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***Informality and civic organizations  
in state-business relationships in Russia***

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**Draft version**

*Abstract*

The main question which is considered in this paper is how domination of informal rules in business sphere influence formation of civil dialog between business and authorities in Russia, what are the main features of the emerging “civic sector” in the economy, to what extent the emerging model of civil society in Russia corresponds to widespread social expectations? Using the outcomes of sociological research on small and medium business a conclusion is made that domination of informal rules is becoming a crucial feature predetermining slow development of civil society institutions in business sphere. The analysis of civic sector in business sphere allows to assume that civil society institutions in business sphere serve rather for institutionalization and formalization of “horizontal” relationships, as a network projects or trust institutions than as mediators in “vertical” dialog between business and the state.

**Introduction**

1.

With given diversification of the concepts of civil society all the scholars share the opinion that it is a necessary condition of transformation from totalitarian state to democratic society. The view on civil society which is dominating today in public and scientific discourse (at least regarding transforming societies) implies, first of all, so-called “vertical project” of civil society, i.e. a system of democratic institutions, which is supposed to defend individuals and groups from state’s oppression and power abuse. It is also conceived that civil society should provide possibility for individuals and groups to influence the state, providing civic mechanisms of lobbying interests of different social groups, alignment of unfair and unreasonable formal rules posed by the state, defense of political rights and etc. If to look at civil society from “vertical” perspective, the main attention is paid to its opposition to the strong state and mediation in the relationships between authorities and common people. According to this concept the construction of civil society means first of all, creation of multiple and diversified civic organizations performing as mediators between individuals and the state, opposing the state and asserting the rights of their members. Civic organizations are supposed to participate in a dialog with the authorities defending civic rights and freedoms, providing constant pressure and control over the processes of elaboration of formal rules, development and improvement of legislative environment.

Differ to vertical projection of civil society, its “horizontal” projection or “ethical model” emphasizes creation and fostering of civilized relationships between citizens, peaceful (not warfare) settlements of the conflicts, providing adequate information, tolerance and upgrading of social relationships. Despite of significance of “horizontal” functions of civil

society they are less addressed by the researchers and particularly in a discourse of postsocialist transformation. This distortion towards vertical projection is rather understandable if to take into consideration that in transformation process overcoming of the consequences of centralized and unlimited power is considered to be the key question. Inadequate attention to horizontal perspective of civil society among the researchers and experts of post-totalitarianism could be probably explained by the fact that considerations of civil society are based on different model of interaction between the society and the state. In this model the state is supposed to play minimal role and it appears only when the society brings it to life ( Хархордин, 1997, p.39), which is principally different from the situation in post-totalitarian states.

2.

Taking these considerations about civil society as starting point for our study we will try, basing on the data received from sociological research, to test some social expectations regarding emergence and functioning of civil society in Russia. The focus of our study will be on business sphere which is definitely presenting one of the main arenas of postsocialist transformation. The main question addressed in this paper is what role do institutions of civil society functioning in economic sphere play in the formation of the dialog between business and the state? We consider civic sector in business sphere – various business associations and NGOs. The matter of our particular concern is domination of informal rules regulating relationships between businessmen and state officials that we consider as significant institutional factor affecting civic activism and effectiveness of civic sector in business sphere. Without going deep into theoretical discussion whether civil society exists in Russia or not, and to what extent it corresponds to the western model of civil society, we will attempt to describe some features of a «hybrid model» of civil society (Risto Alapuro, Ilkka Liikanen and Markku Lonkila, 2004:12), that has been already emerged in the course of postsocialist transformation.

Using of two civil society projections (vertical and horizontal) would allow us to understand discrepancies in assessments of civil society in Russia provided by different experts. According to some of them, the scale of civil society in Russia is comparable with the scale of civil societies in some European countries. This assertion is usually based on statistical data on the number and dynamics of non-commercial organizations. It is true that over the last years Russia has seen dynamic development of a system of non-government, non-political, non-commercial organisations. Social organisations are active nearly in all RF constituent territories. Their total number amounts to around 350,000.<sup>1</sup> According to another statement which is apparently prevailing in the assessments of civic activism in Russia, Russian civil society is weak, uncoordinated and completely depends on western financial support. Taking into consideration two perspectives of civil society makes it possible to avoid alternative character of above mentioned conclusions.

3.

The formation of relationships between business and authorities is considered through the prism of corruption problem in small and medium business. Despite of its rather specific character the problem of corruption reveals actual interactions between business and authority. Studying corruption helps to understand what strategies are undertaken by businessmen to protect themselves from the state's aggression, what role do organizations

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<sup>1</sup> <http://www.strana.ru/print/85216.html>

of civil sector play in these relationships and how they contribute to the process of business friendly legislative and economic environment development.

The paper will use the data received in the course of two studies: the study on informal relationships between small and medium businesses and authoritative structures in SPb and the study on the role of NGOs and business associations for anti-corruption policy development. Both studies were conducted by CISR (SPb) researchers in 2003 and 2004<sup>2</sup>. While the first study was focused on small and medium businesses the second one considered non-governmental and non-commercial associations of businessmen – actually institutes of civil society constituting a civil sector in business sphere.<sup>1</sup> The focused was made on interactions between state officials and businessmen (SMEs) and the role of civic organizations as actors on anti-corruption field.

