



**CENTRE FOR THE STUDY  
OF ECONOMIC & SOCIAL  
CHANGE IN EUROPE**

**SCHOOL OF SLAVONIC & EAST  
EUROPEAN STUDIES**

**Leadership and Corruption in Russia,  
2000-2004**

**Alena V. Ledeneva**  
**Department of Social Sciences**  
**SSEES, University College London,**  
**E-mail: [a.ledeneva@ssees.ucl.ac.uk](mailto:a.ledeneva@ssees.ucl.ac.uk)**

**Working Paper No. 54**

**University College London**  
**Centre for the Study of Economic and Social Change**  
**in Europe**  
**Senate House, Malet Street, London, WC1E 7HU**  
**Tel: 44(020) 7863 8517**  
**Fax :44(020) 7862 8641**  
**Email: [csesce@ssees.ac.uk](mailto:csesce@ssees.ac.uk)**

## **Working Paper No. 54**

**May 2005**

### **Abstract:**

The paper defines the key features of corruption and perception of corruption in Russia under Putin. It provides a comparison of trends of corruption perception index in the CIS region and CEE countries and focuses on specifics of President Putin's policies in application. The analysis questions the assumptions about informal practices and formal institutions and offers interpretations of the dependence of Putin's regime on the 'unwritten rules'.

### **Key words:**

Informal practices, networks, corruption, unwritten rules, selective law enforcement, informal economy.

### **Acknowledgements:**

I am grateful to Yuko Iji for her help with the draft of this paper and my audiences at Wilton Park and AAASS in Boston for questions and suggestions. Peter Reddaway and Robert Ortung have offered the most valuable comments.

## **I Why do we speak about corruption in the 1990s**

For a decade between the end of the Cold war and the beginning of the war on terrorism, corruption has been the enemy No. 1 in the world. As summed up by Vito Tanzi, the factors that attributed such an importance to the phenomenon of corruption included:

- Collapse of the centrally planned economies;<sup>1</sup>
- Increase of number of democracies with free media;<sup>2</sup>
- Globalisation has brought countries and individuals in closer contact;
- Role of the international organisations, such as World Bank, International Monetary Fund, Organisation for European Co-operation and Development, helped by the emergence of measuring techniques, has facilitated an in-depth analysis of corruption,
- Growing role of non-governmental organisations (NGOs), such as Transparency International (TI) and others;
- Economic transition has placed corruption in the middle of the debates on privatisation and restructuring, on its role for the investment climate and economic development.

In the 2000s, there is a shift in terminology from the ‘fight against corruption’ to the ‘good governance’ discourse that has occurred in the late 1990s’. This shift signifies an important development. The revision of the framework of anti-corruption studies has prompted search for positive incentives and put emphasis on the understanding of workings of both formal and informal institutions and on the elaboration of policies and procedures capable of addressing them.<sup>3</sup> Good policy/ or leadership approaches the issues in a way that reduces the dependence of the system of governance on unwritten rules, and releases potential and initiative on the ground, rather than attempts a reform from above.

## **II Perceptions: corruption in Russia and its neighbours**

Corruption continues to be a serious problem for Russia as reflected in the TI corruption perception index.<sup>4</sup> I have created two sub-clusters of ratings: Table 1 for the CIS countries and Table 2 for the CEE countries. CIS countries, including Russia, have scored rather poorly for the six consecutive years in comparison with CEE countries. For

---

<sup>1</sup> A comparison of the Transparency International (TI)’s Corruption Perception Index (CPI) of Belarus and the rest of CIS suggests the impact of the disintegration of the centrally planned system on the extent of the perceived level of corruption. Belarus’ ratings have been the highest among the CIS countries throughout from 1999 to 2004. For example, the lowest for Belarus CPI in 2004 CPI of Belarus was still the highest among the CIS countries at 3.3, while Russia was 2.8 and Azerbaijan scored 1.9 (See Table 1 in Section II).

<sup>2</sup> A comparison of the CPI of Central and East European countries and the CIS countries indicate that the more democratic countries are and the freer the media, the lower the level of corruption perception.

<sup>3</sup> See the volumes edited by Janos Kornai, Susan Rose-Ackerman and Bo Rothstein including the contributions from the research project ‘Trust and Honesty in Post-Communist Societies’ supported by the World Bank and the Bank of Sweden.

<sup>4</sup> The index measures the degree to which corruption is perceived to exist among a country's public officials and politicians. It is a composite index, drawing on 17 surveys from 13 independent institutions, which gathered the opinions of business people and country analysts. 146 of the world's countries are included in the survey. The scores range from 10 (squeaky clean) to zero (highly corrupt). A score of 5.0 is the number Transparency International considers the borderline figure distinguishing countries that do and do not have a serious corruption problem. <http://www.transparency.org/cpi/2004/cpi2004.en.html>

example, CPI for any CEE country during this period is significantly better than Russia's ratings.

