Chapter 7

INFORMAL INTERMEDIARIES AND CIVIC ORGANIZATIONS IN STATE-BUSINESS RELATIONSHIPS IN RUSSIA

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The development of a robust rule-of-law environment can be regarded as a key factor in Russia’s transition. The rule of law will not be established either in political institutions or popular perceptions unless it is accepted in the business sphere, which represents one of the main arenas of post-socialist transformation. However, numerous studies of market economy development in post-reform Russia demonstrate the increasing role of informal rules, the ‘deformalization’ of economic institutions attesting to the substitution of informal rules for formal ones, and the domination of parallel informal institutions in either ‘horizontal’ business interactions or ‘vertical’ relationships between businesspeople and officials at different levels (see, e.g., Ledeneva 1999; Levin and Satarov 2000; Olimpieva 2005; Radaev 2001). This chapter seeks to explore the question of how the informal rules dominating the business sphere affect the formation of civic dialog between business and authorities in present-day Russia. It addresses the problem of growing informality and corruption in the business sphere during the post-reform period and goes on to consider the formation of such a dialog through the prism of this problem. The role and specific features of the recently formed ‘civic sector’ in the business sphere—a variety of non-governmental and non-commercial organizations aimed at promoting the formation of a civilized business environment—are described from the perspective of anti-corruption activities. The purpose of the chapter is not to summarize the extensive debates on growing corruption and civil society formation in Russia during the period of transformation, but rather to analyze the empirical evidence reflecting these two interrelated processes.

The chapter uses data compiled in the course of two studies: one, a study of informal relationships between business and the authorities in St. Petersburg, and the other, a study of the role of NGOs and business associations in the development of anti-corruption policies. The first study examined the situation of small and medium-size businesses and focused primarily on the informal (corrupt) practices that SME (small and medium enterprise) businessmen use in their everyday interactions with state officials. The second study looked at civil society organizations in the business sphere, as represented by NGOs and various non-commercial associations of businessmen (which are the main object of our interest). It focused on the anti-corruption activities of civic organizations, and the role that they play as civic agents in the anti-corruption field. Although both studies were focused on the St. Petersburg municipality alone, the perceived outcomes and conclusions are not specific to St. Petersburg and could reasonably be extended to the situation of small and medium-size businesses in Russia as a whole.

The development of small business is seen as one of the important pre-conditions of democracy building. Besides playing a special role in the development of the economy, small business is also considered to have a great impact on social-structure formation by providing the social basis for the emergence of a middle class, or, in other words, a class of independent proprietors. Many researchers stress the linkage between the development of civil society and small business. Legalization of entrepreneurial activity in the course of economic reforms in Russia was supposed to lead to (1) the emergence of a dynamic and autonomous (or at least less subject to state intervention) SME economic sector providing the economic and social basis for the formation of civil society, and (2) the emergence of various associations and organizations representing SME business interests in state-business relationships, providing businessmen with an institutionalized mechanism for overcoming the problems caused by an uncertain and unfavorable economic environment. The studies were aimed mainly at testing these assumptions.

The chapter begins by considering the growing informality and corruption as a specific feature of the post-socialist economic environment. The focus on micro-level, informal practices used by businessmen to overcome bureaucratic barriers provides explicit illustrations of how ‘vertical’ relationships in the business sphere are really formed. Drawing on an empirical study of corruption in the SME sector, the chapter demonstrates the emergence of new informal institutions (informal intermediaries) facilitating informal relationships between businessmen and officials. It then proceeds

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to an analysis of the civic sector in the business sphere by considering different ('ideological' and 'rational') groups of civic agents operating in the anticorruption field. In the concluding part of the chapter it is argued that the institutionalization and formalization of corrupt mediating services in the state-business relationship has become a significant factor hindering both the development of a 'civic sector' in the business sphere and, consequently, the civilized lobbying mechanisms for furthering business interests. Using the empirical data, we also attempt to test some widespread expectations regarding the scale and specific features of civil society in Russia.

Businessmen and Officials: The Problem of Corruption

It would be no exaggeration to say that the majority of business activities in present-day Russia still lie under a shadow. This is particularly true for small and medium-size businesses, to the extent that they could still be described as informal or semi-formal. The data collated in the course of the study have confirmed that, for such businesses, the problem of the impracticability of formal regulations remains the main problem of doing business. A statement made quite frequently is 'You cannot conform to all the rules, it is just impossible – you would have to close your enterprise!' (a variation on this theme is 'It is impossible to pay all the taxes'). People believe that such legal problems are intentionally created and deliberately maintained by officials. The result is that people in business are always guilty – regardless of their intention to follow the rules.

