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Practical Approaches to Anti-Corruption Reform in Russia

Interview with Georgi Satarov
INDEM Foundation

In his interview with CIPE, President of the Russian INDEM Foundation Georgi Satarov discusses the current state of corruption in Russia and some of the strategies that INDEM has undertaken to combat this important problem. Instead of considering corruption to be solely a criminal problem, INDEM focuses on the underlying institutional causes of corrupt behavior in both the public and private sectors. The most distinctive features of the Russian case are noticeably high rates of “low-level corruption” and “business capture,” in which government officials gain control of businesses by manipulating weak safeguards for private property.

Although many Russians feel that corruption is an unavoidable part of everyday life, it would be a mistake to call it an endemic characteristic of Russian society. INDEM works with local and federal government officials, business owners, and ordinary citizens to devise working strategies to strike corruption at its roots. Political and economic institutions in Russia need to be reformed and built, not simply imported from other countries, so that they are no longer a breeding ground for corrupt practices.



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CIPE: How long has your organization been fighting corruption, and what are the major distinguishing features of your approach to this important problem?

Mr. Satarov: The INDEM Foundation has been dealing with the problem of corruption in Russia since 1996. The most important aspect to highlight is that from the very outset, our approach has been to treat corruption not as a purely criminal problem but as a systemic and institutional problem. This approach means that, for all of us, opposing corruption mainly takes the form of efforts to identify the factors that propagate corruption and develop strategies to eliminate these factors. As we see it, corruption per se isn't the problem; rather, it's an indicator of other problems, the most important one being ineffective governance. Other factors that give rise to corruption are ineffective bureaucracy, poorly designed institutions, and weak public policy. We see our role as that of a diagnostician, meaning that we set out to identify these causes of corruption and devise means of eliminating them.

CIPE: In your opinion, how does the business community in Russia see corruption, and what is the true cost of corruption for regular entrepreneurs and for society as a whole?

Mr. Satarov: I think you framed the question very appropriately. The cost of corruption is a matter of the scope of its negative ramifications. Corruption is bad not because one bad person gives a bribe to another bad person; rather, the negative effect of corruption lies in the decisions made by officials as a result of corrupt deals and in the negative consequences of such decisions. Unfortunately, this aspect of corruption is still not well understood at all levels – by us, the general public, government officials, and the business community in particular – although this understanding is gradually taking shape.

As for the true negative consequences – primarily economic consequences – they can be divided into two categories. The first category is direct losses from corruption, such as losses to the official budget in terms of budget formation and execution. It is possible to calculate these kinds of losses, and our estimates suggest that direct losses from corruption are comparable to the size of the Russian budget as a whole. The second category consists of so-called indirect losses from corruption, which stem from the fact that corruption diminishes the effectiveness of the economy as a whole. The mechanisms of market competition become distorted, the business climate worsens, and investment declines. Unlike in the case of direct losses, calculating indirect losses is a

much more difficult task to accomplish. So far, neither we nor anyone else has learned how to account for all indirect costs of corruption, but one can say with absolute certainty that these losses are incomparably greater than the direct losses from corruption.

CIPE: In your answer to the first question, you touched on the important topic of the main roots of corruption, in particular the fact that the problem isn't corruption per se, but that corruption is a result and a reflection of the underlying institutional problems. In this context, what forms does corruption take in Russia, and how does it differ from corruption in other countries around the world?

Mr. Satarov: In general, one could say that for any type of corruption in Russia, you can find something similar elsewhere. Needless to say, corruption exists everywhere, what matters is its scope and specific features. There are no grounds for saying that something totally new and unique has been conceived in Russia, but if we are speaking generally about specific features that set Russian corruption apart, for example, from corruption in the average Western country, there are two key aspects.