It could be suggested that the so-called EU factor has been a carrot and a stick for the accession countries, which among other things accounts for the difference between two sets of data. Russia's slow movement up in the table of ratings can be criticised in this context.

Table 1: Corruption in the CIS

Countries	1999	2000	2001	2002	2003	2004
Armenia	80	76	N/A	N/A	78(3.0)	78(3.1)
Azerbaijan	96	87	84	95	124(1.8)	140(1.9)
Belarus	58	43	N/A	36	53(4.2)	74(3.3)
Georgia	84	N/A	N/A	85	124(1.8)	133(2.0)
Moldova	75	74	63	93	100(2.4)	114(2.3)
Kazakhstan	84	65	71	88	100(2.4)	122(2.2)
Kyrgyzstan	87	N/A	N/A	N/A	118(2.1)	122(2.2)
Russia	82	82	79	71	86(2.7)	90(2.8)
Tajikistan	N/A	N/A	N/A	N/A	124(1.8)	133(2.0)
Turkmenistan	N/A	N/A	N/A	N/A	N/A	133(2.0)
Ukraine	75	87	83	85	106(2.3)	122(2.2)
Uzbekistan	94/99	79/90	71/91	68/101	100/133	114/146

Table 2: Corruption in CEE

Country	1999	2000	2001	2002	2003	2004
Bulgaria*	63	52	47	45	54	54
Cyprus	N/A	N/A	N/A	N/A	27	36
Czech R	39	42	47	52	54	51
Estonia	27	27	28	29	33	31
Hungary	31	32	31	33	40	42
Latvia	58	57	59	52	57	57
Lithuania	50	43	38	36	41	44
Malta	N/A	N/A	N/A	N/A	N/A	25
Poland	44	43	44	45	64	67
Romania*	63	68	69	77	83	87
Slovak R	53	52	51	52	59	57
Slovenia	25	28	34	27	29	31
Turkey**	54/99	50/90	54/91	64/101	77/133	77/146

From a different perspective, Russia's CPI could be interpreted as a steady trend concurrent with the solid economic performance (see Table 3 below). Russia's economic growth has been substantial. The capital flight has decreased from USD25 billion in 2000, USD17 billion in 2001, to approximately USD9-10 billion annually in the subsequent three years. Russia has now completed European negotiations on its WTO membership and is likely to finalise the necessary agreements by the 2006.<sup>5</sup> The OECD membership will follow.

On the ground, however, the scale of corruption in Russia is reported to be vast. According to data published by a Russian think tank INDEM, USD30-35 billion, equivalent of 10-12% of the GDP, were spent for the payment on bribes in 2002. A director of TI Russia, Lena Panfilova, claims that corruption in Russia had worsened in 2003 and there is limited evidence to suggest improvement. She also observes that the nature of corruption is complex and systematic. In accord, INDEM published an update for 2004, reporting that Russians spent USD39 billion a year in bribes.<sup>6</sup> INDEM specifically emphasised the negative role of corruption for the economy, as according to their assessment only 10 per cent is related to the so-called household corruption, while 90 per cent of bribes are business related.<sup>7</sup>

Corruption in political sphere is assessed as very strong by 62.3% of Russians. As this TI survey also shows, 24.5% of Russians consider corruption being very strong in political parties; 17.9% regard corruption in police and law enforcement as very strong; 15.3% - in health services; 10.9% - in courts; 8.8% - in educational institutions; and 8.3% - in housing services.<sup>8</sup> These percentages could be doubled or more if some or petty corruption was included in the questions, given extremely low rates of trust into all basic institutions of society in Russia, including the church (VTSIOM data).<sup>9</sup> Thus, according to a survey by the Levada centre, 92% think that the law enforcement is selective, and 88% say that officials taking bribes are not likely to be punished.<sup>10</sup>

ROMIR Monitoring, based on questionnaires to 1580 respondents in 100 settlements in 39 regions, reported that 56% of Russians think corruption is a big problem, while only 6% think it is insignificant.<sup>11</sup> The assessment of seriousness of the corruption problem may be directly linked to the assumptions that are commonly made in various countries.

---

<sup>5</sup> According to the Minister of Finance Alexei Kudrin, the capital flight might go a bit up in the 2004. Talk on record, Chatham House, 14 December 2004.

<sup>6</sup> *Vedomosti*, 2004-05-19 VDM No. 083 'Ot redaksii 'Bremia Burokratii''

<sup>7</sup> See Alena Ledeneva 'Corruption in CIS,' in the TI 2003 Global Corruption Report. Profile Books, 2003.

<sup>8</sup> Source: Anna Nikolaeva, Andrei Panov, 'Vlast'/Den'gi. Otchet o vzyatkakh. *Vedomosti*, 2004-02-19, VDM – No. 029.

