"GREASE" PAYMENTS IN THE RELATIONS BETWEEN INDIVIDUAL ENTREPRENEURS AND REGULATORY AGENCIES: THE CASE OF RUSSIA

by

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A Dissertation
Submitted to the
Graduate Faculty
of
George Mason University
in Partial Fulfillment of
The Requirements for the Degree
Of
Doctor of Philosophy
Political Science

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ACKNOWLEDGEMENTS

I would like to thank my father and other family members for their support and encouragement during my doctoral studies. I am also extremely grateful to my dissertation chair Professor Louise Shelley and my committee members Professors Mark Katz and John Marvel who were of invaluable help during the whole dissertation process. I am particularly grateful to Dr. Shelley for providing her expertise, guidance, and innovative insights into corruption and organized crime that deepened and enriched my understanding of these problems from both theoretical and practical perspectives. I would like to acknowledge Judy Deane and Kasey Kinnard, my colleagues from the Terrorist, Transnational Crime, and Corruption Center at George Mason University for their support and encouragement. I deeply thank the leading anti-corruption experts at the Center for International Private Enterprise, especially Frank Brown, my supervisor during my internship, for their advice and opportunities to discuss my research on business associations and collective action against corruption. My gratitude is extended to Peter Boettke and Jayme Lemke and many other scholars from the Mercatus Center at George Mason University. I owe a special debt to all of them for helpful and extremely useful discussions and new insights into the development of entrepreneurship. My final thanks goes to my friend Sajith Kumar who restored my dissertation when both the original file and a backup copy containing 150 pages of my doctoral research, including my archival work, mysteriously disappeared from my laptop. Without his help, some of the valuable data collected during my fieldwork in Russia would have been irrevocably lost and it would have been extremely hard to finish this dissertation in a timely manner.

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LIST OF ABBREVIATIONS

Business Environment and Enterprise Performance Surveys ..... BEEPS
Centre for Economic and Financial Research ..... CEFIR
Chamber of Commerce and Industry CCI
Centre for International Private Enterprise ..... CIPE
Directly Unproductive Profit-seeking Activities ..... DUP
Foreign Corrupt Practices Act ..... FCPA
International Monetary Fund ..... IMF
Russian Foundation "Information Science for Democracy" ..... INDEM
Russia's Ministry of Interiors ..... MVD
Organization for Economic Co-operation and Development ..... OECD
Russia's Association of Entrepreneurs OPORA ..... OPORA
World Economic Forum Partnering Against Corruption Initiative ..... PACI
Public Private Partnership ..... PPP
Russian Union of Industrialists and Entrepreneurs ..... RUIE
Small and Medium-Sized Enterprises ..... SMEs
U.S. Agency for International Development ..... USAID
Women-owned small businesses ..... WOSB

ABSTRACT

"GREASE" PAYMENTS IN THE RELATIONS BETWEEN INDIVIDUAL ENTREPRENEURS AND REGULATORY AGENCIES: THE CASE OF RUSSIA

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George Mason University, 2017

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This doctoral dissertation is aimed at defining attitudes of Russia's entrepreneurs toward "grease" payments used to facilitate routine governmental actions and analyze external and internal factors that motivate their decisions regarding informal transactions with regulatory agencies. This research explores why the frequency of "grease" payments remains high in the relations between regulatory agencies and individual entrepreneurs despite the recent deregulation reforms in Russia. Based on the current literature on gender-specific attitudes toward corruption, this project pays particular attention to exploring perceptions of women entrepreneurs regarding "grease" payments. The research is designed to develop practical mechanisms to counteract "grease" payments in Russia and other developing countries, with a special focus on the role of self-regulatory organizations and collective action by individual entrepreneurs in anti-corruption efforts.

INTRODUCTION

In recent decades, social scientists and international development organizations, such as the World Bank, the International Monetary Fund, and the European Bank for Reconstruction and Development, have increasingly focused on research into the relationship between administrative overregulation and illegal transactions in developing countries. Surveys conducted by international development organizations demonstrated that overregulation is one of the most significant causes of corruption and a significant barrier to the development of small businesses in Russia (e.g., World Bank 2006; OECD 2001). In order to decrease corruption and encourage entrepreneurship in Russia, the World Bank developed comprehensive and detailed policy recommendations to assist the Russian authorities in structuring and implementing regulatory reforms in such spheres as inspections, licensing, registration, state inspections, and certification (2006: 53-55).

As a response, the deregulation reform was implemented in Russia and new laws on inspections, registration, and entrepreneurial rights were adopted in the early 2000s. In collaboration with the World Bank and with the financial support of the U.S. Agency for International Development (USAID), the Centre for Economic and Financial Research (CEFIR), an independent research center in Moscow, conducted a special project to monitor administrative barriers to the development of small businesses in Russia. The aim of the CEFIR project was to evaluate the results of the deregulation reform

implemented by Russia's federal government. The first round of the monitoring project, which took place in 2001, showed that the administrative burden on small businesses was very heavy. It often created opportunities for bribing public officials in order to make things go faster for businesses (CEFIR 2002).

In 2007, the sixth round of the monitoring project demonstrated that the new laws on inspections, registration, and entrepreneurial rights induced positive changes for small businesses, such as simplifications in the procedure of registration and lower frequency of inspections by regulatory agencies (CEFIR 2007). For example, the time required to get licenses decreased from 50 days to 32 days (ibid.: 7). This suggests that it became easier to deal with public authorities and there were less opportunities to use bribery to obtain permissions to conduct business.

Yet, contrary to the expected results, the deregulation reform did not have a significant impact on mitigating the problem of informal transactions between businesses and regulatory agencies in Russia. According to recent surveys of businesses and individual entrepreneurs, the frequency of "grease" payments, that is, facilitating payments for routine governmental actions, remains high in Russia (Levada Center 2010; Litvak 2010; the World Bank's Business Environment and Enterprise Performance Surveys (BEEPS) 2013; Besstremyannaya et al. 2014; Shekshnia, Ledeneva, & Denisova-Schmidt 2014). "Grease" payments are also known as "facilitation" and "expediting" payments. Routine governmental actions include actions that regulatory agencies ordinarily perform in order to conduct their functions, for example, issuing permits, licenses, and work orders.

Most Russian small businesses and individual entrepreneurs express severe concerns with the problem of corruption. For example, in the 2011 survey conducted by the Russian Association of Entrepreneurs OPORA, the majority of them indicated that corruption represents a significant obstacle to their development and survival. Thus 39 percent of respondents characterized the level of corruption as extremely high and burdensome for their businesses, 26 percent indicated that they suffer from corruption, and only 5 percent answered that they did not face corruption in their relations with regulatory agencies (OPORA 2011: 27). This suggests that there are internal incentives within the business community to mitigate the problem of corruption. In this respect, this research project explores why the frequency of "grease" payments remains high in the relations between Russia's regulatory agencies and individual entrepreneurs despite the recent deregulation reform and entrepreneurs' concerns about the problem of corruption. The project objective is to define attitudes of Russia's entrepreneurs toward "grease" and other informal payments and analyze external and internal factors that motivate their decision making regarding informal transactions with regulatory agencies. This project intends to answer the following research questions:

- What are perceptions of Russian entrepreneurs about "grease" and other types of informal payments and what are their motivations regarding informal transactions with regulatory agencies?
- What are the key causes of the high frequency of "grease" and other informal payments in the relations between regulatory agencies and individual entrepreneurs?

- How much incentive is there within Russia's society to diminish the problem of "grease" and other informal payments?
- What is the role of self-regulatory organizations in anti-corruption efforts aimed at mitigating the problem of "grease" and other types of informal payments?

The question of how much incentive there is within Russia's entrepreneurial community and society to diminish the problem of informal payments is particularly important. One of the serious fallacies of Russia's anti-corruption initiatives is that they do not directly involve the private sector and civil society despite the economic opportunities of the former and moral authority of the later. As Louise Shelley argues, "those efforts will likely be short-lived and perhaps even counterproductive as scare opportunities and citizen support are wasted" (2005: 3). In this respect, this research project is aimed at developing practical recommendations on how to mitigate the "grease" money problem, with a special focus on the role of collective action by individual entrepreneurs and their self-regulatory organizations in anti-corruption efforts.

This is important because numerous empirical studies of corruption show that "grease" and other informal payments have adverse economic consequences for countries, including reduced investment, low economic growth, socio-economic and income inequality, and an inefficient public spending structure, with preference given to public projects which provide opportunities to extract illegal payments, such as bribes and kickbacks, and to embezzle public resources (Mauro 1995; Knack and Keefer 1995; Tanzi and Davoodi 1997; Kaufmann 1997; Rose-Ackerman 1999; Mo 2001; Guriev 2003; Lambsdorff 2003 and 2007; etc.). Also, recent studies demonstrate that corruption

has broader distorting effects on society-state relations, it undermines the integrity of the political system and the rule of law, it leads to the loss of citizens' trust in the state, it demoralizes society as a whole, and it serves as a facilitator and recruiting ground for organized crime, insurgent, and terrorist organizations (Rose-Ackerman 1999; Shelley 2000, 2001, 2003, & 2014; Holmes 2006; Shelley et al. 2007; Lambsdorff 2007; Rollins and Wyler 2010; Naím 2012; Williams 2013; etc.).

Corruption is one of the most severe problems in Russia. Over recent decades, Russia remains one of the most corrupt countries in the world. According to Transparency International (2014), Russia was ranked 136th out of 175 countries on the Corruption Perception Index, with a score of 27 on a scale of 0 (highly corrupt) to 100 (very clean). Transparency International (2011) ranked Russia last on the most recent Bribe Payers Index among the twenty eight largest economies in the world, calculated based on the perceived likelihood of companies from these countries to pay bribes. Russia's Bribe Payers Index was estimated at 6.1 on a scale of 0-10, with 10 meaning that a country never pays bribes and 0 meaning it always does (ibid.). Also, surveys of small businesses showed that corruption represents a significant obstacle to their development and survival (INDEM 2005; OPORA 2011, 2012; Levada Center 2010; Shekshnia, Ledeneva, & Denisova-Schmidt 2014, etc.). Financial and administrative difficulties of individual entrepreneurs are exacerbated by weak enforcement of anti-corruption laws in Russia.

The World Bank indicates that corruption is a key factor explaining failures of small businesses and entrepreneurs, especially in developing and emerging markets

(2008: 13). This finding was supported in recent surveys of Russian businesses and entrepreneurs (INDEM 2005; OPORA 2011, 2012). According to the Federal Statistics Service of the Russian Federation (2015), 5.4 million people were registered as individual entrepreneurs in 2013. Therefore, individual entrepreneurs in Russia comprise a potentially large community to be actively involved in anti-corruption efforts. This suggests the importance of the study of their motivations, perceptions, and attitudes toward informal practices.

