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Russia's Practical Norms and Informal Governance: The Origins of Endemic Corruption

ENDEMIC CORRUPTION: PRACTICAL NORMS OF THE RUSSIAN *SISTEMA*

In his address to the Federation Council in December 2012, President Vladimir Putin pointed to the poor government efficiency and corruption as major problems that everyone can see and contrasted those with modern public administration. The same month, Russia assumed the chairmanship of the Group of 20 (G-20) and, at its September 2013 meeting, urged the member states to adopt a joint anticorruption strategy that would ban officials from traveling from one country to another if they are suspected of corruption (IMRussia.org 2013). Such rhetoric could be seen as a response to Russia's less than satisfactory position in the international ratings. In 2012, Transparency International (TI) ranked Russia 133rd out of 174 countries on its Corruption Perception Index (CPI), and last place out of 22 in the latest TI Bribe Payer Index (BPI).¹ Yet analysts also point out that an anticorruption rhetoric in countries with endemic corruption is often politically motivated and instrumentally used. Thus, Putin has reportedly taken over the anticorruption grounds of the opposition (Panfilova in Bruk 2013). The population welcomes the anticorruption stand but does not expect tangible results in reducing corruption levels. In response to the 2013 Global Corruption Barometer survey, 70 percent of Russians stated that the

government is ineffective or very ineffective in fighting corruption. Moreover, when asked, “To what extent is this country’s government run by a few big interests looking out for themselves?” only 3 percent of respondents showed confidence in the government, while 73 percent believed that the government is run according to the interests of its members (expert opinion is even more pessimistic).²

Similar data can be found in other countries with endemic corruption—that is, countries where corrupt behavior is perceived as a practical norm, whereas noncorrupt behavior is perceived as a deviation. In the example above, the practical norm is an expectation that the government officials serve their own interests and enrichment, while the deviation is to serve the interests of the population (public good). The 2013 Global Corruption Barometer data on Russia highlight the perception of government officials as wealth-grabbers and the importance of personal contacts and relationships to get things done. Only 6 percent of Russian respondents said that contacts were of no or little importance and 73 percent considered contacts important or very important, while a further 16 percent considered them moderately important (the scores are relatively high for the United States and Germany; see GCR 2013).³

The data of the 2011 online survey in 46 regions of Russia indicate that only 18 percent consider it inappropriate to use connections (*blat* networks) for career purposes; 25 percent believe that it is impossible to make a career without connections, and 54 percent acknowledged having used connections for their own careers because they had no alternative. The perception of the importance of connections for finding a good job is even higher, at 68 percent (*NEWSru.com* 2011). In present-day Russia, the role and importance of personal contacts is linked to Putin’s control, or micromanagement, but also to the grip of patrimonial rule and traditional forms of governance, sometimes referred to as *sistema* (Ledeneva 2013).

To explore the role of personal networks in Putin’s *sistema*, I conducted ethnographic research on the patterns of governance that are often associated with and conceptualized as Russia’s neopatrimo-

nialism, competitive particularism, personalized bureaucracy, “manual steering” regime, or political corruption.⁴ Rather than discussing Russia’s anticorruption reforms and the related rhetoric of the country’s leadership, widely perceived as ineffective and instrumentally used, I identify the patterns of governance that are effective—that enable *sistema* to work—and consider their potential, limitations, and implications. I argue that in order to exercise power under conditions of endemic corruption, a government official must become an experienced broker of *sistema*, stay in control of power networks, monitor their dynamics, and apply instruments of informal checks and balances. Leadership implies mastery of both the methods applicable in official hierarchical contexts and the tools that are effective and efficient within informal power networks, which, despite their seeming incompatibility, merge seamlessly in the hands of such a master. The literature on informal governance is somewhat limited; leadership theories tend to examine practices of informal management under the rubric of interpersonal skills rather than associate them with the nature of organization. I argue that methods of informal governance deserve more systematic and in-depth analysis of *sistema*.

PUTIN ON SISTEMA

During the Valdai Discussion Club event in September 2005, I asked President Putin a question about corruption within the Kremlin walls. I stated that previous heads of the Russian state were known to rely on their security services for gathering and keeping sensitive information (*kompromat* files) on their staff, friends and enemies, and asked the president what information he sought and used on a regular basis with regard to corruption. I also wondered whether there was an anticorruption strategy at the presidential level. As with the majority of questions, Putin took his time answering it. According to my notes, he expressed some surprise that I asked about the Kremlin, as budgetary allocations were decided elsewhere. He also pointed out that the problem of corruption resides not in people but in the system. Therefore, targeting people with *kompromat* is ineffective. One must target the system, and

that can only be done against the background of economic growth and political stability.

