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# **Political Corruption in Russia: An Evaluation of Russia's Anti-Corruption Strategies, 1991-2009**

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*This dissertation seeks to explain why anti-corruption measures in Russia have been unsuccessful so far and to outline what measures must be adopted in order for Russia to combat political corruption more effectively. This thesis will set out the context by analysing the nature of political corruption in Russia. In particular, this dissertation will focus on how the blurring of the public and private spheres has resulted in opportunities for private gain, and how this is impacting upon Russia's development. Through an analysis of anti-corruption measures since the collapse of the Soviet Union, this dissertation will explain why Presidents Yeltsin and Putin were unable to reduce corruption in Russia's official institutions. It will be argued that an effective and sustainable strategy must involve all of the three main actors of public life; the state, the private sector and civil society. President Medvedev's National Anti-Corruption Plan currently provides the legislative framework for institutional reform. However, its provisions for civil society and private sector involvement are inadequate. Therefore, this dissertation will conclude by proposing a number of measures aimed at strengthening civil society and increasing accountability in the private sector, upon which Russian leadership could base future reform.*

## **1. Introduction**

Johnston (2005, p.12) describes political corruption as "the abuse of public roles or resources for private benefit". Definitions of the terms 'abuse', 'public', 'private' and 'benefit' are crucial when applying this definition to a country-specific analysis of corruption but in Russia, rapid liberalisation means that the distinction between 'public' and 'private' is blurred. Difficulties identifying 'abuse' are hindering the development of effective anti-corruption strategies in Russia. Consequently, corruption has become a

“universal condition of life” (Bocharov, 2001, p.38). However, this is seriously distorting Russia’s political, economic and social development. Since the collapse of the Soviet Union, all of the Presidents of Russia have stated their commitment to combating corruption in the public sphere. However, neither Yeltsin nor Putin were able to make significant progress in this respect.

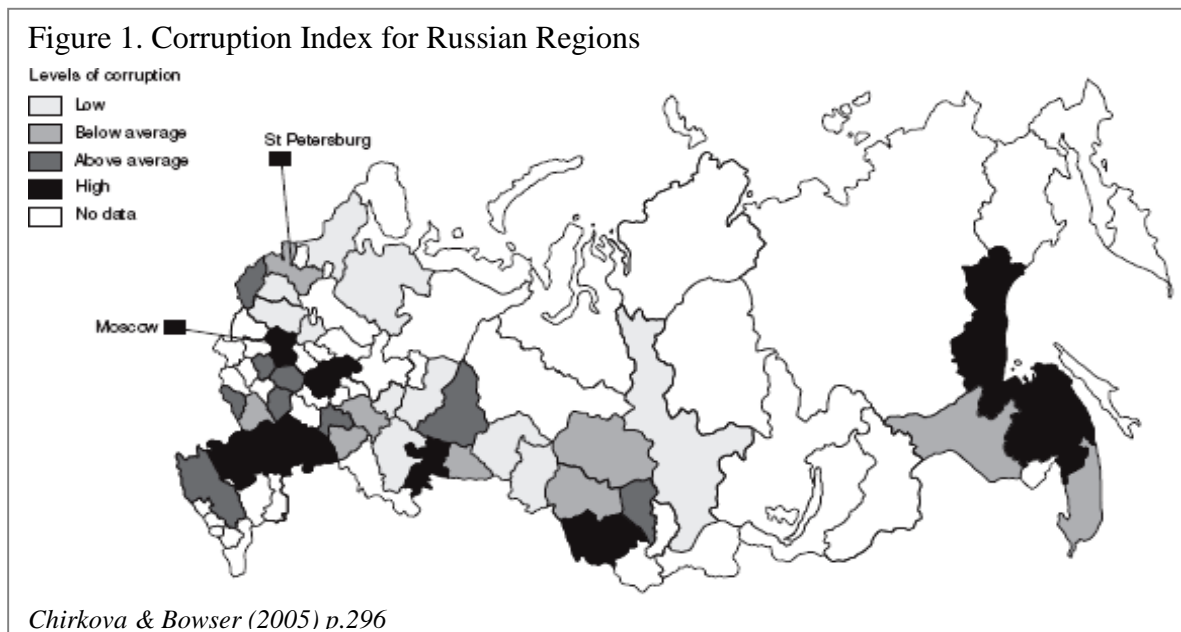
In 2008 President Medvedev revealed his National Anti-Corruption Plan as the first comprehensive and systematic response to corruption in Russia. This dissertation seeks to evaluate the potential for success of Medvedev’s Plan and to propose a number of measures for remedying its weaknesses. In order to do so, this dissertation will begin by explaining what is meant by ‘political corruption’ in Russia. It will be argued that weak institutions, poorly enforced regulations and a lack of civil involvement are sustaining weak understandings of public- and private- sector roles, and that this is facilitating corrupt activity throughout Russia’s official institutions. It will be asserted that, in order to clarify the boundaries between the public and private spheres, Russia needs to do five things: increase transparency and accountability in all levels of government; improve legislative sanctions against corrupt behaviour; establish incentives for good behaviour; facilitate a credible privatisation process; and strengthen civil society. Since the enactment of ‘On Counteracting Corruption’ in January 2009, Medvedev has made a number of moves towards achieving these objectives. However, through an analysis of the failures of Yeltsin and Putin, this dissertation will highlight that Medvedev faces deep-seated public contempt for reform. Therefore, although Medvedev may possess the resources and political will to sustain his campaign, without civil society involvement and genuine competition in the financial sphere, Medvedev will fail to establish the normative shift in perceptions that is necessary for achieving his objectives. This dissertation will conclude with a number of measures aimed at remedying the weaknesses of Medvedev’s strategy, which may be taken as the basis for future reform.

## **2. The nature of corruption in Russia**

Conceptions of ‘corruption’ vary significantly. Some advocate definitions based on formal laws and rules (Nye, 1967), but many legal systems are limited and do not address important problems (Gardiner, 1993, p.39). In addition, not all instances of

corruption or bribery are necessarily illegal; for instance, tipping a waitress is a common practice in many countries (Bardham, 1997, p.1321). Therefore, others promote cultural standards as the basis for defining corruption. Huntington (1968, p.59) argues that corruption is the behaviour of public officials which deviates from accepted norms to serve private ends. However, in countries such as Russia corruption is systemic and does not necessarily 'deviate from the norm'. Furthermore, citizens may not desire to reduce corruption if it is felt that it is a necessary tool for survival. With this in mind, this dissertation emphasises the "uses of and connections between wealth and power that significantly weaken open, competitive participation and/or economic and political institutions, or delay their present development" (Johnston, 2005, p.12). This is not to be mistaken for a public-interest-centred approach, as exemplified by Friedrich (1972). Defining public interest regardless of formal laws is a complex and subjective process, which is difficult to sustain. This dissertation seeks to move away from debates over how to define a corrupt act, or whether or not corruption is a positive phenomenon. Instead, the purpose of this dissertation is to analyse the ways in which corruption is acting as an obstacle to development in Russia, in order to then identify measures to resolve the factors which are sustaining corruption across the Federation.

Before looking at the nature of corruption in Russia, it is necessary to exercise a word of caution; that Russia is not monolithic. In 2002 Transparency International (TI) surveyed 5,666 individuals and 1,838 entrepreneurs in 40 of Russia's [then] 89 regions (there are now 83), in order to create a map reflecting perceived levels of corruption (Fig. 1). The map showed that in 2002 significant variations existed; for example, the agricultural regions of the 'Southern belt', – from the Rostov oblast to the Volga region -, were seen to be considerably more corrupt than the Northern regions of Arkhangelsk, Karelia and Yaroslavl oblast. While perceptions of corruption do not necessarily reflect real levels of corruption, they demonstrate the visibility of corruption to thousands of Russian citizens. In areas perceived to be more 'corrupt' it is likely that corruption forms the basis of transactions affecting all people rather than constituting isolated deviations from normal behaviour. In order to create an overview of corruption in Russia this dissertation will make a number of generalisations. However, it is important to remember that nature of corruption does vary within the Russian Federation, and that an effective strategy must account for such variations.



Saratov (2001, pp.8-9) divides political corruption into ‘corruption at the top’ and ‘corruption at the bottom’. In terms of corruption at the top, in the 1990s privatisation resulted in a disorderly “scramble” amongst Russia’s elite to appropriate state assets (Johnston, 2005, p.44). This facilitated the rise of Russia’s ‘oligarchs’; individuals such as Mikhail Khodorkovsky and Boris Berezovsky, who exploited weak economic controls and rapidly rose to dominate Russia’s economy. This is significant because Levitsky and Way (2006, p.5) assert that in Russia there exists a “competitive authoritarian regime” where “formal democratic institutions are widely viewed as the primary means of gaining power, but in which fraud, civil liberties violations, and abuse of state and media resources so skew the playing field that the regime cannot be labelled democratic”. State institutions remain weak and political leaders rely on oligarch-owned enterprises for support (Bocharov, 2001, p.40). Pervasive corruption in the judiciary is also of concern because the Executive is deprived of a check on its authority; meanwhile the protection of the rights of Russian citizens is undermined. In terms of corruption at the bottom, according to TI’s Corruption Perception Barometer (2009), the sector perceived to be most affected by corruption in Russia is ‘Public Officials’; in 2008, sixty-seven percent of respondents believed that public officials were ‘extremely corrupt’. Bribery is widespread; in 2001 up to seventy percent of Russia’s civil servants were supplementing their salaries with bribes (Dvurechenskykh,

2001, p.32). More specifically, Shleifer and Vishny (1993) identify two forms of bribery; *mzdoimstvo*, where an official charges a fee for carrying out his duty; and *likhoimstvo*, where a bribe is paid so that an official does not do his duty. Both of these practices are undermining revenue collections and expenditure management in Russia.

Russia's black market is estimated to involve around thirty million Russians and in 2001 it represented at least forty percent of Russia's economy (Dvurechenskykh, 2001, p.31). The black market emerged during the Soviet era in order to remedy the inefficiencies of the economy. However, the collapse of the communist party resulted in the disappearance of state controls and the black market boomed. In terms of the legitimate economy, Russia's energy sector is riddled with corruption as a result of rapid privatisation followed by the recent renationalisation of parts of the oil and gas sectors. Banking is also vulnerable to corruption because of the high amounts of money handled and because of its importance in processing funds from corrupt sources. The assassination of bank regulator, Andrei Kozlov, demonstrates that the process of reform faces resistance (Orttung, 2006, p.4). In terms of the regulatory environment, excessive and outdated regulations act as barriers to trade and investment as parties are either unwilling to, or incapable of, complying with official regulations. Equally, Russia's predatory tax system is pushing legitimate entrepreneurs to the "edges of the legal system" (Varese, 1997, p.587). Combined with rising levels of organised crime, these factors are generating insecurity in Russia. This may be accepted by Russians, – the World Bank asserts that 20 percent of Russian businesses don't see anything wrong with bribery -; however, foreign businesses are less likely to risk engaging in economic activity in Russia (Orttung, 2005, p.4)

In Russian society corruption is "closely intertwined with other types of social relation; with ties of friendship, clan and nationality" (Saratov, 2001, p.9) and bribery is prevalent in all aspects of life (Fig. 2). Sajo (2002) argues that corruption enhances efficiency in Russia and that clientelism constitutes a stable form of social organisation. However, 'clientelism' is not having a stabilising effect, as demonstrated by high levels of organised crime. Under the Soviet system, 'protecktsia' was provided by party patrons but now organised crime provides that protection. Violence in Russian society has increased since the 1990s; for example, in August 2002, murders by Russian gangs

claimed a Mayor, a Member of Parliament, and a transport official (Johnston, 2005, p.130). The increasing influence of criminal organisations is creating widespread insecurity, which creates further incentives to resort to corruption (Frisby, 1998, p.29-30).