<sup>9</sup> NB! Trust and approval rate for the president do not translate into the trust into political institutions, which undermines the legitimacy of power institutions. According to the polls, the power is divided between 33% oligarchs, 23% president, 15% organised crime (Source: *Vedomosti* 2003-10-21, ????)

<sup>10</sup> The discrepancy in domestic surveys is somewhat surprising given the fact that all of them are conducted on the same sample by the same regional agencies. As they say in Hungary, those who like sausages do not want to see them made: compare the percentage for courts with the Levada centre data.

<sup>11</sup> Source: *Vedomosti* 2004-01-13 VDM No.002 'Vkrattse. Korruptsiya – samoe bol'shoe zlo' at <http://dlib.eastview.com/sources/article.jsp?id=5770564>

Miller, Grodeland and Koshechkina have shown that in the less corrupt countries the perceptions of corruption could be somewhat inflated.

### III Assumptions

To make sense of these surveys and to design policies, it is essential to question the assumptions that are often made in relation to corrupt practices, such as the following.

- *Legal behaviour is viewed as a norm (Not so. 'Local knowledge' is essential for understanding what's 'normal')*

Few understand why Khodorkovskii is not let out on bail. The fact that the fellow businessmen do not voice their support for Khodorkovskii is a sign on how they follow the rules of the game maintained by the leadership. This is not to say that the formal institutions are not working. Their effectiveness improves and they play an important role but their operation is often influenced and diverted by powerful players capable of using formal institutions instrumentally, rather than standing up for the principles that would enhance generic protection of the property rights and the principles of democracy. The political will to stand up for the principles is absent. Instead, para-constitutional bodies are created.<sup>12</sup>

- *Laws are made in a lawful way (Not so. 'State capture' may occur)*

Legislation often serves specific interests. Examples range from a local legislation on the privatisation of garages to the PSA legislation serving the interest of consultants. The budget for new legislation is so low (USD100) that it is inevitable that big businesses are invited to 'help' with 'independent' legal expertise by involving their own legal consultants into the process. This is a classic example how formal defects invite the informal practices that will be regulated by the unwritten rules.<sup>13</sup>

Another example illustrates how in the run to the 2003 parliamentary elections, a new law was introduced in July 2003, prohibiting all illegal campaigning. Journalists were forbidden to report on information that would reflect candidates in 'positive or negative' light. Three months later the Constitutional Court rules the law unconstitutional.

Because the law is used instrumentally by the state, it's replicated at all levels. Legal expertise is becoming a creative profession, full of wit and invention (see my list of functions of lawyers in the electoral campaigns).

- *If there are elections, democracy is working (Not necessarily. Likely to work in a 'defected' way)*

According to the Levada centre, 55% of the representative sample said that presidential elections can be cancelled in March 2004 as Putin's victory was inevitable, illustrating my earlier point about the lack of commitment to the principles. Moreover, media and electoral corruption is rife. With regard of the parliamentary 2003 election in Russia, the OCSE report states: 'Central Election Committee now plays a large role in deciding which parties get onto the ballot, and ultimately which candidates will be selectively

---

<sup>12</sup> [MAKE FN from Medvedev)

<sup>13</sup> Data on state capture from the WBI./For a detailed data on state capture, see World bank website, [www.worldbank.org/wbi/governance](http://www.worldbank.org/wbi/governance)

rejected for minor infringements of the new election laws that have been passed since the last parliamentary elections. Although supposedly impartial, the CEC selectively ignored complaints from government opposition and allowed pro-Kremlin candidates to initiate de-registration proceedings in a way to remove rivals.<sup>14</sup> Subsequent to the 2004 Russian Presidential elections, the OSCE and the parliamentary Assembly of the Council of Europe released a report citing that the “presidential election had fallen short of democratic standards and media coverage was biased in favour of president Putin. Against these developments, many words have been made up: *semi-, formal, electoral, façade, sham, managed democracy* in order to convey a simple message – Russia is not a democracy, and may not be in a transition to a democracy; the leadership does not believe in its capacity to deliver the result and does not stand up for the democratic principles.<sup>15</sup>

- *If there is privatisation, a market economy is working (Markets could be working as ‘clubs’)*

Berezovskii claims that the façade of Putin’s reforms covers the process of re-privatisation and de-licensing for the benefit of new “people of the circle.” The logic is not very different from the loans-for shares: one is authorised to become rich. Example: sale of Iuganskneftegaz, Yukos’s major production asset, to an obscure firm ‘Baikal.’

#### **IV Facts: Putin’s reforms**

Certain steps to address corruption have been initiated in the period in question, which mostly testify to the top-to-bottom logic of reform.

