



Corruption: A Way of Life

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14 Nov 2006

Overview

Like any chronic disease, corruption can maim without killing. In the post-Soviet world, this sickness is deeply ingrained in society. While not ruling out decent investment returns, it always corrodes them. Constantly present beneath the surface, like a fire in the hold of a ship, corruption should be kept firmly in mind when assessing all risks in Russia.

This year, President Putin has launched a new anti-corruption drive. Reactions are predictable: officials herald a new dawn, while experts remain understandably sceptical. There are signs this time of stronger political will to reduce tolerance for corruption. Injecting some fear back into the system is a necessary, albeit insufficient, condition for progress.

Update (20 November): The continuing anti-corruption drive brought the arrest of seven high level officials of the Federal Mandatory Medical Insurance Fund. They are charged with taking bribes from pharmaceutical companies.

Context

How corruption works in Russia, and the damage it causes. Putin's new campaign.

Public Judgements

The new anti-corruption drive is for real

- > **Public Chamber**, Non-executive advisory body
- > **Andrei Belyaninov**, Head, Federal Customs Service
- > **Alexander Buksman**, Deputy Prosecutor-General

Official moves are no more than tinkering with the system

- > **INDEM Foundation**, Moscow think-tank
- > **World Bank**, policy note
- > **Transparency International**, Anti-corruption NGO

Wrap

Even on optimistic assumptions, any anti-corruption drive will take years to work. But there is evidence now of stronger political will than before. To watch: the seniority and, above all, the scale of continuing prosecutions.

Context

How corruption works in Russia, and the damage it causes. Putin's new campaign.

The scale and depth of corruption in Russia make it the most serious underlying country risk factor. Corruption impairs investment returns not only in countless specific businesses, but also in general. For the overall economic growth required for strong company earnings depends primarily now on investment; and the investment climate is constantly spoiled by corruption.

The worst spoiler is predatory officialdom extorting from business. Like many parasites, this 'state mafia' for the most part stops sensibly short of killing its host - that is, private business, which copes as best it can. But this remains a key disincentive to entrepreneurship and investment.

This central 'state mafia' risk needs to be set in the perspective of other forms of corruption.

Main types of corruption	
Type	Comment
'State mafia'	Officials extorting from business and/or using their powers and position to run their own business - undermining private sector competitors
Everyday	Public services provided only on payment of 'additional contributions'
Private	Managers stealing from shareholders, employees from their companies - and from each other

This typology of corruption underlines how the problem runs deep in society. This fact is an even more serious obstacle to effective remedies than the scale of the problem (the latest estimate, from the General Prosecutor's Office, putting total annual bribe-taking at \$240 billion, or a colossal 25% of 2006F GDP).

In a vicious circle of social degradation, corruption alienates citizens while setting a compelling example. The Levada Centre polling organisation shows a large section of the public (35-40%) actively mistrusting the police - the most egregious state mafia of all. But an equally typical attitude is: *if you can't beat 'em, join 'em*.

In the face of such nihilism, successive Russian governments have done little more than pay lip-service to the fight against corruption. Periodic corruption cases are regarded by the public as a pretext for one set of bosses to settle scores with another rather than a genuine attempt to tackle the problem.

But in his annual 'state of the nation' address in May 2006, President Putin launched a new anti-corruption drive. This triggered a series of arrests and dismissals of more senior officials than seen in previous such episodes (for details, see). In July, the newly appointed Chief Prosecutor, Yury Chaika, took up the baton, with over 600 criminal cases since being opened against state officials for alleged bribery offences.

Public Judgements

Hand-wringing over corruption is not new in Russia. Corruption touches every aspect of life in Russia. So are there any reasons for supposing that the latest anti-corruption drive will be an improvement on previous ineffective attempts?

The new anti-corruption drive is for real

The new anti-corruption drive is for real

Putin's public acknowledgement of the persistence of this problem as one of the failures of his presidency combined with the subsequent high-level sackings shows that this latest anti-corruption campaign is earnest, and no-one will be above the law.

- **Public Chamber.** The brochure issued by the Public Chamber, *What to do if you're asked to give a bribe*, is a deliberately simple and straightforward document, intended to encourage citizens to stand up to bribe-takers. Just 16 pages long, the brochure is intended to show up bribery as a crude form of extortion, which no citizen should have to tolerate. In order to appeal to a wide audience, it even includes quotations from religious texts, such as the Bible and the Koran ("the bribe-giver and the bribe-taker will both burn in hell fire"). The brochure tells citizens to look out for tell-tale signs (the would-be bribe taker leaves the office for a while, leaving a draw or a briefcase open) and advises people to complain to the relevant authorities.
- **Andrei Belyaninov**, Head of Federal Customs Service. Belyaninov was appointed to his post in the wake of Putin's State of the Nation address and following a series of scandals involving the Customs Service. In April, some 20 criminal cases were brought by the Prosecutor's office accusing customs officials of accepting bribes. In 2005 there were 252 such cases. Belyaninov's first step in tackling corruption in the Service was to ask the government to raise the salaries of customs officials, as he maintained that low salaries were the single biggest cause of bribe-taking. Customs and Excise bring in 42% of the national budget; yet a customs official is paid just 9,000 Rb (\$340) a month. Belyaninov intends to implement a system of regular rotation of officials to uproot corrupt ties between officials and businesses; and, in general, to minimise direct contact with businessmen. Electronic, rather than personal contact lessens the opportunities for corruption.
- **Alexander Buksman**, Deputy Prosecutor-General. Interviewed by *Rossiiskaya Gazeta* on 7 November, Buksman said that government officials are taking bribes totalling \$240bn a year - equivalent to the annual national budget. 28,000 cases of corruption have been uncovered this year, 9,000 of them involving the taking of bribes. But Buksman was not simply wringing his hands. He described the plan set out by the Prosecutor-General, Yury Chaika, as, "a principally new approach to the problem". His message was clear: we are not prepared to tolerate further such behaviour by government officials.

