the emergence of a wide-scale market for informal and semi-formal services mediating relations between business and the authorities. In recent years, there has been a growth of legalized and formalized firms-mediators selling bureaucratic services. We have called this phenomenon an **intermediaries’ boom**.

At first glance, everything looks reasonable and very similar to the situation in the West. The system of official rules and regulations is so complicated that any businessman who is not experienced in dealing with the bureaucracy, needs consulting help in order to meet all bureaucratic requirements. Although functionally intermediaries, providing the link between authoritative bodies and businessmen, look very similar to analogous institutions in the West, in Russia this system works very differently. In the West the main purpose of intermediaries is to process bureaucratic procedures, which are too complicated and need special skills to handle. In Russia these services seem to function as a screen, being in fact a hidden form of rewarding officials for accelerating bureaucratic procedures for additional payment. Of

course, these are hypothetical assumptions that need to be specially investigated in further studies; however the interviews provide some evidence for this already now.

1. **Customs** and customs brokers provide the most explicit example of mediating services. The main task of a customs broker in Russia is not to assist businessmen in going through customs formalities, but to make it as cheap as possible by using “grey” schemes, i.e. to reduce customs payments to the lowest possible level through negotiations with customs bodies⁴. Another function of customs brokers is to speed up the custom procedure via informal contacts with the customs service. According to our respondents, the ‘do-it-yourself’ variant costs money and time, as illustrated by the quotation above - 4 days for every border crossing.

2. **Licensing (and certification).** Many respondents claimed that officials working in licensing and certification agencies complicate the procedure deliberately. In such situations, a businessperson usually chooses an easier option: avoiding direct contact with the officials and working through an intermediary firm, which will issue the same papers on the basis of the same documents, but for a different price:

*“Naturally, I have never seen anybody, but everything goes to a firm. We pay the firm, and they do everything. They collect all the necessary documents, which are simply bought. In reality nobody does anything but the documents are here, they are on official paper and look nice. It turns out that this pyramid is specially built on an empty place. And these firms, they are created around those officials who deal with issuing licenses. There are about a dozen people involved, you know, like relatives, friends, who, bring him [the official] about half [of the money]. But they deal with this. If **they** bring this paper – it will be accepted [by the officials], if not [them] – well, it won’t. It’s amazing!”*

2. **Real estate** firms serve as intermediates between businessmen and the Department of State Property, distributing state-owned premises for rent. Renting state-owned premises is an economical business strategy, because these premises are cheaper or sometimes even free for some SMEs. The access to them is limited. But there are real estate companies connected to the local administration, which help in finding an appropriate state-owned premise for a low rental price on the condition that a businessman will make monthly payments of additional money to this firm in black cash.

“Well, we said in the very beginning that everything was official and we completed a cashless transfer. Nonetheless, we were told that “You need to bring \$300 every month in cash anyway [...]. And it was impossible to reject, because this firm is at the administration and we were told: We will simply not allow you to work in this district!”

3. **City monopolies**, providing electric power, gas, water (Lengaz, Lenenergo, Vodokanal). It takes months or even years to get permission from these organizations to start a business or to introduce some changes related to these issues. Here again the solution is to address an intermediary firm and then the question can be solved in a few days, though for another price. As the interviews have demonstrated, trying to find a compromise, many entrepreneurs choose a “double strategy” – those problems which do not need an immediate solution are

⁴ The best example is import of computers and other hi-tech devices. Usually these products were imported as “green beans” that is the cheapest product in terms of import taxes. That is why if you look at the statistics of that period, you would be surprised, because Russia seemed to be heaped up with green beans, and at the same time there was almost no import of electronic devices – of course, in reality the picture was different. Radaev, 2003.

solved in an official way. But if a problem is urgent, everything is done via intermediate structures.

4. **Fire protection and sanitary inspection.** Our informants mentioned situations when officials force them to deal with certain commercial firms in order to buy certain products or services, which a firm needs to meet official requirements. It is often a case that in those firms the products and services are much more expensive than in an ordinary firm, but officials refuse to recognize certificates, products and services if they are purchased in any other firms. Thus, the situation looks like a mediated extortion or blackmail.

“Firemen – they are just extortionists, in a direct sense. There are fire extinguishers, hanging on the wall. Nevertheless, we were forced to buy another one. And you should buy an extinguisher in the specialized shop which is situated at the fire unit”.

“Yes, we send people for medical examination to the clinics which they (inspectors) indicated, for us it does not matter where we pay the money and where our people get service. I don’t know what kinds of connections they have got there”.

The growth of intermediaries is predetermined by the fact that these services are good for both sides of the deal. Businessmen prefer to deal with intermediaries instead of dealing directly with officials because it is

- a) simpler (intermediaries know all the details and hidden dangers of this process);
- b) faster and anyway it saves time and therefore - money;
- c) it makes it possible to avoid emotional strain, which is usually a painful part of the interpersonal communication between businessmen and officials.

“I want to say that every official - depending on his upbringing, his intellect and I don’t know what else to a greater or lesser degree - would necessarily smear you on the table. If he is a cad, then he will be actively doing this. If he is a well-brought-up, then he will be doing this by his indifference. None of them cares about you!”

When a businessperson goes to an intermediary, the situation is different – it takes the shape of formal service and businesspeople feel like a customer in that case.

- d) sometimes intermediaries provide the only possible way to get access to this or that bureaucrat:

“First of all, you won’t get to the authorities just being a person from the street. Nobody will let you in – neither in Smolnyi, nor in Voznesenskogo street, where some committees have their offices. You will not be issued a pass, and that’s it, you are out. In order to get there, you need to have a possibility to get there...”.

At the same time, officials, as people possessing power resources, also prefer dealing with mediating companies because in this case they do not have to enter a rather risky corruption market personally. The use of “independent” organizations and firms changes the label of the operation, reshaping it from a corrupt deal to an official procedure. Besides, it narrows the circle of people who an official needs to communicate with and, in fact, creates a protective barrier from undesirable “outsiders”:

“So, if you come in just like that from the street – you will be kicked out”

It is worth mentioning that the prevailing opinion among our informants is that intermediary firms are usually created by bureaucrats themselves or through their kinship and friendship networks.

Sometimes these firms serve to mediate different forms of unrestrained bureaucratic extortion:

Here is a very good example of getting money out of entrepreneurs. During the 300th anniversary of St. Petersburg, the department dealing with retail shops informs us that all shops in the district are obliged to have flags and scarves with the anniversary symbols. They are obliged! And now you are told that these flags and scarves can be bought from a certain person. This man comes, and you find out that he sells, say, two flags for \$100. But you are obliged to buy it! If you don't, you will have problems again. This is it; this is a scheme of getting money.

However, the number of intermediaries, which are specialized exclusively on informally mediating bureaucratic extortion is not as large as the number of firms that focus on "cutting the red tape." As a matter of fact, intermediaries combine in their activities *explicit functions* and *hidden or shadow functions*. Explicit functions include absolutely legal services, which could be found in any economic system – consulting, selling equipment, operations with real estate, etc. Therefore, from the official side (from the documents and official reports) these firms appear as just ordinary business organizations, which run “normal” businesses (and they really do). At the same time, intermediaries fulfill shadow or hidden functions by serving the informal relations between business and the state.