##### Legislative reforms

In response to the pressure of being “blacklisted” by the Financial Action Task Force (FATF), the Financial Intelligence Agency was created in February 2002 in a package with the money laundering legislation.<sup>16</sup>

In November 2003 the Decree to combat organised crime and corruption (*Statute of the Council of the President of the Russian Federation to Fight Corruption*) was issued. The decree provides for the establishment of a consultative body that assists the president in combating organised crime and corruption. This consultative body is composed of representatives of 6 institutions: government, Duma, Council of Federation, Constitutional Court, Supreme Court, and Arbitrazh Court. The *advisory* council established two commissions. One commission is aimed at fighting corruption and is headed by Deputy Prime Minister Boris Aleshin. It is responsible for anti-corruption measures without a law enforcement capacity structures (Aleshin has been reported to speak on corruption “oiling the wheels of the economy” in line with the revisionist view on corruption as ‘helping’ the defects in formal mechanisms). The other commission on conflict of interests is headed by Dmitrii Kozak and meets ‘where necessary’ (*po*

---

<sup>14</sup> Source: *OSCE official report*, page 18, accessed in April 2004 at [www.osce.org/documents/odihr/2004/01/1947\\_en.pdf](http://www.osce.org/documents/odihr/2004/01/1947_en.pdf)

<sup>15</sup> See Thomas Carothers, ‘The End of Transitional Paradigm’, *Democracy*, 2002, No. 13

<sup>16</sup> Russia’s national legislation in the spheres of money laundering had not met international standards, and Russia was only removed from the FATF black list in 2003, after it passed a legislation on the fight against the laundering of illegal income.

*neobkhdimosti*). The council's work intended to culminate in legislation being drawn up. However, anti-corruption legislation is not adopted after more than a decade. The implementation issues are not even on the agenda.

### Administrative reforms

In August 2002 the government adopted the Code of ethical principles for civil servants. A pay rise for civil servants was announced in April 2004: federal ministers receive \$3000 a month, up 4.9 times from 90,000 roubles; deputy ministers and heads of departments will receive 5-12 times more; and employees will receive 3.6-4 times more wages. The rise included bonuses for the years in service etc. The basic rates will go up 1.5 times, the rest will be covered by the bonus payments.<sup>17</sup> The change will cover 10 per cent of the 350,000 federal officials. The apparatus should go down 20-25%. In line with this change, Putin receives salary equal to the Spanish prime minister of USD72,000. For comparison, British Prime Minister Blair receives £163,418 (USD291,750), French minister - 159,600 euro (USD190,810), Estonian president and Prime Minister - USD41,472, US President Bush - \$400,000, and State Secretary Colin Powell USD171,900.<sup>18</sup>

Among external influences on the administrative front, the World Bank's country assistance strategy 2003-2005 for Russia is aimed at improving accountability.

### Law enforcement reform: 'werewolves in uniforms'

Although the overall negative agenda such as organised crime has gone down with the consolidation of the state, the problem of the law enforcement is still acute (one could argue that the functions once performed by the organised crime are now being taken over by the state coercive organs). Evidence of corruption comes from the police internal purges. 21,000 police officers were censured for criminal and other offences in 2002. 17,000 personnel were fired including 10 regional governors (out of 89 regions).

### Big corruption cases

Further evidence is supplied during the big court cases. In February 2004, the Head of the State Statistical Committee Iurii Iurkov was sentenced to 4.5 years in prison for embezzlement and bribery. The allegation was that Iurkov got involved in a criminal alliance with a broker Boris Suakian who sold data to private agencies, leading up to the embezzlement of 2.5 billion roubles. This must have come out as part of the clampdown on information control, although some anecdotal sources suggest that Iurkov has been reported by his colleagues who couldn't ignore the abundance of cash in his office.

---

<sup>17</sup> Alexander Shokin and Yaroslav Kuzminov are behind the pay rise for state officials.

<sup>18</sup> Source: Vedomosti, 2004-04-16 (VDM No. 066) Andrei Panov, Aleksei Nikolski, Mikhail Overchenko 'Zarplaty chinovnikov povysheny v razy' at <http://dlib.eastview.com/sources/article.jsp?id=6155333>  
See detailed scale of salaries of various ranks of civil servants in this source.



## **V Interpretations: Dependence of the political and economic regime on unwritten rules**

According to the definition of corruption used by the TI, corruption is a privatisation of public good at the expense of the public. It is a misuse of public power. While economic models seem to suggest that if one eliminates the state, one eliminates corruption, Putin's take on corruption is different. He insists that corruption is a double-sided phenomenon and emphasises that responsibility for it should be shared between state and business. This is a very important distinction: the former implies that the anticorruption fight is understood as a defence of the freedom of economic agents from the state; the latter – as a defence of the state from various infringements of independent agents, which leads the situation in which businesses are framed selectively by the state. Businesses are linked to corruption by the state in the name of anti-corruption and are brought to answer through the initiation of court procedures (give statistics of the rise in tax evasion cases initiated by the state). Selectivity of law enforcement undermines anti-corruption efforts and destroys the spirit of open competition essential for the anti-corruption measures to work (Satarov).<sup>19</sup> In this context, corruption can be defined as a misuse of the workings of public institutions (and formal rules) to serve private interests (and informal codes).