The study is based on micro approach according to which the situation is considered through the attitudes of its participants. Analyzing micro practices of interactions between businessmen and barriers of bureaucratic resources would help to understand how relationships in business sphere are really formed. Being aware about limitations of micro approach for wider generalizations we believe however that conclusions and hypothesis regarding civil society institutions in business sphere could be with good reason extrapolated beyond territorial boundaries of St. Petersburg as well as beyond of the range of economic sector of civil society.

The paper will start with a brief consideration of the notion of “soviet model of civil society” and informal economy presented mainly by small and medium enterprises as a main source of civil society in pre-reform Russia providing an alternative to centralized state planning economy. Then we will consider the growing informality of the post-socialist economic mechanism as a specific feature of the after-reform period. We will show the contemporary situation with informal and semi-formal institutions serving relationships between businessmen and authorities. Using the phenomenon of informal bureaucratic mediation it is demonstrated that institutionalization of informal ways of solving the problems is becoming an obstacle on the way of the development of civil society institutions which are supposed to establish civil dialog between business and authorities. Then we will look more precisely at the activities of different civic organizations in business sphere trying to analyze whether they function as civic mediators the relationships between business and the state.

### **Informality as a source of civil society during the soviet era**

To address the theme of civil society in Russia it is needed to look back at the very origins of the concept itself. It is worth to remember that the term ‘civil society’ was developed in the West and for societies of a Western type, and implied a differentiation of the state from the private or individual sphere. Thus, it appears rather problematic to apply this term to ‘non-Western’ countries, especially for the societies of ‘soviet type’ that were characterized by a very relative separation of political, economic and private spheres. And even after collapse of the soviet system the Western model of civil society is seen by many researchers as unachievable for the foreseeable future (see John Gray, 1991).

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<sup>2</sup> The project «prospects for fighting corruption in post socialist countries: cases of Russia and Hungary» was conducted in 2003-2004 within the frame of Think Tank Partnership Program supported by USAID, IRIS и KPMG Consulting Barents Group.

Since the end of the 1980s the question whether we can talk about the existence of civil society in the totalitarian Soviet state has been among the most discussed in Russian intellectual circles and abroad. Supporters of the idea of a 'Soviet type civil society' seek for various forms of activities and networks, which provided an alternative to centralized state regulated forms etc. Some researchers saw the signs of civil society in the emergence of more independent and dynamic urban culture ("city air") (Starr, 1988), others consider informal networks, friendship and family networks as a basis for a future civil society (V. Shliapentokh, 1989). The extensive informal economic sphere is also seen as a main source of civil society in the Soviet era. Many researchers (see, for example, Risto Alapuro, H.T.Rigby), share the opinion that in Soviet Russia informal economy or so-called 'second economy' eroded the economic monopoly of the state and caused the process of individualization and decentralization. Since separating economy from the state is considered as "perhaps the most important step in the revival of civil society" (David W. Lovell), the existence of widely spread informal economy was considered as one of the grounds for the emerging civil society in late Soviet and post-Soviet Russia. Although the scale of informal sector was incomparably smaller than the formal one, it existed as an autonomous economic cluster, alternative to the state.

Another reason for considering informal economy, as a basis for civil society in soviet times was that informal sector consisted mainly of small enterprises and individual entrepreneurs. Many researchers stress the linkage between the development of civil society and the small business. The development of small business is seen as one of the important preconditions for establishing democracy. Besides playing a special role in the economy development, small business is considered to have also a great impact on social structure formation providing social basis for the emergence of the middle class, a class of independent proprietors.

During the reforms, entrepreneur activity was formally legalized and even the course towards small business development was declared (posted) by the state. Accordingly, it could be assumed that legalization of small business would lead:

1. to the emergence of a dynamic economic sector which is autonomous from the state (or at least less subjected to state interventions) and thus, providing economic and social basis for civil society formation;
2. to self-organization of business and the emergence of associations and organizations which could represent group interests and provide institutionalized mechanism for the development of state business relations through which business would influence (or at least, would attempt to influence) the state's policy on the development of business environment.

### **Business and informality after reforms: state-business relations.**

It would not be an exaggeration to say that the majority of business activities in today's Russia still lie in a shadow. This is particularly true for small and medium business, so it could be stated that small business is still informal or semi-formal. The data received in the course of the study has confirmed that for small and medium business the problem of impracticability of formal regulations remains the main problem of doing business. The leitmotif of almost all interviews could be better expressed using the words of one of the



*“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”.*

*(director of a cafe)*

It should be mentioned here that in the majority of conflict situations the relationships between businessmen and authorities are hardly regulated by formal instructions but rather by some “unwritten rules” being spontaneously formed through the process of interpersonal negotiations, as well as by conventional common sense and some shared meanings of justice. Although businessmen and bureaucrats appeal to laws and regulations, the latter serve just as some formal background while the conflicts are settled using informal or semi-formal procedures. Perhaps this is the reason of surprising unawareness of our informants about the laws protecting their rights. According to the survey data, 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 - “only” 61% have never heard of this law, which was aimed to protect small businessmen from spontaneous and unscheduled inspections undertaken by officials on their own initiative.

What can business undertake against despotism of state’s bureaucracy? From the western perspective the most obvious way is civic activism, including formation of business associations, lobbying group interests, attempts to influence state’s legislative policy to improve legislative and economic environment.