**Fig. 2. Dynamics of the Average Bribe Amount (rubles): Everyday Corruption Market**

	<b>Value</b>	<b>Rank</b>
Free medical service	1423	11
Schooling	2312	8
Higher education institution	3869	4
Pensions	2250	9
Social payments	3467	6
Solving problems related to the conscription procedure	15409	1
Employment	2448	7
Land area	3713	5
Dwelling	5548	3
To get dwelling maintenance & repair work services	400	14
To obtain justice in law-court	9570	2
To get assistance and protection from militia authorities	930	12
To get registration, domestic or foreign passport at the place of residence	1426	10
To solve problems with road police authorities	920	13

*INDEM (2005): Table 4.*

with other European and Central Asian countries and found bribe frequency in Russia to be far higher (Fig. 3). In terms of how Russians perceive corruption in their own country, according to studies conducted by the All-Russian Centre for Public Opinion and Market Research (VCIOM), almost all respondents considered most institutions in Russia to be highly corrupted (Levada, 2001, p.55). Meanwhile, tolerance to corruption was also high (Fig. 4), with more than fifty percent of respondents considering it impossible to live in Russia without breaking the law. Only twelve percent believed that corruption could be eradicated. As noted, perceptions of corruption do not necessarily correlate with the number of acts that can be legally defined as 'corrupt'. However, the findings of this survey consolidate the perception that in Russia, corruption forms the basis of transactions in all spheres of life.

Figure 3. Corruption as a Problem Doing Business: BEEPS (2005)

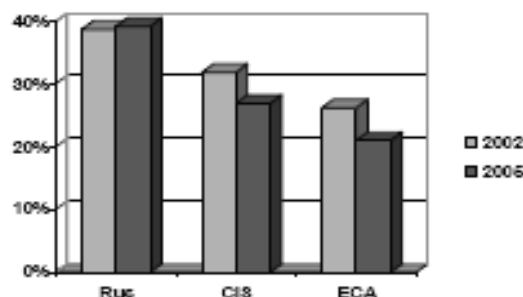
*Percent of firms saying unofficial payments are frequent*

Figure 4. How permissible is it...? VCIOM (2001)

*Numbers express percentage of total number of respondents*

	'fairly' or 'on the whole'	'not very' or 'not at all'
To hire a person for bribes or favours	57	38
To use connections to promote one's career	46	49
To present gifts to a doctor or teacher	60	37
To present gifts for a favour done	74	21
To give a bribe to an official	29	64
To give a bribe to an official 'for a worth cause'	38	54
To render an illegal service for another service	40	53
Not to pay taxes	18	75

*Levada (2001) p.55*

### The effects of corruption

Levels of corruption in Russia vary (Fig. 1) but in general, the scope is striking. In 2002, former Interior Minister Boris Gryzlov estimated that state revenues lost to organised crime totalled \$1.56 billion (Lavelle, 2003), while INDEM found that annual bribes paid by businesses in Moscow alone reached 230 billion rubles during the same year (Johnston, 2005, p.125). Even if Russia is considered to have been relatively 'clean' since the collapse of communism, Transparency International, the World Bank, and Freedom House all agree that corruption has increased in recent years (Bernstein, 2008). INDEM believe this is a positive trend, because without corruption, Russia's economy would collapse (Satarov, 2001, p.10). Bocharov (2001) and Galeotti (1998) also argue that corruption is necessary to overcome the shortcomings of state institutions. However, through looking at the political, economic and social consequences of corruption in Russia, it becomes clear that corruption distorts development in all fields.

Bocharov (2001, p.42) argues that bribery is now so common that it is forming the basis of an informal tax system. For example, both the prosecutor's office and the tax inspectorate accumulate funds paid on behalf of private individuals. However, while corruption may generate useful revenue, the unpredictability of corrupted institutions means that it can only be relied upon for short-term ventures. Meanwhile, illegitimate practices erode the credibility of official systems, demoralise the civil service and exacerbate incompetence (Karapetian, 2001, p.22). Rather than aiding development corruption threatens the development of democracy in Russia, as it "circumvents the process of competition for popular support" (Johnston, 2005, p.29). For example, 'United Russia', is based not on ideological goals but alliances with interest groups and businesses (Orttung, 2006, p.3). Although democratic plurality has formally been introduced, political processes remain dominated by the state, which acts on behalf of private interests (Krasnov, 2001, p.14). Proponents argue that corruption is useful for getting around excessive government 'red tape' (Nye, 1967). However, if there is an opportunity to profit from a process, corruption encourages officials to make sure processes last as long as possible (Wei, 1999). Corruption also does not discriminate in the regulations it circumvents. While it may be beneficial to 'fast track' some processes, circumventing health and safety regulations may have disastrous effects (Roaf, 2000, p.3). In terms of public opinion, corruption is eroding the state's reputation in the eyes of Russian citizens as well as international powers, (Karapetian, 2001, p.22).

As well as generating illicit taxes, Bocharov (2001, pp.40-41) believes that capital flight has prevented 'dirty money' from reaching critical mass in Russia. Now that the money has been legalised abroad Russians are bringing it back into the country, balancing the deficit of foreign investment. However, even if money is returning it remains in the hands of criminals. In the meantime, capital flight drains Russia's economy because corruption in Russia's banking institutions means that wealth is only seen as secure when it is sent abroad. Corruption prevents the development of Russia's private sector as it discourages new businesses from entering the economy. In 1999 the World Bank found that higher bribes are demanded of new entrants than those demanded of existing firms (Roaf, 2005, p.5). Corruption diminishes the quality of existing business as resources are misdirected into areas where it is easier to hide corruption (Mauro, 1995).



Furthermore, corruption lowers productivity; according to TI an increase in corruption by one point on a scale of one to ten lowers productivity by four percent of a country's gross domestic product (Lambsdorff, 2005, p.310). Finally, corruption is an obstacle to foreign investment because institutional weaknesses, such as a lack of judicial independence and insecure property rights (Fig. 5), mean that investment in Russia is risky (Fig.6). "In short, corruption kills business" (Nedoroslev, 2001, p.27).

Figure 5: Growth Competitiveness Index: Russia

<b>Sub-index: Public Institutions, Contracts and law.</b>	<b>Rating as of 2004</b> (out of 104 countries)	<b>Rating as of 2005</b> (out of 117 countries)
Judicial independence	<b>84</b>	<b>102</b>
Efficiency of legislation	80	95
Protection of property rights	<b>88</b>	<b>108</b>
Protection of intellectual rights	84	105
Favoritism of government officials	85	106
Efficiency of law-making	63	80
Bureaucracy	89	90
Reliability of law-enforcement	90	99
Burden of organized crime on business	<b>88</b>	<b>101</b>
Quality of audit institutions and accounting standards	81	89
Role of taxes as incentives for work and investment	73	81
Freedom of press	84	96

*World Economic Forum, 2004-5*

Corruption facilitates organised crime because corrupted officials allow criminal groups to operate (Ortung, 2006, p.4). Galeotti (1998, pp.418-420) believes that organised crime provides a positive network of social security for Russians. However, as Russia's economy grows, more individuals are being targeted by criminal groups because of their control over access to retail space. This is evident in a number of assassinations such as that of Alexander Slesarev in 2005. In general, organised crime destabilises states (Greco, 2004, p.62-64), interrupts economic infrastructures (Kostovicova, 2004, p.17), and undermines democracy (Wallace, 2005, p.430). Regarding transition states, William and Godson (2002, p.312) argue that organised crime tends to "perpetuate the weakness of the state and hinder prospects for a successful transformation to the rule of law and to a functioning vibrant democracy". Organised crime cannot be tackled without reducing corruption in state agencies; however, corruption cannot be combated without the support of society. Russian society is disinterested in anti-corruption

because a cycle of distrust has emerged, in which corruption leads to crime followed by public disillusionment, which facilitates further criminality (Bocharov, 2001, pp.38-39).

Why is corruption so prevalent in Russia?

Corruption in Russia is circumventing democracy, distorting economic growth and perpetuating disillusionment in society. Russia is failing to reverse the effects of corruption because of a combination of weak government institutions and a lack of public support. These weaknesses are rooted in the legacies of the Soviet Union (Johnston, 2005, p.131-132). In terms of the party-state apparatus, few avenues exist to influence Russian policy from below (Kleshko, 2000, p.46). As was the case in the Soviet Union, Russian society is alienated from the government, both institutionally and psychologically, and therefore it is unable to exercise oversight over its activities (Dvurechenskykh, 2001, p.30). Another Soviet feature is that the Russian elite are extremely powerful. High levels of impunity and de facto property rights meant that in 1991, officials had “the means, the motive and the opportunity” to turn state assets into personal gains (Johnston, 2005, p.132). A third feature is the weakness of state institutions to protect property rights. When privatisation began in the 1990s, mafiya groups overtook official law enforcement agencies as the primary providers of ‘protection’. The final Soviet feature is a high tolerance in society to ‘blat’ (networking). In the Soviet Union the inefficiencies of the economy resulted in personal exchanges, which formed the basis of the shadow economy. When the Soviet system fell this state corruption became market corruption. All of these features demonstrate that corruption in Russia is rooted in the weaknesses of the Soviet Union. However, corruption has escalated since 1991 demonstrating that this legacy is not decisive. Other factors can be found in Russia’s political and economic liberalisation.

Politically, Russia’s transition from an authoritarian state was not accompanied by extensive legislative and institutional reform. In 1991 new systems were built upon old, largely corrupt Soviet systems and consequently, corruption remained state-centric. The Executive currently possesses large amounts of power but with no clear areas of responsibility, while departments clash over areas of jurisdiction and often duplicate in terms of functions (Krasnov, 2001, p.16-17). When Putin came to power he expanded

the bureaucracy and enforced a crackdown on the media, party reforms, and Non-Governmental Organisations (Ortung, 2006, pp.1-2). This institutional confusion combined with a lack of oversight meant that the limits of acceptable behaviour in public office remained difficult to identify, and therefore abuses continued to escape detection. In terms of political competition, although liberalisation has formally occurred, parties tend to seek private rather than public support. This is because the increasing cost of competitive elections combined with inadequate regulations regarding party financing means that a “turn to illegality [is] almost inevitable” (Sajo, 2002, p.12).