Official moves are no more than tinkering with the system

Official moves have barely scratched the surface

The roots of corruption in Russia are so deep that it will take generations before a significant change is seen in attitudes. And it is not just in Russia itself that corruption raises its ugly head. Russian businessmen abroad are swift to offer bribes to get things done.

- **INDEM Foundation**, a leading Moscow think-tank, has released two in-depth studies of corruption in Russia in recent months. Research for the latest study, released at the end of October, was carried out among the business community in Moscow, Smolensk and Volgograd. Producing rather different figures to those of Alexander Buksman for the number of officials tried for corruption this year, INDEM points out that as only 507 prosecutions have led to a prison sentence this is equivalent to just one out every 100,000 corrupt officials being sent down. Other problems highlighted by the report for carrying out honest business

in Russia are: long drawn-out registration process for new businesses; constant checks by various government departments; unattractive nature of government work for skilled specialists; constantly changing legislation; length of time it takes to accomplish simple tasks; pressure applied for contributions/bribes (the border between the two is often smudged). INDEM believes it will take 100 years before Russia will be able to match Sweden for low levels of corruption.

- **World Bank (WB)** In its second detailed look at corruption in Russia in the past eighteen months, the WB synthesizes research done by various organisations such as the World Economic Forum; the Centre for Economic and Financial Research; and Business Environment and Enterprise Performance Surveys. Whilst trying to emphasise positive developments (such as "substantial" progress in regulation in recent years), the Bank cannot avoid certain negative conclusions. Judicial independence and protection of property rights are areas of greatest concern for business; corruption has become a greater obstacle for business since 2002; on average, in Russia there are 22 procedures to go through before a business licence can be obtained, taking 528 days; there is widespread uncertainty over which laws and regulations should be implemented and observed. International agreements which Russia has signed up to - the UN Convention on combatting corruption; the Council of Europe Convention on criminal responsibility for corruption; the G8 Initiative - have had no effect on the level of corruption in Russia.
- **Transparency International (TI)** has published two surveys in the autumn of 2006. The *Corruption Perceptions Index 2006* puts Russia joint 121st out of 163 countries for levels of corruption; and the *Bribe Payers Index*, which examines business practices abroad of the world's 30 biggest exporting nations put Russia 28th, ahead only of China and India. TI's Russia Director, Yelena Panfilova, said that this was because Russian businessmen seek out partnerships where bribery and corruption are the norm, concluding that as they have used these methods successfully at home, they should work abroad, too.

Wrap

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Given the depth of the corruption problem and the inevitably slow pace of any change for the better, the sceptics in this debate will always appear to have the stronger case.

The INDEM study makes the sceptical case most rigorously. Rather than simply questioning the authorities' motives on the anti-corruption front, the study highlights in quantitative terms how far there is to go in terms of implementing a genuine zero tolerance policy.

At the same time, the results to date of this year's new anti-corruption campaign do suggest stronger political will to tackle the problem than in the past. This is reflected in the seniority of the officials sacked and/or prosecuted, and in the fact that even the FSB no longer seems immune (for details, see).

Also new is the focus of the quite impressive new Chief Prosecutor, Yuri Chaika, on scale. This is what Chaika's deputy, Alexander Buksman, must mean by "a principally new approach". Scale is what is needed, since a large quantity of successful prosecutions across the board is the only way to build credibility for the campaign as determined and impartial with no hidden agenda.

The arrests at the Federal Mandatory Medical Insurance Fund, announced on 17 November, may be a significant step in this direction. The Director of the Fund, Andrei Taranov, his two deputies, three department heads and one other official have been charged with taking bribes and abusing their official positions. More specifically, they are under suspicion of taking backhanders from representatives of pharmaceutical companies to promote their products over those of their rivals. Are more to follow?

Instilling a culture of zero tolerance has to start with increasing the fear factor. A paradoxical reason for the widespread perception that corruption has been getting even worse in recent years is stability. As things settle down, officials become more adept at 'working the system' - and doing so with impunity, as the Soviet-era fear of repression recedes. In today's Russia, fear of the consequences will be the only effective restraint on the state mafia and its clients - rather than the appeal of the well-meaning Public Chamber to moral and religious scruples.

As well as the 'stick' of widescale repression, there must also be the 'carrot' of deregulation and civil service restructuring. The World Bank study usefully highlights the continuing regulatory improvements of recent years. The new Customs Code - which applies to one of the very worst corruption blackspots - deserves particular mention in this context.

Next tests

The best test is the quantitative one suggested in the INDEM research. How many prosecutions of officials for bribery and other forms of corruption are (a) initiated and (b) result in convictions with prison terms. The base numbers against which to compare are (for the 12 months to July 2006) 3,600 prosecutions, of which 507 ending in prison terms.