### **Businessmen and civic activism.**

In our study we attempted to find out about businessmen’ attitudes towards different organizations which could help them to protect their rights. According to the survey, 57,3% of respondents have never addressed anybody 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 demonstrated a low level of trust towards official 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, it demonstrated the high importance of informal contacts with friends in difficult situations (about 15% mentioned that when situation of extortion occurs they appeal to friends) and (20,6%) - to businessmen-acquaintances experienced in these questions

While answering the question, *which organizations can protect entrepreneurs from unjustified actions on the part of officials and with which organizations they are ready to cooperate if fighting corruption starts in Russia*, 35,2% of respondents had stated that “no organization” could protect businessmen from bureaucratic despotism. 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”*

Nevertheless, respondents who positively answered to 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<sup>4</sup>. However, the qualitative material adds some dark colors to the picture. The general attitudes towards associations of businessmen expressed in interviews are more pessimistic: well, 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:

*“... 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 lose much more in the future”.*

Thus, on the one hand, businesspeople:

- are dissatisfied with the situation in business-state relationships and are generally interested in changing it,
- do really need some entity which could protect their rights, needs and interests in their dialog with the authorities;
- consider business associations as the most trustworthy organizations (as compared with other organizations) which could protect their rights .

On the other hand, businessmen:

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

### **Informality in state-business relationships.**

Interviews collected during the study have explicitly demonstrated that businessmen prefer to solve the problems with state officials using informal and semi-formal ways. The study has provided numerous evidences of the emergence of a wide-scale market of *mediating bureaucratic services* facilitating *informal* relations between business and authorities. In recent years there has been an explosive growth of legalized and formalized mediator firms that sell bureaucratic services (*“intermediaries’ boom”*). 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.

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<sup>4</sup> 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)

From the formal point of view these firms resemble intermediaries operating in all advanced economies. However, some specific features of mediating system in Russian case making it principally different from that in western countries. While the main purpose of intermediaries in the West is to process bureaucratic procedures, which are too complicated and need special skills to handle, in Russia mediating services serve more often as a screen, being in fact a hidden form of rewarding officials for accelerating bureaucratic procedures. The difference will become more evident if to compare the work of custom brokers – mediating institute presented both in western countries and in Russia. Complicity and intricate character of custom rules are immanent to every country, therefore cargo carriers everywhere resort to help of intermediaries – custom brokers. Why then we call services provided by custom brokers in Russia “corrupt mediating”? In fact it is rather difficult to separate consulting mediating from corrupt mediating even for businessmen themselves. In the following quotation respondent is speaking about relationships with customs:

*«OK, as for customs ... they solve the problem in another way. They do not have...how to say..these direct relationships like “bribe-decision” . Everything is rather covert there, and, they have , say, nearby-custom structures that guide all operations with your cargo and solve the problems with customs officials. Is this bribe or not?»*

*(director of construction firm)*

The main task of custom brokers in Russia is not so much to assist businessmen in going through customs formalities, as manipulations with reducing cargo cost and accelerating the process via informal channels. A special market of informal custom services has been formed on which custom brokers offer to businessmen a wide spectrum of possible custom schemas – from “light-gray” up to “fast black” (the cheaper the schema the longer time it takes and the less is the risk). While doing this, brokers “take the responsibility for substantiation of declared cost of cargo using for this purposes informal agreement with custom officials”<sup>5</sup>. For instance, if computers are declared in official documents by brokers as frozen vegetables, then custom officials in most of the cases know about it. However, they wouldn’t inspect whether the real cargo corresponds with what is declared in the documents because of informal agreement with custom brokers<sup>6</sup>.

The attempts of businessmen to make it directly through custom bodies avoiding intermediaries do not work well.

*“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*

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<sup>5</sup> Radaev V.V. «Таможня дает добро? Российский бизнес на пути к легализации». В кн. Олимпиева И., Паченков О. (ред.) «Неформальная экономика в постсоветском пространстве: проблемы исследования и регулирования», СПб: ЦНСИ, 2003, с. 57

<sup>6</sup> The best example is import of computers and other hi-tech devices. Usually these products were imported to Russia 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. At the same time one could hardly find any statistical evidence of import of electronic devices – of course, in reality the picture was different. Radaev, 2003.

*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".*

*(director of the shop)*

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 cheaper or sometimes even free for some SMEs. The access to them is limited. But there is 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. Not only real estate firms mediate these relationships (as it could be seen from the following quotation)

*Q: Did you have any problems with officials to open your shop?*

*A: Oh, horrible! There was a lawyer firm at the district administration that offered us very good premises. But then it turned out... 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!*

*(director of the shop)*

*Licensing (and certification).* For our informants it is obvious that in order to get license or certificate it is better to avoid direct contacts with licensing and certification centres which complicate the procedure deliberately, and work through an intermediary firm, which will issue the same papers on the basis of the same documents, but for a different price:

*Q.: "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. Because nobody has so much time to collect all this – it would take me half a year! Besides I have no idea where to go to get these documents..."*

*R: So these firms help you to get all this?*

*A.: Not only. Say, I have opened a firm and I want to start working. Then they say: "Well, but you must hire for this 10 engineers and 50 workers". I say: "ÖK, I will hire them". And after I bring all the documents they say: "Well, now you have to send them for training".*

*Q.: and what then? Then you buy these training certificates?*

*A.: Sure! In reality nobody does anything but the documents are here, they are on official paper and look nice. From institutes and training centers, that he attended courses, passed the exams, commission accepted 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 - a dozen people involved, you know! If **they** bring this paper – it will be accepted [by the officials], if not [them] – well, it won't. It's amazing!"*

*(director of construction firm)*

The study provides numerous examples demonstrating the same situation with other permitting bodies - state monopolies on gas, electricity, water, or in financial sphere –

firms providing financial consulting “*the exclusive function of which is to sign the prospect of emission*”, and many others.