Sajo (2002, p.7) argues that levels of corruption depend on the way in which national property is privatised. As Varese asserts (1997, p.581), the presence of property rights provide the cornerstone of all market economies. During the transfer of state assets to private enterprises in Russia, it was particularly important that the government intervened to provide and protect individual rights. However, in 1991 liberalisation resulted in the loss of Communist Party controls on the economy and Russia’s market became a ‘free for all’ for corrupt individuals to maximise their take (Roaf, 2000, p.3). In 1995 the ‘loans for shares’ scheme was established, through which shares for state assets were sold to private enterprises. However, sales were rigged and a minority of corrupt businessmen gained shares in some of the nation’s most strategic enterprises (Freeland, 2000). Meanwhile, economic regulations remained outdated and contradictory, impeding innovation from new businesses.

Russia has inherited the Soviet distrust of the state (Krasnov, 2001, p.14), while increasing levels of organised crime has exacerbated this distrust. Citizens believe that inspectors won’t stop taking bribes, while inspectors demand bribes because businessmen don’t pay taxes. Businessmen refuse to pay unreasonable taxes but reform of the tax system cannot occur until the government receives enough revenue to pay public sector salaries. Corruption feeds off itself by perpetuating this cycle of distrust (Bocharov, 2001, pp.38-39). However, Sajo (2002, p.9) argues that corruption occurs in Russia not as a result of Soviet legacies but as a natural consequence of the use of power in clientelist societies. In Russia, public belief in the rule of law is an alien concept; therefore the imposition of Western democratic norms cannot improve Russia’s problems of corruption. On the contrary, legislative supremacy results in

arbitrary definitions of political morality based on dubious legal standards (Sajo, 2002, p.13). Transparency is a burden to economic development, while political democracy consolidates clientelism by encouraging political leaders to pursue the interests of loyal supporters rather than the wider general public.

Sajo (2002) argues that when a state makes the transition from a centrally planned economy to an open one, a degree of confusion regarding the rule of law is natural. This confusion generates opportunities for corruption but Sajo argues that this helps to consolidate social stability. However, whether or not this corruption is a natural by-product of clientelism, it is clear that the gains of corruption are not fostering stability in Russia. Clientelism perpetuates client-patron structures over the equal distribution of resources. This is distorting Russia's political and economic development; meanwhile corruption is undermining the legitimacy of official institutions. Indicators such as TI's Corruption Perception Index suggest that corruption is increasingly viewed as a serious problem in Russian society (Fig. 6). However, the normalisation of corrupt acts means that there is little faith in reform. In order to reverse these trends, the next chapter will look at a measures aimed at clarifying the boundaries between the public and private spheres, and breaking the cycle of distrust in society.

Figure. 6: Solving the Corruption Problem

	Percentage of respondents who believe that solving corruption is...				
	... very important	... somewhat important	... not very important	... unimportant	Don't know/no answer
<b>Estonia</b>	<b>51</b>	<b>38</b>	<b>11</b>	<b>0</b>	<b>0</b>
<b>Latvia</b>	<b>72</b>	<b>25</b>	<b>3</b>	<b>0</b>	<b>0</b>
<b>Lithuania</b>	<b>61</b>	<b>35</b>	<b>2</b>	<b>0</b>	<b>0</b>
<b>Russia</b>	<b>69</b>	<b>23</b>	<b>8</b>	<b>0</b>	<b>0</b>

*Transparency International (2005) p.324, Table 22.1*

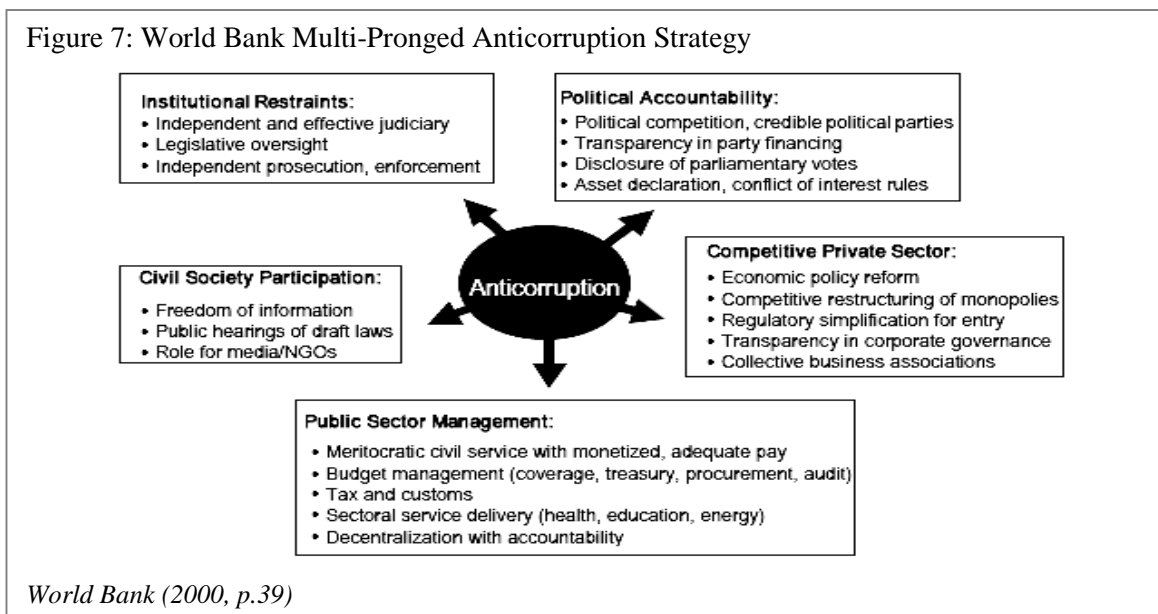
### 3. Anti-corruption measures

In recent years, a consensus has emerged on the harmful effects of corruption on development. According to Johnston (1997, p.2) in transitional countries such as Russia, the effects are particularly severe as corruption is embedded in the political and economic systems of these countries. Consequently, a number of theories aimed at reducing corruption have emerged. These theories can be divided into three broad categories: theories which propose institutional reform of governing systems (Klitgaard, 1991); theories which propose economic liberalisation (Rose-Ackerman, 1999); and theories which concentrate on civil empowerment (Johnston, 2005). This chapter will look at how anti-corruption measures proposed by international organisations as well as various national frameworks fit into this theoretical framework. In analysing these strategies it is important to remember in order to effectively combat corruption, it is necessary to tailor strategies a country's specific social environment (Kaufmann, 1998, p.66). Importing strategies from affluent market democracies may not only be inappropriate (Sajo, 2002), but could also make the situation worse; implementing "best practices" lifts expectations but failure to address the factors sustaining corruption results in a decline in political will for subsequent efforts (Johnston, 2005, p.196-99). With this in mind, this framework of measures is not intended as a prescriptive solution but as a point of reference for analysing Russia's anti-corruption strategies.

This chapter will draw a number of recommendations from the Organisation for Economic Co-operation and Development (the OECD). Its Public Management Committee is of particular relevance to public-private sphere blurring as its objective is to strengthen domestic institutions against corruption by equipping them with ethics regimes consistent with results orientation, rather than traditional public service values (Mills, 1998). Meanwhile, the Development Centre and the Development Assistance Committee focus on combating bribery in international transactions. This is relevant because of the need to clarify roles in the private sector as well as in the public sphere.

The recommendations of the World Bank (2000) are also referred to as they support this dissertation's argument; that Russia must redefine the rules and institutions governing the relationships among state institutions, between the state and firms, and between the state and civil society. While the Bank states its priority as "preventing fraud and

corruption within Bank-financed projects” rather than overall development (Funck, 2000, p.261), the acknowledgement that corruption detrimentally impacts upon its projects means that the Bank has a vested interest in identifying a range of strategies that are appropriate to a variety of contexts (Fig. 7).



The United Nations Development Programme promotes anti- corruption as part of its campaign for good governance (UNDP, 1997). Its strategy consists of democratisation, economic liberalisation and inclusive dialogue, all of which are relevant to transitional states like Russia (Tamesis, 2002). Although its primary objectives are poverty reduction, education, gender equality, health and environmental sustainability, reducing corruption plays an important part in achieving these goals and therefore the UNDP’s recommendations provide a useful basis for reform.

This chapter also draws from Transparency International (TI). As the primary non-governmental organisation tasked with reducing corruption across the world, TI has worked with international, regional and national initiatives to build broad coalitions as well as specific ‘national chapters’ against corruption (Eigen, 1996). As a result of the wide range of its work, TI’s publications provide a key resource particularly regarding perceptions of corruption worldwide.

Many countries have specific departments working to combat corruption. In the United States, the United States' Agency for International Development (USAID)'s Center for Democracy and Governance promotes institutional reform to increase accountability and realign incentives to prevent corrupt behaviour, as well as societal strategies to mobilise political will against corruption (USAID, 1999). Although these objectives support the arguments of this dissertation, it is important to bear in mind that USAID's suggestions are modelled on the experiences of Western democracies. Liberal economies, transparent governments and strong civil societies are not present in Russia; therefore, USAID's recommendations may not necessarily be transferable. In 2006 the Australian Institute of Criminology compiled a review of contemporary anti-corruption literature (McKusker, 2006). Again, as a democratic nation based on the principles of majority rule and the rule of law, the AIC's judgements may not reflect realities in Russia. However, the report highlights a number of important factors regarding the implementation of anti-corruption strategy. The chapter on cross-sectoral strategies is of particular relevance as it focuses on the need for reform in both the public and private sectors.