Naturally, I was intrigued by Putin's reference to *sistema* and pondered over his elusive answer. It was so clear, logical, and "right" that political stability sounded like the best anticorruption solution. In accordance with the presidential line of incremental change, requiring improvement in economic growth, effective law enforcement, and stability of the political system, some other Kremlin officials have justified Putin's "manual steering" by emphasizing that currently Russia cannot rely on the institutions of civil society or any institutionalized system of checks and balances: "As these institutions gradually develop in Russia we must hope that those in power will exercise self-restraint, which of course cannot be guaranteed. In the majority of cases, those in power are guided by their best intentions . . ."

Deciding whether institutional deficiencies create the demand for manual control or whether manual control restricts the development of institutional capacity is the chicken-egg dilemma. In Putin's Russia, manual control is guided by best intentions, but the "right" outcomes are achieved by the use of administrative resources and manipulation, especially when it comes to the issues of political stability, party politics, and control of the media. Another senior official, one of my interviewees for the study of *sistema*, said that

people have no set political preferences—television decides everything. A party's popularity can be boosted from zero up to 30 percent. We need time for these political preferences to develop but, while they are emerging, it's manual control. What does Putin think? There are no assets which belong to no one: if the state does not control the media, big business will control them. Putin thinks, yes, manual control costs us, yes, this is unfortunate politically, and yes, I get criticized for it. But for the time being, however, I have no other way. . . . What else can I do if people are ready to vote for a populist?

Putin's manual control is somewhat consistent with the modus operandi of the Soviet administrative system, where all branches of power, including executive, judicial, legislative, and media, were guided by the "party line." When asked whether he was not afraid of micromanaging Russia, Putin said:

It is impossible to govern a country like Russia effectively in the micromanagement mode. I can tell you that it is impossible to govern any country in the micromanagement mode, a small Luxembourg or any other country, not only an independent country but also any region. A system is required. But where the system does not work, one cannot be sitting back with one's arms folded or picking one's nose and say: well, the system is not working, therefore, we are sorry. Personal involvement is needed here. And one should not be afraid of responsibility (BBC Monitoring 2010).

This statement is an example of Putin's rhetoric—there should be an effective system of governance in Russia as in any other country—but it is also an illustration of his leadership style. He comes across as a hands-on leader, unafraid of personal involvement where needed or of taking responsibility for it. In interviews, *sistema* insiders also comment on Putin's hands-on management skills and the real power they generate:

Putin has changed every few years but his method has remained the same: "manual steering out" (*ruchnoe razrulivanie*). He engages in conflict resolution and makes sure that his decisions are accepted. In contrast to Prime Minister Medvedev, who would not make a phone call, Putin calls and says, "Do it like this." Issues inevitably end up on his desk, especially sensitive issues and those involving key players. This is why he remains at the steering wheel.

The scale of Putin's personal involvement, his reliance on power networks, and his choice of management instruments are important for understanding the governance system in Russia. Apart from general assumptions that Putin's manual control is a form of neopatrimonialism, not conducive to the separation of powers and effectiveness of institutions, our understanding of the patrimonial power and the workings of patron-client networks remains fairly limited, despite Kremlinologists' decades-long interest in informal power. Let us start with a brief summary of traditional governance patterns in Russia: "feeding" (*kormlenie*), joint responsibility (*krugovaya poruka*), and the use of formal façades (*potemkinskie derevni*) that deviate from how things really are.

POWER NETWORKS AND THE ORIGINS OF INFORMAL GOVERNANCE

In the late middle ages the term "feeding" was used to describe a method by which Russian rulers rewarded the military and government elite with exclusive rights to temporarily exploit regional constituencies for private needs. Usually the rewarded official spent a few years running the constituency (the size and wealth of which reflected the person's closeness to the Moscow ruler), filled his coffers, and returned to the court to resume military or administrative service. Although the official had almost unlimited power over the constituency there were some unwritten rules that regulated the types and amount of "feeds" he could extract from the managed territory. The center also informally watched him and expected some share of the bounty. As a Russian joke has it, state officials are caught not for stealing but for stealing too much for their rank.

In addition to collecting direct taxes in the form of products and labor from the constituency, the public servant imposed levies on all administrative services he and his men performed for the population—from opening a criminal investigation to registering a marriage. According to Russian historian Vasily Kluchevsky, feeding was meant to be a reward to the disinterested public servants who did good for

their country, but in practice it made Russian officials accustomed to the tribute for their services (Klyuchevsky 1988, 316). Public services became seen as an opportunity to receive salary, or prebend, in Max Weber's terms.⁵ The legacy of feeding as the life-support system for officials—who quite literally “fed” from their place in the state hierarchy—lasted well beyond the 1555 decree on the abolition of feeding and other land reforms initiated by Ivan IV (the Terrible), which made the practice illegal but did not eradicate it. As a result, feeding gave way to stealing, which spread among state officials and beyond as a practical, if semi-legitimate, norm. This practical norm is captured in Nikolai Karamzin's remark “one steals” (*voruyut*) and widespread perceptions of Russia as a kleptocracy.