The above mentioned examples refer to “*direct intermediaries*” which mean the structures replacing officials in bureaucratic interactions. In order to get permission, a businessman contacts these firms instead of going to the central permitting body, and from this firm he/she finally gets desired document. There could be also mentioned “*indirect intermediaries*”, which are more typical for inspecting bodies. These firms are not involved directly in controlling activities but using the services provided by these firms becomes a condition to pass through this or that inspection (and to avoid additional inspections)

*«There is a lot of firms selling fire protection alarm systems with all necessary norms and rules. But we were told at the very beginning that : “you know, guys, even if you find a cheaper fire alarm system and install it following all formal requirements, it wouldn’t be accepted by fire inspection. Because we have a monopoly in this district. Such and such firm is selling alarm systems here, and the owner of this firm is a chief policemen of the district. That’s it»*

*«Accordingly, at the very beginning sanitary inspection conducted raids upon us, well, say – flying visits with insinuations {...} then we begin to interact according to informal agreement – we send our employees for medical examination to a certain clinic at which they point a finger – for us it doesn’t matter whom to pay this money. And I do not know what kind of connections they have got there.»*

Why businessmen prefer to deal with intermediates? Because it is:

- a) simpler (intermediates know all the details and hidden dangers of the process);
- b) faster and anyway it saves time and therefore - money;
- c) not the least factor - it makes 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!”*

As a matter of fact, intermediaries combine in their activity *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. Speaking about informal mediating we mean these hidden functions, or to be more precise - those mediating services which are based on informal access to various bureaucratic bodies. It is clear that the ratio between formal and informal components in mediating activities could vary and depends essentially on economic and legislative context

It could be stated that currently informal bureaucratic mediating is going through the process of *institutionalization* which means that it has become generally accepted and autonomous (one of the most profitable) activity in business sphere. The process of

institutionalization is accompanied by *formalization* of mediating services, which are provided now by legal firms possessing licenses for different kinds of services.

Two options – civic and informal - could be generally considered for business to cope with uncertain and unfavorable business environment. “Civic activism” implies self-organization of business (creation of business associations) and cooperation with the third sector organizations in order to influence state policy of business development. Another option is “informal way” of establishing direct informal (or informally mediated) relationships with authoritative bodies and officials in order to solve the problems. The study has shown that businessmen consider informal way as more effective and quick. Apparently, general distrust towards official organizations and unbelief in effectiveness of public organizations also bring businessmen to using “informal stimulating” of bureaucrats. Only 21% in our survey pointed that they didn’t use any informal stimulating of officials during the last year, and 22% did it regularly – once a month and even more often. The process is facilitated by the institute of bureaucratic intermediaries (semi-formal intermediaries) that has been recently developed in Russia. Informal (corrupt) mediating is becoming significant factor influencing further development of the whole system of state-business relationships hindering development of civic activism in business sphere.

### **Civic organizations and anti-corruption activities (analytical frame).**

The intensive development of the market of informal bureaucratic services does not however mean that civic sector in business sphere is completely absent. According to the data in Yellow pages guide and Internet the overall number of business associations in St. Petersburg could be approximately estimated as over 100<sup>7</sup> and is constantly growing.

While considering civic actors dealing with the problem of corruption in state-business relationships, we used different perspectives. The first perspective deals with the question, why these organizations are involved in anti-corruption activity? What are the reasons for these organizations (and people) to consider corruption as a problem which has to be reduced or eliminated? We consider as a first group “ideological civic agents”, which are presented (or supposed to be present) by various NGOs – international and local - aimed on building of true democratic societies all over the world including post-socialist sector. These are first of all, various NGOs aimed on defending human rights and democracy building, fighting for transparent governance etc, and therefore focusing their activities on anti-corruption or corruption related issues<sup>8</sup>. Another group of anti-corruption civic actors deals with the issues of economic rationality. From “rational” perspective corruption appears as a problem that makes economies ineffective, decrease competitiveness in the world market, reduce foreign investment flows, etc. and thus hindering economic development. Anti-corruption activity from this point of view focuses on the need to increase system rationality, to make state administration more effective, and development

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<sup>7</sup> The more precise statistical data on this point is not available.

<sup>8</sup> These could be so-called Public Policy Centers or Think Tanks (analytical centers) focusing on doing research on corruption and related problems. Another type of organizations that could be referred to the “ideological group” are NGOs which are concerned with corruption issues indirectly (e.g., ecology organizations which are not aimed directly on fighting corruption, but they are aimed above all, on improving of transparency of decision-making processes regarding ecology, etc). From ideological point of view corruption, appears as an obstacle hindering democracy building processes and the development of civil society.

resources more accessible. Hypothetically the main anti-corruption actors here should be business organizations which are interested in creation of favorable environment for business development. Most of these associations declare as the main purposes “defending businessmen rights”, or “promoting business development”, or “creation of favorable business environment for the development of business” etc. If corruption is one of the main obstacles on the way of business development business associations are supposed to focus on this problem<sup>iii</sup>.