The main resource for accomplishing these functions is their access to a bureaucratic structure (or a bureaucrat) that provides the possibility for obtaining a necessary bureaucratic service.

From the data received in our study it could be assumed that the majority of intermediate firms work at agencies tasked with issuing permissions – monopolies in various spheres. But there is also some evidence of intermediate services emerging at monitoring agencies, for example, in the form of «curating» - a fire brigade official who “curates” a firm with unsolved problems with a fire alarm system:

The system of automatic prevention from ignition is one of the requirements for production lines of this type. This system is very expensive, and we still cannot allow ourselves to buy it and set it up, therefore, we needed to find a way out. [...] – we hire a fireman of a certain rank, pay him a salary, and he curates us. [...] It works out somehow, at least, nobody has bothered us so far. Yes, it costs us money, but these are certain relations, and it is clear that these are relations with an official at the financial level.

We can only assume what is the ratio between explicit or hidden activities in these firms and to what extent their profitability depends on different kinds of activities. It is difficult to evaluate which functions are the main for these structures, and how the balance between hidden and explicit activities changes following transformations of the social and legal context – these questions need to be specially studied. The main conclusion which can be made is that intermediate structures become important players in the market of corruption services and take an active part in the formalization of relations between business and authorities.

3. The nature of corruption.

3.1. Perception of corruption

Scholars writing about the term “corruption” often disagree on its meaning. In public discourse, people often have totally different ideas in mind when they speak of corruption. Therefore, one of the objectives of this study was to find out how businessmen themselves define corruption and corrupt relations.

Using 5 pairs of judgements, we tried to determine the opinions of businessmen regarding 5 important aspects of corruption, which could influence the way they perceive corruption. Respondents were intentionally put into a situation of a rigid choice between two alternative judgements - each was asked to choose the judgement which better corresponds to his/her perception of corruption.

The first pair of judgements concerned a dilemma about *who initiates corruption – officials who extort bribes or businessmen who bribe officials*. The majority of respondents (64%) associate corruption with extortion by officials. 57 % of respondents believe that the corrupters are officials who create a precedent for the emergence of a corrupt situation. For example:

A. - How can an entrepreneur be called a corruptor?! He simply solves his problems, he is forced by circumstances... It would not make sense for him to give his money away and pay bribes, there is no extra money...

Q. – Well, then it looks like the official himself does not extort... Probably, the extortion is implied in the procedure?

A. – An official does not extort, I have never faced situations of direct extortion. This extortion is implicit. Nobody comes to you and says “Give me 100 rubles!”.

This perception of corruption as bureaucrats’ extortion indirectly confirms a hypothesis of increasing aggression by the state towards business in Russia. The studies on corruption conducted by Russian scholars have demonstrated that the model of corruption which is quite popular among western researchers - “state capture” when business initiates corruption, informally lobbying officials - seems to be less useful for analyzing the situation in Russia today. According to data received by the INDEM Foundation in Russia, corruption takes the form of “business capture,” namely the aggregate of strategies and tactics employed by the authorities through which they strive to establish shadow control over business in order to extract administrative rent (Satarov, Parkchomenko 2002). The following corrupt practices are considered by researchers as business capture:

1. Struggles for control over shares in the company
2. Participation by officials in company management, or placing relatives or friends in managerial positions
3. Creating tax privileges and artificial monopolies for favored companies, as well as protecting companies they control
4. Pressure placed on businessmen to choose a specific supplier or customer

All of the above strategies refer mostly to “big business.” Our data shows (and qualitative analysis has demonstrated it more explicitly) that the assertion about the growing aggressiveness of the state is also true for small and medium-sized business, where the aggressiveness of the state is manifested through *“malicious extortion”*, a process of extracting bribes by constantly threatening to impose check-ups and fines. For small and

medium-sized business, using corrupt practices is largely a *survival strategy*, rather than a coherent business strategy aimed at increasing business profitability. In other words, it is a *defensive response* by businessmen to the extortion of officials.

Another pair of judgments was based on the assumption that for businessmen in small business the term “corruption” is associated first of all with big business and high-ranking officials dealing with large-scale processes at the country level such as the redistribution of property, while small-scale deals, little gifts, or informal services provided for officials at lower levels are not considered by businessmen as corruption. According to the answers received, only 20% of respondents share this opinion. About 80% consider any informal means of solving problems as corruption regardless of the level of authority and the size of business involved in the corrupt deal.

We received confirmation of this division of opinions, practically almost repeating the ratio, in the answers to the next question which focused on the size and contents of bargains between businessmen and officials which can be attributed to the category corruption: 79,4% of respondents have noted that corruption refers to any (big as well as small) informal rewards and services rendered to officials for performing their duties or violating the law⁵.

In our study, one of the tasks was to reveal to what extent corruption is legitimized in the eyes of businessmen themselves. In other words – to what extent businessmen consider corrupt relations as legal violations. In Russia where the informal economy has become an institutional factor within society, and formal business relations are increasingly being replaced by informal ones, corruption could be considered not as violation of law, but as some publicly accepted form of interaction between business and the state. In fact, 42% of our respondents share the opinion that corruption is not a violation of the law for profit (by officials as well as by businessmen), but is just one of the commonly accepted informal means of solving problems, inevitably emerging in relations between business and the state.

3.2. What is corruption and what is not corruption....

The analysis of qualitative data has demonstrated explicitly that corruption for businessmen is a synonym for extortion:

Q. – What is corruption in your understanding?

A. – Corruption is extortion. I personally think that corruption occurs ... when you cannot turn a proposal down...

It was also important to find out what kinds of informal interactions with authorities are not considered by businessmen as corruption. During interviews businessmen often told us stories that could be with good reason identified as corruption – giving gifts or money to officials, but businessmen do not consider them as corruption and speak about officials very positively.

...Take the veterinary inspection – they have only started their operation, and for some reason, I cannot explain why, they have a slightly different system ... You call an inspector in the same way as you call, say, the sanitary epidemiological station – we always call their home numbers... She is a very modest woman, wearing glasses... I say: My name is such and such, could you please visit us, our certificate expires soon. She comes, usually when I am not there, but I warn a seller, "Ask her what she wants."

⁵ Of course, the difference between a gift and a bribe is a subject for a special study, and could not be measured by quantitative instruments.

And she is just a saint! She takes something, but only a little, and very decently... Well, for example, there were good hunter's sausages or good ham, it is quite expensive, and she takes one piece, and that's it!

Q. - I.e. they take money for certificates officially, or they take it just like that...

A. – No-no. I have got it in an official way several times, but I usually give 1000 rubles to that woman as a present...

Q. – So, you pay her extra money for...

A. – Well, I just thank her when I receive these certificates, and I can see that it was still cheaper... And it is just pleasant to thank her for a good attitude.