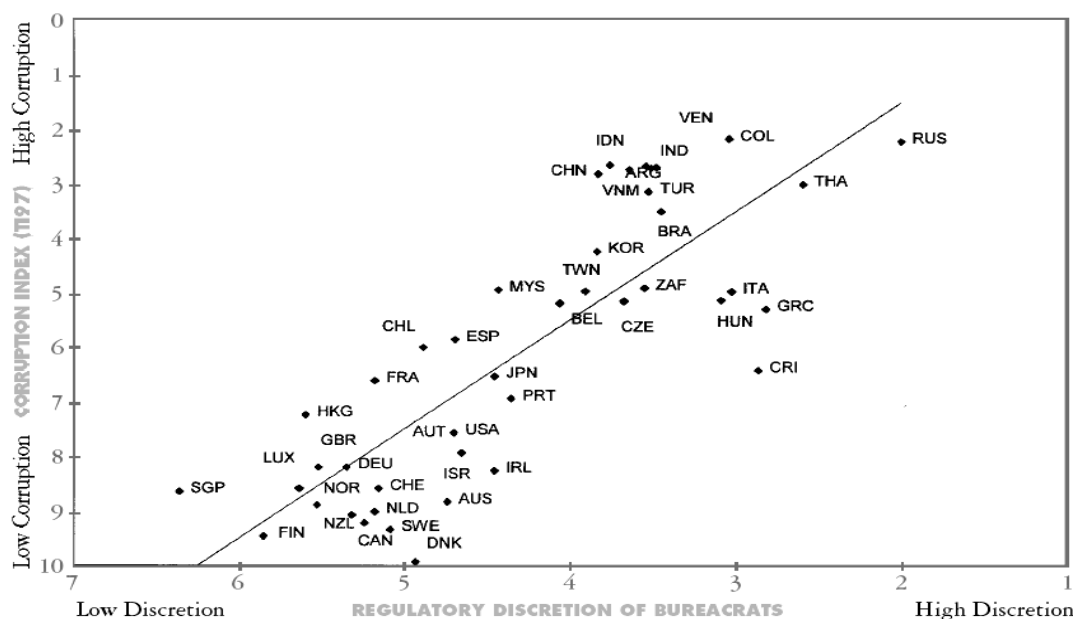
### **Institutional Strategies**

The OECD defines corruption as institutional (Doig & Riley, 1998, p.47). This is because, while political corruption is perpetrated by individuals, it occurs within an institutional context (Klitgaard, 1991b, p.88). Corruption occurs because wide authority for public officials combined with low levels of accountability allow for it. Meanwhile, perverse incentives, such as low salaries, encourage corrupt behaviour (USAID, 1999, p.1). Therefore, institutional strategists argue that in order to strengthen the 'bodies' of the state (McKusker, 2006, p.10), it is necessary to increase accountability in official processes, establish sanctions to punish self-serving behaviour and provide incentives for public-serving behaviour. Sajo warns against importing Western policies aimed at bolstering the rule of law because they are futile in clientelist societies. However, strengthening state institutions may improve "belief in, and allegiance to, rule of law" in Russia (Sajo, 2002, p.2). Meanwhile, a clear definition of institutional roles can help to maintain strict boundaries between the public and private spheres.

### Increasing accountability

In order to increase accountability in the public sphere it is essential to reduce the discretionary powers of public officials (Fig 8). For this purpose, the World Bank (2006, p.27) recommends the standardisation of administrative rules, clear definition of terms, transparent drafting techniques and a reduction in the amount of intrusive legislation. In order to diminish opportunities to deviate from the rules, bureaucratic procedures must be streamlined and centralised. Meanwhile, structural oversight mechanisms can increase accountability. The World Bank (2000) proposes a separation of powers among state entities so that ‘mutual antagonistic surveillance’ between agencies can reduce opportunities for corruption (Gillespie & Okruhlik, 1991, p.82). Equally, a balance of power between the judiciary, the legislature and the executive can provide a check on the abuse of power (USAID, 1999). Alternatively an independent institution could provide a degree of oversight (Kaufmann, 1998, p.74). Measures for citizen oversight include increasing public access to information about government decisions and expanding access to political processes. Finally, ‘whistleblowing’ - enlisting co-workers and citizens to report corrupt acts -, can be effective. However, reporting abuses of power can be dangerous, particularly if corruption is systemic. Governments should promulgate statutes that protect those who report corrupt act (Martirosian, 2004, p.101). Equally they should define what practices are illegal, in order to ensure that procedures are not abused for political gain.

Figure 9. Corruption Index vs. Regulatory Discretion



Kaufmann (1998) p.71



Legal codes prohibiting corrupt activity can be found in most states in the form of disclosure acts, codes of conduct and management systems to detect abuse (USAID, 1999, p.9). However, legislative strategies alone are rarely effective and often require complementary strategies. For this purpose, Gillespie and Okruhlik (1991, p.81) recommend establishing monitoring committees like India's Santhanam Committee, increasing penalties for deviant behaviour and conducting exemplary proceedings against high-ranking officials. Alternatively, the World Bank (2000, p.77) focuses on enforcement measures. Legislation must be enacted as part of a mutually enforcing system of legislation and enforcement, otherwise legislation to criminalise corruption will have no impact. USAID (1999, p.11) also highlights that sanctions needn't be restricted to formal legislation; for example, authorities can fire public officials or render them ineligible for pension distributions.

### **Reducing incentives**

Preventative measures are not enough to instil a normative change in behaviour. It is also essential to improve incentives that encourage rule-abiding behaviour. Regarding professional incentives, Gillespie and Okruhlik (1991, p.82) highlight the importance of linking rewards with conscientious effort, in order to instil a sense of meritocracy in public office. Meanwhile, the OECD proposes professional training and codes of conduct for this purpose (Radaev, 2002, p.307). TI argues that it is vital to ensure that public salaries are commensurate with responsibilities as well as comparable with similar roles in the private sector (Eigen, 1996). Finally, USAID concentrates on public sector management; as well as performance-based incentives, training must be provided, unnecessary positions must be eliminated and job requirements tightened, so that salaries increases can be financed through reductions in force. Professional rewards can increase morale throughout these changes (USAID, 1999, p.13)

### **Market Strategies**

Rose-Ackerman (1999), Dowse (1977) and Radaev (2002) believe that a competitive private sector is the solution to systemic corruption. 'Market strategies' propose that government intervention results in disequilibrium in supply and demand, which

generates opportunities for corruption (Gillespie & Okruhlik, 1991, p.81). Despite formal liberalisation in Russia, the boundaries between public and private activity remain blurred and the state maintains informal control in day-to-day activities; therefore, bureaucratic extortion occurs on a massive level (Radaev, 2002, p.297). To remedy these distortions the government should streamline the bureaucracy and reform the financial sector to allow for true privatisation. McCusker (2006, p.9) argues that there are limits to the economic argument; for example it requires a well-functioning government to ensure the integrity of privatisation. In addition, corruption may be advantageous in some situations; corruption was rife during capitalist development in a number of Asian economies (Khan, 2002). However, rather than increasing efficiency, corruption proliferates counterproductive regulations and fuels demands for bribes. It is often asserted that economic reform accentuates corruption especially in transition economies where institutions are inadequately developed. However, Kaufmann (1998, p. 72) argues that this is only where reform is inadequately designed and poorly implemented. Privatisation through well-designed reform in a transparent process generates efficiency and growth. Meanwhile, fewer government interventions and macro-economic stability can reduce corruption.

### **Shrinking the public sector**

Ensuring the integrity of government processes is crucial for privatisation as the process requires a well-functioning government to protect property rights (Varese, 1997, p.581). In terms of structural reform, issues of oversight, transparency and accountability have already been discussed. However, Rose-Ackerman (1999, pp.39-42) expands on these measures, asserting that program reform can also shrink the public sector. TI asserts that there is a positive correlation between the number of bureaucrats in a country and the level of corruption in that country (Fig. 9). Russia's bureaucracy is excessively large but also underpaid and inadequately trained. Institutionally, it is "sequential, fragmented, hierarchical [and] disorganised" (Sajo, 2002, p.21). Numerous programmes work so poorly that they act only as bribe-generating machines for officials; therefore, the best course of action is to eliminate these programmes (Rose-Ackerman, 1999, pp.39-42). On the other hand, where a public programme provides a necessary task, it is more appropriate to clarify laws and simplify procedures in order to reduce official discretion.



## **Societal Strategies**

The OECD, USAID and the World Bank address corruption through a framework of 'good governance'. However conceptions of good governance tend to be focused on the rule of law which may be difficult to apply to Russia. Official procedures are usually deprived of normative consensus and often sustain rather than repress corruption (Johnston, 1997, p.2). Therefore, where governments lack legitimacy, it is more appropriate to focus on socially-embedded incentives for reform (USAID, 1999, p.7). This emphasis on social empowerment does not supplant institutional reform. Institutions must be strengthened in order to allow citizens to pursue and defend their interests without abuse by elites. However, where civil society is weak, citizens are not only vulnerable to exploitation but they are also unable to monitor official conduct (Johnston, 1997, p.3). Therefore, institutions must be strengthened but also they must also be reformed to engage social processes. As Gillespie and Okruhlik (1991, p.80) highlight, corruption thrives without consensus on what it is. Therefore, once the foundations of a strong civil society are in place, societal strategies must then focus on emphasising ethical norms, education and public vigilance.

## **Social Empowerment**

Civil society consists of organised groups working outside of the state structure for general interest (Sandor, 2003). NGOs, trade unions and religious associations are among the many groups that constitute 'civil society' and all of these groups can facilitate dialogue between the government, the private sector and general public (Eigen, 1996). However, civil society is weak in Russia. Therefore, before public vigilance programmes can be initiated it is necessary to establish the institutional foundations for society. For this purpose, it is essential to expand political and economic resources available to citizens and to ensure protection of civil rights in official activities (Johnston, 1997, pp.23-24). As the "driver of systematic change" (McKusker, 2006, p.3), political will is also essential. Kpundeh (1998) defines political will as the "demonstrated credible intent of political actors to perceived causes and effects of corruption". Without this 'demonstrated intent', declarations remain rhetoric. A vibrant civil society can support a reformer but strong political will also requires a democratic

balance of power between the state and society, an independent press, and transparency in government procedures. Once a civic space has been established and political leadership is genuinely and visibly committed to reform, it then becomes possible to involve civil society in anti-corruption initiatives.

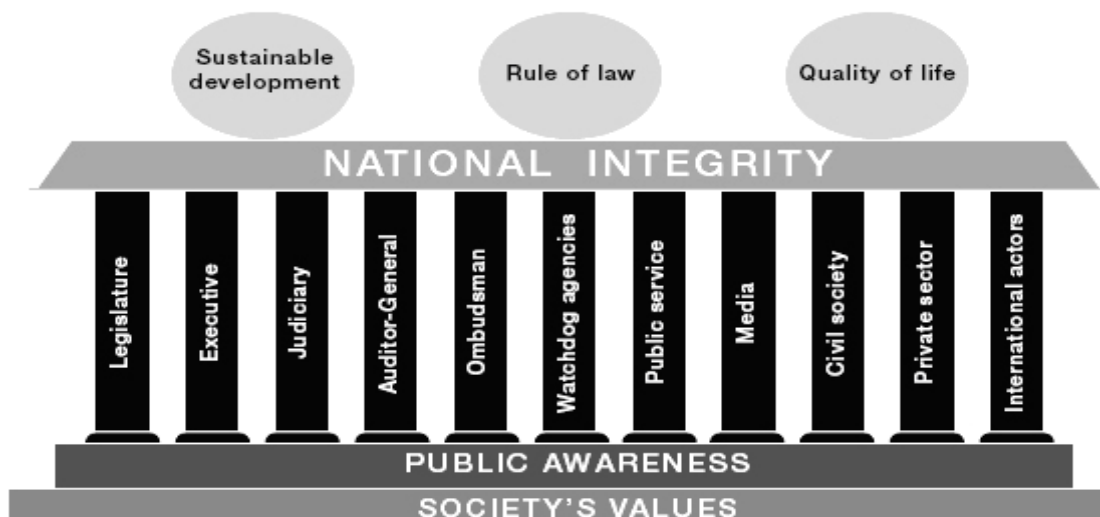
In fostering 'public vigilance' against corruption, the World Bank, TI and USAID assert that an independent media is essential for exposing corrupt acts, pressuring the government to change and educating the public. To effectively do so, the press needs independent sources of power as well as training about investigative techniques and professional standards (USAID, 1999, p.14). Meanwhile, public awareness programmes can make corruption more visible as well as highlight the link between corruption and poor public services, lower investment, smaller growth rates and inequality. These programmes can mobilise public vigilance to create "sustained, citizen-initiated protest action" (Gillespie & Okruhlik, 1991, p.80). Once public opinion has been mobilised, it then becomes possible to empower civil society organisations to monitor and detect the activities of public officials. If effectively organised, civil society can not only act as an intermediary between the general populace and the government; it can also provide a source of expertise, information and oversight for the government, therefore providing an essential partner in strengthening ethical practices in the public sector (OECD, 2003).