The second perspective for analyzing civic activism refers to the questions: Who initiates anti-corruption activities? Where do driven forces for the creation of civic organizations (including financial support) come from? From this point of view 3 types of initiatives were distinguished: 1/ bottom-up initiative; 2/ initiative from above - top-down initiative (mainly initiative from the state) ; 3/ initiative from aside (initiative by different foreign organizations and foundations). The *bottom-up* initiatives are supposed to be presented first of all by the organizations of civil society – non-governmental and none-profit organizations created by people themselves (local communities) to solve some “hot” problems. *Top-down* activities should be initiated by different authoritative structures - departments, committees, and commissions of various kinds at different levels of authorities – federal level (national level), city level, district level) established by the state or local authorities, etc. The question here is to what extent the state (authorities) stimulates (and participates in) activities of NGOs and business associations. The initiative *from aside* is presented by international organizations and foundations providing support for democratic development in transitional countries.

## **NGOs as “ideological civic agents”**

### *Agenda of St.-Petersburg NGOs*

From the interviews with NGO leaders it could be concluded that they consider corruption as a consequence of bigger problem – non-transparency of the state, the lack of democracy, etc., and not as the problem itself (or at least they themselves do not directly deal with this problem). That is why speaking in interviews about the mission of their organizations they focused particularly on these “bigger” problems. At the same time, if to look at the list of the titles of the projects conducted by these NGOs in recent years (posted on the websites or in the newsletters) one can see that many of the projects’ titles contain the word “corruption” in different combinations. This discrepancy could be explained only if to take into consideration the role of international support or “initiative from aside” for the development of civil society in Russia including anti-corruption activities.

### *Initiative “from aside” in NGOs’ activities*

It is not a secret that overwhelming majority of contemporary Russian NGOs are supported by western money – by foundations, international organizations and international agencies of western governments. NGOs working in St.-Petersburg are not the exception. The most effective and strong NGOs that were objects of our study are supported mainly by western foundations. The projects dealing with direct or indirect prevention of corruption were financially supported by the money which came from following sources: USAID, IRIS, TACIS, Eurasia Foundation, World Bank, European Bank for Reconstruction, TACIS, National Endowment for Democracy, Ford foundation, Soros foundation, Transparency International etc. Very few money sources have Russian

origins and come from federal or local authorities. This could be well illustrated by the following quotation with the representative of one of the most active NGOs in SPb:

*“Question: How do you survive? – Answer: Grants. Very few [money] apart from grants. Well, we had money, from the President administration, from some ministries but mainly grants. Q: I am wondering what’s the part of Russian sources of finances? A: Russian – about 5%”*

*(Co-director of the Center for Public Policy)*

This proportion might be different for those NGOs which work more closely with the local authorities, but even they get support for the majority of the projects from western money. The proportion probably is even worse for those NGOs which always declare critical position towards the authorities of different levels and which are therefore could hardly be supported by the state money.

It could be concluded that the “initiative from aside” plays a dominant role for anti-corruption activities of NGOs in St.-Petersburg (and most likely in Russia in general) Since NGOs have almost no alternative financial support there are some doubts that they will be able to continue their activities if financial flows from the West cease to exist. As it was mentioned in the interview about Russian branch of Transparency International:

*“Q: [...] if there was no support [from western money], you think that [Russian] TI would continue functioning in the same way?”*

*A: Who? [Russian] TI? No, they would die right away!”*

*(Director of NGO – Economic Think Tank)*

The contemporary situation with financial support of NGOs in Russia demonstrates the absence of sustainability and total dependence on western money. This situation considerably depends on general relationships between contemporary Russian NGOs and Russian state authorities at both federal and local levels.

#### *NGOs- state relationships*

As it comes from our analysis the general situation in this concern could be described in the following terms: NGOs and the state authorities work independently from each other. The fact that NGOs are financially independent from the state could be considered as a positive factor if it was complemented by effective mechanism of cooperation (or at list some dialog) between civic organizations and authorities. However in fact there is a lack of any institutionalized mechanism through which civil society institutions and NGOs in particular could influence the state authorities. The only examples of cooperation between NGOs and representatives of local authorities, as could be judged from interviews, are rooted in personal contacts and relations, inherited mainly from the earlier times of the first democratic “wave”, when the members of city Assembly and the government were recruited from the community of active supporters of democratic changes.

The lack of the dialog in NGOs-state relationships is aggravated by the absence of mechanisms for legislative initiative, that could be also referred to the corruption prevention issues and all related realms – transparency of laws and procedures, public participation, independent public expertise etc. St. Petersburg is not an exception in this regard. There are only several regions in Russia where NGOs’ right for legislative initiative is fixed in a city law. The attempts to establish the same opportunity for NGOs in the local

Parliament in St.-Petersburg did not succeed<sup>9</sup>. Cooperation in anti-corruption activities between NGOs and authorities the situation is even worse. If NGOs (independent Think Tanks or analytical centers) are more or less demanded by the authorities for economic and social expertise, the state demand for activities on preventing and fighting corruption is absolutely lacking. The situation resembles vicious circle:

*“Where do you live!?! You have just mentioned yourself –the initiative [should come] from above! In our country nothing happens without initiative from above, especially if regarding anti-corruption. – Q: You mean, at the city level...? A: No, at the city level there’s nothing about fighting corruption. No formal structures at all”*

*(Co-director of the Center for Public Policy)*

The state can be considered as a strongest player in anti-corruption field, no other relatively strong player exists in this field. NGOs in St.-Petersburg still have no right for legislative initiative and no formal institutionalised mechanisms to influence local authorities. Representatives of NGOs, believe that situation could not be changed without the “good will” and initiative “from above” – i.e. from the federal state or local authorities while civil society has neither direct nor even indirect influence on the situation.