According to Douglass North, “formal rules are an important part of the institutional framework but only a part. To work effectively they must be complemented by informal constraints, such as convictions, norms of behaviour that supplement them and reduce enforcement costs” (North 1993: 20). Formal rules include constitutions, statutes, common law, and other governmental and commercial regulations etc. that are enforced externally by organisations. Informal rules stem from experience, traditions, customs, social norms habitual behaviour etc. that are enforced by communities, interpersonal control etc. Given the importance of both formal and informal rules for the institutional framework, the anti-corruption policies should be targeting both formal and informal constituents of corruption.<sup>20</sup> Moreover, these are impossible to disentangle as in Russia informal intermediation/ instrumental use of formal mechanisms constantly diverts all efforts to change formal structures and procedures from its original course. This tendency suggests that the top to bottom models of reforms do not work in Russia.

Let me sum up the dependence of political and economic regime on unwritten rules which diverts efforts to tackle corruption by changing formal structures as following:

- The ‘rules of the game’ are non-transparent or frequently change;
- Anybody can be framed and found guilty of some violation of the formal rules;
- Due to the pervasiveness of the offence, punishment is bound to occur selectively (on the basis of extra-legal criteria);

Unwritten rules come into being to compensate for the defects in the rules of the game and to form the basis for selective punishment.<sup>21</sup>

---

<sup>19</sup> Source: *Vedomosti*, 2003-11-12 (VDM – No. 207) Kirill Rogov ‘Political economy: Internal guard.’

<sup>20</sup> Chinese example of targeting the shame feeling of the officials by translating nationally television clips of the arrested officials telling their stories.

<sup>21</sup> For more details see Ledeneva, A. *Unwritten Rules: How Russia Really Works*. London: Centre for European Reform, 2001.

## Selective law enforcement

What does Khodorkovskii's case tell us about political regime? A variety of interpretations exists, including those pointing out that he lost a sense of proportion in his business plans and openly declared his political ambitions. What most of these interpretations have in common is that Khodorkovskii has violated the 'unwritten rules,' announced in June 2000 at the meeting between Putin and oligarchs, who were told not to intervene into politics. Instead, Khodorkovskii has been open about financing oppositional parties (including both liberal and communist parties); having/buying too much influence in the State Duma; and declaring political ambitions in the 2008 presidential elections.<sup>22</sup> He has also claimed business interest outside Russia, planned sales to the foreign investors without consulting the Kremlin where expected, and has developed cosmopolitan views non-compatible with the Russian outlook<sup>23</sup>. Khodorkovskii has started a clean-up campaign, which should have been a government initiative in the first place – an initiative that has been curtailed to an overall satisfaction of the population of Russia. Most importantly, Khodorkovskii's case made the gap between the formally claimed principles and informal agreements explicit.

The very nature of informal agreement between the state and the business created the lack of transparency and the refusal by the state to outline clear policy and to set up specifically targeted but accountable tax policies to regain the profits that were made by the oligarchs in the 1990s. Reserving the informal leverage against oligarchs is necessary to make them stay in line and negotiate with the government on the favourable for the government terms. The informal constituent of political power in Russia is as strong as ever. It makes the rules powerful but by the same token it traps the ruler into the dependence on the unwritten rules, the non-transparency of 'the rules of the game' and the selectivity of law enforcement (as illustrated above).

Some would argue that selective enforcement is better than none and in many ways the only possible way forward (one has to start somewhere or people should get in line) but the fact is that there is no good solution for the authority that 'sits' on the branch of the informal leverage and customary law. To make the rules transparent means to lose manageability and centralisation needed to run the country of such scale and complexity. Not to make them transparent means to reproduce the obstacle to the rule of law, to the improvement of the investment climate and to the freedom and initiative of economic agents.

An obvious way out is the economic growth. But is it possible without strong institutions supporting the rule of law? Yes, but only if there is support for small business and initiative on the ground, openness to the global community and integration as it is the case in China. Putin has started along the lines of 'economic project' and pragmatism (reducing the international debt and the dependency on the oil prices, attempts of diversification in industry and investment) but his latest political reforms, allegedly in response to the security issues, go against the logic of separation of the state, business

---

<sup>22</sup> Polittekhno, play.

<sup>23</sup> Khodorkovsky admitted this in the letter from SIZO No. 4, see "Krizis liberalisma Rossii", Vedomsti, 29, March 2004, <http://www.vedomosti.ru/stories/2004/03/29-47-06.html>

and civil society, which is essential for creating a market democracy, which is to date still a declared commitment of Russia.