Further, numerous studies related to gender-specific attitudes toward corruption provide certain evidence that women are less tolerant to corruption and less likely to be involved in informal activities (e.g., Deshpande, Joseph, and Maximov 2000; Dollar et al. 2001; Swamy et al. 2001; Alatas et al. 2009; Branisa and Ziegler 2011; Frank et al. 2011; Esarey and Chirillo 2013; Rivas 2013). In this respect, this research pays particular attention to gender-specific attitudes toward "grease" and other informal payments. Women's experiences with corruption can significantly contribute to the development and implementation of anti-corruption programs and initiatives in Russia and other developing countries. Therefore, the analysis of gender-specific dimensions of informal payments is a useful tool to facilitate the development of social and political institutions that both impede corrupt practices and empower women entrepreneurs at the local and regional levels.

This dissertation is organized as follows: the first chapter reviews theories devoted to "grease" and other informal payments and analyzes their potential in explaining causes and consequences of this problem in developing countries. Based on

the literature gap identified in this chapter, I formulate the key hypotheses related to the use of "grease" payments by Russia's individual entrepreneurs and describe the methodology to test these hypotheses. In the second chapter, I present the results of my research and analyze their key implications for the development of anti-corruption initiatives in the entrepreneurial sector. The third chapter is devoted to the role of self-regulatory organizations in mobilizing entrepreneurs and organizing their collective action against corruption. This chapter describes the history of entrepreneurial organizations in Russia and analyzes problems and challenges of contemporary self-regulatory initiatives in the sphere of anti-corruption programs. Drawing on the research results and analysis of self-regulatory organizations, the forth chapter identifies practical recommendations to counteract "grease" payments in Russia based on the best international practices of collective action initiatives and self-regulatory policies. The final section of this dissertation summarizes key conclusions of the research into "grease" payments and prospective solutions to this problem.

CHAPTER ONE. LITERATURE REVIEW AND METHODOLOGY

This chapter describes the methodology used in this research. First, it provides a brief review of the literature on "grease" payments and presents hypotheses pertaining to attitudes of individual entrepreneurs toward corrupt practices. Next, it describes data collection methods used to test these hypotheses, followed by an analysis of reliability and validity of the research findings.

1.1. Literature Review: Legal, Rational Choice, and Institutional Perspectives on "Grease Payments"

The last two decades witnessed the emergence of a substantial body of the literature on corruption in the post-Soviet space. The pioneering studies of organized crime and corruption in Russia and other ex-Soviet republics were published in Demokratizatsia, the Journal of Post-Soviet Democratization. As Shelley indicates, "exposing the crime issue in the mid-1990s required courage on the part of our journal [Demokratizatsia] and the Helen Dwight Reid Educational Foundation, which published the journal" (2003: 111). At the present time, the seriousness of the problem of corruption and crime in the post-Soviet space is widely recognized and an increasing number of studies have been devoted to an analysis of this issue (Shelley 1994, 2000, 2003, 2005; Wedel 1996, 2001a, 2001b; Ledeneva 1998, 2001, 2013; Holmes 1993, 2006, 2007; Jaffe and Tsimerman 2005; Nichols 2001; Nichols et al. 2004; Timofeev 2002; Satarov 2002;

Oleinik 2001, 2010, 2011; Kliamkin and Timofeev 2000; Karklins 2005; Dininio and Orttung 2005; etc.).

The analysis in this field shows that post-communist Russia inherited from the Soviet era a very severe problem of corruption. Apart from traditional types of corruption, such as bribing, extortion, embezzlement, nepotism, and favoritism, the Soviet system gave rise to a wide range of specific corrupt practices, such as report paddling (false reporting-overstatement in order to demonstrate the fulfillment of production plans), "krugovaya poruka" (collective [ir]responsibility), "telephone justice" (informal influence on the judiciary), the use of "tolkachi" (middlemen engaged in arranging unofficial barter between enterprises), and improper use of socialized property (see, e.g., Holmes 1993: 143-144; Shelley 2000: 72; Ledeneva 2013: 150; Karklins 2005: 76). The centralized planned economy was responsible for the wide spread of report paddling in the Soviet Union. For example, according to the 1984 Uzbek Central Committee report, "the ability to fulfill the plan at any cost was valued over else. As a result, such alien and immoral phenomena as report-paddling, hoodwinking and bribery have penetrated our lives" (cited in Holmes 1993: 175). As Leslie Holmes argues, "the supremacy of the plan – the enormous significance communist authorities have attached to its fulfillment – is a major explicator of the false-reporting syndrome" (ibid.). In Russia's Economy of Favours (1998), Alena Ledeneva examines another type of informal practices pervasive in the Soviet Union, which is known as "blat." In a broad sense, blat means the use of personal networks and informal relations for obtaining goods and services under the rationing system.

As Ledeneva argues, the collapse of the state-centralized economy and the emergence of new market conditions resulted in "the monetization of blat" in post-Soviet Russia, where bribes and "grease" money paid by citizens and businessmen replaced personal favors widely used in the Communist era (2006: 1-2). According to Ledeneva, "about 90 percent of bribes in Russia are paid by businessmen for export licensing and quotas, state budget transactions, tax transfers, custom duties, privatization deals, and servicing debts to the federal budget" (ibid.: 2). Importantly, during the transitional period, the problem of corruption significantly increased due to insecurity of property rights, the highly unstable institutional environment and policy uncertainty, constant changes in legislation and its manipulations by powerful interest groups and individuals interested in gaining access to transitional rents through the privatization process. During the transitional period, the disruption of the public administration system was also facilitated by low salaries of public servants and a low level of administrative control over numerous regulatory agencies. As a result, bribing has significantly increased in comparison with the Soviet system.

As indicated by Andrei Shleifer and Robert Vishny, in the Soviet Russia, the industrial organization of corruption was monopolized by the Communist party and bribes from state enterprises were channeled through local Communist party committees (1993: 605). "Any deviation from agreed-upon pattern of corruption would be penalized by the party bureaucracy, so few deviations occurred" (ibid.). This situation radically changed in post-Soviet Russia, where numerous regulatory agencies began to compete with each other for informal rents in the form of bribes and "grease" payments. For

example, Russian businesses are subject to numerous inspections by regulatory agencies, such as tax, fire safety, sanitary, labor protection, technical supervisory, social security, and other inspections. Competing public agencies introduce their own regulations and set their own "grease" and bribe rates, which increases the level of uncertainty for doing business.

The proposed research is aimed at exploring perceptions and attitudes of individual entrepreneurs regarding the use of "grease" and other informal payments in their relations with regulatory agency in contemporary Russia. This research represents a specific area within a broader body of literature on corruption and anti-corruption regulations. It is situated at the intersection of three schools of thought: the legal school, rational choice theory, and new institutional theory. Together, these schools of thought make it possible to understand the relationship between administrative overregulation and "grease" payments extracted by regulatory agencies. However, they pay insufficient attention to the question of how businesses and individual entrepreneurs perceive "grease" and other informal payments and what factors can potentially change their attitudes toward corruption.

Legal school of thought

The legal school of thought (e.g., Holt and Fincher 1981; Carson 1985; Shaw 1988; Dugan and Lechtman 1997; Nichols 1999, 2009, and 2013; Bray 2001; Pacini et al. 2002; Perkel 2003; and Strauss 2013) analyzes legislative aspects of "grease" and other informal payments. In his study, Philip Nichols (1999) distinguishes between "grease" payments that simply facilitate obtaining property rights that a business is legally entitled

to receive and informal payments that provide illegal advantages, which it otherwise would not receive by law.[1]

The distinction between "grease" and other informal payments is important because the U.S. Foreign Corrupt Practices Act of 1977, 15 U.S.C. §§ 78dd-1, et seq (FCPA), which was the first law in the world prohibiting transnational bribery, makes exceptions for facilitating payments for routine governmental action. The FCPA defines facilitating payments as "expediting payments the purpose of which is to expedite or to secure the performance of a routine governmental action by a foreign official, political party, or party official." Numerous studies (Nichols 1999, 2009, and 2013; Carson 1985; Bray 2001; and Perkel 2003) analyze affirmative defenses that are provided in the FCPA as long as "grease" payments do not intend to encourage a foreign official or regulatory agency to award new business or to continue business with a particular party.

Also, the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which was signed in 1997 and came into force in 1999, distinguishes between "facilitation" payments and bribes. Thus paragraph 3 of

[1] In the Russian language, there are different terms used to describe these two types of informal payments: "likhoimstvo" refers to activities associated with extortion of informal payments by public officials for services that provide bribe payers with benefits in violation of the existing official regulations. Another term "mzdoimstvo" is used to describe less severe offenses of taking "grease" payments by public officials in return for speeding routine bureaucratic actions. Yakov Gilinskiy, a Russian sociologist and criminologist, indicates that these informal practices go back to the system of "kormlenie" where the Russian tsar appointed local administrators who had no salary and received payments and presents from the local population (2004: 161). In the 15th century, this system was abolished. Later, "likhoimstvo" and "mzdoimstvo" were replaced by a new legal term "vziatochnitchestvo" (bribing). Russia's first law prohibiting "vziatochnitchestvo" was adopted in 1497. The first people's rebellion against corruption occurred in Moscow in 1648. Sergey Stepanov (2015), a Russian historian, indicates, the Moscow uprising (also known as the salt riot) was provoked by widespread corruption among the state administrators, such as the tsar's advisor Boris Morozov, the Moscow governor Levontii Pletshcheyev and their cronies. The trigger for the salt riot was the introduction of a salt tax, which led to an increase in its price (ibid.). The riot eventually resulted in the exile of Boris Morozov and the adoption of the new legal code of 1649 ("Sobornoye Ulozheniye") which introduced the seizure of property for bribing (ibid.).

article 1 of the OECD Anti-Bribery Convention indicates that the criminalization of "facilitation" payments is not "a practical or effective action" because they are not aimed at obtaining or regaining "business or other improper advantage." The OECD anti-bribery convention was adopted by 34 OECD member countries and seven non-member countries, including Argentina, Brazil, Bulgaria, Colombia, Latvia, Russia, and South Africa.

The FCPA and the OECD Anti-Bribery Convention recognized that businesses may be forced to make informal payments to avoid overregulation in developing countries. Therefore, from a legal perspective, "grease payments" are distinguished from other types of informal payments, such as bribes. Yet, in actual practice, there is often no clear demarcation line between different types of informal payments. In certain situations, it is extremely difficult to decide whether informal payments provide improper advantages to businesses. In some cases, "grease" payments, which simply facilitate obtaining property rights that a business should receive anyway, can lead to unfair competition when other businesses do not have financial opportunities to "grease" public officials. Therefore, the distinction between "grease" and other types of informal payments is context-specific. Also, as Antonio Argadoña (2005) notes, "all too often they ["grease" payments] are the slippery slope to more serious forms of corruption" (2005: 251). Although petty unofficial payments are tolerated in many developing countries, nevertheless they are prohibited by national legislation in most states. For example, Russia's legislature prohibits "grease" payments domestically.