In such a situation, with the real state of things, constantly, whatever you do, you always violate the law. And you always feel yourself a criminal and, in fact, you are forced to make pay-offs. (Director of a construction firm)

The impracticability of the formal rules leads to a situation in which their violation is no longer a deviation from the social norm but rather a norm in its own right, one, moreover, providing fertile ground for bureaucratic extortion.

It is worth highlighting that not all impracticable rules are considered by businessmen to be unfair. The particular category of rules that tends to be the cause of most businessmen's indignation is the regulations (not laws) of a department that are totally outdated and fail to correspond to contemporary business conditions. Although such regulations have no bearing on reality, any violation of them may lead to serious punitive measures – even including the total prohibition of business activities. This applies to a department's regulations, for instance, as regards sanitary and fire protection services. Some of these regulations date back to the 1960s and 1970s, and others go as far back as the 1930s, and are thus totally outdated and cannot be complied with in practice. Officials who conduct inspections of enterprises are well aware of this situation, and the only way to deal with the issue as a businessperson is to bribe them so that they 'close their eyes' to violations of ridiculous rules that are unfortunately still in force. This quotation from an interview with the manager of a café illustrates one such situation:

We belong to [the economic sector of] public catering, but we don't cook anything ourselves. They insist on us having three new sinks installed, for example. We don't need them! We don't cook anything! But if they want, they can shut us down because of this. And these norms, these rules, they have not been changed practically since 1974, and now it's 2004! (Manager of a café)

Another situation that is seen as iniquitous is the contradictory nature of the rules, which makes it impossible to follow the requirements of one regulatory department without infringing the requirements of another. And even if the regulations are not considered to be unreasonable by businessmen, implementing the formal requirements is often unfeasible for small enterprises. In most cases businessmen again feel obliged to employ informal or semi-formal means of solving the problem.

An automatic prevention of ignition system is one of the requirements for production lines of this type. This system is very expensive, and we still cannot afford to buy it and set it up, therefore we needed to find another way out... we hire a fireman of a certain rank, pay him a salary, and he supervises us... It works out somehow, at least, nobody has bothered us so far. Yes, it costs us money, but the relationship is secure and it is clear that these are relations with an official at the financial level. (Director of industrial construction firm)

These quotations demonstrate the defenselessness of business against the power of state officials. Such a situation has already been labeled 'soft terror' in Russian literature (Usyskin 2003). Businessmen can find themselves hostage to any bureaucratic structure, and a firm can be closed down at any moment. According to our informants, corruption in Russia is not only incorporated into the bureaucratic system in general but they believe that it is an integral part of it. It means that businessmen are ready to give bribes to officials a priori, without even trying to find legal and official ways of resolving their problems. Officials, as a matter of fact, do not impose strict sanctions on businessmen, or only do so selectively.

In reality, when the inspectors come to your business and find problems, you understand that they have not come to shut you down as soon as possible. No, they have come in order to get some money from you. (Manager of a café)

The majority of conflicts between businessmen and the authorities are barely regulated by formal means, but rather by some 'unwritten rules'.
resulting from interpersonal negotiations based on conventional common sense and some shared interpretations of justice. Although both businessmen and bureaucrats appeal to laws and regulations, the latter simply serve as a formal background to conflicts that are being settled by the application of informal or semi-formal procedures. Perhaps this is the reason for the surprising unawareness of our informants about the laws protecting their rights. According to the survey data, 73 percent of respondents have never heard about the law on fighting corruption, 80 percent do not know anything about the Civil Servant Behavior Code, and 83 percent are unaware of the Conception of the Program of Administrative Reform, which has been debated publicly for several years.

**Businessmen and Civic Activism**

What action can business take against the ‘soft terror’ of state bureaucracy? From a Western perspective, the most obvious way is to resort to civic activism in order to influence the state’s legislative policy, which implies the formation of business associations, lobby groups, etc. In our study we attempted to find out about businessmen’s attitudes towards different organizations which could help them to protect their rights. According to the survey, 57.3 percent of respondents have never applied to anybody for help, advice or protection when they have faced corrupt situations. While 16.4 percent of them do not do so because they do not believe in the effectiveness of fighting the authorities, 30 percent believe that it is easier to pay rather than to try to change the system. The data collected in the study demonstrated a low level of trust in official institutions and their ability to protect the interests of entrepreneurs. Only 2.7 percent of respondents facing bureaucratic extortion appeal to the courts; while slightly more of them (4.2 percent) turn to state power structures. At the same time, it demonstrated the huge importance of informal contacts with friends in difficult situations: about 15 percent mentioned that when extortion occurs they appeal to friends, and another 20.6 percent, to business acquaintances with experience of these issues.