### **Implementing Strategies**

In terms of drafting and implementing anti-corruption strategies, a number of considerations must be addressed. The first is an indepth, country-specific diagnosis on the nature of corruption (Kaufman, 1998). Incentives for change must be identified in order to galvanise public support and to identify 'entry points' for strategies (World Bank, 2000, p.75). Sequencing is also crucial. As aforementioned, it is essential to identify 'entry points' and decide on appropriate measures before implementing policies (USAID, 1999, p.16). In Russia, pervasive insecurity means that corruption and violence is tempting. Therefore, before liberalisation can take place, this insecurity must be reduced. Sequencing is also crucial because corruption in one area may override 'cleanups' in other areas. For example if a judiciary corrupted, detection by an

independent agency will be futile. Isolated initiatives may provide entry points but in the long-term, a mutually-enforcing strategy of prevention and enforcement and is required (World Bank, 2000, p.77). For this purpose, TI promote the ‘National Integrity System’ (Fig. 10), which consists of a series of ‘pillars’ that must be integrated as far as possible (Pope, 2000). Anti-corruption strategies also require broad coalitions of support. Commitment from public officials, the general public and the private sector can sustain strategies in the long-term and reduce vulnerability to leadership changes (World Bank, 2000, p.78). Finally, extensive monitoring is essential. Both internal and external feedback should be encouraged and incorporated into future strategies, in order to remedy prevailing weaknesses.

Figure 10: Transparency International’s National Integrity System



*Pope, 2000, p.35*

This dissertation will now look at the anti-corruption policies of Presidents Yeltsin, Putin and Medvedev. While it is not essential that all of the listed measures are employed, it is vital that an anti-corruption strategy incorporates reform in all three sectors; the public sector, the private sector and civil society (Mills, 1998). For effective clarification of the boundaries between these sectors, it is crucial that all actors understand and consent to these boundaries. Establishing consensus over the norms of social behaviour will not only make corrupt behaviour less likely to occur unintentionally; it will also make it easier to identify and therefore prosecute. In understanding why Russia lacks this consensus, it is necessary to look at where Yeltsin

and Putin failed in their anti-corruption policies. It then becomes possible to evaluate the prospects for Medvedev's National Anti-Corruption Plan.

## **Yeltsin**

When Yeltsin came to power in 1991, Russia was no stranger to anti-corruption initiatives. Both Andropov and Gorbachev had made unsuccessful attempts to reduce corruption in the Soviet Union. Under Yeltsin, anti-corruption efforts remained prominent in the public agenda; Yeltsin publicly declared that corruption would be taken seriously by his administration and enacted a number of legislative acts in line with his claims. However, by the end of Yeltsin's second term Russia ranked 82<sup>nd</sup> out of 99 countries on TI's Corruption Perception Index. Despite economic liberalisation, corruption remained state-generated but also reached new levels with the relaxation of economic regulations. When analysed in the context of this study's framework it becomes clear that, despite official rhetoric, Yeltsin failed to achieve progress in any of the core areas of institutional strengthening, privatisation or social empowerment.

## **Institutional Strategies**

In 1992 Yeltsin issued Presidential Decree number 361, which urged civil servants to declare their revenues. In the same year he created the Interdepartmental Commission on Combating Crime and Corruption and enhanced his own powers to investigate and prosecute economic crime (Clark & Jos, 2000, pp.130-132). However, these measures were criticised as a pretext for political power struggles (Coulloudon, 2002, pp.200-201). The Commission's activities were mainly focused on the battle between Yeltsin and Vice President Rutskoi for control over anti-corruption policy. Meanwhile, instead of measures to expand political access, Yeltsin bypassed parliament and ruled Russia by decree (Wedel, 1998). Yeltsin also circumvented international procedures with the continuance of the Soviet policy of providing hard currency to offshore company, Fimako, despite the International Monetary Fund's forbiddance of the placement of hard currency reserves on the international market. In terms of civilian oversight, despite a history of informancy, 'whistleblowing' took on negative connotations towards the end of the Soviet era. Not only did the Russian public possess a deep-seated

mistrust of the government but also a fear of organised crime meant that during Yeltsin's presidency, 'informancy' was an "impossible proposition for the average Russian" (Martirosian, 2004, p.100). Yeltsin did pass a number of legislative acts to reduce corruption in the public sphere; for example, one law forbade public officials from participating in private business. However, these measures were ineffective as they were not supported by effective enforcement.

### **Market Strategies**

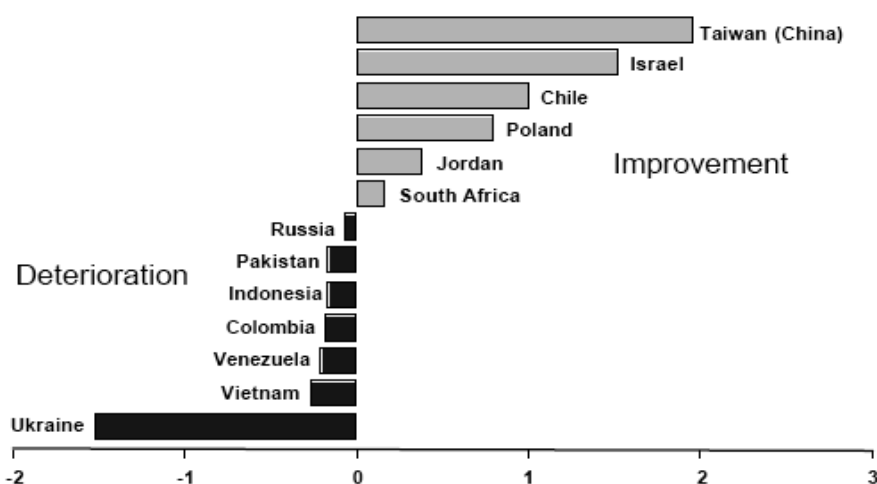
In 1988 Gorbachev passed the 'Law on Co-operatives', which allowed for a Soviet private sector to develop. However, inadequate legislative frameworks resulted in opaque lines between the public and private sectors. In the 1990s private financial structures emerged with close ties to government institutions. For example in 1993, OneximBank was formed on the basis of the bank of the Foreign Trade Ministry. Officially, OneximBank was private but in reality the structure represented the interests of the Foreign Trade Ministry's executives (Coulloudon, 2002, p.196). In 1995 the 'Loans for Shares' scheme was initiated. It was intended that banks would inject money into indebted state enterprises in return for shares in those enterprises. However, few bidders were authorised to take part, while foreign investors were reluctant to bid because sales were rigged and property rights were insecure. Only banks with close links to federal powers gained shares in strategic enterprises; meanwhile the loans, which were used to fund Yeltsin's re-election campaign, were never repaid (Freeland, 2000). The result was the run on former state assets by the oligarchs who consolidated their power by funding government action in strategic areas (Johnston, 2005, p.125). The state experienced a decline in autonomy, criminal networks grew in strength and capital flight reached unprecedented levels.

In terms of the regulatory environment of the financial sector, Radaev (2002, pp.290-297) asserts that barriers to market entry remained exceptionally high under Yeltsin. Extensive paperwork, regulations and procedures, as well as high transaction costs meant that "just a common man... would never register his/her enterprise because it is impossible for a normal being" (Radaev, 2002, p.291). Excessive barriers to market entry meant that the extent of bribery increased between 1993 and 1998 (Fig. 11), as



businesses were unable to comply with official regulations. Regarding licensing, in 1998 Yeltsin passed the Federal Law, 'On Licensing of Certain Activity', in which the activities subject to licensing were clearly defined. However, the list of activities subject to licensing was not reduced but extended. In addition the Law was sufficiently cursory as to allow for numerous loopholes. Finally, according to Frye and Shleifer (1997 p.375), the number of administrative inspections experienced by a business correlates with the amount of transaction costs spent by that firm for "informal business services". In a survey of shops conducted in Moscow and Warsaw in 1996, the number of inspections in Russia was double of that in Poland.

Figure 11. Change in the Extent of Bribery During the Last 5 Years, 1998



*World Bank (2000) p.79*

### Societal Strategies

Civil empowerment was the weakest element of Yeltsin's anti-corruption policies. The early nineties witnessed significant problems for Russians seeking to access resources and premises as the majority remained state-owned. After 1998, the situation improved marginally (Radaev, 2002, p.295). However, resource acquisition remained dominated by criminal organisations and private monopolies. Yeltsin sought to galvanise public support with declarations against corruption. However, it was widely recognised that his policies constituted political measures levelled at his opposition. Meanwhile each failure to 'cleanup' the system acted as another indicator of the state's impotence

(Coulloudon, 2002, p.203). Meanwhile, the growth of criminal activity fostered the perception that criminal and corrupt behaviour was acceptable in Russian society.