Taking negative consequences of "grease" money into account, the OECD revisited their recommendations, including new provisions for combating small facilitation payments. In 2009, the OECD published its "Recommendation for Further Combating Bribery of Foreign Public Officials in International Business Transactions." This document recommends signatory countries to review their approach to facilitating payments. It also encourages companies in these countries to prohibit or discourage the use of such payments in their ethics codes and internal programs. However, the severe weakness of these provisions is that they are recommendary, but not binding. The legal school's analysis of informal payments is useful for the proposed research in terms of domestic and international legislative consequences for national and foreign actors. However, in addition to legal aspects, the proposed research needs to explore broader socio-economic, institutional, and political consequences of facilitating payments.

Rational choice theory

Representatives of the second school of thought, such as Nathaniel Leff (1964), Sidney Sufrin (1964), David Bailey (1966), Samuel Huntington (1968), Gunnar Myrdal (1968), Salim Rashid (1981), Francis Lui (1985), Paul Beck and Michael Maher (1986), Da-Hsiang Donald Lien (1986), Shaomin Li and Jun Wu (2010), and Axel Dreher and Martin Gassebner (2013), are proponents of rational choice theory. They demonstrate that benefits of "grease" payments can exceed their costs in certain situational contexts in over-centralized administrative states. It is necessary to note that this school had been a dominant approach to an analysis of "grease" payments until the 1990s when new corruption studies based on cross-countries comparisons disproved its key arguments.

Rational choice theory proposes the "efficient grease" hypothesis, according to which informal payments improve economic efficiency in the situation of overregulation. As Leff puts it, "if the government has erred in its decision, the course made possible by corruption may well be the better one" (1964: 11). Huntington also argues that "in terms of economic growth, the only thing worse than a society with a rigid, over-centralized, dishonest bureaucracy is one with a rigid, over-centralized, honest bureaucracy" (1968: 386).

Proponents of rational choice theory distinguish four key mechanisms behind the "efficient grease" hypothesis. First, as indicated by Lui (1985), "grease" payments decrease the time spent in queues and give incentives to public officials to speed up bureaucratic procedures. Huntington (1968) illustrates this phenomenon with the fast growth of industrial corporations and railroad construction in the United States in the 1870-1880s, which was fueled by corruption. Yet, this type of corruption should be distinguished from systemic institutionalized corruption typical of weak states, such as Russia. Moisés Naím, for example, characterizes Russia as a mafia state, where corrupt "government officials enrich themselves and their families and friends while exploiting the money, muscle, political influence, and global connections of criminal syndicates to cement and expand their own power" (2012: 101). Susan Rose–Ackerman (1999) coins a similar term "mafia-dominated states" to describe the collusion of corrupt governments with criminal organizations. Karen Dawisha's book Putin's Kleptocracy (2014) presents extensive evidence regarding the way Putin and his circle maintained their contacts with Russian organized crime and used their public positions for personal illicit enrichment.

The second mechanism behind the "efficient grease" hypothesis is attributed to Bailey's (1966) argument, according to which low salaries of civil servants discourage highly qualified employees from seeking jobs in the public sector. Therefore, "grease" payments and bribes might give them additional motivation and incentivize them to work in the public sector. The third mechanism is described by Leff (1964), Beck and Maher (1986), and Lien (1986) who indicate that under the condition of high uncertainty and informational gaps, bureaucrats can effectively allocate resources when the highest "grease" payment is made by the most efficient firm. In this case, corruption functions as a competitive auction. Finally, the most recent research on corruption within the rational choice school conducted by Dreher and Gassebner (2013) shows that corruption increases entrepreneurial activity and facilitates firm entry in highly regulated economies (see Table 1).

Table 1 Mechanisms behind the "efficient grease" hypothesis

Author	Mechanism
Lui (1985), Huntington (1986)	"Grease" payments decrease the time spent in queues and give incentives to public officials to speed up bureaucratic procedures.
Bailey (1966)	"Grease" payments and bribes give additional motivation and incentives to high-quality employees to work in the public sector.
Leff (1964), Beck and Maher (1986), and Lien (1986)	Under the condition of high uncertainty and informational gaps, bureaucrats can effectively allocate resources when the highest "grease" payment is made by the most efficient firm. In this case, corruption functions as a competitive auction.
Dresher and Gassebner (2013)	"Grease" payments increase entrepreneurial activity and facilitate firm entry in highly regulated economies.

However, findings of Dreher and Gassebner (2013) are compromised by the fact that their analysis ignores potential long-term effects of overregulation, including the further increase in the number of entry regulations in response to wider corruption among public servants. Also, while corruption might facilitate market entry of particular businessmen who can afford and are ready to bribe officials, a large number of bureaucratic procedures required to start a business and large minimum capital requirements preclude most potential producers from entering the market. Another negative consequence of overregulation neglected in Dreher and Gassebner's analysis (2013) is an increase in the number of businesses operating in the shadow market and the related expansion of the informal sector of the economy. For example, Hernando de Soto (1989) points to overregulation in Latin American countries as the main factor leading to the enormous amount of informal transactions.

De Soto and his colleagues from the Institute for Liberty and Democracy in Lima did the research on the administrative barriers in developing countries. In Peru, for instance, they opened a small workshop as an experiment to calculate the transaction costs of meeting the legal requirements for starting a new business. It took 289 days to open a small garment workshop despite the fact that it was organized to operate with only one worker (de Soto 2000: 18-19). According to another example, it took about seven years and 207 administrative procedures in 52 governmental agencies to obtain legal authority to build houses on state owned land in Peru (ibid.: 19-20). It is not surprising that such administrative barriers led to lack of formal property rights, which de Soto considers one of the main sources of poverty in developing countries.

In the context of Russia's entrepreneurs' experiences, Caroline Humphrey (2000) provides another vivid example of how overregulation pushes businesses toward illegal networks. In the mid-1990s, traders who drove trucks to move their goods from one region to another within Russia were supposed to have licenses not only to drive a truck but also to travel to given regions. As a result, many traders were frustrated if they could not get licenses to move their goods even to the neighboring regions. Humphrey concludes that "such regulations are widely flouted, thus putting traders in an uncertain relationship with law and placing them in the hands of alternative networks" (2000: 26). Not surprisingly, traders who had difficulties in getting licenses used informal networks or bribed public officials.

Therefore, a significant limitation of the rational choice school lies in the fact that it ignores a negative impact of overregulation on doing business and economic growth in developing countries, as well as the related expansion of their informal economies due to an increased number of shadow transactions. Although "grease" payments can be rational from the perspective of individual businesses suffering from administrative corruption, they are not economically efficient for them in the long run, as well as for the entire business community. Thus Louise Shelley indicates that "although some analysts once suggested that corruption greases the wheels in overregulated and nonfunctional bureaucracies, the costs of corruption become so great in the global economy that this analytical perspective is now largely discredited" (2014: 66). Taking this into consideration, the use of rational choice theory in this research project will be limited

exclusively to explaining how the perceived necessity of "grease" payments influences decisions of individual entrepreneurs.

Institutional school of thought

Studies developed within the institutional school of thought (e.g., Krueger 1974; Bhagwati 1982; Kaufmann and Wei 1999; Wei 199; Lambsdorff 2003; Argandoña 2005; Méon and Sekkat 2005) place a greater emphasis on the institutional aspects of "grease" payments. The new institutional theory focuses on negative consequences of informal payments and rejects the "efficient grease" hypothesis. Anne Krueger (1974) coined the term "rent seeking" to describe bureaucrats' attempts to gain access to informal payments through overregulation. Using the example of quantitative trade restrictions, she demonstrated that rent seeking is socially unproductive. According to her estimates, rent-seeking activities were responsible for India's loss of 7.3 percent of national income in 1964 and Turkey's loss of 15 percent of GNP in 1968 (1974: 294). In Russia, a study aimed at calculating the aggravated loss associated with overregulation and rent seeking was conducted by Alexander Auzan and Polina Kruchkova in 2001. According to their estimates, the loss due to rent seeking represents about 5-7 percent of GDP annually (2001: 77).

Jagdish Bhagwati (1982) coined a broader term "directly unproductive, profit-seeking activities" (DUP) to describe situations where public officials are responsible for overregulation that provides numerous opportunities to extract "grease" and other illegal payments. He defined them as activities that "yield pecuniary returns but do not produce goods or services that enter a utility function directly or indirectly via increased

production or availability to the economy of goods that enter a utility function" (1982: 989). Examples of DUP activities include excessive bureaucratic procedures required for starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, enforcing contracts, closing a business, etc. To circumvent excessive administrative regulations, economic actors often have to pay facilitating payments for expediting the performance of routine governmental actions.

Daniel Kaufmann and Shang-Jin Wei (1999), Antonio Argandoña (2005), and Pierre-Guillaume Méon and Khalid Sekkat (2005) find a positive correlation between bribery and administrative harassment, which disproves the "efficient grease" hypothesis. For example, Kaufmann and Wei (1999) demonstrate that informal payments lead to an increase in official harassment of businesses measured by management time wasted with bureaucracy, regulatory burden, and cost of capital. To solve this problem, they propose removing excessive administrative procedures. However, Kaufmann and Wei (1999), Argandoña (2005), and Méon and Sekkat (2005) focus on the demand side of the use of informal payments, rather than the supply side. Therefore, they do not take into account positive perceptions of businesses regarding informal payments that can decrease the efficiency of deregulation reforms.

In response to this severe shortcoming, several studies within sociological institutionalism, such as Powpaka 2002; Collins, Uhlenbruck, and Rodriguez 2008; Shekshnia, Ledeneva, & Denisova-Schmidt 2014, indicated the need to take into account businesses' perceptions and attitudes toward informal practices. Samart Powpaka argues

that until recently, "discussions of how to combat transnational bribery and corruption…have focused more sharply on the recipients of bribes than on those who pay them" (2002: 227). The exclusive focus on the demand side represented by public officials and regulatory agencies who abuse their office for private gain significantly limits a set of potential anti-corruption strategies.

The experience of many developing countries demonstrates that a top-down approach that focuses on the public authorities' response to this problem is not always efficient because informal practices are deeply rooted in the institutional environment (see, for example, Locke 2012 and Albanese 2011). Numerous Russian sayings and proverbs describing the use of informal payments can serve as an illustration of its embeddedness in the economic and social environments: "no grease, no ride," "do not say a word, just show groshi [coins]," "it is the squeaky wheel that gets the grease," "a taking hand does not get tired," and "it's good fishing in troubled waters."

This deep institutional embeddedness of "grease" and other informal payments in society suggests the need for the integration of the research into the demand and supply sides of corrupt practices. The study conducted in Thailand (Powpaka 2002) found that managers' attitudes toward corruption are affected by perceived necessity and perceived unethicality of bribing. As Powpaka puts it, "reducing perceived necessity while increasing perceived choice [of anti-corruption strategies] and perceived unethicality of the act [of bribing] would directly or indirectly via attitude toward the act reduce actors' intentions to give bribes" (2002: 242). Another study of senior managers' attitudes toward corruption was conducted in Russia by Stanislav Shekshnia, Alena Ledeneva, and

Elena Denisova-Schmidt (2014). Based on interviews with CEOs in twenty companies, the researchers distinguish four positions related to their attitudes toward informal practices: (1) toleration, meaning that CEOs accepted corruption as an inevitable state of affairs that cannot be changed by them; (2) exploitation, meaning that CEOs considered it a legitimate instrument for doing business; (3) avoidance, meaning that CEOs were not involved in corrupt practice themselves, and (4) management corruption, meaning that CEOs were actively involved in anti-corruption efforts (ibid.: 15). Interestingly, only a small minority of CEOs expressed a positive view about the exploitation of corruption as a legitimate instrument of doing business. The most widespread position was tolerance toward corruption, which shows a certain frustration of many CEOs as far as anti-corruption strategies are concerned (ibid.) Only a few of CEOs in Russian companies were actively involved in fighting corruption, and a small minority preferred to avoid corrupt practices in their own business (ibid.).