When answering the questions ‘Which organizations can protect entrepreneurs from unjustified actions on the part of officials, and which organizations are you ready to cooperate with if the fight against corruption starts in Russia?’, 35.2 percent of respondents stated that ‘no organization’ could protect businessmen from bureaucratic despotism, and one quarter of respondents (25.1 percent) did not wish to cooperate with any of the listed anti-corruption organizations. The following arguments were those most frequently employed to explain their refusal (in reply to an open-ended question):

All these organizations will very soon become corrupt themselves. The state is able to fight corruption alone without any help. I don’t have time to fight corruption, I have to work.

Nonetheless, the respondents who answered this question affirmatively preferred to cooperate with organizations that are independent from the state. Of these, ‘organizations initiated by businessmen’ received the most positive responses (38.2 percent); while NGOs were mentioned as potential partners by 27.5 percent of respondents. However, the qualitative details bring out a more negative side to the quantitative picture. The general attitude towards associations of businessmen expressed in interviews is pessimistic and indicates that associations are a very good idea, but to be effective in fighting corruption they require a lot of time and money which small entrepreneurs lack.

All the entrepreneurs can get together and sit in a room, smoking, drinking coffee and saying OK, now we start to fight. But when a single businessman is contacted by some agency, he will solve his problems by himself, because he knows very well that if he doesn’t give a bribe just because he wants to stick to his principles, he will have far more to lose in the future. (Director of a wholesale firm)

Thus, on the one hand, businesspeople are dissatisfied with the situation in business-state relationships and are generally interested in changing it; do really need some entity protecting their rights, needs and interests in the dialog with the authorities; and consider business associations as the most trustworthy organizations (as compared with other organizations). But, on the other hand, they do not believe in the effectiveness of such associations even if they were set up, and they often possess no (financial or time) resources to invest in third-sector activities or infrastructure and support.

**Businessmen and Informal Intermediaries**

Interviews with businessmen have explicitly demonstrated the emergence of a large-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 the *intermediary boom*.

At first glance, everything looks above board: the system of official rules and regulations is so complicated that any businessman who is not experienced in dealing with the bureaucracy needs advice from a consultant in order to meet all the bureaucratic requirements. However, although functionally the intermediaries providing the links between authoritative bodies and businessmen look similar to analogous institutions in the West, the
system works very differently in Russia. In the West, the main purpose of intermediaries is to process bureaucratic procedures that are highly complicated and need special skills to handle. In Russia, their services seem to function as a screen, being in fact a covert form of rewarding officials for accelerating bureaucratic procedures by means of additional payment. The interviews provided some evidence for this statement.

The difference becomes more obvious if we compare the work of customs brokers – a mediating institution present in both Western countries and in Russia. Complicity and the intricate nature of customs rules are inherent in every country, therefore cargo carriers always seek the assistance provided by intermediaries, namely, customs brokers. Why then do we call the services provided by customs brokers business or corrupt mediation? In fact, it becomes rather difficult to separate consulting mediation from corrupt mediation, even for businessmen themselves. In the following quotation, the respondent is speaking about relationships with customs:

OK, as for customs ... they solve the problem in another way. They do not have ... how would you say ... these direct relationships like 'bribe-decision'. Everything is rather covert there, and, they have, say, parallel customs structures that guide all the operations with your cargo and solve the problems with customs officials. Is this bribery or not? (Director of construction firm)

The main task of customs brokers in Russia is not so much to assist businessmen in going through customs formalities as to achieve reductions in cargo costs and to accelerate the process via informal channels. A special market of informal customs services has been set up through which customs brokers offer a wide spectrum of possible customs schemes – from 'light-gray' to 'fast black' (the cheaper the scheme, the longer it takes and the lower the risk). While doing this, brokers 'take the responsibility for substantiation of the declared cost of cargo, using for this purpose an informal agreement with customs officials' (Radaev 2003: 53), that is, they reduce customs payments to the lowest possible level through negotiations with customs bodies. Another function of customs brokers is to speed up the customs procedure via informal contacts with the customs service. According to our respondents, the 'do-it-yourself' variant costs money and time.

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

Real estate firms serve as intermediaries between businessmen and the Department of State Property, distributing state-owned premises for rent. Renting state-owned premises is cheaper and sometimes even free for some SMEs, although access to them is limited. However, there are real estate companies connected to local administrations that help in finding appropriate state-owned premises for a low rental price on condition that a businessman will make monthly payments of additional money to the company in black cash. So real estate firms do not simply mediate in these relationships (as can be seen from the following quotation):

Q: Did you have any problems with officials to open your shop?
A: Oh yes, it was dreadful! There was a firm of lawyers at the district administration that offered us very good premises. But then it turned out... Well, we said at the very beginning that everything was official and we completed a cashless transfer. Nonetheless, we were told that 'You need to bring $300 every month in cash anyway...'. And it was impossible to reject, because this firm is at the administration and we were told: 'We will simply not allow you to work in this district!' (Shop owner)