On the individual level, the logic of giving (being given an opportunity to feed) merged with the logic of taking (taking an opportunity to feed), especially under socialism, where the give-and-take practices were exercised at the expense of state property or public resources (Lovell et al. 2000). On the state level, the give-and-take practices have consolidated into a Soviet version of feeding, an economic model based on centralized redistribution of resources and ideological reluctance to introduce market principles of allocation at the expense of Russia's natural resources (Polanyi 1977; Bessonova 1999). The personalized system of allocation, the culture of privileges, and the redistribution principles have promulgated free-riding, which became most pronounced in Putin's Russia in the form of kickbacks and *sistema* raiding (acts of depriving business owners of their business using threats of state persecution, often covered with the rhetoric of patriotism) (Ledeneva 2013).

Joint responsibility (*krugovaya poruka*) is yet another traditional form of governance in Russia, where one is responsible for all and all are responsible for one. It is best imagined as signing a petition in a circle so that it is not clear who signed it first, thus protecting the troublemaker while making the whole community liable. The Russian state used *krugovaya poruka* for tax collection, army conscription, and crime control. Whenever the peasant community was not able to deliver

payment, a recruit, or a criminal, the whole community was punished. Pressed together vis-à-vis the state, peasant communities enforced vigilance, informal punishment, and peer control that limited individual rights for the sake of collective well-being (Ledeneva in Markova 2004). *Krugovaya poruka* was formally abolished as part of the liberal reforms by Prime Minister Pyotr Stolypin in 1903 (in effect from 1905), yet in practice it continued to mold people's strategies of survival in the face of an oppressive state, on the one hand, and rulers' reliance on traditional forms of control in unmanageable or unstable settings, on the other. An archive-based study of networks of regional elites provides insight into the role of *krugovaya poruka* in the workings of Soviet sistema (Gorlizki 2010; Khlevnyuk 2009). Among regional elites, it was used for resisting control and orders from above. *Krugovaya poruka* was used to cover up for power excesses by regional officials; to protect an official when compromising information about him was leaked to the center; and to punish the whistleblowers leaking such information (Hosking in Markova 2004; Ledeneva 2006). The immunity and protection provided by *krugovaya poruka*, however, was intrinsically linked to the limited property rights and the dependence on the group, the so-called lock-in effect, for individuals.

The use of the gap between the formal façades and the informal workings of power, metaphorically grasped in the phrase "Potemkin villages," is the third feature of traditional governance. Historically, Potemkin villages are associated with the legend of creative accounting by Count Potemkin, who built façades of fake villages along the journeying path of Catherine the Great, as well as with the virtual nature of postcommunist reforms and privatization (Wilson 2005; Allina-Pisano 2007), but there are further important implications. The importance of distinguishing façades from what is behind them is an important practical norm grasped in such popular wisdom as "Russia is a country of unread laws and unwritten rules" or "the imperfection of our laws is compensated for by their nonobservance" (*nesovershenstvo nashikh zakonov kompensiruetsya ikh nevypolneniem*). Russian cultural tradition

separates the concept of justice from that of formal law, which is highlighted by the diverging connotations of the words *spravedlivost* (justice) and *zakonnost* (lawfulness). The duality of norms, the gap between the formal and informal, and the arbitrary nature of their application make the practical norms indispensable know-how.

In his study of *Muscovite Political Folkways*, Edward Keenan explains this gap between the informal and the formal in terms of political culture. He argues that Russian political culture has been strongly influenced over time by both the psychological attitudes and the practical, adaptive techniques that were developed by the earliest Slavic settlers. The economic and social conditions that they faced— isolation, poor land, severe climate, unpredictable harvests, and a generally hostile environment—gave rise to a vigorous culture with specific traits: caution, calculation, resoluteness, stoicism, endurance, and above all, an emphasis on survival. Over the centuries, Keenan claims, these traits constituted the enduring elements of Russian political culture: the operational basis of each setting is informal and traditional (there is a lack of connection between real power and formal status); decision making is “corporate and conspiratorial”; stability and risk-avoidance are favored over innovation and progress; and there is a reluctance to promulgate systematic codified law (those who need to know the rules know them). The last point is particularly important as it indicates the fluid nature of rule enforcement and the runaway nature of unwritten rules (Ledeneva 2001).⁶

Historian Geoffrey Hosking emphasizes the role of personal power networks, defined as hierarchical relationship between patrons and clients, and views them as the main pillars of governance during both czarist and Soviet Russia. He identifies foundations of the patron-client relationships in imperial Russia, such as kinship, geographical location, and institutional position, which drew together those who had worked in the same office, especially if the office had specialist functions, such as the State Chancery or the Ministries of Justice or Finance (Hosking 2000). Hosking argues that the Russian political

system cannot be characterized as purely autocratic; one has to look upon the Russian political system under czarist rule and the Soviet *nomenklatura* as being a stately network of personal power, with marked elements of patronage and clientelism that carry through to the present-day Russian state.