In the quotation above, a strong emotional component influences the definition of corruption. As our material demonstrates, when such emotions are involved, our SME businessmen do not define such things as corruption. For example, they do not call “corruption” those situations when they “express their gratitude” by giving gifts to those officials who were “kind” and “polite” to them and behaved “in a human way” which means, for instance, closed their eyes to the fact of small and insignificant mistakes in the documents brought by businessman. Interviews also demonstrate that businessmen reproduce an informal model of relations themselves by trying to convert formal, official relations with bureaucrats into informal, interpersonal ones. People like a personal approach and hate the impersonal, 100% formal attitude of some officials:

Q. - So all your payments are official, right? You have no..

A. - No, well, we take all these permits from them, we do everything through banks, ... Well, it is typical here to give presents for International Women's Day or for New Year's, you know.. it is here in Russia, I think that it is like this everywhere, and, generally speaking, this is not a burden for me, not at all... ”

Q. - So what do you mean by corruption?

A. - By corruption I mean... well, in my opinion, this is when a stupid official, who does not understand words and, while sitting at his desk, wants to get money for everything he does... Who abuses his position for personal benefit.

Q. - You mean large-scale benefit?

A. - No, any size benefit, it does not make a difference

Q. - Well, and a box of sweets – is this corruption or not?

A.- No, I do not think so. It happens often... No. A box of sweets – no. This is insignificant and sometimes this is even your wish... Sometimes, well, quite often it happens, they do not ask you anything, you are addressing someone ... lets take those women in the tax service as an example... they all are very nice, or probably I was lucky and met only these nice ones... You know, they all are in white collars, everyone looks smart. Well, you can see when you look at them that they all have quite small salaries. And this is hard work – to check all these reports, balances, this is a very hard job. And they work... And when you come to them you fell like you want to thank them somehow. And, of course, you bring them a box of sweets... And, naturally, she will reject it... And, of course, it would be just ridiculous ... this, of course, I do not treat as corruption... ”

At the same time, businessmen sometimes treat as corruption some actions or regulations imposed by the authorities, which cannot be defined as corruption.

3.3. Routinization of corruption

Another finding of the study is the *routinization* of corruption in business ethics and business consciousness. This tendency is manifested in several points:

1. For many businessmen, the situation of corruption (or bribery) is no longer a “serious stress.” For more than 45% of respondents a corrupt deal is nothing more than “*just one of the working moments of business*,” for another 32% - it is just a n annoying hindrance which has to be abolished the sooner the better. Only 12% of businessmen stated that they go through serious stress when encountering corrupt situations. The main conclusion is that corruption has become a sort of norm in everyday relations between business and the state.

The correlation of the respondents’ perceptions of corruption and their sex and age is presented in the table below.

Table 4 When you face the necessity of using informal means to solve a problem, how does this situation feel for you? (in percent)

Answers	A serious stress	An annoying hindrance which has to be abolished the sooner the better	Just one of the working moments of business	I myself do not deal with these problems	Other	Total
<i>Sex</i>						
Male	64,3	33,5	49,0	7,0	3,0	100,0
Female	53 19,4	29,9	41,0	8,2	1,5	100,0
<i>Age</i>						
Under 25	0,0	28,6	64,3	0,0	7,1	100,0
26 – 35	10,0	29,0	53,0	8,0	0,0	100,0
36 – 45	12,9	34,5	42,2	7,8	2,6	100,0
46 – 55	14,9	29,8	43,6	7,4	4,3	100,0
Over 55	20,0	60,0	10,0	10,0	0,0	100,0
Total	12,2	31,9	45,7	7,6	2,5	100,0

Table 4 shows that women experience stress more than twice as often as men when facing corrupt situations. Additionally, the older a businessperson is, the more stressful for him/her

the situation of corruption is. And conversely – the younger a businessperson, the more often he/she considers situation of corruption as just a working moment of business. These data show that the new generation of businessmen is more “tolerant” towards corruption.

2. The routinization of corruption was apparent in answers to the question such as “What does the situation of “informal payments” for an official’s services usually look like?”. The majority of respondents (54,7%) said: “In this situation an informal “stimulant” *was implied.*” Another 26,7% pointed out that in most situations of corruption, an official demonstrated with his/her behavior that the question could be solved with informal means.

Needless to say, the question of *who initiates a corrupt deal* has no definite answer. Undisguised extortion is becoming an anachronism as well as the situation of “money in an envelope.” A new system of relations, new rules of the game have already emerged within the framework of which both businessmen and officials are acting. There are informal (and, nonetheless, well known within business networks) price lists for solving various problems, so the main problem for businessmen is to get access to this information.

3. Another evidence of routinization of corruption is what we call a “functional approach to corruption” which means that businessmen treat corruption as a natural, integral part of interactions with the state and its representatives. In conversations on corruption issues, businessmen use the logic and rhetoric of “transaction costs” toward bribes and other forms of corruption, and the bribes, which should be paid for bureaucratic decisions, are literally included alongside with other costs in calculations of economic effectiveness. So, businessmen consider corruption as an expensive, but still inevitable cost for doing business.

“I need to get something. If I can get this, say, by bribing an official – well, there is nothing else to do, it is an unavoidable evil, if I want to get this desired object”

It can be noted that we could not find any correlation between the successfulness of business and attitudes towards corruption. The successfulness of business also does not correlate with frequency of corruption practices as well as with any assessments of the pervasiveness of corruption. Therefore, it could be assumed that 1) using corrupt practices cannot be considered as a competitive advantage for small and medium-sized business; and 2) corrupt practices have become routine business behavior.

4. Readiness to fight corruption

4.1. Attitudes towards anti-corruption measures

The questionnaire contained several questions on attitudes towards the most important anti-corruption legislative initiatives undertaken by state authorities. We were really surprised by the extent to which businessmen were unaware of laws against corruption: 73% of respondents had never heard about the Law on fighting corruption, 80% do not know anything about the Civil Servant Behavior Code, and 83% are unaware about the Conception of the Program of Administrative Reform, which has been debated publicly for several years. Respondents were slightly better informed about the Law on the Protection of Rights of Legal Entities and Individual Entrepreneurs during the when being monitored by the state - the so-called «Law №134» - “only” 61% have never heard of this law. Besides other measures, provided by the law, businessmen were supposed to receive special journals, in which all

official inspections should be recorded. Some businessmen claimed in interviews that the initial feeling of being protected against the despotism of inspection bodies passed quickly, as soon as they realized that no official structure is going to record their visits, especially police, which is still allowed to conduct inspections without any official permission. Besides, as it turned out in some local districts, entrepreneurs had to pay a district administration in order to get this journal.

The awareness of businessmen regarding anti-corruption initiatives at the city-level and district level is even worse – 90% have never heard anything about them.

In our study, we tried to find out business attitudes towards one of the most prominent anticorruption events in recent history, in which several high-ranking police officers were arrested for taking bribes in the summer of 2003. The media referred to the officials as “werewolves in uniform” and reported on it extensively. In the questionnaire, we asked respondents if they considered this case an indication of the beginning of an anticorruption policy in the country. Only 8,4% see this action as an indicator that the state is serious about fighting corruption, while about 80% believe that this campaign is simply for show and cannot be taken as proof of a serious long-term anticorruption policy. Here is a quotation from the interview about this topic:

This is just a comedy. Is it possible that people were building houses and villas and nobody knew that they were corrupt?! The moment has come to replace those people, that’s all.

Table 5 presents the rating of possible anti-corruption measures, evaluated by businessmen:

Table 5 What anti-corruption activities at the federal level would you consider as convincing proof of their serious intentions in fighting corruption?