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

Naturally, I have never seen anybody, but everything goes to a firm. We pay the firm, and they do everything. They collect all the necessary documents, which are simply bought, because nobody has enough time to collect all this – it would take me half a year! In reality nobody does anything but the documents are here: they are on official paper and look nice. From institutes and training centers, that somebody has attended courses, passed the exams, commission accepted, etc... It turns out that this pyramid is specially built on an empty base. And these firms, they are created around the officials who deal with issuing licenses. There are about a dozen people involved, you know... If they take in this paper – it will be accepted [by the officials], if not – well, it won't. It's amazing! (Director of a construction firm)

The study provides numerous examples demonstrating the same situation with the state monopolies providing electric power, gas or water. It takes months or even years to get permission from these organizations to start a business or to introduce some changes related to these utilities. Once again the solution is to go through an intermediary firm and then the question can be resolved in a few days, though at a higher price.

Why do businessmen prefer to deal with intermediaries? Because it is simpler (intermediaries know all the details and hidden dangers of the
process), faster (it saves time and therefore money) and less stressful (not by any means the least important factor). It is possible to avoid emotional strain, which is usually a painful part of the interpersonal communication between businessmen and officials. When businesspeople go to intermediaries, the situation is different: they feel like customers who are buying a formal service.

The number of intermediaries that specialize exclusively in the informal mediation of bureaucratic extortion is not as large as the number of firms that focus on ‘cutting red tape’. As a matter of fact, intermediaries combine explicit functions with hidden or shadow functions in their activities. Explicit functions include the absolutely legal services that could be found within any economic system: consultancy, equipment sales, real estate operations, etc. Therefore, on the official side (from documents and official reports), these firms appear to be ordinary business organizations running ‘normal’ businesses (and they actually do). At the same time, intermediaries fulfill shadow or hidden functions by promoting informal relations between businesses and the state. The main resource for accomplishing these functions is access to a bureaucratic structure (or merely a bureaucrat) that provides them with the possibility of obtaining the necessary bureaucratic service.

It can be affirmed that informal bureaucratic mediation is currently going through a process of institutionalization, which means that it has become a generally accepted, autonomous and profitable activity in the business sphere. This process is accompanied by the formalization of mediating services, which are now provided by legal, licensed firms. Apparently we are seeing the emergence of a new entrepreneurial sphere – informal mediation – parasitizing on the limits and uncertainty of the institutional environment. With good reason, these business activities can be referred to as ‘unproductive entrepreneurship’ (Coyne and Leeson 2004), which is flourishing in economies undergoing transformation.

Two options – the civic and the informal – are generally available for businessmen to cope with uncertain and unfavorable business environments. ‘Civic activism’ implies the self-organization of businesses (the creation of business associations) and cooperation with third-sector organizations in order to influence state policy on business development. The ‘informal’ option is to establish direct informal (or informally mediated) relationships with authoritative bodies and officials in order to solve problems. The study has shown that businessmen generally consider the informal way to be more effective and quicker. Apparently, their general distrust of official organizations and unbelief in the effectiveness of public organizations also bring businessmen to ‘informal encouragement’ of bureaucrats. Informal (corrupt) mediation is becoming a significant factor promoting further development of the ‘informal way’ in state-business relationships.

Civic Organizations and Anti-corruption Activities

We shall now go on to describe the civic organizations’ that are involved in anti-corruption activities from two perspectives. Firstly, why do such organizations consider corruption as a problem that must be eliminated or reduced? According to their reasoning, we can distinguish two groups of ‘anti-corruption agents’. The first group, which we call ideological agents, comprises international and local NGOs aimed at protecting human rights, the development of civil society, transparent governance and the building up of a truly democratic society. As long as corruption (including business corruption) remains an obstacle hindering democracy-building processes, ‘ideological agents’ will focus their activities on fighting this social evil. In our study, ideological agents are represented by NGOs working for human rights protection and control of the authorities as well as by so-called Public Policy Centers and Think Tanks (analytical centers) focusing on public policy research and development, including issues of anti-corruption and related problems.

We call our second group of civic organizations the rational agents in the field of anti-corruption. From the point of view of economic rationality, corruption is a negative factor that impedes true economic competition in the market by holding down foreign investment flows and hindering business development as a whole. In this respect, anti-corruption activities are supposed to increase the rationality of the system and make state regulation more effective and economic resources more accessible. Hypothetically, the main ‘rational anti-corruption agents’ should be represented by the various associations of businessmen interested in the creation of a favorable and robust business environment. In our study we considered the business associations in St. Petersburg and the surrounding region. Most of them declare that ‘defending businessmen’s rights’, promoting business development’ or the creation of a favorable business environment for the development of business’, etc., are their main organizational purposes. If corruption is seen as one of the barriers obstructing business development, then business associations should, logically, be concerned with this problem.

