

## **BUSINESS – STATE RELATIONS IN CONTEMPORARY RUSSIA IN CONCERN TO CORRUPTION PHENOMENON**

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### **INTRODUCTION**

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In my paper I am going to present some preliminary results of the research project “Prospects for fighting corruption in post socialist countries: cases of Russia and Hungary”.<sup>1</sup> In according to Corruption Perception Index (CPI) by Transparency International Russia is ranked now 86th among 100 countries. In according to INDEM foundation – Russian NGO doing economical, political and sociological researches on the corruption issue, nowadays about 34 billions USD are spent by Russian people for bribes. In my opinion these two numbers show that corruption is a significant problem for contemporary Russian society.

However, I believe that the whole phenomenon of corruption could hardly become a subject for empirical sociological research. That is why we choose one segment and concentrated on the business – state relationships. However even this topic is still too wide and complex and we were forced to focus on more precise and concrete fragment of state-

business relationships. 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%)<sup>2</sup> (Satarov, 2002). Because of this, we considered it essential to focus our research on state – business corruption at the municipal level (the case of St Petersburg), which currently poses such an impediment to business development. And the study considered small and medium-sized business as the most sensitive and least protected business sector facing corruption.

In order to determine the social mechanisms and hidden conditions of corruption, we focused our empirical research on actual business behaviour 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 we formulated as follows:

- \* to identify key problems facing small business that provide a breeding ground for corruption;
- \* to gauge the extent to which the corrupt practices of business are adaptive

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<sup>2</sup> These figures refer to low-level business corruption.

responses to the legislative, economic and social environment;

- \* to evaluate the willingness and readiness of business people to act against corruption.

Although our study was focused on the St Petersburg municipality alone, the outcomes received in the course of the study are not specific for St Petersburg and could be reasonably extended to the whole situation in small and medium-sized business in Russia. The broader generalizations can be rather made on the basis of the *qualitative* data based on 30 interviews with representatives of small and medium-sized (SMEs) enterprises in St Petersburg.<sup>1</sup> It reveals the nature of corrupt relationships, particularities of informal interactions between business and the state in small and medium-sized business.

#### **Problem areas and topics (formulated by the informants in interview)**

##### **Problems, giving birth to corruption practices**

On the basis of the analysis of our interviews we pointed out the problematic areas as follow:

- 1) **Imperfection of the bureaucratic system: its inefficiency, inflexibility, slowness, etc.**

Our informants stressed that one of the reasons for corruption is wrong system, all decisions need ages to be made; one has to spend so much efforts and time to solve this or that small bureaucratic problem – so he or she has no time for proper work! Moreover, these proce-

dures look like artificially overcomplicated by officials. Many informants refer to Western experience where one need to send one letter to officials to notify them she/she is going to start business – that is it, on comparison to kilos of papers, hundreds of stamps, months of time one need to spend to start business legally in contemporary Russia. As a result, people say, it is much easier to refuse the idea to run business at all than to start it! Or you need to employ illegal methods, shadow economy tools to stipulate all the procedures at the very beginning of your business already: “In the middle of the summer, in the middle of our process they dismissed local officials. And put 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 to open it (enterprise)”

- 2) **Old fashioned laws and regulations: lack of logic in bureaucratic rules and regulations, lack of correspondence of these rules to the context of real life.**

Our informants mention many times that some contemporary rules are totally out of logic and reality! It is true especially in case of department’s instructions (not laws) – these of sanitary and fire protections services, for instance. Some of these instructions are dated by 1960-70s, some are even by 1930s! Thus they are totally out of reality! It makes impossible to follow them in real practices. Officials, who are responsible for these rules and come to enterprises to control them, know about this impossibility to follow the rules. So the only way to handle out this problematic situation is to bribe officials, to let them “shut their eyes” to the violations of stupid but existing rules: “We belong to public catering, but we don’t cook anything ourselves. They insist on setting three new sinks, for example. We don’t need them! We don’t cook anything! But if they want, they can shut us

<sup>1</sup> Several kinds of business is represented in our data basis: trading (including foods) – 11; production (including construction) – 5; services (including cafes, securities (stocks, *etc.*), business and law consulting, *etc.*) – 14; To find informants we used method of “snow-ball” – found them mostly through personal networks; first of all – because the topic of the research was too sensitive and personal trust was an important part of communication, otherwise we would get a lot of general words and speculations.

down because of this. And these norms, these rules, they have not been changed practically from 1974. 1974 and 2004!?”