#### *Cooperation between NGOs in anti-corruption field*

The possible alternative for NGOs in case they are not able to influence the state is to strengthen cooperation between civil society organizations. Unfortunately as could be seen from interviews, cooperation between NGOs involved in anti-corruption activities in St.-Petersburg is rather weak. It is worth mentioning that strong (leading) NGOs have rather tight relationships either personally or organizational. The leaders of these NGOs named first of all each other when they were asked about other NGOs in anti-corruption field. Informants from other NGOs mentioned partners in Russia, CIS countries, West and East European countries, international organizations– but not the local ones. The necessity of collaboration is acknowledged by all NGOs but, as it was mentioned by the representatives of one of the leading organizations, they “really have no time” to elaborate local communicative activities.

#### **Business associations as “rational civic agents”.**

This part should be started with a notion that the focus of our study is on small and medium business, therefore we considered first of all business associations which deal with businesses of these scale. Another important notion – the lack of reliable statistical information about business associations. Therefore the empirical study was started with expert interviews in order to reveal the key (at least the most known) business associations and other organizations concerned with small and medium business development. At the first stage of the empirical study a pilot telephone survey had been conducted with the leaders of different kinds of business associations (18 telephone interviews). Also a

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<sup>9</sup> The draft of a new law developed by representatives of NGOs was not accepted by the Legislative Commission of the City Assembly. The only achievement of this initiative was that the Commission agreed to provide for NGOs representatives possibility to attend Assembly sessions, to arrange electronic delivery of information by the Assembly press center through mailing list of NGOs about the agenda of the sessions and adopted laws.

telephone survey had been conducted with businessmen - the members of the St. Petersburg Association of Entrepreneurs, which is considered as one of the strongest business associations in St. Petersburg. The survey was aimed to find out about the reasons for businessmen entering the association, to get a feedback about businessmen's expectations and their opinion regarding the effectiveness of association.

#### *Purposes and strategies of business associations*

The first wave of local business associations in SPb could be labeled as mainly "bottom-up" initiative of businessmen. The rise of SMEs in the beginning of 90s under the conditions of legislative and economic uncertainty, the lack of information about acting norms and regulations, accountant recording, the absence of any experience in running business among new businessmen had led to spontaneous emergence of business associations, which started to provide consulting services and other forms of support for their members. One of the most vivid examples is the St. Petersburg Association of Entrepreneurs (SPb AE) which was established 15 years ago by the most active entrepreneurs of the "first wave", and was initially aimed on helping entrepreneurs. At the very beginning (the first half of 90s) very few associations had contacts with authoritative structures. Later with the increase of the state "support for the development of small and medium business" some of the most active associations (like for instance, Association of Entrepreneurs) preferred to link to the state and city government using budget funds destined for the development of SME sector.

If to look at the formal documents (like charters or formal regulations) of business associations the missions of all of them are formulated according to the Law about Public Organizations, like "creation of favorable conditions for business development", "providing professional assistance for the members", etc. At present a lot of consulting firms of different kinds have emerged solving various problems encountered by businessmen on commercial basis. At the same time there are few state-funded organizations or foundations that provide consulting services free of charge. Therefore the main activity of the majority of business and professional associations is to provide relatively cheap consulting services and professional training for their members. The telephone survey of the leaders of business associations has shown that the main services provided by business associations are the following:

1. Consulting services, dealing with first of all, juridical and accountant issues
2. Professional training
3. Research and marketing

Participation of businessmen in business associations (especially for SMEs) is generally low. This could be explained by several reasons. The most general reason is that SME businessmen do not trust anybody and prefer to overcome difficulties relying exclusively on themselves. Another reason is a "survival" type of the majority of small and medium businesses. Only businessmen who are looking for new possibilities of business development, introduction of innovations and etc. join business associations. Those who are concerned only about maintaining some "survival" business level (actually most of small businesses) are not interested in participating in associations. Not the less reason – the lack of information about business associations. None of the business associations that were the cases for our study uses any coherent PR strategy to attract new members. The exclusive case is SPb Association of Entrepreneurs which always tries to attract as many

members as it is possible <sup>10</sup>. The conducted telephone survey of the members of SPb AE has demonstrated that the majority of them had chosen this association because they did not know any others. Only about 1/3 of respondents could remember even one business association in St. Petersburg except AE. The purposes of membership in AE were the following:

1. Access to consulting services in accounting, fiscal and juridical issues.
2. Broadening out the sphere of communication, getting better access to business information.
3. Improving of image of business organization.

Enterprises that join AE 5-6 years ago did it mainly in order to get assistance in solving accounting, juridical and other problems. The most recent members (2-3 years ago) consider Association as first of all the arena for broadening professional communication, better access to business information. Interestingly that none of the informants mentioned as the reason of membership in Association the need for protection of businessmen rights.