Rating	Anti-corruption measures	Frequency of mentions (%)
1.	Cutting down the number of officials, the reform of state apparatus	43,9
2.	Adopting legislation	40,3
3.	Dismissing corrupt officials	37,3
4.	Toughening criminal liability and punishing corrupters	35,8
5.	Raising the salaries of officials	32,8
6.	Decreasing taxes	28,4
7.	Toughening monitoring to ensure the implementation of existing legislation	25,4

The most convincing measure, as the table shows, is reducing the number of officials and reform of the state apparatus (for small business it is especially important at the district and city levels). Among frequently mentioned measures suggested by respondents themselves in the option “other measures” are:

- “constant reports of the authorities about their fight against corruption”
- “even one real court hearing prosecuting corrupt officials!”

4.2. Attitudes towards anti-corruption organizations.

Routinization of corruption is certainly one of the main reasons why 57,3% of businessmen have never addressed any official agencies for help, advice or protection when they face corrupt situations. While 16,4% of them do not do this because they do not believe in the effectiveness of fighting the authorities, 30% believe that it is easier to pay rather than to try to change the system.

The data received in the study confirmed that businessmen have a low level of trust towards official state institutions and their ability to protect the interests of entrepreneurs. Only 2,7% of respondents, facing the situation of bureaucratic extortion, appeal to the court ; while slightly more of them (4,2%) turn to state power structures. At the same time, the answers for this question demonstrated the high importance of informal contacts with friends in difficult situations (about 15% mentioned that they appeal to friends) and businessmen-acquaintances experienced in these questions (20,6%).

In order to find out the attitudes of businessmen towards anti-corruption organizations, two questions were included in the questionnaire:

1. *“If fighting corruption starts in Russia, what organizations founded for these purposes will you be ready to cooperate with?”*

2. *Which organizations from the list below can in your opinion protect entrepreneurs from unjustified actions on the part of officials?”*

The answers to these questions confirmed once again a general disbelief among businessmen in the effectiveness of fighting corruption. 35,2% of respondents chose the option that “no organization” could protect businessmen from bureaucratic despotism. Among organizations, listed in the questionnaire, the Agency of Journalists’ Investigation was identified as the most capable of protecting businessmen (35,5% of all responses).

Regarding cooperation with anti-corruption organizations, one quarter of respondents (25,1%) would not like to cooperate with any of the listed organizations. While explaining their refusal to cooperate in anti-corruption activities, they most often referred to the following arguments:

“All these organizations will become corrupt themselves very soon”

“The state is able to fight corruption alone without any help.”

“I don’t have time to fight corruption, I have to work”

“People themselves must change, otherwise no organization could help”

Nevertheless, respondents who positively answered this question preferred to cooperate with organizations that are independent from the state. Among them, “organizations, initiated by businessmen” received the most positive responses (38,2%); NGOs were mentioned as potential partners by 27,5% of respondents. Organizations created under the aegis of the state had the support of 22,4% of respondents, 14% are ready to cooperate with organizations created under the aegis of law enforcement agencies (Ministry of Internal Affairs, etc.). The least popular among anti-corruption organizations are political parties (3,9% of records)

Even though, according to the quantitative data, business associations are the most trustworthy partners in a potential fight against corruption, the qualitative material adds some dark colors to the picture. The general attitude towards associations of businessmen is the

following: sure, business associations are a very good idea, but to be effective in fighting corruption, they need a lot of time and money which small entrepreneurs lack:

Q. – What if entrepreneurs found some organization or association in order to solve these problems?

A. - Yes, those who have production, they can. In order to do something, we need funds – but we do not have them! We have no funds, but those who have funds they dictate.

Q. – What do you think, if for instance there is some union of businessmen, would it help in fighting corruption?

A. - I am convinced that it will be a union – “though the dog is barking, the caravan keeps going”.

... All entrepreneurs can gather, sit in a room, smoking, drinking coffee and saying that "OK, now we are starting to fight. But when a single businessman will be addressed by some agency, he will solve his problems himself, because he understands that if he does not give a bribe because he wants to stick to his principles, he will loose much more in the future.

4.3. Measures suggested by businessmen (analysis of an open-ended question)

In the questionnaire the respondents were also asked to write down their suggestions for anti-corruption measures at the city and district level. In analyzing the answers, we must begin with the question of whether corruption is seen as a problem which should be fought at all. A quick glance through the results reveals that those who are happy with the current state of affairs are in minority. These are people who have already found their own ways of solving problems with officials (in most of the cases through establishing personal networks) and who believe that changes will bring nothing but the destruction of the status quo.

The general mood of the majority, which sees corruption on the city level as a problem, is characterized by skepticism and disbelief that corrupt practices can be abolished in the foreseeable future. Nevertheless, in most cases, initial statements that “nothing can be changed” was followed by proposals of potential solutions.

The possible measures for fighting corruption proposed by our respondents can be conditionally grouped 1) according to the principle of action as to "preventive measures" and "cures" and 2) by the agent of the proposed activity, whether the state is the initiator or other actors play this role.

1) Preventive measures and cures.

The first group embraces statements declaring the necessity of deep structural changes, whereas the second group proposes more superficial changes aimed at repairing the existing system and the mechanisms of its functioning.

Among deep structural changes, which would probably have a positive impact on the relations between business and the state, our respondents mentioned the necessity of administrative reform and the reform of the state apparatus, amending legislation, and liberalizing legislative and economic relations at all levels. The lack of clarity in existing legislation (which creates the possibility for both officials and businessmen to work in the shadows) and the enormous number of monitoring and fiscal bodies are mentioned by the majority as the most

troublesome questions to be targeted first. Since many people see corruption as widespread in Russia, they view a campaign seeking to change the public discourse (public discussion of corruption cases, public dismissals of officials) and ethics as one of the necessary directions of anti-corruption policy.

Yet while many want to prevent the disease of corruption, superficial cures still seem to be the most popular. The most frequent answer (and also the easiest answer to give without thinking) is to provide officials with better salaries. Respondents also listed a wide specter of punitive measures, from strong monitoring to severe repressive sanctions applied against officials.

2) The state is viewed as almost the only force, which can initiate an anti-corruption campaign. The idea of civil society would play a role in an anti-corruption campaign is only beginning to take root, businessmen do not see themselves as agents of an anti-corruption campaign, although there were a few statements about the necessity of establishing juridical consulting organizations, an independent monitoring agency, or an independent collegial monitoring body which includes the representatives of the state, business, MVD and the prosecutor's office.

Another interesting question asked businessmen with which organizations established for fighting corruption they were willing to cooperate. The most trustworthy organizations appeared to be organizations initiated by entrepreneurs and business associations (38,2%). They were followed by independent (from the state) non-governmental non-commercial organizations (27,5%). 22,4% expressed their readiness to collaborate with organizations created under the aegis of the state. One of the widespread answers for this question was «I am not going to collaborate with any organization." Businessmen's wariness that they could receive protection and support from any organization is expressed in the fact that 35% of respondents noted that there was no organization that could protect businessmen against official despotism.