Secondly, in our analysis of anti-corruption activism, we ask where the driving forces behind such activity come from. In this respect, we can distinguish three types of initiative: (1) the bottom-up initiative, which is supposed to be represented by grass-roots activism aiming to solve the problem of corruption; (2) the top-down initiative, undertaken by a variety of authoritative structures – departments, committees and commissions – at different levels of authority: federal (or national), city or district; and (3) the lateral initiative, promoted by different international organizations and foundations providing support for democratic development in countries in transition. With these
two perspectives in mind, we consider the different groups of civic agents in the anti-corruption field.

**NGOs as 'Ideological Civic Agents'**

It is true that the overwhelming majority of Russian NGOs are supported by Western money coming from various international foundations, organizations and international agencies of Western governments. Russia received billions of dollars devoted to civil society assistance programs and anti-corruption measures throughout the 1990s. Some researchers of civil society in Russia consider that the Russian NGOs are a new form of public establishment that have emerged due to Western support (including financial support) of the democratization processes in changing societies. They argue that these organizations are not the result of bottom-up civic processes and have therefore failed to receive sustainable grass-roots legitimation from the population (see, e.g., Henderson 2003).  

NGOs working in St. Petersburg are no exception to this general rule, especially as regards anti-corruption activities. The money for the anti-corruption projects set up by these organizations comes from different international sources including USAID, IRIS, TACIS, Eurasia Foundation, the World Bank, the European Bank for Reconstruction, the National Endowment for Democracy, the Ford Foundation, the Soros Foundation, Transparency International, etc. Very few sources of money are of Russian origin and come from federal or local authorities. For example, only 5 percent of the overall financial support for one of the most advanced Centers for Public Policy in St. Petersburg (which was one object of our study) came from Russian sources. For NGOs that take a critical stance towards the authorities, there is no Russian funding at all. The prevailing role of the ‘lateral initiative’ is illustrated by this opinion expressed in an interview by the director of one of the economic think tanks: ‘If there was no support from Western organizations, Russian TIs would die right away.’

The fact that NGOs are financially independent from the state could be considered as a positive factor if it were complemented by constructive dialog between civic organizations and the authorities. However, in practice, there is a lack of any institutionalized mechanism through which NGOs can influence state policy. As far as can be judged from interviews, the possibility for cooperation is more often provided by personal contacts between NGO activists and representatives of the City Administration and the City Assembly. These personal relationships have mainly survived from the time of the first democratic ‘wave’ when members of the City Assembly and the government were recruited from the same community of active supporters of democratic change.

The current lack of dialog between NGOs and authorities is aggravated by the absence of institutional mechanisms for legislative initiatives that could deal with corruption prevention issues. There are only a few regions in Russia where the right of NGOs to initiate legislation is laid down in a city’s laws. The attempts to establish this right for NGOs in the local Parliament in St. Petersburg did not succeed.  

Local authorities rarely provide NGOs working in the anti-corruption field with any financial support. This is particularly true for NGOs specializing in the protection of human rights and the development of democracy. While economic think tanks receive requests from the city government for their economic and social expertise from time to time, any demand from the state for anti-corruption activities is wholly lacking. Nevertheless, the state is considered by NGOs’ representatives to be a most influential player in the anti-corruption field. In interviews they express the opinion that the situation cannot be changed without ‘goodwill’ and initiative ‘from above’, that is, from federal or local authorities.

In our country nothing happens without initiative from above, especially regarding anti-corruption. (Co-director of the Center for Public Policy)

The bonds linking the NGOs involved in anti-corruption activities in St. Petersburg are rather uneven. While several leading NGOs have close (personal or organizational) relationships with each other, the ties between less powerful organizations are looser. When representatives of the latter were asked to list their partner organizations, they mentioned partners in other Russian cities, CIS countries, Western and Eastern European countries and various international organizations – but not local ones. The necessity for collaboration is acknowledged by all NGOs but, as was mentioned by representatives of one of the leading organizations, they ‘really have no time’ to work on local communicative activities.

The fact that ‘lateral’ initiatives provide the main driving force in fighting corruption does not mean that the people working in NGOs do not really strive against this social evil. However, it is clear that the fight is neither a ‘bottom-up’ initiative carried on by the local population nor is it part of a consistent and comprehensive social policy pursued by the state.