Political scientists Thomas Christiansen and Simona Piattoni point to the double-faced nature of clientelism—practically expedient but normatively suspect—and its implications for corruption. Clientelism is often used to denote all long-term, mutually convenient (although not fully legitimate) deals that restrict competition within closed circles. These deals are not fully legitimate precisely because they tend to limit the selection of partners to preestablished groups of “friends” who may have a common interest in exploiting some available pool of public resources and keeping the outsiders out. But they may also be explained by the simple convenience of not having to renegotiate the terms of long-term relationships based on mutual knowledge and trust (Christiansen and Piattoni 2003). In other words, clientelism is premised on assumptions very similar to those that sustain the networks through which informal governance typically works. Patron-client relationships offer modest but definite benefits to the clients but they also carry potential dangers. Christiansen and Piattoni draw attention to the lack of sanctions and enforceable procedures, which generates corruption and nepotism, as well as the necessity for formal hierarchies to undermine the networks’ credibility and legitimacy in order to sustain and boost their power. The potentially damaging symbiosis of hierarchies and power networks highlights both the question of legitimacy of informal governance and the dilemma between legitimacy and efficiency of informal governance. Power networks tend to create effective yet illegitimate shortcuts that undermine efficiency and legitimacy of formal institutional channels.

All three constituents of traditional governance rely on specific patterns that are particularist, arbitrary, noncodified, and nontranspar-

ent. As the Russian prime minister, Sergei Witte, summed it up at the end of the nineteenth century:

I am not in the least afraid of foreign capital, since I consider it is in the interests of our country. No country has been developed without foreign capital. What I am afraid of is just the opposite—that our way of doing things has such specific characteristics, so different from the way things are done in civilized countries that not many foreigners will want to do business with us (quoted from Ledeneva 2001).

The level of “specificity” in the ways of getting things done increased during the Soviet days. In his contribution to the *Leading Russia* volume, Robert Service explains the difficulty of dealing with the Soviet system because of the “schizoid nature of the USSR,” stemming from the ambivalence of its central control, clientelist politics, widespread informal practices, misinformation going upward and downward, and popular cynicism (Service 2005, 71). In the contemporary Russian hybrid regime, where elements of traditional governance and representative democracy are intertwined with Putin’s power over his networks, instruments of informal governance are obscured even further. Such instruments of creating informal incentives and allocating resources (feeding), of monitoring and controlling through informal checks and balances (joint responsibility), and of sustaining façades of independent institutions while controlling them informally (Potemkin villages) require detailed examination.

METHODS OF INFORMAL GOVERNANCE IN PUTIN’S RUSSIA

I distinguish four ideal types of power networks that operate in different modes or capacities: inner circle, useful friends, core contacts, and mediated contacts. The *inner circle* serves to back up a leader and to “program,” “filter,” and “develop” the power network. *Useful friends*

benefit from “authorized” business opportunities outside the power hierarchy (*vertikal*) and generate resources for the survival of the power network and/or increasing its financial base. *Core contacts* are more likely to benefit from public appointments within the power hierarchy and serve as safeguards of both the hierarchy’s and the network’s interests. *Mediated contacts* are used for outreaching, controlling, and channeling changes. These functions are linked to the key governance patterns predominant in periods of stability in Russian history, as identified by Keenan above:

- ▶ The operational basis of the inner circle is informal and traditional—that is, based on time/space proximity to the center of power and its privileges (the inner circle is defined on the basis of loyalty to/strength of ties with the leader).
- ▶ Access to resources is decided on a corporate and conspiratorial basis; that is, patrons either provide clients (useful friends) with opportunities or allocate resources in exchange for corporate participation and undisclosed returns.
- ▶ Core contacts prioritize personal loyalty, stability, and risk avoidance over professionalism and innovation, thus securing a binding force and ensuring the reproduction of *sistema*.
- ▶ Mediated contacts benefit from affiliation with power networks and contribute to sustaining the dependence on and compliance with the unwritten rules. The nontransparency of *sistema* generates possibilities for rent-seeking, manipulation of rules, and unfair advantages for insiders, as well as fear and dissatisfaction among them.

In what follows I present these ideal types and functions of power networks and link them to the leadership tasks and instruments of informal governance in figure 1 (Ledeneva 2013).

