One Economic Sector Booming in Russia: Corruption

By Mark Galeotti

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ONE ECONOMIC SECTOR BOOMING IN RUSSIA: CORRUPTION

1 Forget the “cheeserunners” smuggling parmesan and brie from Europe. Stand aside, dealers in Putin iPhone covers and “polite people” t-shirts. The sector which is not just surviving but prospering in Russia’s new conditions, and managing to keep up with the slide in the ruble, is none other than that flagship of the economy: corruption.

According to the Ministry of Internal Affairs (MVD), then across the first half of the year, the size of the average bribe has almost doubled, up 91 percent from 109,000 to 208,000 rubles. A striking figure, but what is especially interesting is that when compared with the ruble-to-dollar rate, the rise is quite moderate, from $3,050 to $3,315.

This figure of 208,000 rubles is also not too far from the median. In other words, this is not an average between a large number of bribes of a few thousand and a handful of million-ruble payments, but instead suggests that the typical bribe is in the 150,000-200,000 ruble range.

What this means can be summed up in the experiences of Evgeny, a middle-ranking academic at one of Moscow’s universities. He always knew that some students were paying to get into the university, and occasionally students had offered him bribes – in the thousands or at most tens of thousands of rubles – to get good grades or, more often, to avoid failing. “If I felt the student had just been unlucky, if they deserved to do better, then sure I took the money. We can always use some more. But if they had just not worked, had a bad attitude, then bad luck.”

However, this year a more senior figure within the university’s administration began demanding a kickback. “She told me that I probably was getting a couple of hundred thousand rubles a semester – I wasn’t – and so I had to pay her fifty thousand. I told her I wasn’t even taking that much.” Her response was that Evgeny had better, because one way or another he had to pay up. “She was actually quite apologetic about it; she explained that it was because her boss was demanding she pay him over a hundred thousand. I asked why and she looked at me as if I had asked a stupid question: his son is studying in America, and that costs... The lower the ruble against the dollar, the more he has to squeeze out of his department, his people.”

In other words, as economic crisis gnaws into the budgets of the state and ordinary Russian alike, corruption of the old, predatory and unpredictable variety is coming back. As Oleg, a small businessman trading in imported Turkish textiles puts it, “things had become so to speak civilized, there was corruption but it was ordered, acceptable. Now, things are changing, getting wilder.”

The End of “Civilized Corruption”

As the economic situation in Russia grows worse, Oleg’s experience is being shared by others. Margarita owns and runs a trio of small clothes stores in south-western Moscow. Until last year, she largely managed to avoid paying bribes because her brother-in-law worked in the City Council and was responsible for licensing and monitoring businesses. This year, though, that has all changed.

1 This paper was written for the Russian Service of Radio Free Europe / Radio Liberty. It can be accessed at: Galeotti, M. ‘Kurs vzyatki k dollaru’, svoboda.org, 3 November 2013, available at: http://www.svoboda.org/content/article/27311808.html
Again, the impetus comes from somewhere in the higher reaches of the bureaucracy. Her brother-in-law warned that his department chief – who was being pressured by one of his superiors – is now expecting kickbacks on a regular basis. Previously, everyone did their job, looked after their friends, and when someone wanted to bypass the usual delays and regulations, the bribe was treated as a perk, to be divided, two-thirds to the receiver and one third to the department chief who, in turn, kicked up a share to his bosses.

Now, though, that everyone has in effect a quota they have to pay, Margarita has come to realize that she is working in a new environment. Already this year she has been visited for bribes by the local police and heavily-armed officers from the Federal Migration Service, who hinted that they might claim – falsely, she says – that she has employed undocumented migrant workers. Her fire inspection certificate is due for renewal this autumn and she fears that this will be yet another opportunity for extortion.

The Ministry of Emergency Situations recently decided to extend the interval between mandatory fire inspections for most smaller businesses from every year to every five. The result in Margarita’s experience? “When the fire inspector came,” this summer, “he said he would have to charge me five times as much, to carry him over the lean years.”

The answer, though, is not to pay off all the individual predators now circling around her business. Instead, she wants to find one krysha able to protect her against this death of a thousand cuts. In her case, she is in indirect contact, though mutual friends, with two possible sources, a bigwig at Moscow City Council who is looking for a monthly payment in return for guaranteeing protection (coincidentally of 200,000 rubles, close to that average), and a well-connected local businessman who used to work in the security apparatus, who instead is looking for a stake in her company.

While these protracted negotiations are continuing, Margarita is now wondering if her business can survive: “sales are down, and if I have to pay them all off, it just won’t be worth keeping the shops open.”