We can presumably distinguish two (or even three) types of successful business associations according to the development strategies they use. The first type is aimed on accumulating more members and resources, the strategy of linking to city government and participating in allocation of budget financing and other resources for SME development. Associations of this type are trying to create an image of being representatives of businessmen as social group. Another type of development strategy is more independent from the city budget and represents an “individual business project” of the leader of association. Associations of this type are not as big and not as much concerned with the membership increase (60-100 members). *“These associations are more viable. And they provide real assistance for entrepreneurs”*.

We can also assume the existence of the third type of business associations that could be labeled as “special associations” the membership in which is particularly desirable since it could provide some privileges for operating in some particular market. In fact, the bigger and the more successful is such an association, the more difficult it is for businessmen to join it. This refers first of all to branch associations created on professional basis. Only businesses belonging to this particular branch could be the members of these associations. But there are some associations (like Association of Custom Brokers) which are absolutely closed for “strangers”. (Unfortunately the data we received in interviews is not enough to make more detailed conclusions).

The interaction between business associations could be characterized as generally weak. If the associations on federal level and inter-branch associations at the regional level more or less cooperate with each other (at least the leaders of these associations meet each other at various kinds of business forums), the professional associations work/exist within their specific professional niche. Not the less reason for this is that all of them compete with each other in the market of consulting services although they try *“to focus on different purpose-groups and not to bother each other”*.

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<sup>10</sup> The activities of AE in attracting members is even anecdotal – the deputy director of AE refused to give us interview and to provide any data unless CISR becomes the member of the Association.

Interestingly that our informants were rather critical in assessing efforts of some NGOs and foundations to arrange conferences and seminars with the participation of businessmen and business associations. Only training and retraining seminars are considered as really useful. Another type of meetings which is considered as more or less useful is SME Forum. The Forum is considered by associations' leaders as a possibility to demonstrate belonging to some community of business associations. For them participation in the Forum serves as a sort of boundary between "we" and "others" making a difference between "real" associations and just consulting services.

#### *Business associations as agents of anti-corruption field*

The study has proved initial hypothesis that business associations do not consider fighting corruption among their main purposes. None of the informants mentioned fighting corruption or protection businessmen against bureaucratic extortion among the problems which their associations try to solve.

*"There is no corruption in business relations, there are some relationships implying different means and forms of conducting deals".* The extreme position on this point was expressed by the leader of Vasileostrovskij center: *"We (entrepreneurs) used to work and still work in a country where the state created its own rules of the game. That is why it is possible to say that we have no corruption! Americans come here and say, oh, we know what is your country and how you suffer from this. Who told them about it? We are the patriots and everybody here knows that in order to work it is necessary to give a bribe. And we give bribes, and nothing bad happens. These are the rules... No associations and unions could influence corruption. This is not their task – leave it to the state!"*

*(director of None-Commercial Partnership)*

Although protection of businessmen' rights is stated among the main purposes of business associations, they consider this protection as mainly "informational support" for businessmen to avoid conflict situations with officials and authoritative structures. The cases when business associations help businessmen to appeal to the court are almost exclusive. At least two reasons for this were mentioned:

1. very often businessmen are guilty themselves (as a result of impracticability of rules on the one hand and as attempts of businessmen to avoid additional expenses, on the other hand)
2. generally the court decision could not help for resisting bureaucrats' extortion. The interactions between businessmen and officials are complicated and do not end with the court decision. *"If a policeman come to your place, who is able to quarrel with him? Or with a fiscal inspector? Or fireman? Even if you win in a court today, tomorrow they will come back and find another reason to fine you"*.

The opinion of the majority of business associations' leaders could be summarized in a following way: corruption is considered as some rule of the game posed by the state itself; that is why this is the state that should be concerned with fighting corruption – not business associations. All western countries also have corruption though of lesser scale than in Russia. Everybody in the world knows that corruption is inevitable phenomenon of any economic system. The main task of the experts who deal with the problem of corruption is just to reduce corruption to some "civilized" level. This could be done by the institutes of civil society.

For business associations the character of their relationships with the authorities could be considered as crucial factor. Some of them are trying to get access to authoritative structures with orientation on financial resources of city budget allocated for the development of small and medium business. This is generally the way of big inter-branch associations operating at the city level. Others keep maximum distance from the state authorities. In this case business association appears as an individual business project based on personal financial investments of the association's leader. In fact the image and the nature of association's activity totally depends on the personality of the leader. He/she can aim on creation of a real business community and to provide the real support for businessmen involved in this community (and we have examples of the leaders of this kind). At the same time the creation of business association could be just an image, an "umbrella" or façade behind which we can find just a consulting company, providing different kinds of services on paid basis (we have more than enough examples of such associations).

## CONCLUSIONS:

1.

Domination of informal rules in vertical interactions between business and authorities in Russia leads to the situation when business prefer to deal with the authority via informal (semi-formal) intermediaries instead of using institutions of civil society (which is considered as more effective and practicable though more expensive way of solving the problems). The study has revealed the emergence and rapid development in recent years of the market of informal and semi-formal bureaucratic mediating facilitating businessmen in solving the problems emerging due to various shortcomings of legislative environment.