Further, a survey of 341 executives in India conducted by Collins, Uhlenbruck, and Rodriguez (2008) illustrates that executives' perceptions play a critical role in shaping informal practices of their firms. Importantly, this research finds that professional norms in specific industries can significantly affect businesses' perceptions and attitudes toward corruption. Following DiMaggio and Powell (1983), Collins, Uhlenbruck, and Rodriguez (2008) argue that "professional networks have developed more effective norms than that exist in non-professionalized industries for discouraging engagement in corruption and guiding appropriate actions when confronted with corruption" (2008: 94-95). Using in-depth interviews with upper-level managers in

different firms in India, they find that those managers who belong to professional networks are less likely to be engaged in corruption. However, a significant limitation of Collins, Uhlenbruck, and Rodriguez (2008) can be attributed to the fact that their research excludes firms with fewer than 20 employees from their analysis. Also, Collins, Uhlenbruck, and Rodriguez (2008) point out that another concern is the limitation of their study to only one country. This suggests the need for further studies of the role of professional networks in anti-corruption efforts in different countries.

Powpaka (2002), Colllins, Uhlenbruck, and Rodriguez (2008), and Shekshnia, Ledeneva, & Denisova-Schmidt (2014) show the great potential of the research into perceptions and attitudes of social and economic actors toward corruption and the role of professional networks in the development and implementation of anti-corruption programs and initiatives (see Table 2).

Table 2 Studies of managers' attitudes toward corruption

Author	Focus	Findings	Limitations
Powpaka 2002	Thai managers	Managers' perceptions play a critical role in shaping informal practices. They can be affected by perceived necessity and perceived unethicality of bribing	The research does not provide an appropriate framework to analyze anti-corruption strategies.
Collins, Uhlenbruck, and Rodriguez 2008	Indian managers	Professional norms and self-regulatory organizations in specific industries can significantly affect businesses' perceptions and attitudes toward corruption	The research excludes firms with fewer than 20 employees from their analysis.
Shekshnia Ledeneva, & Denisova-Schmidt 2014	Russian managers	They distinguish four positions of managers toward corruption (1) toleration; (2) exploitation, (3) avoidance, (4) anti-corruption participation	The research does not investigate "a range of psychological and technical factors" that prevent managers from anti-corruption efforts

As Table 2 shows, the studies conducted by Powpaka (2002), Colllins, Uhlenbruck, and Rodriguez (2008), and Shekshnia, Ledeneva, & Denisova-Schmidt (2014) have certain limitations. In this context, further research is required to determine what factors are responsible for the formation of attitudes toward corruption and how they can be changed through professional networks and other forms of collective action by individual entrepreneurs. For example, Shekshnia, Ledeneva, & Denisova-Schmidt indicate that "a range of psychological and technical factors prevent them [firms] from taking up the anti-corruption challenge" (2014: 15). In the case of individual entrepreneurs, another critical factor is the lack of resources to counteract officials who extort bribes. This again suggests the need to increase their involvement in self-regulation organizations that provide legal and financial support for their members.

The importance of this study is explained by the fact that individual entrepreneurs are disproportionately affected by unfair competition fueled by corruption because they have fewer opportunities and less financial possibilities to "grease" officials. On the other hand, in Russia, they comprise a large community of 5.4 million individual entrepreneurs to be inducted into anti-corruption programs (The Federal Statistics Service 2015). Individual entrepreneurs can be self-employed or they can have employees. Yet, the potent force of individual entrepreneurs is limited because their activities are not coordinated. This makes them particularly vulnerable to corporate raiding ("reiderstvo"),

which is pervasive in contemporary Russia.[2] The low participation of small businesses in collective action makes them easy victims of "reiderstvo" and facilitates corruption of public officials. This suggests the necessity to apply collective action theory to the development of anti-corruption programs and initiatives.

Although the legal, rational choice, and institutional schools are helpful in exploring the relationship between overregulation and illegal transactions, the majority of studies on corruption focus on informal payments extracted by regulatory agencies and do not pay sufficient attention to motivations of entrepreneurs who often initiate illegal transactions themselves. In this respect, the proposed research will move beyond the dominant "mainstream" analysis of the relationship between administrative overregulation and illegal transactions, and will focus instead on the research into Russian entrepreneurs' perceptions toward "grease" payments. This perspective extends the institutional theories widely accepted in the literature, according to which "grease" payments are initiated by rent-seeking bureaucrats imposing excessive administrative procedures on businesses.

1.2. Research Design and Methodology

The identified gap in the literature allows for the formulation of the hypotheses and key questions regarding Russian entrepreneurs' perceptions about "grease" and other

[2] In the Russian language, the practice of illegal raiding is often referred to as "reiderstvo." Unlike traditional hostile takeovers, "reiderstvo" involves the use of corrupt enforcement officers, judges, tax inspectors, and public officials by criminal organizations. As Vladimir Kleiner indicates, "reiderstvo" has become an increasingly profitable new type of organized crime in Russia. Thousands cases of business seizures occur every year through the use of illegal methods, such as forgery, bribery, identity theft, physical intimidation, and violence. Russia's Ministry of Internal Affairs (MVD) estimates that "reiderstvo" generates over 120 billion rubles (about $40 million) per year (cited in Firestone 2008: 1207).

informal payments. This section describes the methodology used in this dissertation research.

Hypotheses

Taking into account that the key objective of the proposed research is to analyze how attitudes toward "grease" and other informal payments affect their use by Russian individual entrepreneurs, the following hypothesis is proposed:

> **Hypothesis 1:** The high frequency of "grease" payments paid to regulatory agencies is related to positive attitudes and perceptions about such transactions among individual entrepreneurs, rather than to the problem of administrative overregulation alone.

Expanding Collins, Uhlenbruck, and Rodriguez's (2008) argument about the role of professional networks in anti-corruption efforts, the following hypotheses are proposed to explore the role of self-regulatory organizations in shaping the attitudes of individual entrepreneurs toward corruption:

> **Hypothesis 2:** Individual entrepreneurs who belong to self-regulatory organizations, such as national or regional associations of entrepreneurs, are more likely to demonstrate negative attitudes toward informal payments than entrepreneurs who do not belong to any self-regulatory organization.

> **Hypothesis 3:** Individual entrepreneurs who belong to self-regulatory organizations are less likely to be engaged in corrupt practices with regulatory agencies in comparison with entrepreneurs who do not belong to any self-regulatory organization.

Finally, as numerous studies find gender-specific attitudes toward corruption (Deshpande, Joseph, and Maximov 2000; Dollar et al. 2001; Swamy et al. 2001; Alatas et al. 2009; Branisa and Ziegler 2011; Frank et al. 2011; Esarey and Chirillo 2013; Rivas 2013), the proposed research needs to explore whether female individual entrepreneurs perceive "grease" payments differently than their male counterparts. A previous attempt to determine the impact of gender on perceptions of male and female Russian managers regarding various informal business practices was conducted by Deshpande, Joseph, and Maximov (2000). They found that in comparison with male managers, female managers considered more unethical the following informal activities: "doing personal business on company time, falsifying time/quality/ quantity reports, padding an expense account more than 10 percent, calling in sick to take a day off, and pilfering organization materials and supplies" (2000: 179). Female managers also demonstrated more negative attitudes toward "the acceptance of gifts and favors in exchange for preferential treatment" (ibid.). Expanding Deshpande, Joseph, and Maximov's (2000) argument, the following hypotheses are proposed to explore whether attitudes and actions of Russian female individual entrepreneurs related to the use of "grease" payments are different from male entrepreneurs:

> **Hypothesis 4:** Female individual entrepreneurs are more likely to demonstrate negative attitudes toward the use of "grease" payments in comparison with their male counterparts who have similar business experiences.

> **Hypothesis 5:** Female individual entrepreneurs are less likely to pay "grease" money to regulatory agencies in comparison with their male counterparts who have similar business experiences.

To test these hypotheses, it is necessary to obtain data about the frequency of "grease" payments initiated by individual entrepreneurs in comparison with those initiated by regulatory agencies. In this respect, following the legal school of thought, payments are divided in two types: "grease" payments that facilitate routine governmental actions and other informal payments that give illegal advantages to individual entrepreneurs. Further, it is necessary to obtain data about entrepreneurs' attitudes toward "grease payments" and their preferences among legal or illegal methods to solve the problem of overregulation, as well as data about their professional affiliations, gender, and region.

Data collection methods

The project used a survey to obtain aggregate data on Russian entrepreneurs' attitudes about "grease" payments. It was based on the probability sample technique according to which respondents are randomly chosen from the list of entrepreneurs registered in Russia's Unified State Register of Individual Entrepreneurs. The criteria to choose the respondents included their official registration as an individual entrepreneur in Russia's Tax Services and more than three years of business experience. The first criterion was used to distinguish individual entrepreneurs from other legal entities. The second criterion is explained by the fact that the formation of perceptions regarding the use of "grease" payments is a process that requires time to develop. The testing of the original questionnaire was based on the purposeful sampling that relied on the personal contacts represented by three members of the Saint Petersburg Association of Individual

Entrepreneurs. As all subjects were Russians, the original survey was constructed in their native language, and then translated into English (see Appendix 2). The purposeful technique for the test survey was chosen in order to receive respondents' feedback about the clarity of questions and their recommendations on how to improve the survey.

To make the sample representative of the population of Russia's individual entrepreneurs, the survey was distributed to respondents from different regions of Russia. Table 3 represents the number and percentage of individual entrepreneurs registered in Russia's federal districts and the number of bureaucrats at the federal, regional, and municipal levels in these regions in 2014. For comparison's sake, Table 3 includes the indicator of the number of bureaucrats per 10,000 inhabitants in Russia's federal districts.