The Ministry of Economic Development is currently drawing up a strategy to support small and medium businesses, with the aim of more than doubling the total size of the sector by 2030, from today’s 17.8 million employees to fully 40 million. In 2013-14, the government spent 135 billion rubles on the sector, but even the ministry itself admits that this was “not effective” and that the small and medium business sector has actually contracted in that time, and at a faster rate than the economy as a whole, a victim of excessive red tape and the opportunities this provides for corruption.

Besides academics and entrepreneurs, Russia’s state employees are also being squeezed for bribes. They face wage cuts or freezes. According to probably optimistic figures from government statistics agency Rosstat, incomes in real terms fell 2.9 percent in the first half of 2015. Nonetheless, state employees face potential demands from those above them – like Evgeny the professor – for payments in return for scarce bonuses or promotions or even to avoid redundancy.

The situation has had a particular impact on the police. This year, the MVD has been told it has to cut its payroll by 10 percent and shed over 100,000 officers. The likelihood is that this will once again be an excuse for widespread extortion,
The last time the police faced rounds of dismissals was during the re-accreditation process which followed the 2010-11 reforms. At that time, a scheme intended to weed out the corrupt and the inefficient turned into a bonanza for unscrupulous commanders. As one Moscow police officer grumbled at the time, “the major said that two people in the team [of sixteen] were not going to make it.” He then departed, leaving his office door open and saying he would not be back until Tuesday. “Everyone knew what that meant, and by Tuesday morning his desk drawer was full of envelopes with cash and promises as we all tried to keep our jobs,” the officer said. “It had nothing to do with who was best or fittest or knew the [Criminal Code].” One of the officers who ended up lost to the team “was useless, no loss, but the other was really good, really serious. But he just didn’t have the money.” That man, Matvei, was by reputation honest – “perhaps too honest to fit in” was the consensus – and smart, the very kind of officer the reforms were meant to promote.

Police salaries have been increased in recent years but they are now shrinking in real terms thanks to inflation. Moscow’s police will now only get bonuses for solving especially serious crimes, when in the past these payments were pretty much assumed. Anecdotal evidence suggests one response has been a rise in the scale and frequency of extortion, demanding “fines” from drivers in a hurry, or migrant laborers who otherwise face a night in the cells as their documents are “checked.”

Just watch the clusters of heavily-armed police who descend on Paveletsky railway station when the trains arrive bringing workers from Kazakhstan and the Caucasus. Some of the document checks are lengthy and intimidating processes, with the workers surrounded by a tight knot of submachine gun-toting officers. In other cases, the workers breeze through, with a quick, rustling exchange.

There is a widespread view that corruption – in Moscow, at least – was coming under control. While debilitating for the system, corruption was increasingly regularized and predictable; you knew whom to pay, and how much, so you could work it into your business plan as just another expense, and people who had been bribed stayed bribed. It was even becoming something closer to a service. As one Western expat businessperson put it, compared with earlier times, it had become possible in many cases to navigate local or state bureaucracies without paying people off, but “offering favors or outright cash payments became a way to make the process quicker, easier and more reliable. Like the quick check-in lanes at an airport.”

In the past 15 months or so, things certainly have changed. Corruption and embezzlement are on the rise. Furthermore, it is not just a question of more corruption, but more parasitic corruption. In other words, not only are the sums being demanded rising but the scope to avoid paying is diminishing. It is not a question of deciding whether you want to “upgrade,” to skip some tedious paperwork, jump to the head of the line, or cut some corners. Instead, it is something that you have to do, because otherwise someone who can make your life difficult will indeed make your life difficult.

The correlation between the growth in the size of the average bribe and the ruble-dollar rate is telling. This is being driven in the first instance not by ordinary Russians, whose household budgets are determined by the cost of utilities, domestic cheese and fruit from the Caucasus – overall, expenses are up 15 percent – but by an elite whose lifestyles have become international. Their lives are often lived partly abroad, their shopping carts are full of French wine and British biscuits, their apartments full of imported electronics. They are the ones feeling the immediate pinch of the ruble’s tumble, and hence that disproportionate 91 percent increase in bribes. Rather than rein in their
aspirational tastes, they are once again turning to what in tsarist Russia was known as *kormlenie*, “feeding” off those in their power. Their victims, in turn, their own budgets and lifestyles under pressure, are faced with an unenviable choice: embezzle and extort in their own right to meet this new informal “tax” or else pay for the privilege of their morality. And their victims in turn face the same choice, as the wheel turns.