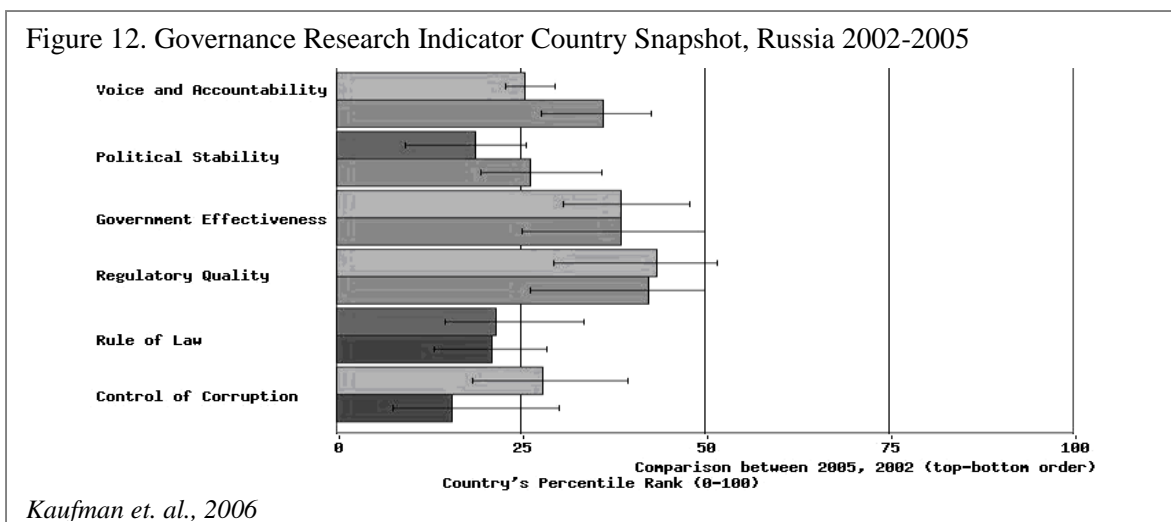
## **Conclusions**

In the 1990s corruption was rooted in patterns of governance and public perceptions yet Yeltsin's campaign focused on prosecuting individuals, which served only to tarnish the image of the state. Yeltsin needed to break the cycle of corruption by opening dialogue with society and ensuring a balance of power between the executive, judiciary and legislature. This would have restored confidence in the state and protected individual rights throughout privatisation. However, a "systematic split between official discourse and actual policy" undermined Yeltsin's rhetoric (Coulloudon, 2002, p.203). Isolated gestures not only failed to achieve their limited goals but also fostered cynicism in society. Instead of improving accountability in the public sphere, Yeltsin enhanced the power of the executive to the detriment of other branches of government. Meanwhile, a failure to support privatisation with institutional and legislative structures resulted in the development of strong links between the public and private spheres. Yeltsin failed to establish an independent justice system to enforce law and order and consequently, widespread insecurity strengthened incentives to act extra-legally. All of these failures can be attributed to the political environment following the collapse of the Soviet Union. In the 1990s political insecurity meant that Yeltsin was preoccupied with justifying his authority and maintaining power rather than identifying and resolving the factors underling corruption. Consequently, the legacy left by Yeltsin was one of public cynicism, institutional weakness and entrenched links between public and private sector interests.

## **Putin**

In response to concerns about rising criminality under Yeltsin, in 2000 Putin pledged to fight corruption and enforce the rule of law across the Federation. By 2005 the World Bank Governance Research Indicator Country Snapshot asserted that Russia had improved in terms of control of corruption. However, in all other areas (Fig. 12), Russia failed to make progress. In 2006 Putin admitted that an inability to make progress

against corruption was one of his administration's greatest failures (Orttung, 2006, p.1). Indeed, Orttung argues that rising corruption was a direct consequence of Putin's policies to strengthen the state. This chapter will look at how Putin enacted a number of legislative acts to criminalise corruption and improve the integrity of financial transactions. However, in enforcing these measures Putin exacerbated institutional confusion, repressed civil society and reduced oversight of government processes.



### Institutional Strategies

During Yeltsin's presidency, Russia's federal system became extremely asymmetrical, with bilateral treaties granting varying degrees of autonomy to a number of regions. In 2000, Putin sought to reverse this 'negotiated federalism' and redefine federal-regional relations (Cashback, 2003, p.5). Putin reformed the system with a re-organisation of the Federation Council, the establishment of executive powers to dismiss regional assemblies and chief executives, and the creation of seven new federal districts. The first objective of these reforms was to create a unified economic, legal and security space in the Federation. Putin sought to ensure that all citizens were guaranteed the same rights and that federal legislation was "understood and enforced" across Russia (Putin, 2000, p.3). The second objective was to tighten control over the regions and to establish an "effective vertical chain of authority" (Putin, 2000, p.3). Zakharov and Kapishin (2001, p.12) highlight that these reforms were essential for remedying the instabilities of Yeltsin's federal edifice. Yeltsin had relied upon local governors to retain control over the newly formed Federation (Zamotayev, 2001, p.40). However, these

governors achieved high levels of power independent of the centre and by 2000 there existed “no proper control” for local government bodies. Putin’s reforms sought to “reassert central power” and create an “effective system of supervising in the activities of the working bodies of local government” (Putin quoted in Zamotayev, 2001, p.44).

To a certain extent, Putin’s reforms were successful in creating a unified economic and legal space in Russia. By 2001, Dimitrii Kozak, deputy head of the Presidential Administration, reported that 80 percent of regional laws had been brought into compliance with federal law or were before the courts (Corwin, 2001, p.2). The Russian Regional Report of the East-West Institution (2002) asserted that revenue distributions became more centralised under Putin. Meanwhile, in 2002 Putin announced that all but 14 of Russia’s bilateral treaties had been cancelled. At least in part, Putin’s reforms served to reduce regional abuses of power and funds and to establish legal coherence (Cashback, 2003, p.18). However, in terms of increasing accountability, Putin’s reforms were less effective. Administration of the new federal districts was dominated by seven appointed plenipotentiary representatives. In order to cope with vast responsibilities over large territorial areas, the plenipotentiary representatives established supporting institutions within their districts (Ross, 2003, p.37). This added layers of bureaucracy and therefore opportunities for abuse between the President and the populace. The representatives were equipped with considerable power vis-à-vis the regional governors, but without meaningful oversight measures. Meanwhile, the Executive received new powers to dismiss elected governors and to dissolve regional assemblies, which meant that Putin could use the threat of prosecution to keep democratically elected representatives in line (Zamotayev, 2001, p.41). In terms of regulatory enforcement, the plenipotentiary representatives were charged with bringing national charters in to line with the federal constitution. However, the process faced resistance from Russia’s ethnic republics and by the summer of 2001, Putin admitted that the strategy had failed (Rabinovich, 2001, p.11; Corwin, 2001, p.2)

Putin’s reorganisation of Russia’s federal structure was not the only measure which increased opportunities for corruption. As aforementioned, TI asserts that there is a strong correlation between a region’s level of corruption and the number of bureaucrats in that area (Fig 9). Low public sector salaries continued to generate incentives for

corruption under Putin (Fig. 13). However, in 2005 Putin exacerbated the problem by increasing the number of bureaucrats from 143,500 to a 1,462,000 in 2006. Putin increased sanctions for crimes committed by groups and provided new provisions on extortion (Martirosian, 2004, p.90). However, according to VCIOM, in 2001 it was widely believed that ‘soft punishments’ was the primary reason for corruption in Russia (Fig. 10). Putin made numerous pronouncements about a “dictatorship of the law” (Webster, 2000, p.xiii); however, Putin failed to empower the judiciary to prosecute acts of corruption. ‘Strong arm’ tactics aimed at detection encroached on individual rights, while a necessity to maintain power resulted in inconsistent application of these tactics; for example, Putin granted immunity to Yeltsin despite the implications of Skuratov prior to his resignation (Martirosian, 2004, p.90). Meanwhile, disclosure rules remained “effortless to circumvent” (Dvurechenskykh, 2001, pp.34-5). In terms of internal oversight, in 2001 there was only one body of 120 people to audit the entire Moscow government. Even conventional competition between the bureaucracy and law enforcement agencies, which had previously kept a check on abuses, disappeared under Putin (Orttung, 2006, p.2). By 2004 Martirosian (2004) asserts that a new breed of whistleblowers was emerging. However, Putin’s crackdown on the media, political parties and civil society meant that the Russian government experienced very little in terms of external oversight.

Figure. 13. Is Corruption in Russia Caused By...? VCIOM (2001)

*Number expresses percentage of the total number of respondents*

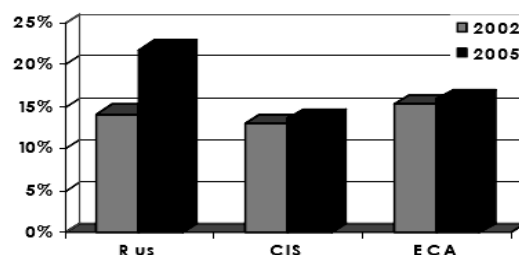
Soft punishments for corruption and lack of fear of punishment	33
The economic and financial crisis	30
A conspiracy among bureaucrats	29
The moral degradation of society	27
The weakness of state power	27
The shadow economy	21
The low salaries of civil servants	15
It is a traditional way of solving problems	14
High taxes	12
The legacy of the socialist past	11
The existing system of benefits and privileges	10
The influence of Western standards of behaviour	10
The introduction of market relations	5
State interference in the economy	3

*Levada (2001) p.56*

Putin's efforts to homogenise economic rules remedied a number of contradictions in terms of Russia's regulatory environment (Herrera, 2001, p.1). Regarding accountability, Putin compiled an inventory of assets in Moscow in order to protect state property from illicit appropriation. He also renovated procurement processes to make them more transparent; for example, Moscow adopted a law of competitive bidding for city contracts (Dvurechenskykh, 2001, p.34). In 2003 Putin launched his offensive against the Oligarchs with the arrest of Khodorkovsky. However, although formally portrayed as an anticorruption initiative, critics assert that Khodorkovsky was an inappropriate target, given that his business ventures were relatively uncorrupted. Instead, it appears that Khodorkovsky's arrest came as a result of his political activity and served as a warning to other oligarchs; that they may "play their economic role... but they must not get involved in the Kremlin game" (Shevtsova quoted in Weir, 2003). In terms of procurement, between 2002 and 2005 the World Bank asserts that 'unofficial payments for government contracts' increased (Fig. 14). More generally, Putin failed to address the primary factors underlying corruption in the financial sector. Putin needed to scale back the central government in order to improve the efficiency of the bureaucracy without inflicting serious fiscal cost to the state (Ortung, 2006, p.5). Instead, Putin expanded the bureaucracy, as already mentioned and re-nationalised parts of Russia's oil and gas sector.

Figure 14: Unofficial Payments for Government Contracts: BEEPS (2005)

(Percent of firms that said bribery is frequent for Government contracts)



World Bank (2006, p.23)

### Societal Strategies

Critics assert that Putin neglected individual human rights in his pursuit of a 'dictatorship of the law'. The new federal districts were not drawn up based on socio-economic composition but to match military districts (Ross, 2003, p.34). None of the

capital cities of federal districts were situated in an ethnic republic and in “bringing regional charters and republic constitutions into line with the federal constitution” the courts ruled that the republics’ declarations of sovereignty were unconstitutional. Putin asserted that the federal reforms would bring regional legislation, which deprived citizens of universal human rights, into line with the democratic Russian constitution (Ross, 2003, p.44). However, Putin gave himself new powers to remove democratically elected governors and dissolve regional legislatures. Meanwhile, Russian citizens were deprived to any means to democratically check the activities of the seven unelected representatives (Fedorov, 2000, p.2). In terms of the media, the state gained control of all three of Russia’s main television networks, either directly or through Gazprom, while “Kremlin-friendly companies” took over “most of the interesting non-state controlled publications” (Orttung, 2006, p.3). Under Putin, there remained few opportunities to receive information on government operations, including anti-corruption strategies, or to influence policy-making (Kleshko, 2000, p.46). For an effective anti-corruption strategy Putin needed to facilitate public participation but instead Putin sought to insulate processes from public scrutiny.