Table 3 The number of entrepreneurs registered and the number of bureaucrats in Russia's regions in 2014

Federal district	Number of individual entrepreneurs (thousand)	Percentage (%)	The number of bureaucrats at the federal level	The number of bureaucrats at the regional level	The number of bureaucrats at the municipal level	Bureaucrats per 10,000 population
Central federal district, including Moscow	1266.2 197.0	22.5 3.5	101,110 25,160	49,843 20,781	58,716 1,533	135.0 102.9
Volga federal district	916.8	16.3	70,532	25,919	65,950	139.9
Siberian federal district	862.7	15.3	62,167	27,712	52,730	171.4
South federal district	671.7	11.9	38,623	13,807	33,534	140.9
Northwestern federal district, including Saint Petersburg	500.0 164.0	8.9 2.9	48,154 15,304	17,717 7,204	24,129 1,741	158.4 122.0
Ural federal district	543.5	9.7	30,116	13,702	26,849	155.8
North Caucasian federal district	367.7	6.5	22,396	13,333	18,300	148.8

Federal district	Number of individual entrepreneurs (thousand)	Percen-tage (%)	The number of bureaucrats at the federal level	The number of bureaucrats at the regional level	The number of bureaucrats at the municipal level	Bureaucrats per 10,000 population
Far Eastern federal district	309.7	5.5	29,771	10,381	19,085	222.3
Republic of Bashkortostan	136.5	2.4	8,250	3,970	8,073	115.1
Kurgan oblast	35.1	0.6	3,391	1,570	2,576	200.0
Republic of Karelia	20.5	0.4	3,605	1,165	1,340	211.1

Sources: The Federal Statistics Service (2014, 2015) and the Information Agency Regnum (2015).

Respondents were chosen from three regions characterized by various levels of entrepreneurial activities: Moscow in the Central federal district, Saint Petersburg in the Northwestern federal district, and the republic of Karelia. As Table 3 shows, the Central federal district, including Moscow, is characterized by a high level of entrepreneurial activities, while the republic of Karelia represents the lowest level. The Northwestern federal district, including Saint Petersburg, is characterized by a medium level of entrepreneurial activities. These regions also differ in the number of bureaucrats per 10,000 people. Moscow has the lowest number of bureaucrats per 10,000 people (102.9), while Saint Petersburg has a medium number of bureaucrats per 10,000 people (122.0) and the republic of Karelia – the highest (211.1).

These regions are also characterized by different levels of corruption according to the Transparency International/INDEM report on corruption in Russia's regions conducted in 2001. The Transparency International/INDEM scores for corruption ranged from a low of 0.0 in Karelia to a high of 0.843 in Saint Petersburg and 1.000 in the Moscow region (cited in Dininio and Orttung 2005: 518). However, as Dininio and

Orttung indicate, the Transparency International/INDEM indicator "reflects distortions in perceptions caused by state-controlled media, which may not report on corruption problems, or distortions in reported perceptions attributable to levels of fear" (ibid.: 515). This suggests the necessity to analyze indicators of the media and civil society freedom at the regional level in Russia.

The 2015 annual report of Freedom House indicates that Russia "maintained a tight grip on locally based print and broadcast media, while also seeking to control the more independent views provided either online or by foreign news sources" (2015: 2). According to Freedom House, Russia's press status is not free. The Civil Initiatives Committee, a non-governmental organization which promotes human rights and development of civil society, indicates that the level of the media freedom in Russia differs significantly at the regional level.

Also, the study conducted by Levada Center (2011) demonstrates that the most active representatives of Russia's civil society are concentrated in large cities, such as Moscow, Kaliningrad, Saratov, Perm, Krasnoyarsk, and Vladivostok (Volkov 2011: 3). Interviews with civil society activists from these cities showed that most nongovernmental organizations in the field of human rights and democratic development suffered from repressions on the part of state organizations. They pointed to the problem of corrupt public officials as a serious threat for the development of civil society in Russia because "there are no public mechanisms of resolving conflicts with state organizations due to corruption in courts" (ibid.: 50). The Levada Center study of civil society in Russia focused on nongovernmental organizations in the political, cultural,

ecological, and human rights spheres. Its certain limitation can be attributed to the fact that this study did not pay sufficient attention to the role of business associations and entrepreneurial organizations in the development of civil society.

This dissertation project addressed this gap by including special questions in the survey and interviews with entrepreneurs and self-regulatory organizations regarding their incentives to participate in collective action. It also analyzed their experiences in dealing with public officials and regulatory agencies at the federal, regional, and local levels. As disclosure of subjects' responses about corruption can cause harm, collecting data anonymously provided the best protection. The solution was an emailed survey constructed with a Google Docs tool without a follow up procedure because this measure ensures that individual responses cannot be linked with participants' identities. During the interview stage, individuals were identified with a few pieces of information, such as their status (entrepreneur or representative of self-regulatory organizations), their region and gender. The project was submitted to the George Mason University Office of Research Integrity & Assurance.

According to Freedom House, Russia represents an authoritarian regime classified as "not free." Jensen et al. argue that "in politically repressive environments, firms use nonresponse and potential false response as self-protection mechanisms" in corruption studies (2010: 1481). According to them, the result is "underestimation of the severity of the corruption problem" (ibid.). Yet, studies of corruption in developing countries conducted by Anh Tran (2008 and 2011) demonstrate that this limitation can be successfully overcome through the development of a network with dozens of businesses

and public officials who are willing to provide information about informal activities. For example, Tran indicates that "firm owners and workers share information with me as a favor and don't fear reprisal. In a highly corrupt environment, the probability of getting caught for bribery is very low since almost everyone is doing it. It is not really a closely guarded secret if you know how and who to ask" (cited in Shere 2011).

I administered the questionnaire by email or personally during the meetings and conferences organized by entrepreneurial organizations in September, October, and November 2015. I collected 91 usable questionnaires. Since the survey was not enough to obtain in-depth information about different methods to counteract "grease" payments, it was combined with follow-up in-depth expert interviews devoted to the development of recommendations on how to mitigate the problem of "grease" payments. Another reason for the combination of these methods is that anonymous surveys provide more honest answers to questions about illegal transactions, while in-depth expert interviews are more useful for discussing anti-corruption methods and comparing different views of individual entrepreneurs and representatives of self-regulatory organizations (regional chambers of commerce and associations of individual entrepreneurs). Although not a random sample, the interviewed persons for this research represent a broad spectrum of industries, such as cosmetics, education, food, furniture, services, etc. The contact data comes from the directories of several business organizations, such as the Russian Association of Entrepreneurs OPORA in Moscow, the Russian Association of Microenterprises, the Saint Petersburg Chamber of Commerce, the Union of Entrepreneurs and Industrialists in Saint Petersburg and Karelia.

Expert interviews were used to get in-depth information about the role of self-regulatory organizations and collective action by individual entrepreneurs in anti-corruption efforts aimed at mitigating the "grease" money problem in Russia. It was necessary to assess effectiveness of different anti-corruption instruments of self-regulatory organizations, such as organizing advanced training of entrepreneurs about their legal rights and responsibilities, educating their members on how to counteract extortion from public officials, organizing awareness-raising campaigns, etc. The obtained data was used to develop practical mechanisms to counteract informal payments in Russia. In terms of ethics, the consent discussion and consent forms were provided to the participants with all necessary information related to the research before interviews took place. The research design map is depicted in Appendix 1.

The questionnaire and coding procedures

The questionnaire about perceptions and attitudes about "grease" payments is based on a Likert scale, that is, a psychometric scale that specifies the level of respondents' agreement or disagreement on a symmetric agree-disagree scale for each of the statements: "strongly agree," "agree," "neither agree nor disagree," disagree," and "strongly disagree." The advantage of this scale is that it allows researchers to explore the intensity of perceptions. To measure Russia's entrepreneurs' perceptions about "grease" payments, the respondents' answers were coded according to their intensity. To capture the intensity variation, the questionnaire used a five-point scale ranging from –2 to +2. For example, entrepreneurs received scores of –2 if they strongly disagreed and +2 if they strongly agreed with the following statement: "The use of "grease" payments is always

justified in the situation of excessive regulation." Similarly, the answers to the same question that indicated less certainty, such as "agree" and "disagree," received scores of –1 and +1. The midpoint of the scale 0 was reserved for neutral statements, such as "neither agree nor disagree." Clearly, points of +1 and +2 demonstrate positive attitudes about "grease" payments, while points of –1 and –2 show that entrepreneurs have negative attitudes toward them. Then these of attitudes of individual entrepreneurs toward "grease" payments are summed and a simple average is calculated for each entrepreneur.

The answers about the frequency of "grease" payments include: "very often," "often," "very rarely," "rarely," and "never." To capture the frequency variation, the questionnaire used a 5-point scale ranging from 0 to 4. For example, entrepreneurs received scores of 4 if they made "grease" payments to regulatory agencies very often and 0 if they never used "grease" payments themselves. Scores from 1 to 3 indicated answers of less frequency, "often," "very rarely," and "rarely." This coding was useful for the regression analysis based on an ordered logistic model generated in the Statistical Package for Social Scientists (SPSS) that used the data obtained from the survey.

To avoid the bias related to the response order effect, the subsets of respondents, who were selected randomly, received the questionnaires with different question orders. The correlation between the subsets' results represented an inter-item estimate of reliability. Also, a method triangulation (the combination of surveys with in-depth expert interviews) provided another opportunity to check the results of the research. A data triangulation method based on multiple data sources was used to collect different views on methods to mitigate the "grease" money problem. Thus in-depth interviews included

representatives of self-regulatory organizations and individual entrepreneurs in Russia's regions characterized by different levels of entrepreneurial activities and the extent of bureaucracy.

It is also necessary to assess the potential of alternative explanations of key causes of informal payments. In this respect, a theory triangulation method was used to examine how the phenomenon is explained in the institutional theories devoted to rent-seeking behavior and corruption. Thus the questionnaire compared the explanation related to positive attitudes of Russian individual entrepreneurs toward informal payments with the dominant alternative explanation that the high frequency of informal payments is caused by excessive administrative burdens imposed by civil servants. In this respect, a competitive test was developed through the inclusion of the question in the questionnaire aimed at measuring the frequency of informal payments initiated by individual entrepreneurs in comparison with those initiated by regulatory agencies. The analytical goal was to establish what proportion of informal payments is explained by entrepreneurs' positive attitudes toward informal payments and what proportion is explained by factors related to regulatory agencies, such as low salaries paid to civil servants, the lack of advanced ethics codes for government employees, and the extent of bureaucracy at the regional level.

External validity of the research design deals with the degree to which the findings related to perceptions of Russia's individual entrepreneurs about "grease" payments can be generalized to different legal entities and other countries. In this respect, the proposed research project is limited to the examination of this phenomenon in the

context of the Russian individual entrepreneurs' experience. However, their experience might not be representative of other legal entities, for example, large corporations and state enterprises. Therefore, further research is needed to investigate the role of perceptions and attitudes toward "grease" payments in the decision-making process of different legal entities in other countries.

CHAPTER TWO. ATTITUDES OF RUSSIAN ENTREPRENEURS TOWARD "GREASE" PAYMENTS

This chapter includes two sections devoted to an analysis and discussion of the results and findings of the survey and interviews with entrepreneurs and representatives of self-regulatory organizations in Moscow, Saint Petersburg, and Karelia, with a special focus on case studies of the effectiveness of local governance in these regions.