## **VI Assessments: How does one assess the success of the Putin's administration vis-à-vis corruption?**

In his article, published in March 2001 in Moscow Times, Paul Khlebnikov, murdered in July 2004, suggested that the West should judge Putin's administration by the following criteria: Has the rule of law strengthened? Has the crime gone down? Is small business flourishing? Are the institutions of civil society developing? Have the number of NGOs gone up? These are the indicators of whether Russia moved towards democracy.<sup>24</sup>

In terms of the NGOs development, it has to be noted that the increase in numbers have to be taken with caution. First, according to one assessment, out of 300,000 NGOs registered with the Ministry of Justice in 2002, only 15,000 were active. A similar ratio can be expected from the current record of 500,000 NGOs registered in Russia. Second, given the nature of the non-state and non-commercial (NKO) organisations in Russia, the increase in numbers as such is not directly indicative of democratic developments or civic initiative. The quality of the civil society (as well as electorate in general) and its dependence on western funds are often criticized as not matching the expectations of a democratic regime. The importance of western funds for the NGOs initiative should be noted in the latest developments:

- Centre for Citizens' Initiative (CCI) assisted Russian entrepreneurs to reduce corruption by creating an advocacy association.
- March 2004—CCI programme 'transition to transparency' training 100 Russian entrepreneurs from the regions on corruption reduction methodologies in various US offices (Governmental Ethics, US Dept of Justice, US Treasury, Office of Commerce)
- January 2004 Anti-corruption network (ACN)/OECD met and developed regional anti-corruption Action plan. Created an Advisory Group.
- Developments in the regions: [www.anticor.ru](http://www.anticor.ru), INDEM regional indices of corruption (European funds), Corruption in Vladivostock survey (US funds); Tatarstan (Shaimiev initiatives).

The World Bank report on the world development in 2005, released in October 2004, has noted a remarkable success of China, India, and Uganda<sup>25</sup> in terms of economic growth and tackling poverty and outlines the key dimensions of such efforts. These include:

- to reduce the uncertainty about methods and goals of government policy;
- to reduce transaction costs associated with contract-enforcement,
- to reduce overregulation,
- to reduce crime and corruption.<sup>26</sup>

The report identifies the investment climate as a key to the success of these economies.<sup>27</sup>

---

<sup>24</sup> Moscow Times, 23.03.2001

<sup>25</sup> Add their ratings in the TI CPI.

<sup>26</sup> (Source: Fransua Burgenion, Warrick Smith [www.worldbank.org/wdr2005](http://www.worldbank.org/wdr2005) 'Report on the world development in 2005: Improvement of the investment climate in the interests of all groups of population')

A similar report on conducting business in 2004, released in October 2003 by the experts of the IFC, offers assessment of the efforts required in various countries in order to register a new business, to achieve a contract enforcement decision in a court, to hire or employ personnel, to receive a loan or to liquidate the firm. According to these criteria Russia has been the 60<sup>th</sup>, placed in the list of 130 countries. According to the World Bank assessment, one has to go through 12 procedures in order to register business in Russia, which can take under 29 days, and through 16 procedures in order to receive a court decision related to contract enforcement, which is likely to take about 160 days. Liquidation of a firm might take 1.5 years. In the last 2-3 years, Russia, alongside Latvia and Slovakia, have reformed its regulatory system most actively.<sup>28</sup> Yet local experts note that the decision in court does not mean it is going to be enforced, and it is the implementation of the court decisions that does normally presents a problem. The weakness of the bailiff institutions often results in the selective enforcement of court decisions, often with the use of alternative agencies of contract enforcement. As the table 3 shows, there has been a striking increase in a number of legal protection agencies, from 4540 in 1993 to 11652 in 1999. It is also common for the Arbitrazh courts to be used instrumentally as part of the business strategies different from the declared contract enforcement issues ([give examples]).

---

<sup>27</sup> (FN: BEEP picture Russia versus CIS)

<sup>28</sup> Source: Igor Fedyukin, Alexei Nikolsky 'Den'gi/Vlast'. Arbitrazhnyi proryv. *Vedomosti* 2003-10-09 (VDM-Mo. 184) see full ranking table of countries in the source.