On the basis of evidence articulated by my respondents, quoted in this article, and witness statements in the Russian cases in London courts, I assemble some reflections on the instruments of informal

Figure 1: Types and Functions of Power Networks, Leadership Tasks, and Instruments of Informal Governance

<p>Network type: inner circle</p> <p>Functions: backup/free-riding</p> <p>Leadership task: vision and agenda-setting</p> <p>Methods of informal governance: informal incentives</p>	<p>Network type: core contacts</p> <p>Functions: safety net/lock-in effect</p> <p>Leadership task: control and policy implementation</p> <p>Methods of informal governance: informal agendas</p>
<p>Network type: useful friends</p> <p>Functions: survival kit/limited rights</p> <p>Leadership task: resources control</p> <p>Methods of informal governance: informal affiliations</p>	<p>Network type: mediated contacts</p> <p>Functions: buffer effect/path dependence</p> <p>Leadership task: legitimation, stability and succession</p> <p>Methods of informal governance: informal signals</p>

governance and consider them in the order: informal incentives, informal affiliations, informal agendas, and informal signals.

INFORMAL INCENTIVES

The inner circle is associated with those participating in decision making and filtering of information. They are especially attuned to positive and negative incentives applied informally. Members of Putin’s inner circle are perceived to be generously rewarded in a material sense but the channels are totally nontransparent. As stated by a respondent,

There is an inner circle (*svoi*) in the top layer of state officials. Naturally, they do not take any kickbacks or have anything to do with business; they are rewarded through insider channels. It is fair to pay them to a decent level, equivalent to a few million in US dollars a year. These salaries/bonuses come from *svoi* funds, some unofficial coffers, perhaps those collected from businesses or from

the political funds. It is important that people like this do not consider themselves relatively deprived because there are officials who make serious money in the private sector. Everyone knows vice premiers who own metallurgical complexes or fly in their own jets; there are also ministers who fly in their own jets and even heads of various ministerial departments who fly in their own jets. Somehow this is accepted—there are certain agreements and *sistema* stays rather open-minded about all this.

Positive incentives are not unrelated to negative ones. One hears about certain dependencies, vulnerabilities, and informal hooks kept for the insiders of power networks, thus enhancing their participation, collective responsibility (*krugovaya poruka*), and compliance. For example, federal leaders can if necessary resort to the use of informal leverage to increase manageability of regional leaders (their core contacts), control their policies, and make them support important initiatives. An informal mobilization of resources can also be effective. “I do not rule out that Mr. Abramovich may take part in one of these projects,” Putin said in televised comments. “Let him open his wallet a little. It’s no big deal—he won’t feel a pinch. He has plenty of money” (Parfitt 2010, 5).

In my conversation with a *sistema* insider about the management of resources for informal governance, otherwise known as black coffers, I asked a Borat-type question—“Isn’t this corrupt?”—and heard yet another story on how blurred the boundaries between the public and the private in Russia are:

I would not call such party funding corrupt. This money is not going into private pockets; it is used for stabilizing the situation. . . . Well, naturally it ends up in some people’s pockets as well. Generally, such “political” funds cover up for corrupt financial flow because these funds, set up on

a semi-official basis by that department, are nontransparent. None of the donors in Gazprom, Rosneft, or Transneft, who do their homework and bring their millions, in actually know where it all goes, who has got what and what for. This is not their question.

Some of the rewards for the contributions of inner circle members are nonmaterial. According to a number of respondents, the insiders appreciate trust extended to them and respond with cooperation, loyalty, and drive. One of the most special rewards is the sense of belonging. The informal power is associated with personal relationships, direct access, and “horizontal” proximity to a boss in a social network. Patterns of informal affiliation both support and subvert the workings of formal hierarchies. As an instrument of informal governance, however, informal affiliations are associated with access to the administrative resource.

INFORMAL AFFILIATIONS

State intervention in business is evidently a reflection of Putin’s “hands-on” leadership style. “One has to see this through the prism of Putin’s attitude to business,” ventures a business lobbyist; “he doesn’t like it” (see Belkovskii and Golyshev 2006 for an opposite view). In theory, businessmen determine their own goals, implement their own business decisions, and resolve their own problems. If they make a profit, it is also their own. In Putin’s *sistema*, property rights remain weak and delegation, associated with the democratic leadership style, is rare. However, informal alliances between state officials and businessmen, between the leaders and their “useful friends,” are perceived to be mutually beneficial. I call them informal affiliations, borrowing from Daniel Goleman’s definition of affiliative leadership style as one that connects people, focuses on them rather than on a task, and creates a favorable environment for productive behavior of the followers rather than directs their behavior (Goleman 2000).

Putin thinks businessmen are opportunists who let down anybody for money, and he has a point, at least in relation to some people. Top businesses have all adjusted and do not go into politics. Some have deeper agreements than others, but overall, all businesses are tied up into power networks one way or another and they pay their dues, complete their home assignments [that is, contribute cash to designated funds], and finance pet projects. This makes them feel confident. When their interests cross with some of Putin's insiders it creates serious problems for businessmen, who often end up losing part or all of their business. But the top thirty businessmen in Russia are not so simple, and they do have teeth, so they find ways to work with Putin's inner circle. This leads to some spectacular binary partnerships: one takes up the responsibility for the political resource, the other takes up the rest.