## **Conclusions**

Both Yeltsin and Putin established a number of anti-corruption decrees, however no measurable results were attained by either President. Yeltsin’s failure to distinguish between ‘public’ and ‘private’ at a crucial time of privatisation formed the basis of Russia’s institutional weakness, regulatory confusion, and opaque boundaries between the public and private spheres. Following this, Putin’s quest for law and order may have improved stability and security in Russia. However, this achievement was at the expense of civil liberties and constitutional democracy. As was the case with Yeltsin, Putin’s failures can largely be attributed to a failure to engage civil society in shaping anti-corruption policies. A reluctance to engage civil society meant that both Presidents were unable to analyse the nature of corruption in Russia, and therefore they both failed to shape an appropriate anti-corruption strategy. However, this missing the point somewhat, as such a strategy was not the objective in either case. Yeltsin’s objectives were to maintain his grip on power and to increase cohesion in government. However, his policies fostered the growth of criminality in Russia. Putin’s primary objective was

to centralise law and order in Russia. However, his policies served to reduced accountability in the public sphere, increase uncertainties in the financial sector and severely weaken civil society in Russia.

### **Medvedev**

Prior to entering office, Medvedev identified the detrimental effect of corruption on society; “Corruption has become a systemic problem and therefore we need a systemic response to deal with it” (quoted in Coalson, 2008). In January 2008, Medvedev outlined his National Anti-Corruption Plan, which consisted of three pillars; to create incentives for good behaviour in public officials, to ensure that acts of corruption did not escape punishment, and to establish a general intolerance to corruption in society. On January 10 2009, three federal laws came into force. The first was Federal Law no. 273-FZ, ‘On Counteracting Corruption’. Federal Laws no. 274-FZ and no. 280-FZ consisted of amendments to other federal laws to ensure the consistent application of ‘On Counteracting Corruption’. As these laws came into force seven months ago, it is not yet possible to assess their effects. This chapter will analyse Medvedev’s National Anti-Corruption Plan in light of a number of suggestions proposed by the Russia-US Joint Working Group on Investment and Institutional Integrity (2009) (hereafter referred to as the Working Group). The Working Group represents the interests of Russian and US business leaders, civil society representatives and academics, who seek to strengthen institutions of integrity, governance and transparency in Russia. Through highlighting some of the points raised by the Working Group, it becomes clear that although Medvedev’s Plan encompasses a number of issues absent from previous anti-corruption strategies, the issue of civil society is still neglected. In 2008, fifty-two percent of Russians surveyed by TI’s Global Corruption Barometer (2009) deemed the government’s anti-corruption actions to be ‘ineffective’. Only two percent believed that the government had been ‘effective’. After a history of disingenuous rhetoric, the need to reduce public cynicism is more important than ever. Without measures to involve civil society, Medvedev’s policies will ultimately face the same fate as his predecessors’.



## **Institutional Strategies**

The majority of Medvedev's reforms are aimed at institutional strengthening and legislative clarity. Article 7 of 'On Counteracting Corruption' proposes the unification state policy in the field of corruption; specifically on the rights, restrictions and prohibitions imposed on state officials. Regarding measures to improve the functioning of the state apparatus, the National Plan includes provisions for the transfer of a number of federal functions to regional departments, as well as to the private sector. In terms of accountability, Article 8 of 'On Counteracting Corruption' states that it is the duty of public officials to present information on their income, property and liabilities of material nature. Indeed, in 2009 both Putin and Medvedev disclosed their income ownership interests and financial obligations. 'On Counteracting Corruption' also provides measures to prevent conflicts of interests for officials wishing to enter the private sector. The Working Group is optimistic this is a step in the right direction but there is more work to be done. While Article 7 asserts the necessity to increase mechanisms for public monitoring of state bodies, specific measures must be outlined. Equally, court reform must be specified in greater detail (Working Group, 2009, p.2). Finally, while all actions have been effectively co-ordinated by the Presidential Council on Fighting Corruption, the Working Group (2009, p.3) recommends the creation of an independent body to monitor and publicise the activities of the Council, in order to ensure transparency in its operations.

'On Counteracting Corruption' also includes provisions for the imposition of legislative sanctions against corrupt activity. Article 2 provides the legal basis for counteracting corruption and proposes reducing the number of categories of people who are granted immunity or special provisions in criminal cases. Provisions for absolving criminal liability are also established; mitigating factors include circumstances where bribes are exacted under duress or if a bribe giver voluntarily provides testimony in criminal proceedings against a bribe taker. Federal Laws 274-FZ and 280-FZ amend Russia's Civil, Criminal and Administrative codes to include sanctions for violating anti-corruption laws. Furthermore, Article 9 explains liabilities for the failure of state and municipal officers to inform on corruptive offences. It is now a designated duty of public officials to report attempted acts of corruption. However, protection of those who

‘inform’ on their colleagues has not been established and consequently ‘informants’ risk personal harm in abiding by the law. For this process to operate effectively, the government must provide protection for ‘whistleblowers’ as well as access to specifications of what constitutes a punishable act of corruption.

### **Market Strategies**

In terms of redesigning public service employment, section III of the National Plan proposes improving the professional level of legal personnel and in education. Meanwhile, Article 7 of ‘On Counteracting Corruption’ calls for increases in state wages, a reduction in the number of state employees and measures to attract professional experts to positions in the public sector. The National Plan also prescribes a number of measures to improve the process of procurement for state needs. However, these do not adequately protect procurement processes. The Working Group (2009, p.2) asserts that the Plan should go into greater detail on the requirements of bidders on government contracts, enforce a policy of ‘hard’ contract prices, reward contracts on an auction basis, and conduct independent quality audits of procured products and services. With regards to entry into the financial sector, the Working Group asserts that Medvedev can reduce barriers further by using international standards of practices as a benchmark to evaluate progress (Working Group, 2009, p.7).

### **Societal Strategies**

Medvedev’s Plan acknowledges the need for societal strategies to sustain his policies. Article 3 of ‘On Counteracting Corruption’ lists the protection of human rights and freedoms, as well as co-operation between the state and civil society, international organisations and natural persons, as two of its underlying principles. More specifically, Article 7 highlights the need for interaction between state bodies, parliament and institutions of civil society, in order to increase public monitoring of the state. Article 6 refers to the need to develop a general intolerance to corruption through presentations to citizens. In light of the failures of Yeltsin and Putin, these policies are promising. However, the Working Group points out that although citizens have gained the right of access to information on state agencies (Article 7), there are no specific procedures to

enable this success. Meanwhile, limited civil rights and a lack of resources mean that civil society lacks both the means and the will to resist corruption. As outlined by the President of TI Mexico, “without the solid foundations of a culture of lawfulness, institutional reforms will always be weak... [and] popular corruption problems will prevail” (Reyes Heróles, 1999). Medvedev must enlist civil society to support his reforms but in order to break the “problem of perception”, where everyone takes for granted that others will be corrupt (Levin, 2001, p.3), Medvedev must strengthen institutional foundations to defend the interests of Russian citizens and to ensure protection in the political and economic spheres.

### **Implementing Strategies**

Compared with his predecessors, Medvedev has gone to unprecedented lengths in considering the nature, sequencing and sustainability of strategy. He began his campaign by acknowledging the extent of corruption in Russia; “Corruption... prevents social transformation as well as improvement of the national economy, raises in Russian society serious concern and distrust to public institutions, creates a negative image of Russia in the international arena and is rightly regarded as one of the threats to security of the Russian Federation” (National Anti-Corruption Plan, 2008). In drafting the National Plan, Medvedev consulted with a number of federal institutions, including the General Prosecutors Office and the Federal Security Service. Medvedev ensured that the new legislation was consistent with existing legislation with the two amendment laws. Furthermore, Medvedev opened up the forum of debate on his policies; the draft National Anti-Corruption Plan was available on his website, both in Russian and English and after the legislation came into force, Medvedev called a meeting of the Anti-Corruption Council in order to consider expert assessment on further reform. Medvedev’s policies are now aimed at reducing insecurity by improving governance in state institutions. This appears to neglect political and economic liberalization; however, this could be because of the realistic assumption that before progress can be made in these sectors, the responsibilities of Russia’s institutions must be clearly defined and widely understood. In targeting priority measures, the National Plan provides a list of issues for each branch of government to address within a fixed timeframe. This not only demonstrates a division of responsibilities, but also provides a clear indicator of

commitment. Finally, Medvedev has outlined measures of international co-operation, in terms of seeking accordance with international treaties as well as co-operation with foreign states in the field of counteracting corruption.

## **Conclusions**

Medvedev's campaign is still in its infancy and only time will tell as to whether or not he is both committed to, and capable of, implementing measures to achieve his stated goals. At least in principle, Medvedev's National Anti-Corruption Plan addresses a number of factors underlying corruption in Russia. Its main focus on institutional strengthening is crucial for diminishing insecurity. Meanwhile, as institutional cleanups take shape, the boundary between the public and private spheres will become more distinct and the lines of acceptable behaviour will become clearer. Initiatives to improve the quality and efficiency of state bodies are an excellent starting point and may foster public support, which will allow for the other mechanisms to develop. Throughout this process it is crucial that Medvedev facilitates and encourages independent feedback, in order to ensure that his policies have their intended consequences. If policies are not having the desired effects, it is essential that those policies are re-evaluated and revised. In the meantime, there are a number of weaknesses in Medvedev's Plan. More attention is needed on the nature of oversight for government procedures. In terms of the private sector, Medvedev must improve transparency in procurement processes and reduce obstacles to market entry further. Finally, although Medvedev recognises the need for co-operation between the state and civil society, he fails to acknowledge the preceding need to strengthen civil society. Even if Medvedev establishes measures to enable civilian oversight, without a strong civil society willing to engage in these processes, these efforts will be futile.

### **4. Civil society and the private sector**

A strong civil society in Russia could fulfil a number of crucial functions in Medvedev's anti-corruption strategy. It could provide information on areas in need of reform, develop public-awareness campaigns and improve the relationship between the government and the general public (OECD, 2003). However, civil society in Russia is

weak and the majority of the populace remain alienated from Medvedev's policies. In order to strengthen civil society in Russia, this chapter will look at a number of examples from across the world, of measures that have increased public access to information, increased public access to political processes, facilitated the development of civil society organisations, and increased competition within the private sphere. For this section, the example of Mexico will be of particular relevance because of similarities in terms of the nature of corruption; Johnston (2005, pp. 122-125) highlights that in both countries corruption is rooted in opportunities based on natural resources, emergent domestic markets, arbitrary laws and institutions as well as informal definitions of corruption. In addition, Mexico is of interest because of the role played by civil society in strengthening Access to Information legislation (Morris, 2002).