**A Threat or an Opportunity?**

As the crisis bites, the Kremlin is describing corruption, in the words of Presidential Administration chief – and key Putin ally – Sergei Ivanov, as “a direct threat to the security and national sovereignty of Russia.” This year has seen a string of embarrassing cases of corrupt practices at the top of the system. Tatiana Galikova, head of the national audit chamber, has accused Roscosmos, the state space agency, of “losing” some 92 billion rubles in 2014 (some $1.8 billion at the exchange rates of the time), a discrepancy so large that at first she “refused to believe her own accountants.” Meanwhile, from Rusnano (the state’s nanotechnology flagship corporation) to Spetsstroi (the state construction agency), allegations and convictions on embezzlement charges come in on a regular basis – but somehow fail to deter further industrial-scale theft.

*Why?* In January of this year, Ivanov told a gathering of mayors and governors that some 120,000 anti-corruption investigations had been launched in the first half of 2014. This sounds impressive, and led to around 5,000 officials being “held accountable.” What does that actually mean? In almost every case, the result was a fine or a simple censure: by Ivanov’s own admission, only 200 officials, some 4 percent of the total, were actually fired. Likewise, conviction itself is rarely the end of the case. Evgenia Vasilieva, former head of property management for the Defense Ministry, was paroled just four months into her five years sentences for stealing 3 billion rubles ($60 million) from the fraudulent sale of state assets. Likewise, convictions often reflect rather than lead to the fall from grace of some official or business leader. Vasilieva’s arrest, for example, only followed the dismissal of her boss and, it is widely believed, lover, defense minister Anatoly Serdyukov. In another example, Armenian businessman Levon Airapetyan, now under house arrest, stands accused of being part of the cabal that, according to investigators, sold the oil company Bashneft to Vladimir Yevtushenkov’s Sistema group in 2009 at $500 million below the market price in a corrupt deal. Airapetyan was arrested at the same time as Yevtushenkov in what was widely regarded as a punitive “raid” instigated by rival Rosneft. Yevtushenkov was subsequently released, after his stake in Bashneft had been confiscated, but Airapetyan remains under arrest. In part, this reflects other charges which have been levied against him, but also, in the words of a Moscow journalist close to the case, “because Yevtushenkov had favors to call in and friends on whom to call, which Airapetyan did not.”

In other words, being charged, let alone being convicted, is more a question of who your friends and enemies may be rather than your guilt. Obviously there is a difference between millionaire and billionaire magnates and smaller-scale figures in local officialdom, but the essence of the system is replicated at every level: you have the right to steal in the form and to the amount appropriate to your rank, and so long as you are loyal to the system, to your patrons and to your clients.
The Kremlin’s Dilemma

All this underlines the essential contradiction: however much corruption in general may be abhorred, in practice it is what coheres and appeases the elite and thus allows the Kremlin to manage a fractious and self-interested collection of ambitious and acquisitive individuals. The corruption at the top of the system, defined by the trade in favors and access rather than anything as simple as an envelope of cash, cannot be detached from the pettier bribe-taking further down the hierarchy.

The intertwined economic and political crisis affecting Russia is bringing this dilemma to the fore. On the one hand, the economic pressures demand greater efficiency and parsimony within the system.

On the other, though, perhaps the most obvious inefficiencies came from the fragrant corruption and embezzlement of the very people meant to manage the system. For a long time, buoyant hydrocarbon revenues and credits (during Putin’s first two terms in office, the economy grew on average 7 percent a year) meant that the circle could be squared.

But now the money is running out. Attempts to appeal to the patriotism of the elite have fallen on deaf ears and the efforts directed to “deoffshorization” – forcing and encouraging Russians to repatriate their assets to Russia and keep them there – seem not only to have come to nothing but to have actively encouraged Russians to export their cash. Last year, total capital flight from Russia more than doubled, reaching $151.5 billion. As one Russian businessman told me in December 2014, “when the government wants you to have your money close to hand, it means its own hands. That’s the time to make sure your money is a long, long away.” Bit by bit, even ordinary Russians find it hard to ignore the evident and largely unchecked plunder of their economy at a time when they themselves are suffering. In an opinion poll carried out by Levada last year, 40 percent of respondents thought Putin definitely or probably personally involved in corruption, while only 18 percent thought certainly not.

The economic crisis is squeezing Russian officials, forcing them to be more predatory and exploitative in order to preserve their quality of life. In the process they are not only bearing down more heavily on ordinary citizens but also beginning to worry a Kremlin that is watching a dwindling treasury being plundered by its own elite. But, for Putin, a war with Ukraine is one thing – fighting a war with his own elite is quite another.
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