The role of informal intermediaries in the transforming societies is principally different from that in advanced economies because in Russia (informal) mediating services are based on informal access to various bureaucratic structures (bureaucratic resources). We would argue that currently informal bureaucratic mediating is going through the process of *institutionalization* which means that informal mediating has become generally accepted practices and autonomous (one of the most profitable) business sphere. The process of institutionalization is accompanied by *formalization* of mediating services implying that it is performed by legal firms possessing licenses for different kinds of services.

2.

In recent years lots of various kinds of associations and unions have been formed in business sphere aimed on support and protection of their members, presenting interests of businessmen, development and maintenance of professional standards, promotion of professional and informational exchange. Being the institutes of civil society in business sphere, these associations work for integration of professional communities, formation of new institutions, professional ethical codes, common norms and rules.

However, despite of multiplicity of emerging business associations they hardly play a role of civil society mediators in the dialog between business and authorities. More often these associations emerge as "horizontal" trust institutions, networking projects serving for institutionalization and formalization of "horizontal" relationships, or as individual business projects providing consulting services.

Prevailing of “horizontal dimension” in business associations’ activities, “civilization” of business relationships could be considered as important for Russian business environment which is still characterized by extremely high importance of informal relations. The “vertical” functions that civil society institutions are supposed to fulfil as well, are almost not presented in associations’ activities. The “vertical” strategies are either to keep maximum distance from the state or to participate in redistribution of budget money destined for the development of business sector (which is true for so-called “pocket” associations created with the participation of the authorities)

The main activities of business associations are could be characterized as not to try to change the unfavorable environment, but rather to help businessmen to adjust to constantly changing conditions and rules of business environment which are dictated by the state.

3.

“The initiative from aside” provides the main “driving force” for NGOs in fighting corruption. This does not mean that people who work in NGOs do not strive to struggle against this social evil. The fact is that fighting corruption has not become “bottom-up” initiative since for people and businessmen corruption is evil on discursive level but in practice they prefer to adjust to the situation rather than to change it.

The dominant role of the “initiative from aside” is confirmed by the fact that the only significant source of financial support for NGOs is western or international money: from foundations, banks and agencies for international development. This means that all the work done by NGOs in this field would stop right away when “western” money quite coming. Russian state and local authorities rarely provide any finance to NGOs working for prevention of corruption. Our informants do not treat the state money as anything significant in terms of financial support, at least at present. The situation could be hardly changed in the nearest future because of general financial “blockade” of NGOs by the state. The local situation reflects the general situation in relationships between NGOs and authorities at different levels.

Weak cooperation between NGOs and business associations could be explained by the fact that business does not see in NGOs strong partners (by “strong” it is meant the possibility of influence the state policy or possibility of lobbying business interests). Business is ready for cooperation with the institutes of civil society only in case this cooperation promises some benefits. In other words, business associations would not cooperate with the agents of civil society unless they are weak.

4.

It could be concluded that the state at present is the only powerful agent among the players in anti-corruption field; there are no institutionalized mechanisms which would allow civil society and NGOs as its representatives to influence the state including attempts undertaken in the field of fighting corruption. Nothing could be done “*without the initiative from above*” – i.e. without good will of the state/authorities. This happens first of all because the state is not interested in having independent and influential civil society in the country, and as a result NGOs have no influence on the situation with corruption, most likely, either at local or at federal level. So the main peculiarity of anti-corruption field in Russia (and in SPb) is the lack of institutionalized mechanisms of interaction between the actors of anti-corruption field. This peculiarity is also true for state-civic actors relationships in general.

From the micro level perspective the role of the state in the relationships with business looks rather paradoxical. On the one hand, the state remains generally dominating and exclusive authority. On the other hand, while being this exclusive authority it is absent at the micro level being atomized among officials and bureaucratic bodies which represent rather their own interests rather than interests of the state. That is why social expectations about the emergence of the civil society of “vertical model” which implies strong state authority as an actor of legitimized force on one side and civil society as an opposition, on the other side, seem to be not relevant in case of Russia. All this predetermines the general character of “horizontal” functions of Russian civil society – adjusting to formal rules rather than changing them on the basis of social partnership. Thus it could be concluded that today we witness the emergence of rather “horizontal” model of civil society embodying general movement towards more civilized and formalized business relations, shifting from warfare to peaceful settlement of conflicts.

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<sup>i</sup> A combination of qualitative and quantitative methods was employed in both studies. 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 qualitative analysis was based on 30 in-depth interviews with business representatives - top managers and key persons in different kinds of business organizations and interviews with the representatives of civic organizations in business sphere.

<sup>ii</sup> We are far from asserting that in the dialog between business and the state businessmen represent the “only suffering” side. Like in any economic system many examples could be found when businessmen do not follow the rules just in order to get better profits. But it is true that uncertainty and intricacy of business regulations in after-reform business

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environment in Russia make businessmen (especially small and medium business) an easy object for bureaucratic extortion.

<sup>iii</sup> Accordingly, two types of organizations were mainly considered in the study. The first type – NGOs and other civic organizations which announce fighting corruption (or dealing with problems related to corruption issues) as one of the main purposes of their organizations. The second group included various interest organizations including first of all business associations, and in particular, organizations representing small and medium business. The main research methods were interviews with the representatives of organizations which are considered as key players in anti-corruption field complemented by statistical information and expert interviews with competent persons.