By "deeper agreements" the respondent may have meant the practices of cover-up or "home assignments" based on informal affiliations between businessmen and top state officials. Some examples of such practices are referred to in the *Forbes* investigation of Suleiman Kerimov for allegedly assembling assets into the presidential "pension fund" (*Forbes* 2012).

The outcome of these partnerships is the system of mutual feeding, characterized by the lack of clear boundaries between public and private, privileged access to resources and limited property rights, stifled competition, and uncontrolled capital flows.

There is one problem with informal affiliations and informal capital flows. The banks receive formal guarantees but, at the end of the day, everything is done with a handshake. If you lose your job, you might lose it all. Leadership jobs are not much fun. Business leaders get up in the morning

and run like hamsters on a treadmill, dealing with ambassadors, orphans, and meetings, and there is no end to it. In the meantime, cash accumulates in the accounts of affiliated persons, nominal directors, remote relatives, various nephews, and who knows who else. This creates a problem: one wants to be able to spend some of it and have a life at the end of the tunnel, but at the same time it is difficult to get out of sistema and secure control of the informal income.

Informal affiliates cannot do without Putin, because their own fortunes are not fully legitimate. In a comment to the newspaper *Vedomosti*, Sergei Petrov, a Duma deputy from the Just Russia party and founder of the Rolf Group, draws parallels between Putin's and Brezhnev's situations.

Vladimir Putin is hostage to the political dead end he himself created. It is very similar to the trap that former Soviet leader Leonid Brezhnev set for himself and the country. If we assume, for one second, that Putin does want to radically modernize and liberalize his autocratic system—or even retire if he so desired—he would not be allowed to do so by the elite who surround him. This is the elite who believe the government to be their personal property. After betraying his role as a guarantor of the constitution, Putin has effectively become a guarantor of corruption—he guarantees the financial well-being of millions of bureaucrats, government employees, and well-connected businesspeople (Petrov 2011, 8).

The corrupt implications of officials functioning simultaneously in their public-serving, network-serving, and self-serving capacities can only partially be reduced by legislative measures. I refer here to

the issues of the public-private crossover, the conflict of interest of the state officials, and the blurred boundaries between personal relationships and the use of personal relationships.⁶ The main problem is not the lack of legislative deterrents or anticorruption campaigns. The problem is that these measures do not work in endemically corrupt environments, and the gap between the façades and inner workings of institutions continues to exist, while the methods of informal governance required for managing power networks in the Russian model effectively are neither discussed nor targeted directly. Such methods would amount to the social modernization of Russia, much more so than copying or transplanting institutions that work elsewhere. They would, however, require that the routine use of personal networks in inappropriate settings be acknowledged by policymakers, that the boundaries between public and private be subjected to scrutiny in public debates, and that the legacy of traditional forms of governance be reflected upon. The latter is especially important in the context of informal governance in present-day Russia and raising awareness of its positive and negative implications.

INFORMAL AGENDAS

Politicians of all stripes pursue hidden agendas in addition to declared visions and goals. However, within *sistema* they not only become part of the politician's permanent nature but serve as important management instruments. When the government took control of both the NTV and ORT television networks, many commentators stated that the goal was to ensure state control over the mass media. Yet it was suggested to me by *sistema* insiders that, according to one, "there was a more important agenda behind these cases: 'to clean the house,' to eliminate a key kingmaker of Yeltsin's time, Berezovsky, from *sistema*. I am fairly certain nobody stated it openly as a goal, but insiders know how to read the signals." Another respondent, a former government official, emphasized how informal agendas are pervasive in daily workings of the government:

Deputies to the prime minister, the drivers of executive power, have to assess particular decisions with a view of their corrupt implications. Each decision is an arena for trade-offs, with its specific details reflecting the outcome of trade-offs between interests involved in the legislation in question. Two types of errors are possible: blocking a good decision and approving a bad decision. On the plus side, the sistema's filters are such that where good decisions are blocked, the bad ones are not allowed through either, at least in theory. In practice, there are no checks and balances, no institutionalized or personalized opposition to the primary decision makers on the inside. Incompetence, lack of focus, and lack of professionalism in managers are also serious issues. It is a common view, widespread among government managers, that almost everyone can teach children and manage people. Some genuinely believe it, some are mimicking, and some demonstrate such an approach publicly while privately repudiating it.

The culture of personal loyalty and patronage-based appointments—the personal network-based managerial culture—accounts for some instances of incompetence, which in turn reinforce the potential of informal governance. Particularly sensitive appointments are associated with informal financial flows.