It is also notable that in the answers to the question “which forms of fighting corruption are businessmen ready to support?”, 41,2% did not choose any of the suggested variants. Those who answered this question more often chose “ Not using corruption in your own practice of running business” (24,2%), and “ Dissemination of an anti-corruption ethical code in your organization and in your business networks” (22,1%). About 15% are ready to donate money to related foundations, organizations, programs, and 10,4% expressed their readiness to participate in the activities of these organizations personally.

5. Findings and Conclusions :

5.1 Findings:

The scale of corruption

The study has revealed no positive changes in the scale of corruption in small and medium sized business. Despite multiple attempts to make legislative norms more applicable, the official rules are still impracticable. In the mid to late 1990s, Russian sociologist V. Radaev revealed the emergence of a peculiar (though very thin) layer of businessmen pursuing the ideology of doing “white” business (not giving bribes, following the rules, etc.). Our study provides numerous explicit examples of how these businessmen were swallowed up by the system. The leitmotif of almost all interviews is that "yes, it is possible to play by 'official rules' but then your business would be unprofitable." This statement referred not only to tax

payments, but to the whole bunch of multiple payments to different bureaucratic structures. The only “positive” change is the formalization and putting in order of informal relations between businesspeople and officials.

The structure of the market for corrupt services

We have not found any essential changes (in comparison with previous studies of corruption in Russia) on the market of corruption services in terms of the level of government and regulation bodies. The most corrupt regulatory bodies are still the same: fiscal bodies, sanitary bodies, fire inspection, police, customs. As for the level of authority, our study has revealed extremely an high concentration of uncontrolled power at the district level which leads to extremely high pervasiveness of corruption at this level. The city is divided into different bureaucratic “counties” - the territorial structure of the corruption market – where the same official rules are interpreted in different ways. The study has also demonstrated how important it is to distinguish between federal laws and different departments’ regulations while analyzing corruption in the sphere of small and medium-sized business. Different departments’ regulations cause more troubles for our informants than any federal law.

New players on the corruption market

The study has revealed new “key players” on the corruption market – middlemen or mediating firms – firms operating in-between businessmen and officials. Interviews explicitly demonstrate the emergence and development of a wide-scale informal and semi-formal market for mediating services. In recent years there has been an explosive growth of legalized and formalized mediator firms that sell bureaucratic services. This means that the officials do not enter this “market” personally. Instead, they use “independent” organizations and firms providing different “official” services (consulting services, selling different devices, etc.) and paving the way to different kinds of bureaucratic permissions.

From the formal point of view these firms resemble intermediaries in the West providing consulting and broker services. However, the main purpose of these firms is to sell bureaucratic services using informal or semi-formal access to bureaucratic structures. We consider this kind of “bureaucratic business” as a covert form of corruption. The situation today is characterized by an **“intermediaries’ boom”** that means an increasing amount of mediating firms on the market of corrupt services and their increasing importance for interrelations between business and the state. Mediating relations between business and the state seems to become one of the most profitable types of business today. We would argue that currently corruption in Russia is going through the process of **institutionalization via formalization of intermediate structures**.

The real role of intermediaries in relations between business and the authorities is ambiguous. On the one hand, they serve as a screen for deriving corrupt flow and thus facilitate corruption. On the other hand, they simplify and accelerate interactions between business and official structures and also function as an organizing and structuring force, reducing the chaotic character of the bureaucratic market. In principle, this can contribute to further regulation of the bureaucratic market and elimination of corruption. The market of mediating services is not homogeneous and requires further inquiry. At this stage of research we can only assume that different types of mediating structures include different “portions” of “corrupt components” in their activities. This should be taken into consideration while elaborating anti-corruption measures regarding mediating structures.

Different mechanisms of corruption

We should also mention the different mechanisms of corruption used by permit-issuing bodies and inspection agencies. Permit-issuing bodies are monopolists at the city-level. The formalization of intermediate services focuses above all on these structures. Inspection agencies perform mostly at the local level. Interactions with these kinds of structures are more personal in character, though in this sphere of corruption one could also find incipient signs of using mediating services. So, the whole market of corruption services is becoming more organized and “civilized”. This division between “permitting” and “inspecting” corruption should be taken into account while elaborating anti-corruption measures. In the case of inspecting corruption, the accent should be made not only on the revision of rules. What is also important is working on conditions seeking to diminish the stimulus for the informal economy, which is a breeding ground for corrupt practices.

Attitudes of businessmen towards corruption

The study has demonstrated the *routinization* of corruption in business ethics and business consciousness. This tendency is manifested in the attitudes of businessmen for many of whom facing corruption no longer causes “serious stress,” since it has become “one of the working moments of business.” Another piece of evidence is that rewarding “good official” is not considered bribery. The fact that bribes that should be paid for bureaucratic decisions are included as a cost in calculations of economic effectiveness alongside with regular business expenses indicates that businessmen consider corruption as an expensive, but still inevitable cost for doing business.

At the same time the attitudes of businessmen toward the authorities could be characterized by **distrust** and the “**strategy of keeping a distance from the state**” trying to avoid contacts with state officials. The dominating discourse on corruption is that corruption is incorporated into the bureaucratic system in general and all bureaucrats “won’t lift a finger” without money. It means that they all *a priori* are ready to give bribes to officials; many businessmen do not even try to find legal and official ways of solutions to their problems – they start looking for access to corrupt officials to give them money to solve their problems “fast and easy” (in comparison to official way).

An indirect consequence of these tendencies is an incredible lack of awareness among businessmen about anti-corruption measures undertaken at different levels. What is important in terms of anti-corruption policy development is that most businessmen doubt the effectiveness of anti-corruption policy and therefore are not interested in finding information about anti-corruption measures.

5.2. Fighting corruption: perspectives and measures.

The study has demonstrated that it is necessary to elaborate a purposeful approach to fighting corruption. It is ineffective to fight corruption as a whole. Even though the nature of corruption is the same in every sphere – the use of power to serve the personal interests of specific officials – the relations of small and medium business with authorities and hence the mechanisms of corruption differ from those in big business. In order to make the anti-

corruption policy work, it has to become more differentiated and more targeted to the needs and requirements of concrete groups, including small and medium sized business.

Visiting the web sites of different anticorruption NGOs reveals a wide-range of substantial recommendations of a legislative, economic and organizational character on the elaboration of the anticorruption policy. Apparently, it does not make sense to duplicate those documents. We see our task in using the findings of the study to add to the existing recommendations with the specific details concerning small and medium business that can make anticorruption measures in this particular sphere more effective.

Others before us have emphasized the need for a comprehensive approach to fighting corruption. Emphasizing the necessity of the comprehensive approach, we first of all want to stress that anticorruption measures should contain the measures aimed at revising legislation, changing the economic environment, and also measures aimed at the changing businessmen's attitudes to corrupt interactions. We consider four main directions of anti-corruption measures linked to the following objects and subjects:

- legislation and regulations,
- economic environment,
- civil society,
- public relations (PR measures).

Legislative measures.

As our study has demonstrated, small business suffers not from bad laws, but from arbitrariness in their implementation. This does not mean that existing laws should not be revised, but it emphasizes that expecting results from amending legislation should not be overestimated. The main attention should be paid to the problems of implementation of the existing legislation and other official rules.