*Table 3: Key Financial and Social Indicators*<sup>29</sup>

	1	2	3	4	5	6	7	8	9	10
	Popula- tion	GDP at current prices(RUR bn)	Real GDP Growth (%)	Inflation (%)	Profit & Income Tax Collected (% of total govt. receipts)	No. Crimes Registered (K)	Conviction s (% of total no. crimes)	Total No. (legal) Protection Agencies	* (see below)	No. Small Businesses (K)
<b>1989</b>	147.6	573	3.0	4.0	n/a	n/a	n/a	0	0	n/a
<b>1990</b>	148.3	1,019	-2.1	5.0	n/a	1,839.5	29.2	0	0	n/a
<b>1991</b>	148.9	1,300	-12.9	92.6	n/a	2,173.1	27.3	0	0	n/a
<b>1992</b>	148.6	17,500	-18.5	1,354	38.3	2,760.7	24.0	0	0	n/a
<b>1993</b>	148.4	162,300	-12.0	880	42.7	2,799.6	28.3	4,540	0	560.0
<b>1994</b>	148.0	611	-12.7	307	38.6	2,632.7	35.1	6,605	73	865.0
<b>1995</b>	148.1	1,585	-4.2	197	35.3	2,755.7	37.6	7,987	690	896.9
<b>1996</b>	147.4	2,220	-3.5	47.6	27.4	2,625.1	42.3	9,863	622	877.3
<b>1997</b>	147.1	2,563	0.8	14.6	25.3	2,397.3	42.3	10,487	978	841.4
<b>1998</b>	146.1	2,685	-4.6	27.8	24.9	2,581.9	41.5	10,804	1,364	861.1
<b>1999</b>	145.6	4,823	6.3	85.7	27.9	3,001.7	40.8	11,652	1,277	868.0
<b>2000</b>	145.2	7,306	10.0	20.8	27.3	2,952.4	40.1	n/a	n/a	890.6
<b>2001</b>	144.4	9,039	5.0	21.6	28.7	2,968.3	41.9	n/a	n/a	879.3
<b>2002</b>	145.3	10,863	4.3	16.0	23.3	2,526.3	34.0	n/a	n/a	843.0
<b>2003</b>	144.9	12,858	6.2	13.6	n/a	2,750.0	n/a	n/a	n/a	882.3

<sup>29</sup> Figures from: The Economist Intelligence Unit Limited, *EIU Country Report: Russia*, (hereafter, *EIU*), 4<sup>th</sup> quarter, 1994, p. 4; *EIU*, 4<sup>th</sup> quarter, 1999, p. 5; *EIU*, December, 2003, p. 5; *Goskomstat*, 1995, pp. 106-109; *Goskomstat*, 1996, pp. 688-689; *Goskomstat*, 2003, pp. 274-277, 322-323, 547-549; Volkov, *Violent Entrepreneurs*, p. 138; and Interfax News Bulletin, "2.75 million crimes registered in Russia in 2003", 26<sup>th</sup> January 2004, via <www.lexis-nexis.com> [accessed 12<sup>th</sup> August 2004]. Prepared by James McLeod-Hutch.

\* = No. agencies closed down by  
authorities

## VII Conclusions: the outcomes of the Putin's first term in office?

To sum up the tendency, the following formula, suggested by Klitgaard, can be useful: monopoly + discretion – accountability.<sup>30</sup>

What we witness in Russia is the rise in the monopolistic tendencies, the increase in discretion, and the plummeting accountability concurrent with clampdown on information, civil liberties and media freedom.

In these circumstances, the anti-corruption fight can be used instrumentally by the government for:

- 1) creating 'Potemkin villages' of the fight (research and roundtables etc.)
- 2) using the anti-corruption measures against business as yet another 'hook' that the state can catch a businessman on for the purposes of institutional and personalised extortion;
- 3) fighting political opposition and business competitors.<sup>31</sup>

Such an instrumental use of anti-corruption discourse results in the lack of (translated) political will to fight against corruption. On the other hand, public is as responsible as Kremlin for the state of affairs. Popularity of President Putin is all too soon has transformed into the worrying symptoms of his personality cult. If every folk deserves its leader, Russians should congratulate themselves on their youthful and energetic leader and not mind the clampdown on media, information and freedoms that comes as part of the package. Given Russia's history, society's tolerance towards corruption is not surprising either. Both the political will and the public demand can be characterised by the lack of belief into the principles of democracy and lack of determination to stand up for them. Both behave as if the formal rules are just the façade of the how things really work and use them instrumentally, whether in a context of eliminating the elections of regional leaders or using this reform for getting rid of certain leaders in the regions. In any instance, the top-to-bottom reforms are not driven by the need to reduce the gap between the formal rules and their instrumental use for other purposes and often get diverted.

As a result, the Russia's 'pendulum' keeps swinging from the pole of centralisation, vertical of power and top-to-bottom reforms to the pole of decentralisation, accompanied by the political devolution and predominance of corrupt and informal practices. Metaphorically speaking, one has to secure the weight of formal institutions that would make the pendulum swing with less amplitude and in a more balanced way.