**3) Meaningly kept gap in laws and rules: laws and regulations are designed in a way they could not be followed by people.**

This is quite popular sentence: “you can not conform all rules, it is just impossible – then you have to close your enterprise!” (impossibility to pay all taxes is a variety of this kind of claims). Businessmen cannot understand who needs all these troubles. The only explanation is: bureaucrats need it to initiate corruption in form of bribing for pushing, accelerating procedures. People believe this is a kind of “meaningly kept gap in laws” done and kept by officials to have a chance to catch and punish (to fine usually) any businessman – because there is always a rule you do not conform for some reasons; at the same time this is a way for officials to find violations and to initiate corruption as a way for businessmen to avoid official punishment (the size of bribes is usually smaller than the size of official fine): “In such a situation, in the real state of thing, constantly whatever you are doing you are always violating the law. And you always feel yourself a criminal and in fact, you are forced to pay off”.

There are several consequences from this situation – for the attitudes of businessmen towards the officials and bureaucratic structures, and consequently – for the state-business relationship:

Distrust attitude: all our informants mentioned that they do not believe in “fair (honest) bureaucrat”.

Everyone is sure that all officials take bribes – bigger or smaller, they all are corrupted and are kind of people who “won’t lift a finger” without money. It causes to certain attitudes and activities of people, including businessmen. 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 of this or that problem – they start straight away with looking for access to corrupted officials to give them money to solve their problems in this way – “fast and easy” (in comparison to official way): “In reality, when instance comes to business, and find problems, you will understand that they have come here not to shut you down as soon as possible and, *etc.* No, they have come here in order to get some money from you”.

Attitude for a distance: businessmen prefer to keep a great distance between themselves and state.

Those who succeed to keep distance consider themselves to be lucky. They do want to have as less as possible in common with the state: “Knowing that the state is a vampire, we have brought to minimum our contacts to the state”.

Functional approach: businessmen treat corruption as natural, integral part of interaction with the state and power representatives.

Businessmen use the logic and rhetoric of “transaction costs” toward bribes and other forms of corruption: corruption is interpreted in this case in economic terms, without any emotions involved. We call it “functional approach”: “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”.

However simultaneously with the functional approach another attitude takes place as well. We call it:

Emotional disgust: though many businessmen treat corruption as transactional costs, there are many of them who hates all this corruption procedures, first of all – because of emotional feelings – people hate to feel humiliation and feebleness, independence – these terms our informants used to describe their feelings in situation of interaction with corrupted officials, in situations of giving bribes,

*etc.*: “I want to say that every official depending on his upbringing, his intellect and I don’t know what else to a bigger or minor degree but he 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 takes care!”

The last but not least consequence is the intermediaries boom. On this issue I would like to concentrate.

### **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.

We realized that the growth of intermediaries is predetermined by the fact that these services are good for businessmen. They prefer to deal with intermediaries instead of dealing directly with officials because it is simpler: intermediaries know all the details and hidden dangers of this process. It is faster and anyway it saves time and therefore – money. It makes possible to avoid emotional strain, which is usually a painful part of the interpersonal communication between businessmen and officials; 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. Finally, sometimes intermediaries provide the only possible way to get access to this or that bureaucrat: “So, if you come in just like that from the street – you will be kicked out”<sup>1</sup> Although at first glance, the situation with intermediaries looks reasonable and very similar to the situation in the West,

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.

As a matter of fact, intermediaries combine in their activities explicit functions and hidden or shadow functions. 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. There are several evidences, which allow our informants to interpret intermediaries as involved in corruption relationships:

- (1) It is considered that the very fact of existence of such intermediaries implies illegality already: people believe that many of these intermediate firms are artificially created by officials themselves – in order to employ their friends, relatives and other loyal people who will take money from clients for intermediating services and then share this money with officials for who they work. So in this case such intermediaries are artificial obstacles, barriers created by officials to stop and collect money for themselves and people who are loyal to them. This is the case of issuing licenses, for instance: “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) Quite often officials mobilize the power resource which turns out into the monopoly right for the intermediaries: our informants mentioned situations when officials force them

to deal with certain commercial firm to buy certain products of services which are needed for the enterprise to fit the official's requirements. Of course in these firms all products and services are much more expensive than in ordinary firm, but officials refuse to recognize certificates, products and services of any other firms. It looks like mediated extortion or blackmail. Businessmen believe that those intermediate firms are created by official departments or anyway share money with the bureaucrats. So officials use their power resource to force businessmen to buy goods and services from certain firms which are confidants of the authorities: "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";