**Business Associations as 'Rational Civic Agents'**

Our description of ‘rational civic agents’ must begin with a brief outline of the colorful assortment of business associations in St. Petersburg. Firstly, there are the ones that exist at a federal level, which are represented by regional branches of all-Russia organizations. The best known among these
are OPORA, Delovaja Rossija, the Chamber of Commerce and Industry, the All-Russia Association for SM Business Support and the Institute of Business and Investments. Secondly, there are local business associations, among which we can distinguish two groups according to the characteristics of their members. The first group includes associations encompassing businesses belonging to different industrial sectors. The largest among them is the St. Petersburg Association of Entrepreneurs (SPb AE), and another large one is the Union of Industrialists and Employers, which acts on behalf of employers in social partnership negotiations. The second group includes associations comprising businesses belonging to the same industrial sector, and professional associations like, for instance, Kupecheskij Klub (the Merchant Club), Liga Obyavchikov (the Footwear Industry League), the Association of Customs Brokers, the Association of ZAO Businesses of the Association of Accountants, etc. Lastly, there is a special type of business association set up on a territorial basis. The latter are primarily non-commercial partnerships, Centers for Entrepreneurship Development, in which we were particularly interested for our research as they are designed to support SMEs. In the following analysis, we will focus mainly on local business associations related to small and medium-size businesses.

The participation of SME businessmen in business associations is generally low, the most obvious reason being that the majority of SMEs are struggling to survive. The businessmen who join associations are generally looking for new possibilities of business development, seeking new partners, or introducing technical and economic innovations, etc. The majority, who are principally concerned with their own survival, are not really interested in becoming members. However, another important reason is the lack of information available about business associations: very few of the ones in our case study employ any coherent PR strategy in order to attract new members. According to a telephone survey of SPb AE members, the majority of them had chosen this association because they did not know of any others. Only about one-third of respondents were able to recall even one business association in St. Petersburg apart from AE.

It is somewhat confusing to classify business associations according to the initiative that led to their creation and subsequent functioning; nonetheless, the first wave can be mainly referred to as part of the ‘bottom-up’ initiative. The burst of entrepreneurial activity in the early 1990s was characterized by legislative and economic ignorance. The lack of information about enacting norms and regulations or keeping accounting records, and the absence of any experience of running a business among new businessmen led to the spontaneous emergence of business unions providing consulting services and other forms of support for the fledgling entrepreneurs. In the first half of the 1990s, very few associations had permanent links with authoritative structures. Later on, with the declaration of state support for the development of small and medium-size business, some of the most active associations preferred to link up with the city administration and get support from budgeted funds destined for the development of the SME sector. There are also some examples of ‘top-down’ initiatives, like the Centers for Entrepreneurship Development that were initially created by district administrations within the framework of the special program for SME support but then had to become individual business initiatives as program funds dried up.

According to the data from a telephone survey, the main benefit that businessmen get from membership of a business association is relatively cheap assistance in solving accounting, juridical and other problems. This is particularly true for ‘old’ members who joined an association more than six to eight years ago. Newcomers also consider an association as ‘an arena for broadening professional communications’, ‘providing better access to business information’, etc. Interestingly, none of the informants mentioned the need for protection of businessmen’s rights as a reason for membership. This lack of demand for advocacy functions is certainly determined by the specificity of small business, which is more concerned with legal advice and training than with representing business interests before the authorities (Jedrzejewska 2004: 28). In sum, the main services provided by the majority of business associations are relatively cheap consulting services concerned primarily with juridical and accounting issues, professional training for their members and market research and consultancy.

In fact, the personality of the association leader plays a crucial role in creating the image of the association and influencing the range of its activities. A leader can aim at setting up a real business community and providing real support for the businessmen involved in that community (we gathered some empirical evidence of the existence of this sort of association). In contrast, the term can serve merely as an ‘umbrella’, a legal façade, or a front for a consulting company run by the association leader, providing different kinds of services for businessmen on a commercial basis. The study has also turned up numerous examples of such ‘associations’.

From the empirical data, business associations do not consider ‘fighting corruption’ to be among their main purposes. None of the informants mentioned either that or the protection of businessmen from bureaucratic extortion as problems which associations are urged to solve. The extreme position on this point was expressed by the director of one of the district Centers for Entrepreneurship Development (Non-Commercial Partnership):

There is no corruption in business relations, there are some relationships involving different means and forms of conducting deals... We entrepreneurs used to work and still work in a country where the state has created its own game rules.
That is why it is possible to say that we have no corruption!... Everybody here knows that in order to work it is necessary to give a bribe. And we give bribes, and nothing bad happens. These are the rules... No associations and unions are able to influence corruption. This is not their task – leave it to the state!

Although the protection of businessmen’s rights is stated as being among the main purposes of business associations, they consider this protection to be mainly ‘informational support’ for businessmen in order for them to avoid conflict situations with the authorities. Cases of business associations helping businessmen to take an appeal to court are almost non-existent. At least two reasons for this were mentioned: first, very often businessmen are guilty (either as a result of the impracticability of the rules or their attempts to avoid additional expenses), and, second, generally a court decision does not help in resisting bureaucratic extortion because the interaction between businessmen and officials does not end with the decision.