#### **4.1. Increasing public access to information**

In order to enlist the support of the general public Medvedev must increase public access to information on what constitutes corruption, its effects and also procedures for reporting acts of corruption (OECD, 2003, p.13). Legislative protection must be provided for those who inform on corrupt acts but in a broader sense, protection could also be provided by normalising civilian oversight. To do so, Russia could emulate Seoul's 'Online Procedures Enhancement for Civil Applications (OPEN) System, which has increased transparency in permits and licenses by allowing for applications through the internet (Seoul Metropolitan Government, 2006, p.37). The system covers fifty-two public services and also provides information on regulations online. Alternatively, Russia could refer to Mexico's Instituto Federal de Acceso a la Informacion (IFAI), which is charged with ensuring that the National Freedom of Information Law (2002) is fully implemented. In terms of transferring these 'lessons' to Russia, there are difficulties. In Mexico, debates over the right to information stretch back to the seventies (Morris, 2002, p.2). By the time the PRI were defeated in 2000, civil society organisations were in a good position to influence the drafting of Access to Information (ATI) laws. In Russia, such organisations do not exist and therefore effective lobbying is not possible. Nevertheless, once the roots of civil society are in place, the Mexican example demonstrates the power of civil society in sustaining and strengthening itself.

#### **4.2. Increasing opportunities to influence policy**

Medvedev must also expand access to the political process in order to create opportunities for society to influence policy. Mexico's Instituto Federal de Electoral (IFE), which has overseen elections in Mexico since 1997, has since made significant progress in 'cleaning up' elections and in moving the Republic towards full democracy (Johnston, 2005, p.122). It is also crucial to re-examine electoral laws. In Mexico, criticisms of the IFE are rooted in campaign financing. Parties backed by private candidates can be a source of democratic vitality but competition can become dominated by monied interest if restrictions are not enforced. From this viewpoint, Russia can look to American examples. Maine and Arizona have established 'clean politics' initiatives, by which public funding is available to political parties with reasonable levels of voter support. It is still possible for a party to run under private donations; however, these parties tend to be disadvantaged in terms of public opinion (Common Cause, 1999). Alternatively, Russia could adopt a 'blind trust' system, by which the leverage of private contributors is weakened as donations must pass through a central clearinghouse. Donations are then forwarded to parties or candidates without indication of its source (Johnston, 2005, pp.201-202).

#### **4.3. Supporting social organizations**

It is also crucial that Russia supports the development of social organisations promoting change. In Mexico, Morris (2002) highlights how Civil Society Organisations (CSOs) have dominated anti-corruption reform. In 2000 the Oaxaca Group effectively lobbied in defence of ATI laws. Meanwhile, TI have a high profile in Mexico as do academic institutions, professional organisations and the press, who are all involved in the fight against corruption (Morris, 2002, pp.23-24). These groups are essential for analysing the nature of corruption and for generating public attention on corruption issues; for example, in 2002, CIDE, Secodam, USAID and ANUIES collaborated on holding an essay contest, "*Primer Certamen Nacional de Ensayo sobre Transparencia, Rendicion de Cuentas y Combate a la Corrupcion en Mexico*" (Morris, 2002, p.26). Meanwhile, professional organisations such as the Instituto Mexicano de Ejecutivos de Finanzas (IMEF) provides information to members about anti-corruption practices. Activities can

also be focused on the government; for example CONCANACO and COPARMEX have agreed to observe government bidding processes. All of these activities demonstrate the possibility of employing CSOs as a partner in the fight against corruption. In order to replicate this effort, Russia must support groups driven by self interest as a starting point for the development of civil society (Shelley, 2005).

#### **4.4. Public vigilance programs**

Once a civic space has been established, it then becomes possible to consider public vigilance programmes to cultivate intolerance to corruption in society. Independent commissions can co-ordinate public and private sector strategies, in order to mobilise “citizen-initiated protest action” (Gillespie & Okruhlik, 1991, p.81). In 1974 the Independent Commission Against Corruption was established in Hong Kong with the objectives of investigating, preventing and educating the public about corruption. The ICAC set up hotlines and complaint boxes so that citizens could easily report corruption. The Commission also visited schools and workplaces, and set up neighbourhood offices in order to increase access to the ICAC. Hong Kong now has one of the cleanest civil services and business sectors in the world (Fee-Man, 2000). However, the success of the ICAC only proves that this strategy is successful when supported by an efficient administrative machine, high economic growth, well-resourced and well-trained staff, strong political will and public support. Similar efforts in Ecuador and Tanzania demonstrate the problems of pursuing such a strategy in the absence of these factors (Doig & Riley, 1998). Although Medvedev has stated his commitment to fighting corruption, it is essential that Medvedev also reduces public cynicism through institutional reform, engagement with civil society and also by working with international organisations such as TI.

#### **4.5. Developing the private sector**

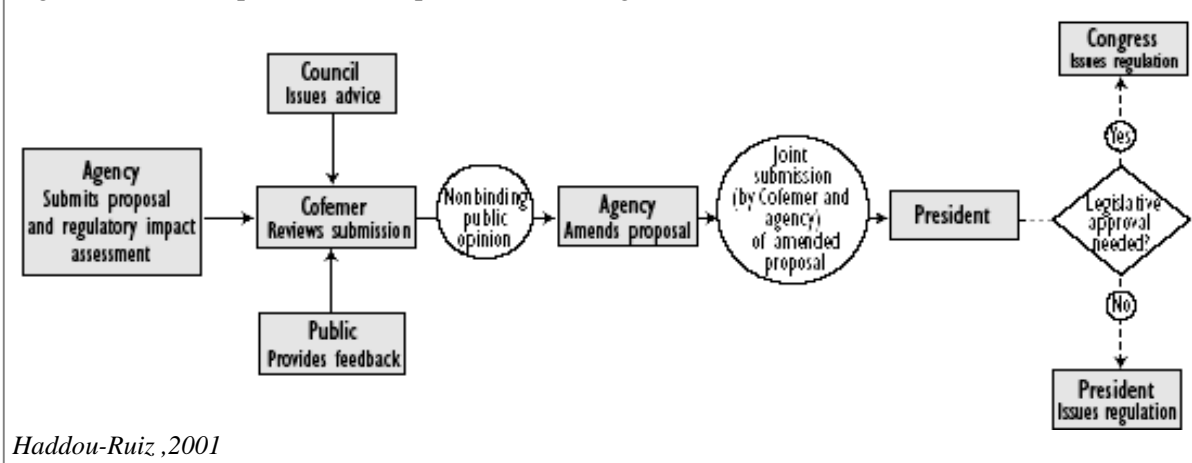
Strengthening civil society is not a cure on its own. Institutional and public sector management reforms are covered in depth by Medvedev’s Plan but in addition, the development competition in the private sector should also accompany civil society engagement (OECD, 2003). In Russia, the two main obstacles to economic

development are a lack of transparency in procurement processes and obstacles to market entry. Regarding the first point, the World Bank (2006, p.39) recommends New York City's 'contract model' approach, which renders procurement processes open to public exposure. For generations, New York City experienced endemic corruption in the construction sector. However in 1988, the 'School Construction Authority' was established with an Office of Inspector General. Its objectives were to ensure compliance with state law and civil contract, enforce disclosure of ownership and performance history by bidders, ensure disclosure of previous arrests and convictions, enforce commitment to a code of business ethics, and certify that all information provided was correct. Within five years, several hundred contractors were barred from bidding on contracts, while a clean business environment increased levels of competition in bidding processes.

Regarding reducing barriers to the financial sector, an institutionalised system of regulatory review was effective in Mexico (World Bank, 2006, p.31). In 1989 the Economic Deregulation Unit (UDE) was established to reduce the regulatory burden on private businesses. In 2000 the UDE became the Commission for Regulatory Improvement (COFEMER), which was tasked with increasing uniformity of rules and establishing procedures for review process (Fig. 15). Medvedev's Plan calls for a number of similar policies; however, these measures depend upon political support and oversight to ensure credibility. Measures to improve oversight can be taken from Finland where there is a strong tradition of improving regulatory management systems (World Bank, 2006, p.33). For example, the 1999 Act on Openness of Government Activities defends citizen access to regulations being drafted. On the other hand, Latvia recommends increasing NGO involvement; Latvia's website of the Cabinet of Ministers has a section devoted to 'public involvement' and provides information on opportunities for NGO involvement at all stages of policy-making (World Bank, 2006, p.35). Alternatively, Russia can improve on financial sector reform with measures based on international standards of practice. The Working Group (2009, p.1) recommends accession to the OECD convention criminalising foreign bribery. Equally, Russia can look to the practices of other countries; the United States Foreign Corrupt Practices Act makes it an offence for United States citizens to bribe a foreign official, party or candidate to obtain or retain business.



Figure 15. Review process for Proposed Federal Regulations in Mexico



## Conclusions

It is important to remember that there are limits to the contribution of civil society. Civil society organisations may provide a “powerful lever for change” (Puddephatt, 2009, p.41) but such organisations tend to depend on ‘elite’ groups of intellectuals and journalists, rather than surging from grassroots movements of the individuals directly affected. CSOs may not necessarily have popular resonance and they do not represent the wider population (Puddephatt, 2009, pp.42-3). Meanwhile, the significance of institutional reforms cannot be underplayed as they are crucial for reducing insecurity. Equally, reform of the private sector is essential for sustaining anti-corruption initiatives and for acting against disillusionment in society. Nevertheless, if civil society organisations can be organised and effectively integrated into society, they can channel information from citizens to the state, mobilise the public support, provide a link to international practices and standards, and they can ensure that initiatives remain rooted in the public’s interest (OECD, 2003, pp.21-2). Therefore, Russia must work to develop a strong civil society and an environment conducive to its participation in public affairs.

## 5. Concluding remarks

To summarise, this dissertation has looked at the nature of corruption in Russia in terms of how the blurring of the public and private spheres has resulted in opportunities for private gain, and how this is detrimentally impacting upon Russia’s political and

economic development. The purpose of this is to highlight the primary factors sustaining corruption in Russia, and to suggest a number of measures to remedy these weaknesses. Through an analysis of recent anti-corruption strategy, this dissertation has outlined how Yeltsin failed to clarify the boundaries between the public and private spheres at a crucial time of privatisation. Therefore, corruption increased significantly with the liberalisation of Russia's economy. In contrast, Putin attempted to impose a centralised system of law and order, in order to remedy the criminalisation of society under Yeltsin. However, in doing so Putin decreased oversight in government and severely hampered the development of civil society in Russia. By the time Medvedev came to power, public cynicism of anti-corruption policies was entrenched in society. Although Medvedev's National Anti-Corruption Plan provides the groundwork for institutional and legislative reform, Russia must now concentrate on strengthening civil society, increasing public support for reform and improving competition in the financial sector.

In reaching these conclusions, this dissertation has drawn significantly on the analyses international organisations working to reduce corruption across the world. Although corruption varies significantly depending on context, this demonstrates the importance of international co-operation as the experiences of other countries can provide invaluable insights into anti-corruption policy. In shaping any anti-corruption strategy, a country-specific analysis must be conducted because without an in-depth understanding of the factors sustaining corruption, it will be impossible to effectively remedy these weaknesses. However, in Russia corruption is rooted in poor distinctions between the public and private spheres, weak official institutions, inadequate regulatory systems, low levels of economic competition and a weak civil society. Many of these features can be identified in other countries suffering from similar problems of systemic corruption. Therefore, to a certain extent, the core arguments of this dissertation can be transferred to other states.

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