- (3) Another explanation of the existence of intermediates is their involvement into illegal corruptive practices. Our informants believe that bureaucrats create these firms because they do not want to run risk and take bribes from people "from the outside". They prefer to take money from those who they know, which they trust: "First of all, you won't get to authorities being just a person from the street. Nobody will let you in – neither in Smolnyi, nor in Voznesenskogo street,<sup>1</sup> where some committees are sitting. 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...";

So we can see the contradiction here: on the one hand, businessmen often pre-

fer to deal with them instead of direct deals with bureaucrats, but, on the other hand, they blame intermediaries for corruption involvement and extortion. What conclusions might be drawn from this contradiction? One possible answer is: there are different intermediaries, working in different ways, realizing different functions, *etc.* We assume that the distinguishing of intermediaries for two types must be drawn as follow:

- \* "pure extortionists": here we unite intermediaries who are created on an "empty place", usually – by corruptive bureaucrats themselves or sometimes are linked to the latter (usually – share with them money); this second type of intermediaries is absolutely artificial, needless, useless and harmful; their services are not rooted in any demands of the market relations – they are imposed to businessmen by corruptive officials; these services complicate simple procedure and allow bureaucrats to extort money for services they are supposed to provide for free;
- \* commercial type or "VIP service": by this type we unite intermediaries, which provide practically and commercially rooted "chargeable services". Here we deal with the ordinary situation when one pays for faster and simpler procedure which he or she might get for free but it takes time; so one could prefer to save time and spend extra money; in fact businessmen combine both strategies – they deal directly with bureaucrats when there is no hurry and/or they have no extra money to spend; but they deal with intermediaries when time is pressing and there are extra money.

These latter types of intermediaries are rather "normal" from the functional point of view. The only feature making this type of intermediaries a part of corruption relations is the very fact that money paid by businessmen do not go to the budget but settle in the official's

<sup>1</sup> Locations of the offices of the Municipal Authorities in St Petersburg.

pockets. Moreover, there is a strong need for this kind of intermediaries because the system of regulations and their implementation is very bad in Russian society; and even in case laws and regulations are good – the infrastructure is old fashioned, slow, inefficient. This is a challenge of a market system to a clumsy bureaucratic system, or as Russian economic sociologist Vadim Radaev says this is a case of an “institutional compromise” when one kind of institutes do not fit the other type (for instance, economic institutes do not fit the bureaucratic ones) and compromise is needed. In case the market system wins and bureaucratic institutions change then there will be no demand for corruption and we will get ordinary institute of intermediaries of western type when all the payments will be formalized, *i.e.* made legally and become taxable. If inert bureaucratic system will not change – then corruptive component will remain in this kind of intermediating services, although services are functionally reasonable.

#### **Perspectives for the further investigations (instead of conclusion)**

Unfortunately interviews showed quite unpromising results in the regard of fighting corruption activities. Almost all of our informants claimed they would like to have an association which would protect rights of SMEs against corrupted officials, because they do not trust any other structures/institutions in this concern; however no one ever dealt with any business-association in order to solve the corruption problem and no one believes these associations could be created by SME businessmen and could be efficient in fighting against corruption: “Well, how to unite? You think I have nothing else to do? And the same is the rest. When? And who we will be uniting with? No. First of all, everyone has a thousand of things to do, and problems are very different. Someone opened long time ago, someone recently, someone is thinking how to change a Mercedes to Rolls Royce, someone is thinking how to

make both ends meet. And everybody is put in the same conditions, that all are entrepreneurs”;

or:

“I am more than certain that entrepreneurs of course can gather, sit in a room together, smoke, drink coffee and talk that that’s it, we are fighting. But when each of us personally will be addressed by some bodies, he will be solving this problem on his own, because everyone understands that if he does not give a bribe by some principal motives, he will loose more. Entrepreneurs are people who count money”.

As a result civic associations, self-initiated associations of SMEs either do not exist or work for different aims. For now our hypothesis in this concern looks as follows: very few NGOs have appeared because there has been a huge boom in intermediary firms instead. Businessmen prefer to solve their problems not through establishing business associations but through addressing intermediary firms, which are involved in corruption activities. For businessmen who seek to achieve their goals with minimal costs this way occurs to be the optimal solution whereas from the position of the society and corruption prevention this is a dead end, which reproduces corruption relations and promotes further embeddedness of corruption mechanisms in the society. The most important consequence of the intermediary firms boom is that they reduce the demand among businessmen for fighting corruption and therefore reduce their support for business associations and NGOs: intermediaries attract business resources (money, time and force) which could be invested into the development of anticorruption NGOs activities.

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