The first is the extraordinary prevalence of “low-level corruption” in Russia compared to affluent Western countries. “High-level corruption” is to be observed everywhere, albeit to varying degrees. Low-level corruption, or “everyday corruption,” as it is also known, is corruption that takes place as citizens go about dealing with their everyday problems, such as an encounter with the traffic police. Such corruption is observed in daily life, such as admissions to higher educational institutions, in efforts to obtain various social services, in military recruitment, and so on.

The second distinctive feature of Russian corruption has to do with business corruption, or rather relationships between government and business. It manifests itself in problems that arise from the underdeveloped institution of private property in Russia, something that is particularly unusual in the West, for example. For instance, studies by the World Bank look at a type of corruption known as “government capture.” This happens when business people use corrupt methods to gain control over decision-making in various government bodies. In Russia, however, the opposite is true. In addition to government capture, we see the opposite side of this kind of corruption – business capture. This occurs when officials use corrupt practices to gain control over business or to participate in the capture of business. And this arises mainly from our extremely weak safeguards for private property in Russia.

CIPE: How, in your opinion, can business and government work together to lower the level of corruption and to change the institutions to which you just referred, and also change the attitudes toward corruption?

Mr. Satarov: Let me begin by saying that cooperation between business and government alone is not enough. I think the situation can be changed only through the efforts of government and society as a whole – including business first and foremost, of course, since business suffers tremendous losses from corruption. The first focus of these efforts should be to change the political environment. It goes without saying that corruption flourishes where there is no oversight or very little oversight of the bureaucracy and where the bureaucracy is closed and not subjected to any controls. This happens when political and public oversight of the bureaucracy is absent. Political oversight is absent when there is no proper political competition and no real free media outlets, and also when government is not transparent. Public oversight is absent when civil society is too passive and poorly developed, and the authorities are unwilling or don't know how to interact with it. So, you need to have fair political competition, free media outlets, transparent government, and an active civil society. Only once these conditions have been fulfilled will it be possible to begin to curb corruption. If these conditions are not met, all attempts are useless. If these conditions are in place, then you can talk about various kinds of technical approaches to limiting corruption, approaches that involve improvements in the institutions of government, government service reform, reforms of the judicial system, and the system of protections for private property, etc.

CIPE: Your latest study talks about corruption among regular entrepreneurs. Could you also say a few words about what small business can do and how entrepreneurs can say “no” to corruption?

Mr. Satarov: First, we must recognize that one of the major problems is that corruption is often advantageous to those who resort to it. I am referring here not just to officials, i.e. the “bribe-takers”, but also to “bribe-givers.” An alternative description of corruption is that it is really paying money for the ability to violate the law. Often it also means paying for the ability to make one's life easier, the ability to suppress a competitor, etc. Corruption is something that a businessman can use to make a problem go away or to gain a short-term benefit. Naturally, in the process, no one considers the long-term negative effects of corruption, which inevitably outweigh the minor and temporary tactical ben-

efits. Yet, the first thing that businessmen should do is to realize the scope of these negative effects and of the losses they incur from rampant corruption in the country, so that they can escape this institutional trap in which corruption might seem advantageous to them on a personal level. And they need to realize that corruption hurts everybody, and that they can fight it – and, above all, turn away from their own corrupt practices – only by working together. So, the first task is to be aware of the costs of corruption, and the second task is to join forces and agree on collective joint actions. First, entrepreneurs need to stop engaging in their own corrupt practices, and second, they need to learn how to join forces to influence government officials and to limit corrupt practices in government.

CIPE: Is it or is it not fair to say that the public in general and business in particular regard corruption in Russia as a phenomenon that simply exists and cannot be eliminated, and that people simply have to live with it?

Mr. Satarov: That is a very important question. Unfortunately, our studies show that such a sense of futility is fairly common. Often, not only businessmen and officials but also ordinary citizens look for some kind of theoretical and cultural explanation for this, saying that people in Russia have always stolen and always will. In my opinion, this is totally wrong, because many affluent Western countries, in their own historical and economic development, have gone through periods of extremely rampant corruption. Suffice it to recall America in the mid 19th century, when corruption was very widespread. Nevertheless, the Americans managed to overcome it, so I don't think you can speak of some sort of cultural or historical futility where Russia is concerned. More often than not, this is used as a kind of self-justification and a justification for passivity. Such sentiments exist, and one of our tasks is to overcome them.