From the perspective of small and medium sized business, the focus of legislative anti-corruption measures should be rather on the revision of existing regulations imposed by different departments than on reconsidering legislation in general. In our vision, major anti-corruption measures should be targeted for this task. One of the main troubles for small business is that officials prefer to follow internal regulations than to conform to existing laws – which often contradict each other or at least do not overlap absolutely; this “gap” is one of the main reasons for corrupt practices. From this perspective it is necessary:

- a) to reinforce control over implementation of the existing and new laws and regulations;
- b) to facilitate the priority of federal laws over department's regulations;
- c) additionally, the department's regulations should be revised and brought into accord to contemporary laws and realities (especially outdated regulations some of which refer to 1970s and even to 1930s)

Economic environment.

The main direction of economic measures should concern elimination of the shadow economy, which provides a breeding ground for informal payments to officials. Among the wide complex of economic measures aimed at liberalizing the economic environment for small and medium-sized business, stimulating legalization of business activities should be the first priority, especially the reduction of taxes for SMEs, which requires a special policy and approach from the state side. These measures should be accompanied by a strong PR campaign advertising the new “loyal” position of the state towards SMEs.

Civil society

As the studies by Vadim Radaev have demonstrated, business associations represent one of the most effective means of defending businessmen' rights in their dialog with authorities. According to our research, the situation with business organizations in small and medium business is ambiguous and paradoxical. On the one hand, businesspeople:

- a) are dissatisfied with the situation in business-state relationships and are interested in changing it,
- b) do really need some entity which could protect their rights, needs and interests in their dialog with the authorities;
- c) consider business associations as the most trustworthy organizations (as compared with other organizations) which could protect their rights (see section 4) since they do not trust anybody else.

On the other hand, businessmen:

- d) often possess no resources (financial or time resources to invest them in third sector activity infrastructure support);
- e) do not believe in the effectiveness of such associations even if they were created.

This “discrepancy” between SMEs’ needs, attitudes and abilities to create associations could be overcome through bringing together NGOs fighting corruption as well as independent organizations, mainly international foundations and other structures facilitating anti-corruption processes in RF.

Which of the existing associations should be supported and/or what new entities are to be created in this field; what kind of activities should be pursued, and many other issues all constitute a new research and practical agenda for furthering the anti-corruption campaign at the international level. What is very important in this new direction is to bring together both Russian and international organizations: on the one hand, it is important to map Russian NGOs, business associations, and networks of active and potential businessmen, as well as promising persons who might lead such associations and movements, on the other hand - it is necessary to map “supportive” NGOs, first of all, international ones, to advertise to them the active and potential business associations and other representatives of the civil society field.

PR strategies.

In order to change routinized attitudes of businessmen towards corruption it is not sufficient just to inform businessmen about anti-corruption measures. There is a clear need to elaborate a coherent PR campaign with the aim of change attitudes towards corruption in society as a whole.

A PR campaign is an important part of each group of the suggested anti-corruption measures. It is especially important for economic measures, it is an integral part of the civic activism. Legislative measures are also to be followed by a PR campaign in order to be efficient.

There was also another reason to point out PR measures as a separate and important direction of anti-corruption activities: a PR campaign is important because people live in the world of their beliefs and interpretations of the surrounding world rather than in the world of “real things”. In other words, people would act in a certain way when they believe that this or that order of things exists, this or that measure is undertaken, this or that law is implemented –

regardless of “the fact” that these measures are not undertaken in reality and laws are not implemented and are just advertised as such⁶.

That is why we are sure that PR measures must be an integral part of any anti-corruption campaign. Here we see another need for further research activities, which would help in preparing and designing a social PR policy for an anti-corruption campaign.

The PR strategy could be realized in 3 main directions:

- promotion of anti-corruption measures undertaken by the state and NGOs; as an example: we already noted that one would need a PR campaign deciding to increase salaries of officials as part of a comprehensive set of measures directed against corruption. In this case the strong PR campaign would be needed to convince “ordinary people” that this measure a) is unavoidable, b) is only one part of the complex of measures (which include also increasing of responsibility of officials and toughening of the punishment).
- “positive PR” promoting a new-non-corrupt image of relationships between business and state (to refer to western model); white PR of less corrupted state institutions etc.; we noted that businessmen often refer to “western experience” as a good point of references, and also there is a lot of evidences that businessmen wish to work “in the white”:
- “negative PR” of corruptive practices, representing them as unnatural and shameful; it makes perfect sense as the majority of our informants do treat bribing and corruption as a shameful, arrogant and disgusting phenomenon; there is a good basis for “negative campaigning” against corruption as a social phenomenon, first of all, it might rely on the emotional disgust which people feel towards situations of bribing, corruption and towards corrupt officials.

⁶ There was a very good example of an efficient abuse of anti-corruption PR campaign in the election campaign of the “United Russia” political party. The anti-corruption policy realized by the Minister for Internal Affairs

Annex 1

SAMPLING

For the survey the quota sampling was used. The main criteria for quota sampling were the number of personnel (the ratio between the rates of small and medium business); and the spheres of business.

According to the norms, accepted in the North-Western region of Russia, the criteria of referring to small business is the number of personnel. The norms vary depending on a type of the business:

- industrial production, construction, transport – up to 100 employees
- agriculture, science – up to 60 employees
- whole-sale – up to 50 employees
- retail and services – up to 30 employees
- other businesses – up to 50 people

The enterprises with the number of employees from 100 to 500 are considered as middle-sized business. The index of turnover could not be used as a criterion for sampling, because no reliable statistical data could be found.

During the survey 355 businessmen were questioned. 59,7% of them are men, 40,2% are women. According to the age the structure of the sample is as follows:

1. under 25 - 4,1%
2. 26-35 - 29,9%
3. 36-45 - 34,6%
4. 46-55 - 28,4%
5. 56 - - 3,0%

58,8% of respondents are the owners of firms, 33,7% work at a firm on a permanent basis; 5,4% work on a contractual basis; 2,4% work under verbal agreement.

In our survey middle sized enterprises constitute 15,5% of the sample, and small enterprises – 85,5%. It corresponds to the real ratio between middle and small enterprises in SPb. The majority of enterprises in the sample realize their goods and services at the local market (73,4%); almost one third of them also work on all-Russian market (32,5%); and only 7,2% realized their goods and services on international market. The sample includes enterprises representing main types in terms of form of property (organizational-legal form) and according to main spheres of business activities (see tables below).

Sphere of business activities	%
Retail and wholesale trade	36,1
Construction	12,5
Light industry	6,0
Industry	10,1

Transport	4,5
Communication	3,0
Catering	3,9
Banking and financial services	1,2
Communal services (water supply, canalization and etc.)	1,2
Tourism, entertainment	5,1
Education, health care	7,2
Consulting. Information technologies	9,9
Research and engineering	4,5
Polygraphy and related services	3,3
Advertising, public relations	2,4
Services	4,1
Other kinds of activities	9,2

Organizational-legal form	%
Closed joint-stock company	17,1%
Open joint-stock company	4,8%
Company with limited liability	58,6%
Enterprise without establishment of juridical person	16,5%
Cooperative	0,6%
Other form	2,4%

Centre for Independent Social Research

Russian business and the problem of corruption

Questionnaire

Saint-Petersburg
2003

Hello,

the Centre for Independent Social Research, Saint-Petersburg, in cooperation with the Foundation for Market Economy (Hungary) and the American University (USA) is conducting social research on corruption. Corruption is named to be one of the main attributes of the contemporary Russian business. Much has been said and written about corruption for the last years, however the understanding examination of this phenomenon is possible only with the help of the people who face corruption relations in daily practice.