If a policeman comes to your place, who is able to argue with him? Or a tax inspector? Or a fireman? Even if you win in court today, they will come back tomorrow and find another reason to fine you. (Director of the Center for Entrepreneurship Development)

For business associations, the nature of their relationships with the city authorities can be considered as a crucial factor of development strategy. Some of them try to get access to the authoritatively structures which control the financial resources of the city budget allocated for development of the business sector. This is generally the aim of big inter-branch associations that are operating at the city level and trying to portray themselves as representative of a social group of businessmen as a whole. Other associations keep a maximum distance from the state authorities, particularly the type that appears to be more like an individual business project based on the personal financial investments of the association’s leader. These are not as big and not so concerned about increasing their membership (with from 50 to a maximum of 100 members). Unfortunately, the data collected are insufficient to make more detailed conclusions regarding the development strategies of associations.

Interaction between business associations themselves, as well as between them and NGOs is not intensive. While federal business associations and inter-branch associations at the regional level cooperate with each other, single branch or professional associations do not go beyond the boundaries of their specific professional niches. One reason for the lack of cooperation between professional associations is that they compete with each other in the market for consulting services, although they attempt, as one respondent put it, ‘to focus on different purpose groups and not to bother each other’.

It is noteworthy that our informants are rather critical in assessing the efforts of some NGOs to enlist businessmen and businesses to participate in conferences and meetings. It is only the training seminars and the SME Forum that they consider to be really useful. Associations’ leaders see the latter as an opportunity to demonstrate that they belong to a community of associations. For them, participation in the Forum marks a boundary between ‘us’ and ‘them’, distinguishing the ‘real’ associations from other merely consultative groups. Low levels of cooperation between NGOs and business associations may be explained by the fact that businesses do not consider NGOs as strong partners (by ‘strong’ they mean with a strong possibility of influencing the state in lobbying for business interests). Business is only ready to cooperate with the institutions of civil society when such cooperation promises to benefit them. In other words, business associations will not cooperate with the ‘ideological agents’ of civil society unless they themselves are weak.

Conclusions

The domination of informal rules in the business environment in Russia has led to a situation where businessmen resort to informal (or semi-formal) intermediaries in order to cope with the impracticability of the formal rules and limitations of the institutional environment. They consider ‘informal’ ways of solving problems as more effective and more practical than ‘civic’ ways, and they avoid resorting to civic mediators – that is, organizations of civil society in the business sphere. The study has revealed the emergence and rapid development in recent years of the market for informal and semi-formal mediating services facilitating relationships between businessmen and authorities. We argue that informal bureaucratic mediation is currently going through a process of institutionalization, which means that informal mediation has become a generally accepted practice and a profitable though ‘unproductive’ entrepreneurial activity. The process of institutionalization is accompanied by the formalization of mediating services, which means that they are undertaken by legal firms possessing licenses for a large number of services.

The situation is aggravated by the lack of effectiveness of the anti-corruption activities of civic organizations in the business sphere. Lateral initiatives play a dominant role among the anti-corruption activities of NGOs – the ‘ideological agents’ of the anti-corruption field. Business associations, which are the ‘rational agents’, leave the problem of corruption to the state, although the state fails to demonstrate any coherent anti-corruption policy.

In recent years, a wide variety of business associations and unions have been set up in the business sphere aimed at the support and protection of
their members, the development and maintenance of professional standards, and the promotion of professional and informational exchanges. As institutions belonging to civil society, business associations work for the integration of professional communities, and the development of new institutions, professional codes of ethics and common norms and rules. However, despite the growing number of business associations, they rarely act as civil society mediators in the dialog between business and authorities. More often business associations (initially at the local level) emerge as networking projects or trust institutions, which serve to institutionalize and formalize business relationships, or as individual business projects aimed at providing consulting services. The main purpose of business associations is to assist businesses in improving their management and achieving fair advantages in the rapidly changing economic environment rather than to improve it.

The prevalence of ‘horizontal’ or parallel (Jedrzejewska 2004: 29) functions in business associations’ activities seems to reflect some general peculiarities of the emerging civil society in Russia. Civil society is generally acknowledged as a necessary condition of the transformation from a totalitarian state towards a democratic society. This claim is based on a view of civil society that can be labeled a ‘vertical project’ (Kharkhordin 1997), stressing its political role. Civil society appears as a system of democratic institutions (or organizations) which are supposed to defend individuals and groups in the face of state oppression and its abuse of power. It is also significant that civil society should offer the possibility for individuals and groups to influence the state by providing civic mechanisms that permit lobbying in defense of the interests of different social groups, against unfair or unreasonable formal rules imposed by the state, and in defense of political rights, etc.