CIPE: In your work, do you see any difference in the efficacy of anti-corruption programs and approaches toward corruption between the federal and regional levels?

Mr. Satarov: There is a sense that officials at the regional level are somewhat more concerned about the problem of corruption than those at the federal level. It seems to me that regional institutions of government are prepared to begin taking rather serious steps to combat corruption, while understanding, of course, that they cannot do everything single-handedly and that much depends on what happens at the federal level. Ideally, the optimal course of action is a frontal assault on corruption at all levels of government.

But there are some high-level politicians and administrators who do not count on any such frontal assault at all levels of government and who are prepared to undertake efforts independently.

CIPE: What are the most important lessons that reformers in other countries can draw from your experience in pursuing anti-corruption reforms?

Mr. Satarov: I would touch mainly on a topic that we haven't talked about yet but that I would consider the main lesson. The fact is that in the overwhelming majority of countries modernization is based on the rather primitive model of transposing institutions, or transplanting them, as we say in Russia. For example, a modern free market economy should have the institution of bankruptcy. Consequently, the approach is that we need to take an appropriate law in a specific country, carefully review it, and if we like it, make a few adjustments, and transplant it to our own soil. The assumption is that bankruptcy as an institution will start functioning overnight and everything will be fine. The experience of Russia and the experience of many other countries show that it's not that simple. For example, the bankruptcy process is intended to financially rehabilitate inefficient owners in the market. But in Russia it was used to take property away from efficient owners through illegal methods. In other words, the problem of transposing institutions isn't all that simple and calls for more thoughtful efforts.

The old practices and the old social relationships do not readily submit to the new institutions; on the contrary, they are aggressive, and they distort these new institutions, adapting them to their own purposes. The outcome is increased corruption and we see this through the various manifestations of corruption. So, the main lesson, as I see it, is this: We have to change the institutions - this is beyond dispute - but we need to change them in an extraordinarily well-thought-out manner by first very carefully analyzing existing informal practices, then planning and analyzing how these practices might interact with and distort the new institutions. And there is also a need to devise ways to compensate for these distortions. In other words, this is a quite a challenge that requires a more in-depth approach than the one we are taking currently.

CIPE: In your response you summarized the ideas of Douglas North, who won the Nobel Prize in economics for his contribution to institutional economics.

Mr. Satarov: You're absolutely right. It was North who wrote – and these are very apt words – that we have an excellent understanding of the functioning of effective market institutions, institutions to protect private property, and institutions to enforce contract law, but that what we don't yet know, unfortunately, is how to create them. Effective institutions function solely in the countries in which they were “cultivated” over the course of centuries, not in countries where they are recent transplants. And to expect that we can simply copy these institutions is naïve and unsupported by experience. Consequently, we need to take a much wiser and much more careful approach to this matter. Understanding, of course, that while there is a need to restructure institutions and to create new and effective ones, this is an extremely complicated undertaking.

Georgi Satarov is a founding member and, since 1997, president of the INDEM Foundation in Moscow, Russia. Prior to directing INDEM, he was general director of the Russian Public Policy Center and from 1994 to 1997 served as an advisor to President Yeltsin. He is also a member of the Presidential Commission on Government Reform, the Vice-Chairman of the National Anticorruption Committee (an NGO), a member of the United Commission for the Coordination of Legislative Activities, and a member of the World Bank External Advisory Board on Governance and Anticorruption. In April 2000, President Putin presented Georgi Satarov with the Order of Honor for his service to Russia. He has a Ph.D. in systems and management analysis and an MA in mathematics and teaches at Moscow State University. He has published extensively on governance, political history, the contemporary political process in Russia, and corruption.

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