The participation in this research is voluntary. Nonetheless, we hope for your help since only your competent opinion can shed light on the question what it means to do business in contemporary Russia and to elaborate recommendations for those who can influence the conditions of business development. All information gathered is anonymous and will be used only in a generalized form. The names of the people participating in the project will not be mentioned in the projects' results.

1. Different opinions on the scale of corruption can be heard in Russia nowadays. In your opinion, how widespread is corruption and bribery in our country? (please circle the answer's number):

1. The scope of corruption is not that large as it is used to think, it is quite possible to manage with problems-solving without informal "stimulating" of officials.
2. The scope of corruption is not that large as it is used to think, however running a business it is impossible to avoid corruption relations.
3. The scale of corruption is significant, however it is possible to manage without getting into corruption relations.
4. In Russia absolutely everything is corrupted. It is impossible to solve any problems without bribes (or other "informal" stimulus).
5. Your variant _____

2. There are 5 pairs of judgments on corruption. Please select in every pair of judgments the variant which in your opinion describes better the essence of corruption in business:

1	Corruption is when state officials extort bribes from businessmen	1
	Corruption is when businessmen suborn state officials to make them make decisions in the businessmen's interests	2
2	Corruption is a phenomenon which is taking place first of all in high echelons of authorities, in relationships between high level officials, politicians and oligarchs. What is happening at lower levels can not be called corruption.	1
	Any informal means of problem solving, emerging in relations between businessmen and officials are corruption, regardless of the scope of the business and the level of authority.	2
3	Corruption is a violation (by officials as well as by businessmen) of legislation rules for profit	1
	Corruption is just one of commonly accepted informal means of solving problems, inevitably emerging in relations between business and authorities.	2
4	Corruptioners are both sides participating in corruption arrangement	1
	Corruptioners are officials creating a precedent for the emergence of corruption situation	2
5	Corruption is referred to such arrangements as big money bribes given to officials and machinations with state property whereas small presents are only a form of gratitude to an official for services rendered	1
	Corruption refers to any (big as well as small) informal rewards and services rendered to officials for performing their duties or for their duties' violation	2

3. How would you characterize the scope of corruption in your business sphere? (please select one variant)

1. In our business sphere everything is based entirely on corruption and informal relations (bribes, services, different kinds of informal rewards and etc.)
2. In our sphere to run a business not getting involved into corruption relations is rather an exclusionary case
3. In our sphere it is possible to run a business not resorting to corruption practices
4. It is difficult to say

4. Could you please recall how often during this year (since January 2003) you or your firm has resorted to “informal payments” (of various forms) of officials’ services?

1. Regularly (once a month and more often)
2. From time to time
3. Seldom
4. Not once

5. If you have ever resorted to “informal payment” of officials’ services, what was the level of authority these officials belonged to in most of the cases? (select several answers if needed)

1. District level (*rajon*)
2. City level
3. Regional level
4. Federal level

6. How did this situation look like in most of the cases? (one variant of answer)

1. An official demonstrated with his/her behavior that the question could be solved with informal means
2. I myself offered an informal solution in order to avoid possible hardships
3. In this situation informal “stimulating” was implied

7. If you have even faced the situation of blackmailing from the side of officials, did you address any of the instances below for protection (help or advise): (select several answers if needed)

1. Court
2. State power structures
3. Private power structures
4. Juridical consultation
5. Officials or organization of higher level than the officials you dealt with
6. Acquainted businessmen who are competent in these questions
7. Friends
8. Did not address any of the mentioned
9. Other (what) _____

8. If you have not addressed any of these, why?

1. I do not believe in effectiveness of fighting authorities
2. I did not have necessary contacts
3. It is easier (more reliable, faster) paying than trying to change the system
4. Because there was a violation of formal rules from my side, too

Other answer

9. When you face the necessity to solve a problem with informal means, how does this situation feel for you?

1. A serious stress
 2. An annoying hindrance which has to be abolished the sooner the better
 2. Just one of the working moments of business
 3. I myself do not deal with these problems
 4. Other (what) _____
-

10. During the last year what authority or regulation body has been the most troubling for you, forcing you to resort to informal means of problem solving (different payments, services and etc.)?

11. Do you think that corruption as it is in Russia today is a phenomenon which should be fought?

1. Yes
2. No
3. Difficult to say

12. If fighting corruption starts in Russia, what organizations founded for these purposes will you be ready to cooperate with? (select several answers if needed)

1. With organizations created under the aegis of the state
 2. With organizations created under the aegis of power structures (Ministry for Internal Affairs and etc.)
 3. With political parties (such as _____)
 4. With independent (from the state) non-governmental non-commercial organizations
 5. With organizations, initiated by entrepreneurs and business associations
 6. Your own answer _____
-

13. What forms of participation in fighting corruption campaign would you be ready to support? (please give not more than two variants of answers)

1. Money donations in related foundations, organizations, programs
2. Personal participation in the activities of organizations, created for fighting corruption

3. Dissemination of anti-corruption ethical codex in your organization and in your business networks

4. Not using (boycotting) of corruption relations in your own practice of running business

5. It is difficult to answer

14. What anti-corruption activities of high authorities would you consider as a convincing proof of their serious intentions in fighting corruption? (select not more than 4 variants of answer)

1. Toughening of criminal liability and punishment of corruptioners

2. Open trials under oligarchs and their accomplices

3. Raising the salaries of officials

4. Cutting down the number of officials, the reform of state apparatus

5. Dismissal of corrupted officials

6. Changing of legislation

7. Toughening of control for realization of acting legislation

8. Decrease of taxes

9. Public declaration of officials' incomes

10. Full-scale operation of the Office of Public Prosecutor on fighting corruption

11. Creation of people's organizations to control authority

12. None

13. Your variant _____

15. Which measures, in your opinion, could be conducive for the decrease of corruption practices of state servants?

1. On the level of the district (*rajon*) _____

2. On the city level _____

16. Do you know about the following anticorruption laws which are currently being discussed on the federal level?

Law	Yes	No
Law on fighting corruption	1	2
State servant behavior codex	1	2
Conception of the Program of Administrative Reform	1	2
Law on Protection of Rights of Juridical Persons and Individual Entrepreneurs during the conduction of state control (supervision) «Law №134»	1	2

17. Do you know anything about anticorruption measures undertaken on the level of the city or the district?

1. Yes

2. No

18. In your opinion, does the case of “werewolves in shoulder strips” indicate the beginning of anticorruption policy in our country? (please select one variant)

1. Yes, I think it can be considered as an evidence of serious intentions of the state to fight corruption
2. This is just one of the demonstrative actions which cannot be taken as a proof of the serious long-term anticorruption policy
3. I have not heard about this case
4. Your variant _____

19. Which organizations from the list below can in your opinion protect entrepreneurs from unjustified actions of officials? (please circle codes in the table)

Organizations	Yes	No	I don't know this organization
1. Ministry of RF on antimonopoly policy and entrepreneurship support	1	2	3
2. Union of industrialists and entrepreneurs	1	2	3
3. Association of managers of Russia	1	2	3
4. Agency of journalists' investigation	1	2	3
5. People's control	1	2	3
6. Other organization _____	1		
7. No organization	1		

20. In the last years corruption has become a transnational problem. Do you believe that international organizations can seriously affect the situation with corruption in Russia?