---

<sup>30</sup> Rasma Karklins makes assessment type by type. Karklins categorises corruption according to three types: low-level administrative corruption, self-serving asset stripping by officials, and state capture by corrupt networks. Low-level administrative corruption include bribery of public officials to bend rules; deliberate over-regulation, obfuscation, disorganization; and using licensing and inspection powers for extortion. Self-serving asset stripping by officials include: diverting public resources for civil servant spoils; mismanagement and profiteering from public resources; profiteering from privatization; malpractice in public procurement; and nepotism, clientelism, and "selling" of jobs. "State capture" by corrupt networks consists of *de facto* takeover of public institutions for private business or criminal activity; forming collusive networks to limit political competition; undermining free elections through slush funds, hidden advertising, etc.; misuse of legislative power; corruption of the judicial process; misuse of auditing, investigatory, and oversight powers; using *kompromat* for political blackmail and coercion; corruption of and in the media

<sup>31</sup> *Vedomosti* reference.

Unless there is a political will to reduce the gap between the formal rules and informal ways of applying them, unless Putin trust the political principles of democracy to deliver the result, and unless an institution of 'untouchables' that operates on the basis of principles that are in contradiction with the predominant 'rules of the game' is created, a little progress can be made. The climate created under the president Putin, however, is not conducive for such a body to materialise.

## **Bibliography:**

- ADES, Alberto, DI TELLA, Rafael, "The Causes and Consequences of Corruption: A Review of Recent Empirical Contributions, IDS Bulletin, Vol. 27, No. 2 (April 1996), pp. 6-11.
- ALATAS, S. H., *Corruption: Its Nature, Causes and Functions*, Aldershot: Avebury, 1990.
- BARDHAN, Pranab K., "Corruption and Development: A Review of Issues", *Journal of Economic Literature*, no. 35, September 1997, pp. 1320-1346.
- BLISS, Christopher, DI TELLA, Rafael, "Does Competition Kill Corruption", *Journal of Political Economy*, vol. 105, no. 51 (1997), pp. 1001-1023.
- CLARKE, M. (ed.), *Corruption: Causes, Consequences and Control*, London: Francis Pinter, 1983.
- Combating Corruption, Are Lasting Solutions Emerging? Berlin: Transparency International, 1998, 224 p.
- COTE-FREEMAN, Susan, *What NGOs Can Do Against Corruption*, TI Working Paper, Berlin: Transparency International, 1999.
- GOUDIE, A., STASAVAGE, D., *Corruption: The Issues*, Technical Papers no. 122, Paris: OECD Development Center, 1997.
- GRAY, Cheryl, KAUFMANN, Daniel, "Corruption and Development", *Finance & Development* (March 1998). Subject: Corruption - Development - Economic aspects.
- GRODELAND, Ase B. et al (eds). *A Culture of Corruption: Coping with Government in Post-Communist Europe*. CEU, 2000.
- HEIDENHEIMER, Arnold J., JOHNSTON, Michael, LEVINE, Victor T., eds., *Political Corruption : A Handbook*, New Brunswick (USA) and Oxford (UK): Transaction Publishers, 1989, 1017 p.
- HELLMAN, Joel, Jones, Geraint, Kaufmann, Daniel, Shankerman, Mark, *Measuring Governance, Corruption, and State Capture*, World Bank Paper, April 2000.
- KAEKLINS, Rasma, "Typology of Post-Communist Corruption"  
*Problems of Post-Communism* July-August 2002 pp.22-32
- KAUFMANN, Daniel, "Corruption: The Facts" *Foreign Policy*, 107, Summer 1997, pp. 114-131.
- KLITGAARD, Robert, *Controlling Corruption*, University of Berkeley, CA: University Press, 1988, 220p.
- KORNAI, Janos, Bo Rothstein, and Susan Rose-Ackerman (eds.), *Creating Social Trust in Post-Socialist Transition*, New York: Palgrave, 2004.
- LEDENEVA, Alena "Introduction: Economic Crime in a New Russian Economy" in Ledeneva, A., Kurkchian, M. *Economic Crime in Russia*. Kluwer Law International, 2000.
- LEDENEVA, Alena, *Unwritten Rules: How Russia Really Works*. Centre for European Reform Paper, 2001.
- RADAEV, V.V. 'Corruption and Violence in Russian Business in the Late 1990s' in Ledeneva, A., Kurkchian, M. *Economic Crime in Russia*. Kluwer Law International, 2000.
- ROSE-ACKERMAN, S., *Corruption and Government : Causes, Consequences, and Reform*. Cambridge University Press, 1999.



SCOTT, J.C. Comparative Political Corruption. Engelwood Cliffs, NJ: Prentice-Hall, 1972.

SUN, Yan, 'Reform, State, and Corruption: Is Corruption Less destructive in China Than in Russia?' Comparative Politics, October 1999.

TANZI, V. Corruption Around the World. IMF Staff papers. Vol. 45 No.4 December 1998.

VARESE, Federico, "Pervasive Corruption" in Economic Crime in Russia. Kluwer, 2000.

WORLDBANK 2000 Report on Corruption  
World Bank 2004 Report