In contrast to this vertical projection of civil society, its ‘horizontal project’ emphasizes the creation and fostering of civilized relationships within communities, peaceful (not aggressive) settlement of conflicts, and the provision of information and services that the state is unable to provide (Jedrzejewska 2004: 29). Despite the significance of these ‘horizontal’ functions, they have been overlooked in the discourse on post-socialist transformation because overcoming the legacy of centralized and unlimited power has been considered to be the key issue here. However, as can be seen from our study, the ‘civilizing’ of business relationships is an urgent matter for the Russian business environment, which is still characterized by the extremely high importance of informal relations.

Using vertical and horizontal projections helps to reconcile the discrepancies in assessments of civil society in Russia provided by different experts. According to some of them, the scale of civil society in Russia is comparable to that of civil societies in some European countries. This assertion is usually based on statistical data on the number and dynamics of non-commercial organizations. It is true that in recent years Russia has seen the dynamic development of non-governmental, non-political, non-commercial organizations. Their total number amounts to around 350,000. However, according to others – and it is their assessments of civic activism in Russia which are apparently prevailing – Russian civil society is weak, uncoordinated and completely dependent on Western financial support. Two projections of civil society make it possible to avoid the alternative nature of these two conclusions. Social expectations about the emergence of the ‘vertical’ civil society do not seem to be relevant in the case of Russia: today we are witnessing the emergence of a ‘horizontal’ model characterized by a general movement towards more civilized and formalized business relations.

Notes

1. It is worth mentioning that informality itself (the breaking or ignoring of formal rules, the so-called informal economy or second economy) was not always seen as a negative factor. Indeed, many researchers consider the informal economy in Soviet Russia as the source of a ‘Soviet type of civil society’; eroding the economic monopoly of the state and facilitating the process of individualization and decentralization (see, e.g., Alapov 1993; Rigby 1991). Since the term ‘civil society’ was originally coined by Western scholars and for societies of a Western type, it appeared rather problematics to apply this term to ‘non-Western’ countries, especially for societies of a ‘Soviet type’. Even after the collapse of the Soviet system, the ‘Western model’ of civil society was seen by many researchers as unachievable for the foreseeable future (Gray 1991). However, supporters of the idea of a ‘Soviet type civil society’ sought various forms of activities and networks, which provided an alternative to centralized, state-regulated forms. The informal economy in Soviet Russia was considered as one of the bases of civil society alongside such sources as a relatively independent and dynamic urban culture (‘city air’) (Starr 1988), and informal networks, friendship and family networks (Shlapentokh 1989).


3. The project ‘Prospects for Fighting Corruption in Post-Socialist Countries: Cases of Russia and Hungary’ was carried out in 2003–2004 within the framework of the Think Tank Partnership Program supported by USAID, IRIS and KPMG Consulting. Another project, ‘Mobilizing Social Support to Fight Corruption: Civic Activism in Business Sphere of Russia’, was conducted in 2004 with the support of the American University, Washington, DC.

4. Far be it from us to assert that, in the dialog between business and state, it is only businessmen who ‘suffer’. As in any economic system, many examples could be found where businessmen break the rules in order to make better profits. However, it is true that the uncertainty of legislation and the intricacy of business regulations in post-reform Russia make businessmen (and especially those in small and medium-size businesses) an easy target for bureaucratic extortion.
5. Organizations created under the aegis of the state had the support of 22.4 percent of respondents; 14 percent were ready to cooperate with organizations created under the aegis of law enforcement agencies (Ministry of Internal Affairs, etc.). The least popular among anti-corruption activities were political parties (3.9 percent).

6. For instance, if customs brokers declare in official documents that computers are 'green beans' (which is the cheapest product in terms of import taxes), then in most cases customs officials know about it. However, they won't inspect the real cargo to see whether it corresponds with what is declared in the documents because of informal agreements with customs brokers. This is the reason why, according to official statistics in the mid 1990s, Russia seemed to be inundated with green beans, and at the same time there was almost no importation of electronic devices—of course, the true picture was different (see Radaev 2003).

7. We deliberately use the term 'civic organizations' or 'civil society organizations' instead of the commonly used term 'non-governmental organizations' (NGOs) in order to subsume all kinds of non-governmental and non-governmental entities representing independent public activity in the endless sphere (see Schmidt 2005). Moreover, in the business sphere (grass-roots discourse), the term 'NGO' is used mainly to designate a certain type of civic organization related to democracy development issues.


9. The draft of a new law developed by representatives of NGOs was not accepted by the Legislative Commission of the City Assembly. The Commission agreed only to allow NGOs' representatives attending Assembly sessions to arrange for the electronic delivery of information by the Assembly Press Center through the mailing list of NGOs about the sessions’ agendas and approved laws.

10. However, the size of an association’s membership has no bearing on the absence of corruption issues on an association’s agenda.


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EUROPEAN CIVIL SOCIETY
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