2.1. Results and findings of the research

This section presents the results and findings of the research. The analysis of corruption in the Russian entrepreneurial sector shows that this problem is especially burdensome for individual entrepreneurs as they often lack financial and human resources to counteract administrative overregulation and extortion from corrupt public officials. According to Government Decree #702 of July 13, 2015, individual entrepreneurs are classified into three groups based on their turnover: (1) microenterprises, with a turnover of less than 120 million rubles (about $1.7 million), small businesses, with a turnover from 120 million to 800 million rubles (from $1.7 million to $11.4 million), and medium-sized businesses, with a turnover from 800 million to 2 billion rubles (from $11.4 million to $28.6 million). The most recent survey of individual entrepreneurs conducted by the Federal Statistics Services (2010) indicates that 98.6 percent of individual entrepreneurs have a turnover of less than $1.7 million (see Figure 1).

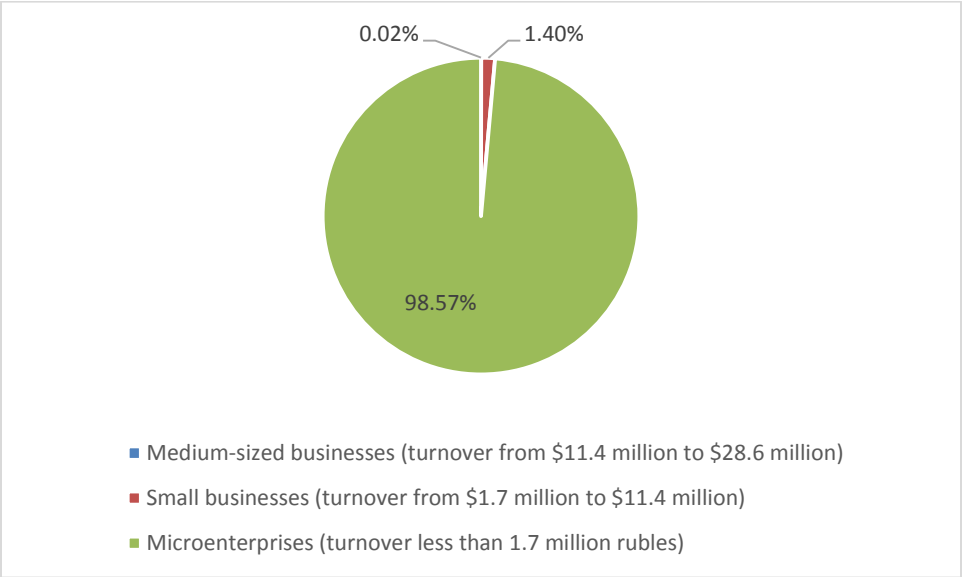


Figure 1 Distribution of individual entrepreneurs in Russia in accordance with their turnover
Source: The Federal Statistics Service (2010)

Individual entrepreneurs in Russia are engaged in different industries, such as agriculture, forestry, fishing, mining, manufacturing, construction, education, health, and communal services. However, as Figure 2 demonstrates, the majority of them (more than 61 percent) are engaged in retail and wholesale trade, followed by transport and communications industries (8.8 percent) and real estate (7.1 percent).

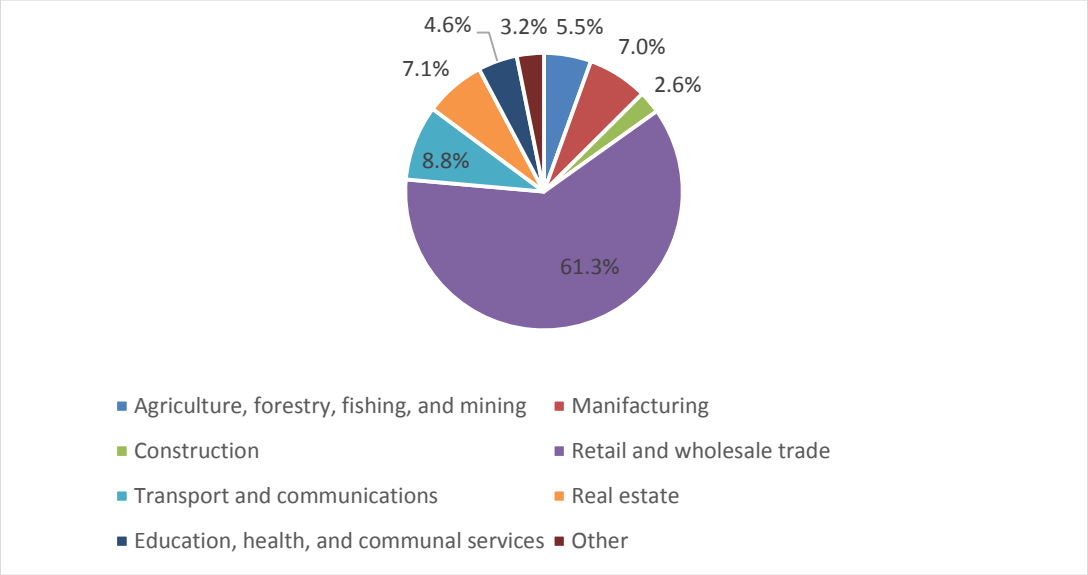


Figure 2 Distribution of individual entrepreneurs in Russia according to their industries
Source: The Federal Statistics Service (2010)

The conducted research gives evidence that individual entrepreneurs in all industries suffer from rent-seeking practices of regulatory agencies and public officials who extract facilitating payments for issuing permits and licenses required for business activities, processing governmental documents (including visas and work orders), providing inspections, and protecting property rights. These informal practices are deeply rooted in Russia's administrative system. In turn, rent-seeking activities of regulatory agencies lead to the problem of overregulation in the entrepreneurial sector, which manifests itself in additional bureaucratic procedures for doing business in Russia.

In new institutional theory, entrepreneurial problems related to overregulation are often referred to as "administrative barriers." There are many definitions of

administrative barriers. For example, Alexander Auzan and Polina Kruchkova define them as "a set of rules adopted by state agencies to collect charges for bureaucratic procedures related to doing business in the market" (2001: 73). Another definition was formulated by Alexander Degtiarev and Rustam Malikov who consider administrative barriers as "obstacles to starting and doing business that result from the introduction of excessive bureaucratic procedures and rules set by the federal, regional, and municipal regulatory agencies in order to receive additional payments" (2003: 48). However, these definitions have limitations for this research because they do not refer directly to "grease" payments despite the fact that entrepreneurs and other business entities often make such payments to overcome excessive bureaucratic procedures. This is why for the purpose of this research, I define administrative barriers as burdensome bureaucratic procedures in terms of their costs and time requirements set by regulatory agencies to extract "grease" payments from individual entrepreneurs and other business entities.

In a broad sense, administrative barriers can be divided into two groups. The first group is related to bureaucratic procedures that are necessary to start a new business, such as registering a business, getting licenses and permits, and getting electricity to new buildings. The second group is related to bureaucratic procedures that emerge in the process of operational activities of the already existing businesses. For example, they can include inspections by regulatory agencies, getting access to credits and procurement contracts, and reporting to government authorities (see Figure 3).

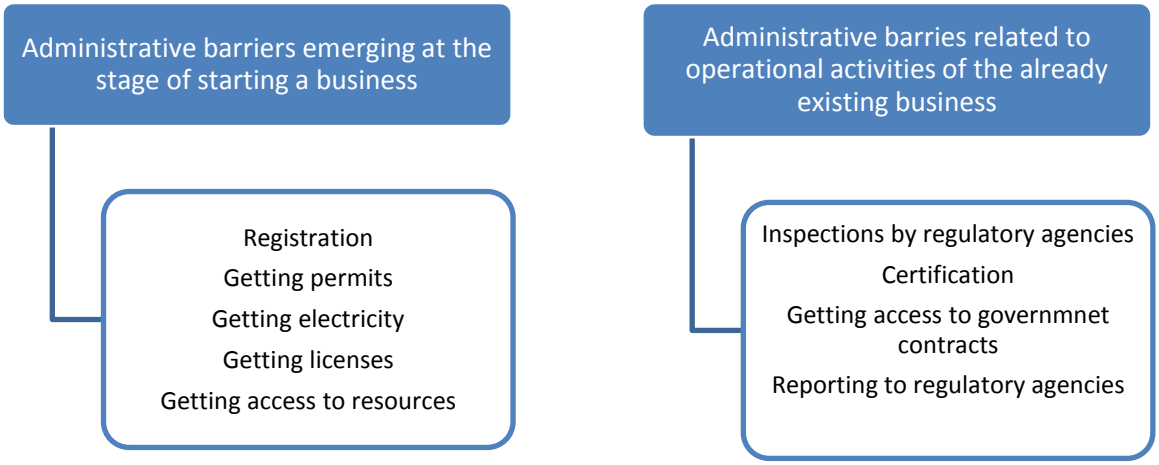


Figure 3 Major groups of administrative barriers

Administrative barriers prevent the development of the entrepreneurial sector in Russia by transferring substantial informal payments from businesses to corrupt public officials. This research shows that rent seeking of public officials and extortion of "grease" payments remain high in all Russian regions; yet, some regions suffer from them more than others. The following sections will focus on regional differences in attitudes of entrepreneurs toward informal practices and rent-seeking behavior of public officials. First, I will use the data collected through the survey to check the hypotheses about attitudes of entrepreneurs toward "grease" payments and to identify regional differences in these attitudes. Then, based on a series of interviews conducted in Moscow, Saint Petersburg, and Karelia, I will analyze key problems that individual entrepreneurs face while dealing with regulatory agencies at the regional level.

Attitudes of Russian entrepreneurs toward "grease" payments

The research gives evidence about the prevalence of "grease" payments in the entrepreneurial sector. Thus 74 percent of respondents admitted making "grease" payments on at least one occasion. The study results demonstrate that most entrepreneurs suffer from rent-seeking practices of regulatory agencies and public officials who extort facilitation payments for issuing permits and licenses required for business activities, processing governmental documents, providing inspections, and protecting property rights.

The results of the survey allows for the testing of the hypotheses. Of the 91 respondents, 74 percent are male entrepreneurs (N = 67), and 26 percent are female entrepreneurs (N = 24). On average, they have three employees under their supervision. Only one-fourth of the respondents have a membership in business associations. Table 4 provides means for the frequency and attitudes toward "grease" payments, as well as the number of employees.

Table 4 Descriptive statistics and means

Variable	Number of observations	Mean	Std. deviation	Min	Max
Frequency of "grease" payments	91	2.25	1.53	0	4
Perceptions about "grease" payments	91	0.28	0.74	-1.2	2
Number of employees	91	3.44	3.00	0	12

The dependent variable indicating the frequency of "grease" payments was modeled in an ordinal logit framework, which illuminates interpretation problems

inherent in Likert scales. The frequency was ordered from never (=0) to very often (=4). The model includes four independent variables: attitudes toward "grease" payments (estimated as an average of entrepreneurs' responses to 5 questions regarding their perceptions about these payments based on a Likert scale), gender, membership in business associations, and the number of employees.