Let us look at the economy as a field of state budget cash flows that are up for grabs. Trusted people are appointed to control financial flows. As a rule, these people are professional, capable of organizing the technical side—this is the formal level on which things function. On another level, there are people who devise and push through certain financial schemes and chains of financial operations, such as signing off on value-added tax schemes. Of course, these

schemes are covered up by layers and layers of formal procedures: tenders, commissions, committees. When a scheme is constructed, it is dissociated from particular institutions: one has ordered nonexistent services, another has paid for them, yet another has executed delivery, and responsibility is dissolved in the process.

In other words, the state can be abused informally because it is seen as formally controlled, but the formal control is applied selectively: there is room for discretion, for deciding where to look and where not to look. There is no informality if you do not look for it. But if you look for it, you go against sistema. Besides, law enforcement organs and the audit chamber are full of trusted people that ensure the state's potential to turn into a predator.

For businesses dealing with the state, informality is beneficial but also dangerous. Although the benefits of informal governance might present a solution to the problems of overlapping hierarchies or oversized organizations, the emerging gap between formal priorities and priorities of various power networks creates problems, often associated with clashes of hidden interests, ambivalence, and conflict. Sistema wisdom has it that you should "Be ready to accept that you might never understand what brought you down."

INFORMAL SIGNALS

As illustrated in multiple Russian legal cases brought to London courts, informal governance in Putin's Russia was essential in order to serve the key operational needs of sistema: to reallocate resources and control the financial flow; to implement policies and ensure the manageability of formal institutions; as well as to maintain stability and initiate change. Informal signals serve as signposts of sistema trends; they flag changes in unwritten rules and give warnings of informal checks and balances being activated. One of my interviewees, a broker of sistema, links this particular mode of governance to the weakness of institu-

tions, impotence of civil society, and parasitism of the population in Russia:

In Soviet times, and generally under *sistema* for the past 300 years . . . people push responsibility onto anyone else—Putin, for example—so that he pays their electricity and heating bills. Crowds love Putin. He is reliable; he accepts their undeveloped skills and laziness relative to other nations, allows long holidays—all while oil money covers up for this permissive attitude. It is impossible for people to understand that they are parasitic. The elites are satisfied with this state of affairs but worry about stability. Parasitism contradicts modernity. *Sistema* faces both external pressures, such as the Olympics and competition in the international arena, and internal threats, such as the budget deficit, low revenues, and elites' frustration with Putin. This is the puzzle.

It is common to blame the Russians for their willingness to read informal signals, for self-censorship, and for not responding to any other leadership style than a “strong hand.” One hears repercussions of the “each nation deserves its leader” dictum rather often in interviews with Russian elites: the parasitic population deserves the “virtual” party politics; the crooked population deserves corrupt courts; the passive population deserves the “remotely controlled” television with its nonstop soap operas. “This is not just informal governance,” sighs an expert to whom I explain my interest in informal politics, “this is *centralized* informal governance” (emphasis added). He talks about the department of domestic politics of the Kremlin administration, once led by Vladislav Surkov:

All [political] parties receive money in a centralized way these days. It is impossible to secure party funding outside

sistema. Even communists must drag their supporters to somebody like Chesnakov, not the level of Surkov, so that they submit funds into a common fund, so that communists would get centralized support. This makes it very easy to control party leaders and direct party politics.

In Putin's Russia, informal instruments are oriented on compliance. It has been said that not only do people prefer the comfort of receiving commands, since it frees them from responsibility, but they are also keen to seek them, to read signals and display compliance before the command is even given. Cults of personality patterns, information control, and manipulating succession are universal features of power (Shekshnia and Kets de Vries 2008), but in Russia they are justified by the very conditions that they create. Manual control governance is legitimized by the inefficiency of the formal institutions, while it undermines institutions and blocks their development. A former sistema insider explains the symbiotic nature of formal procedures and informal ways of circumventing them in sistema:

Formal procedures are kept complex and overregulated so that one uses informal channels. Moreover, the system seems to sustain defects in formal rules at a level that would continue to feed those in positions to make decisions. It is not even a choice for a bureaucrat but a prescription. The key feature of this system is that an individual has no option but to develop a reflex of compliance. It is very tricky even to make a complaint about the system—if it backfires, whistle-blowing is even worse.

The continuity of sistema is predicated upon compliance with informal signals, thus keeping the workings of sistema nontransparent and nonarticulated. Most respondents in executive positions refer to constant monitoring of sistema as an absolute necessity. The monitoring func-

tion (*smotryashchie*) is central for informal governance and should not be associated with some stereotypical security officers (*siloviki*) planted everywhere to watch over businesses or projects. Checks and balances of informal monitoring emerge from Putin's networks watching over one another, just as in *krugovaya poruka* described above, and from their informal reporting. According to a well-informed respondent:

In reality, *smotryashchie* is not a single eye. It is a complex system. Where there is some money, there should be control. Putin controls manually. He does not trust anybody. There are checks and balances and there are trusted watchdogs . . . who have access to Putin through a private room in his office. Each of them has Putin's ear, and in the end Putin gets a more or less adequate picture. He divides and rules in each constituency. He also uses nonsistema sources that we know nothing about. It is like the operative work of reading dossiers, morning security service reports, general country reports, and memos that come from almost everywhere.