1. Yes (if possible, mention these international organizations)

2. No

3. It is difficult to say

Please elaborate on your answer _____

SEVERAL QUESTIONS ABOUT YOUR FIRM

21. When was your enterprise established?

Period: 1. 1990-1994 3. 1999-2000

2. 1995-1998 4. after 2000

22. How many employees work in your firm? _____

Among them on a permanent basis _____

(Interviewer! Please code the answer: 1. Small business 2. Middle size business)

23. What is an organizational-legal form of your enterprise?

1. Closed joint-stock company
2. Open joint-stock company
3. Company with limited liability
4. Enterprise without establishment of juridical person
5. Cooperative
6. Other form (such as) _____

24. Please mark the main specialization and main kinds of activities of your firm (*not more than three variants of answer*)

1. Retail and wholesale trade
2. Construction
3. Light industry
4. Industry
5. Transport
6. Communication
7. Catering
8. Bank and financial services
9. Communal services (water supply, canalization and etc.)
10. Tourism, entertainment
11. Education, health care
12. Mediation and consulting. Information technologies
13. Research and engineering
14. Polygraphy and related services
15. Advertising, public relations
16. Other kinds of activities _____

25. On what market do you mostly realize your goods or services?

1. International
2. Russia as a whole
3. Local

26. Has your firm ever participated in tenders (auctions), carried out on the levels marked

below: (*please circle codes in the table*)

Level of tenders	Yes	No
1. On municipal level	1	2
2. On federal level	1	2
3. On international level	1	2

27. If your firm do not participate in tenders on municipal and regional levels, what are the reasons for that? (you can select several answers)

1. Our firm is not big enough to participate in tenders
2. There are no tenders on the profile of our firm
3. The conditions of tenders do not suit
4. I have never considered this opportunity
5. It is useless to participate in tenders because the result is known in advance
6. Other reasons (such as)_____

28. How would you evaluate your business' success for the last three years?

1. My business has become more successful
2. It has remained on the same level
3. It has become less successful
4. It is difficult to answer

29. Is your firm a member of some business association, business-club?

1. Yes
2. No

(If the answer is "yes", please specify)

SEVERAL QUESTIONS ABOUT THE INFORMANT

30. Your sex:

1. Male
2. Female

31. Your age:

1. under 25
2. 26-35
3. 36-45
4. 46-55
5. 56 -

32. Your education

1. General secondary education
2. Secondary technical education
3. Unfinished high education
4. High education

33. How long have you been working in this firm?

1. More than 10 years
3. 3-5 years

2. 6-8 years

4. 2 years and less

34. Your position in the firm's structure

1. I am my own employer, the owner of the firm
2. I am working in this firm on a permanent basis
3. I am a contracted worker
4. I am working under a verbal agreement

35. Do you mind if we indicate your contact phone number?

1. I do not mind
2. I mind

Thank you very much for your participation in the survey!

The following table is to be filled in by an interviewer:

Full name of the interviewer:	
Date of the interview:	
Respondent's contact phone number (if agreed) :	
Interviewer's work check results:	

Annex 3

Interview Guide

The Main Interview Question:

The history of a respondent's business starting from his/her first independent steps in business with the emphasis on the relationships with authority structures and the role which state rules and state structures have been playing in the respondent's business development.

The Main Interview Question (Formulation – 2): we are interested to learn about the formal state rules and regulations implied to the developing business sphere and the informal practices of their implementation and realization.

Questions:

1. 'History'

When did you started entrepreneurial activities and how? (This question is meant to set a general frame of the interview.

The respondent's professional 'biography' in business will help us to get to the question of informal relations).

A few questions about business itself - what they do, the volume and character of business, partners they work with, aside activities...etc.

Was your firm registered, did you receive a license? Please tell about these procedures. What were the instances the respondent went through, who gave first advices, how it became possible to start business financially... and etc.

Do you consider yourself an entrepreneur, 'a small size' entrepreneur, not an entrepreneur at all? If yes, why do you define yourself so? When did you start thinking of yourself as an entrepreneur?

2. Attitude to Laws and Regulations

What are laws and regulations which are of special importance for your business development? What are the ways they influence your business? (Concrete situations from the respondent's practice)

How do you work with controlling bodies?

Have there ever been situations when the changes in legislation/rules affected your business radically?

What do you think drives the state to accept such laws, rules and regulations (the concrete rules and regulations the respondent is talking about)?

How difficult (and how expensive) it is for you (your business) to follow the state rules? (salary of a financial manager, time for collecting papers and doing paper work and etc.)

Have you ever had problems with state structures on the matter of your business? If yes, how did you solve them? Are there common practices accepted in a business sphere of solving these kinds of problems? How does this knowledge spread?

How in your opinion the relationships between state and business have been changing for the last few years? Changes to the good, to the bad, in which way?

What in your opinion needs to be changed in the existing legislation or practices of its implementation to make the situation better for business development?

2a. Taxation, Tax Legislation

Are the changes of tax legislation noticeable for you and your business? (Do the changes of tax legislation have an impact on your business and in which ways? Have they ever had an impact on your business – concrete situations) (Here: to ask about the influence of the changes of taxation rules and of real practices of tax inspection)

Where do you get information on the changes in tax legislation?
Do you consider your behavior in a taxation sphere successful or not?

3. ‘Related Definitions’

What kind of activities would you define as corruption? What is corruption in your understanding?

(The task here is to make the respondent reflect on two categories, those of ‘corruption’ and ‘informal relations’. What is the difference? Where do informal relations end and where does corruption start? Related follow-up questions)

4. ‘Anticorruption policy’ attitude. Civic activism.

Do you know anything about the state’s attempts to fight corruption (the debate in the State Duma, the documents adopted - the Codex of State Servants, the Project of Anticorruption Program etc.)?

What is your opinion on the state’s anticorruption measures? Do you think this kind of policy is needed at all? Or everything should stay as it is?

What kind of measures (new rules adopted, legislation changed, concrete people dismissed?) would help you in doing your business?

Do you have your own recipes of making the relationships between state and business healthier (fighting corruption)?

Is there a need for business people to make joint efforts in improving the business climate, in influencing state-business relations? Do you think it will work? Do you know anything about business associations’ activities or other intermediate structures operating in the space between business and state which can influence the existing situation?

5. Personal Information:

1. Age
2. Education
3. Profession
4. Sphere of activity (trade-production-finances-services-science-what else?)

Information about a Firm:

1. How many years it has been operating
2. How many employees
3. Juridicheskaya forma

The interview data base description

30 interviews with representatives of small and middle size (SMEs) businessmen in St.-Petersburg have been conducted in the framework of the qualitative part of the project.

In our data base the following kinds of business are represented :

- trading (including food) – 11 interviews
- production (including construction) – 5 interviews
- services (including cafes, security (stocks etc.), business & law consulting etc.) - 14 interviews.