To test the hypotheses, the frequency of "grease" payments is regressed on entrepreneurs' attitudes toward these payments, their gender, and their membership in business associations. The number of employees is used as a controlling variable to check whether the size of businesses impacts the incidence of "grease" payments. For example, Claudia Trentini and Malinka Koparanova (2013) argue that larger businesses "need to interact more with government bureaucracy" and they are subject to more severe administrative burden, which make them more prone to pay "grease" payments. Furthermore, to check whether gender and membership in business associations combined together have an additional impact on the frequency of "grease" payments, the ordered logistic model includes the interaction term of female membership in business associations. The results are summarized in Table 5. It is important to note that in a ordered logistic regression, significantly positive coefficients indicate that marginal increases in the related independent variables will increase the probability of the highest frequency of "grease" payments and decrease the probability of their lowest frequency. Vice versa, significantly negative coefficients indicate that marginal increases in the related independent variables will decrease the probability of the highest frequency of "grease" payments and increase the probability of their lowest frequency.

Table 5 The results of the ordered logistic regression

Independent variables	Coefficients	Std. error	z	P>|z|
Female	-1.68	0.58	-2.88	0.00***
Attitudes	1.11	0.33	3.35	0.00***
Membership	-1.86	0.72	-2.57	0.01**
Number of employees	0.08	0.07	1.10	0.27
Female membership	0.15	1.38	0.11	0.91
Log likelihood = -106.68212				
Prob > chi2 = 0.0000				
Pseudo R2 = 0.1860				
N = 91				
VIF = 1.35				
*** p<0.01, ** p<0.05, * p<0.1				

First, the results of the ordered logistic model support Hypothesis 1, according to which the high frequency of "grease" payments to regulatory agencies is related to positive attitudes toward such transactions, with an estimated coefficient of 1.11 at the 5 percent level of significance. This suggests that a one-point increase in positive attitudes toward "grease" payments raises the log odds of moving one category up on the scale of the frequency of "grease" payments by 1.11. This finding is consistent with the theoretical assumptions and empirical findings from previous studies that found the relationship between positive attitudes toward corruption and the frequency of informal practices (e.g., Powpaka 2002; Shekshnia, Ledeneva, & Denisova-Schmidt 2014).

Second, the results of the ordered logistic model support Hypothesis 3 related to a negative impact of membership in business associations on the frequency of "grease" payments, with a coefficient of –1.86 at the 5 percent level of significance. This suggests that being a member of a business association decreases the log odds of moving one category up on the scale of the frequency of "grease" payments by 1.86. However, the

interaction term of female membership in business associations and the number of employees did not have significant coefficients at the 5 percent level of significance.

Third, the results of the ordered logistic model confirm Hypothesis 5, by demonstrating that female entrepreneurs use "grease" payments less frequently than their male counterparts, with an estimated coefficient of −1.68 at the 5 percent level of significance. This means that being a female entrepreneur decreases the log odds of moving one category up on the scale of the frequency of "grease" payments by 1.68. This result is consistent with studies related to gender-specific attitudes toward corruption that provide evidence that women are less tolerant to corruption and are less likely to be involved in informal activities (e.g., Deshpande, Joseph, and Maximov 2000; Alatas et al. 2009; Rivas 2013). In addition, to check if the model has the problem of multicollinearity (a correlation between predictors), the variance inflation factors (VIF) were estimated in order to measure how much the variance of the estimated regression coefficients is inflated as compared to when the predictor variables are not linearly related. Since the VIF is equal to 1.35 (VIF < 10), multicollinearity is not problematic.

Since logistic coefficients are in log-odds units and cannot be interpreted as regular OLS coefficients, it is useful to estimate the predicted probabilities. Table 6 demonstrates predicted probabilities of the frequency of "grease" payments for female and male entrepreneurs.

Table 6 Predicted probabilities of the frequency of "grease" payments for female and male entrepreneurs

Frequency of "grease" payments	**Delta method**				
	Gender	**Margin**	**Std. error**	**Z value**	**P>|z|**
0 = Never	**Female**	0.41	0.08	5.03	0.00***
	Male	0.16	0.04	3.60	0.00***

1 = Very rarely	**Female**	0.04	0.02	1.74	0.08*
	Male	0.02	0.01	1.72	0.09*
2 = Rarely	**Female**	0.18	0.05	3.63	0.00***
	Male	0.14	0.04	3.75	0.00***
3 = Often	**Female**	0.28	0.06	4.61	0.00***
	Male	0.41	0.06	7.03	0.00***
4 = Very often	**Female**	0.08	0.04	1.94	0.05*
	Male	0.27	0.05	5.82	0.00***
*** p<0.01, ** p<0.05, * p<0.1					

The predicted probability of the lack of "grease" payments for female entrepreneurs is 41 percent, while for male entrepreneurs this probability is only 16 percent. In the same vein, the predicted probability of the highest frequency of "grease" payments for female entrepreneurs is 8 percent, while for male entrepreneurs this probability is much higher – 27 percent. In addition, Table 7 demonstrates predicted probabilities of the frequency of "grease" payments for members and non-members of business associations.

Table 7 Predicted probabilities of the frequency of "grease" payments for members and non-members of business associations

Frequency of "grease" payments	**Delta method**				
	Membership	**Margin**	**Std. error**	**Z value**	**P>|z|**
0 = Never	**Member**	0.46	0.10	4.46	0.00***
	Non-member	0.19	0.04	5.24	0.00***
1 = Very rarely	**Member**	0.04	0.02	1.68	0.09*
	Non-member	0.03	0.01	1.75	0.08*
2 = Rarely	**Member**	0.17	0.05	3.54	0.00***
	Non-member	0.13	0.04	3.79	0.00***
3 = Often	**Member**	0.26	0.74	3.54	0.00***
	Non-member	0.39	0.05	7.45	0.00***
4 = Very often	**Member**	0.07	0.04	1.64	0.10
	Non-member	0.27	0.04	6.07	0.00***
*** p<0.01, ** p<0.05, * p<0.1					

The predicted probability of the lack of "grease" payments for members of business associations is 46 percent, while for non-members this probability is only 19 percent. In the same vein, the predicted probability of the highest frequency of "grease" payments for members of business associations is 7 percent, while for male entrepreneurs this probability is much higher – 27 percent.

In addition, a OLS regression was run to check Hypothesis 2 and 4, with the dependent variable of attitudes toward "grease" payments and two independent variables of gender and membership in business associations. The results showed that gender is predictive of different attitudes toward these payments, with a coefficient of −0.76 at the 5 percent level of significance. The results of the regression analysis support Hypothesis 4, according to which female entrepreneurs demonstrate more negative attitudes toward "grease" payments than their male counterparts. This finding is highly consistent with the results of the research conducted by Deshpande, Joseph, and Maximov (2000). However, the results of the model do not confirm the Hypothesis 2 about the impact of membership in business associations on attitudes toward "grease" payments. The estimated coefficient for membership in entrepreneurial organizations is −0.24, and it is not significant at the 5 percent significance level. This result suggests that membership in business associations has no direct impact on attitudes toward "grease" payments, rather entrepreneurial organizations indirectly influence the frequency of "grease" payments through their anti-corruption programs. Taking this into account, Chapter 3 of this dissertation will focus on an analysis of anti-corruption efforts of Russian self-regulatory organizations.

In addition, the survey revealed certain regional differences in opinions of entrepreneurs about alternative mechanisms to solve the problem of overregulation, such as filing legal complaints within a court, petitions to public authorities, and official complaints to entrepreneurial organizations (Figure 4).

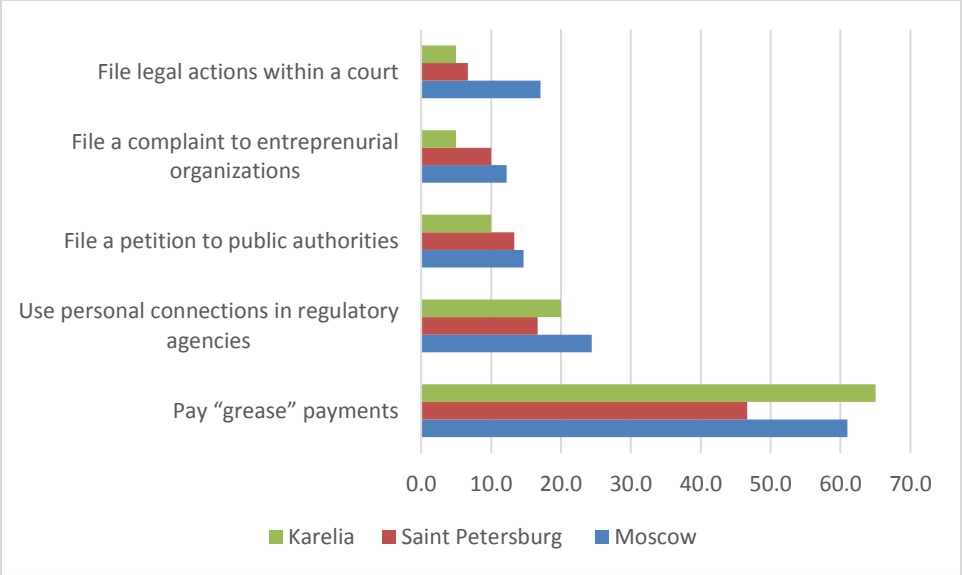


Figure 4 Regional differences in solutions of administrative problems experienced by individual entrepreneurs

As far as filing complaints to self-regulatory organizations are concerned, Figure 4 demonstrates that this solution is most frequently used in Moscow. The choice of self-regulatory organizations as protectors of entrepreneurial rights depends on the assessment of their effectiveness in the given region. Unlike businesses in Karelia and Saint Petersburg, entrepreneurs from Moscow consider self-regulatory organizations more useful for resolving administrative problems. Obviously, this finding reflects subjective perceptions of entrepreneurs about the possibility of collective organizations to help them

resolve their problems with regulatory agencies and counteract extortion. As an interviewed entrepreneur from Moscow put it:

> Theoretically, entrepreneurs can take legal actions in courts or file a complaint to public authorities. In practice, it does not work. Nobody will listen to an individual entrepreneur. Imagine that some Ivan Ivanovich filed a complaint. Most likely, he will receive "otpiska" [a runaround, that is, some formal explanation why his complaint is not valid] or his complaint will not be registered at all. The same happens in courts. That's why we need collective organizations of entrepreneurs. First, public authorities give more importance to complaints of collective organizations than to complaints of individual entrepreneurs. Second, collective organizations are more protected in cases of retaliations. If an individual entrepreneur criticizes state authorities, they can simply close his business or they can even open a criminal case against him. Collective organizations of entrepreneurs are a relatively safe way to convey entrepreneurial concerns to the authorities since it is more difficult to close them. In addition, they provide an opportunity for entrepreneurs to exchange ideas on how to mitigate corruption.

Interestingly, the interviewed entrepreneurs from Saint Petersburg and Karelia expressed their opinion that it is necessary to create self-regulatory entrepreneurial organizations in their regions. However, they do not have sufficient information about the already existing business associations. This suggests that one of the problems of business associations in Saint Petersburg and Karelia is an inefficient system of disseminating information about their activities.