What makes people comply with informal signals? Fear for one's safety, one's career or business, complete distrust of the judicial system, and the insecurity this entails. Such feelings might be the source of sistema's domination, but they are also the source of its vulnerability: the frustration of insiders results in the "exit strategy" of national elites, legal nihilism, and individual and collective revolts. Sistema seems to transform its long-serving insiders in similar ways: they are becoming chronically dependent on sistema but also bitter about it, if not quite biting the hand that feeds. The ambivalence of sistema makes double standards and cynicism a survival strategy. By expressing boldness while being insecure, enjoying impunity while living in fear, and exercising arbitrariness while being subject to rigid subordination, sistema insiders help reproduce the cage they are in.

MEASURING INFORMAL GOVERNANCE

I argue that the use of informal instruments, or rather, the scale of their use, is what determines the distinctiveness of Russia's power networks. In societies with more developed institutions than those in Russia—say in France or Italy—the use of power networks is less of a necessity, on the one hand, and more guarded by institutionalized checks and balances on the other. The power networks seem also to be in place but their scale, significance, and effectiveness are different because their workings are restricted by institutions. In societies where formal institutions do not work to their full potential and where people rely on informal ways of getting things done, the leadership is bound to rely on the use of informal instruments as well. Leaders can only be leaders once they master and control the power networks. The manageability of power networks is often achieved with informal means and instruments: appointing loyal people, giving business to affiliated firms, ensuring that resources are in trusted hands and that their property rights are to some extent reversible, and controlling the periphery all ensure submissiveness.

The reverse side of the use of informal means and instruments is that the leader finds himself bound by informal and reciprocal ties. These bonds can function, as with Putin's appointments, to enhance the power hierarchy (*vertikal'*) but also undermine it through those very channels that helped its creation. They help the leader to survive and to be financially sustainable but they also keep the leader hostage to his useful friends, allies, and sponsors. They ensure that the mediated contacts are supportive of the leadership and play a buffer role between the authorities and society, but they are also path dependent on the traditional forms of governance, not conducive for the development of institutions. To date, there is no way of measuring informal governance or monitoring its standard operating procedures. In this context, the modernization of institutions in Russia, as well as the creation of institutional avenues for checks and balances, is essential. But they can only occur with the concurrent modernization of power networks and

leaders' self-monitoring and self-restraint in the use of instruments of informal governance.

NOTES

1. Transparency International's annual index (CPI) 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, that has gathered the opinions of businesspeople and country analysts. The scores range from 10 (squeaky clean) to 0 (highly corrupt). A score of 5 is the number TI considers the borderline figure distinguishing countries that do and do not have a serious corruption problem. The CPI index is available online at <http://www.transparency.org/cpi/>.
2. The GCB 2013 conducted a survey of 114,000 people in 107 countries. Over 50 percent of people think that the state of corruption has deteriorated in the last two years. A reduction of corruption levels has been registered only in Azerbaijan, Georgia, and Cambodia. Corruption levels correlate with distrust of political leadership and institutions. In Russia, 92 percent do not trust state officials, 89 percent do not trust the police (this is despite 1.125 billion rubles spent for the police reform). This is closely followed by distrust of the courts—84 percent—and of the legislature—83 percent. The least corrupt, according to Russian citizens, are religious organizations—40 percent still think they are corrupt—and nongovernmental organizations—45 percent.
3. The nonresponse rate on this question in Russia is low at 4 percent, in comparison to 8 percent in the United States and 9.5 percent in Germany. The sample was at least 1,000 respondents in a majority of countries.
4. A longer version of the analysis appeared in Ledeneva (2013), *Can Russia Modernise?*
5. Some governments have sold offices to raise money. This was true, for example, of judicial positions in eighteenth-century France and

of commissions in the army and navy in most European countries in the nineteenth century. Since the vested rights of officeholders were an obstacle to reorganization and an impediment to efficiency, they were bought out or expropriated with compensation.

6. Unwritten rules should not be confused with informal constraints (defined by codes of conduct, norms of behavior and conventions, customs and traditions). Rather, they prescribe how both formal and informal constraints can be circumvented or partially enforced and imply a practical skill that can only be achieved through the experience of dealing with constraints. It is this practical mastery of the rules of the game that makes one an expert broker of sistema, capable of “navigating” between its formal and informal sets of rules and assessing the degree and likelihood of their enforcement.

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