Since self-regulatory organizations are not very efficient in defending entrepreneurial rights at the regional level, informal methods of solving administrative problems through "grease" payments and personal connections with public officials remain popular among individual entrepreneurs in all three regions. Positive attitudes of entrepreneurs toward "grease" payments are explained by the fact that they perceive such payments as the easiest and quickest way to solve administrative problems in comparison

with legal alternatives. However, certain regional differences were identified in the use of various legal solutions to overregulation. These differences can be explained by subjective perceptions of entrepreneurs about corruption in the judicial and administrative systems in their regions. For example, Karelian entrepreneurs tend to file legal complaints within a court less frequently than their counterparts in Moscow and Saint Petersburg.

Interviews conducted in Moscow, Saint Petersburg, and Karelia identified several reasons behind the unpopularity of legal solutions, such as distrust in courts, high levels of perceived corruption in the judicial system, and a lack of financial and human resources to take legal actions. Entrepreneurs' perceptions about corruption in courts are based on their own experience or experiences of their counterparts in the region. Thus, an entrepreneur from Karelia explained his difficulties in the following way:

> Russia's laws have many loopholes that are often used by corrupt officials. For example, we filed an appeal to a local court about violations committed by Karelian procurement officers in an online auction. According to Article 57 of Federal Law #94, we can appeal decisions of procurement officers at any time of placing the order in an online auction, but no later than 10 days from the date of its posting on the official website. Courts are to make a decision on an appeal within five days. When we received a court refusal, we immediately submitted another appeal to the Arbitration court. Then we had to wait another five days. In total, we spent 11 days to appeal violations in the online auction by the procurement officers. Therefore, we went beyond the 10-day period established by Federal Law #94. Another situation involves filing an application to terminate a government contract with affiliated private companies. It requires a lot of time – from three to six months. As a result, the whole process becomes useless because the contract might be executed within these three or six months. The court cannot nullify this contract after its termination, even though all violations are proven.

An entrepreneur from Moscow gave another example of inefficiencies in the court system:

> Courts may refuse to accept an application based on insufficient evidence in accordance with Articles 131 and 132 of the Code of Civil Procedure. In fact, this is a subjective decision of a particular court whether an entrepreneur provided sufficient evidence of violations or not. And it is clear that virtually any complaint can be rejected on the basis of insufficient evidence. I do not recommend entrepreneurs to spend their time solving problems with regulatory agencies in courts. There are many regulations that contradict each other. And almost always there is some legal act that will make a complaint invalid.

Therefore, inefficient legal protection in situations where public officials extort "grease" money affects entrepreneurs' decisions to use informal transactions. Weak enforcement is one of the most important factors facilitating the use of "grease" payments in Russia. Respondents from Moscow, Saint Petersburg, and Karelia indicated that their second least favorable solution after taking legal actions in courts is filing complaints to public authorities. This finding can be explained by entrepreneurs' distrust in public authorities in Russia and their fear of retaliation for reporting corrupt regulatory agencies. Fear of revenge by officials was found very strong in all regions. An interview with an entrepreneur from Moscow provides insights why it is not very common for businesses to complain to public authorities about violations of their rights:

> If an entrepreneur complains about violations of his rights during an inspection organized by some regulatory agency, other regulatory agencies will immediately send their officials to inspect his business and they will definitely find some flaws in his activities. It is some kind of "krugovaya poruka" [shared responsibility/irresponsibility]. As a result, the entrepreneur will find himself in a situation where he might have to close his business. It is very difficult to resist regulatory agencies because of very controversial laws. Here is an example. Employees of security organizations require that business offices located on the ground floor install window bars. Officials from fire safety agencies require removing all bars from windows. In this case, entrepreneurs find themselves in situations where by following the prescriptions of one regulatory agency, they violate the requirements of another agency.

This explains why individual entrepreneurs prefer to solve their problems related to administrative overregulation on their own, instead of filing legal complaints against corrupt public officials and regulatory agencies. In fact, individual entrepreneurs act according to the Russian saying "if you're drowning, you're on your own." This is why they often use informal practices, such as personal connections or "grease" payments to mitigate their problems with regulatory agencies. In part, the observed unpopularity of legal solutions is related to the fact that entrepreneurs and other small business entities often lack experience and knowledge of how to defend their rights and publicly voice their concerns. Often regulatory agencies take advantage of this situation and create additional obstacles to doing business in their regions. The following section will analyze specific regional barriers that prevent the effective development of entrepreneurship in Moscow, Saint Petersburg, and Karelia.

Administrative barriers in the entrepreneurial sector at the regional level

The interviews conducted in Saint Petersburg, Moscow, and Karelia show that individual entrepreneurs in these regions share the same problems related to administrative barriers. Among the most important problems, respondents in all regions named excessive number of documents required by regulatory agencies, excessive time for bureaucratic procedures, unclear information about regulations, and overall inefficacy of the administrative system. Figure 5 shows key spheres where administrative problems are especially burdensome for individual entrepreneurs in Moscow, Saint Petersburg, and Karelia. At the stage of starting a new business, the most burdensome administrative barriers include getting electricity, licenses, and permits. Yet, the following analysis will

show that there are certain regional differences in the number of procedures and time required to start a new business in different regions. Also, individual entrepreneurs in Moscow, Saint Petersburg, and Karelia indicate that in the process of their operational activities, they face severe problems during inspections by regulatory agencies and while getting access to resources and government contracts.

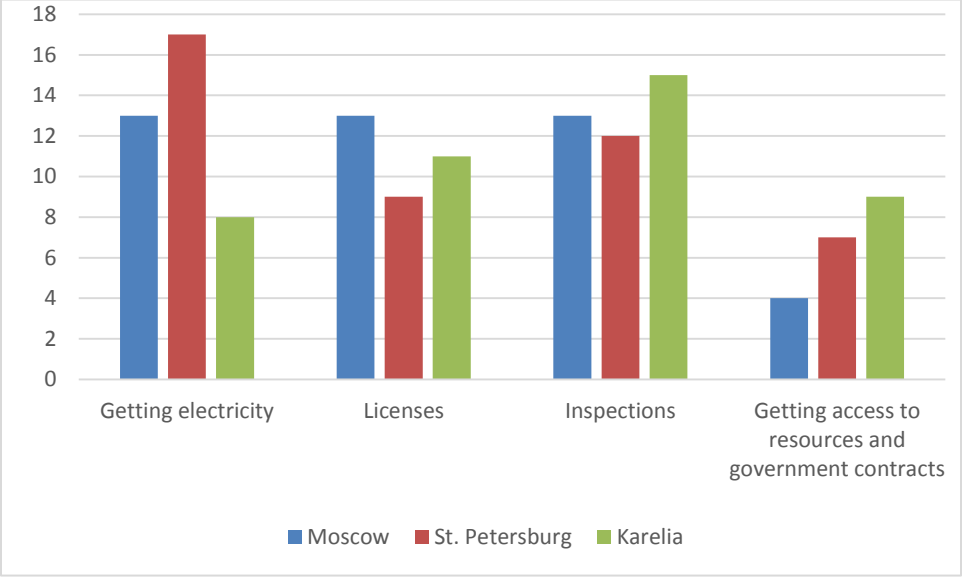


Figure 5 Spheres where entrepreneurs are facing the most severe problems while dealing with regulatory agencies in Moscow, Saint Petersburg, and Karelia (the number of mentions in interviews)

As shown in Figure 5, getting electricity is one of the most severe problems in all three regions. A story told by one of the interviewed entrepreneurs from Saint Petersburg is very illustrative of the seriousness of the situation in this sphere:

> I am an owner of a furniture business, with nine employees under my supervision. During my first years, I rented a shop in one of the largest commercial centers in the city. However, taking into account annual increases of my rent payments and my plans to expand my business, I decided to take out a loan in a local bank to buy my own small building. The only thing that I did not take into account was the problem of getting electricity in my new building located in one of the city suburbs. An official from the state electrical agency informed me that the necessary administrative procedures might take over a year. I could not wait for such a long time. The official told me that he could speed up the administrative process in return for additional money above the appropriate legal fees and formal payments. I did not want to pay extra but I feared I could lose my business if I did not get electricity.

A detailed summary of the procedures, time, and cost required for entrepreneurs to obtain electricity for a newly constructed building in Saint Petersburg is depicted in Appendix 4. This summary clearly shows that Russia's administrative regulation in this sphere is inefficient, requiring excessive interactions with public organizations and giving them a wide discretion in extending necessary technical procedures and approvals. Individual entrepreneurs indicate that they often have to make facilitation payments to get electricity.[3]

Overregulation in the sphere of getting electricity in Saint Petersburg is very typical for Russia. For instance, *the 2015 World Bank Doing Business Report* ranked Russia 143 among 189 countries on the ease of getting electricity for small businesses

[3] It is necessary to note that even foreign companies with a zero-tolerance policy toward corruption might be forced to pay facilitation payments for electricity in Russia. For example, in 2010, the Swedish furniture giant *Ikea* was involved in a large corruption scandal when its executives allowed a contractor to bribe an electrical agency official in Saint Petersburg. As a result, *Ikea* dismissed the senior executives Per Kaufmann, general director for Russia and Eastern Europe, and Stefan Gross, director for *Ikea*'s shopping mall business in Russia (Kramer 2010). According to Kirill Kabanov, a former Federal Security Service official who now heads the National Anti-Corruption Committee, "For foreign companies, the corruption risks in Russia can outweigh their potential profits. Foreign companies are concerned that zero tolerance to corruption might get them into situations of unfair competition with those businesses that agree to pay bribes" (Nikishenkov 2010). For this reason, "Ikea had probably contracted out the work of securing permits so they could avoid the appearance of paying bribes" (ibid). Therefore, instead of direct bribing, some companies use different forms of camouflaged bribery, such as donations or outsourcing of informal transactions.

(2014: 213). Thus, according to this report, to get electricity, Russian businesses were required to go through six administrative procedures which took 189 days on average, with an estimated cost of 321 percent of income per capita (World Bank 2014: 122). The most recent round of the data collection completed by the World Bank showed that Saint Petersburg, Moscow, and the Karelian capital city of Petrozavodsk are among the worst regions in terms of the ease to get electricity (The World Bank 2015). Not surprisingly, many businesses try to overcome these excessive regulations by paying "grease" money to speed up routine governmental actions.

Unlike electricity, the situation with getting licenses and permits varies across different regions. Table 8 presents procedures, the number of days, and costs as a percentage of warehouse value to get construction permits in major Russian cities.

Table 8 Costs and time required to get a construction permits in Russian cities

City	Rank	Procedures (number)	Time (days)	Cost (% of warehouse value)
Irkutsk	6	17	215	141
Kaliningrad	3	17	239	86.3
Kaluga	9	24	264	48
Kazan	14	32	223	40
Kemerovo	21	24	322	74.8
Khabarovsk	29	32	269	188.9
Kirov	5	29	206	47.3
Moscow	30	47	392	171.5
Murmansk	19	16	357	137.4
Novosibirsk	18	20	248	146.7
Omsk	20	29	312	62.4
Perm	12	21	229	107.7
Petrozavodsk	16	18	285	117.2
Rostov-on-Don	15	18	294	95
St Petersburg	9	18	361	51.3

City	Rank	Procedures (number)	Time (days)	Cost (% of warehouse value)
Samara	24	30	200	417.9
Saransk	8	30	191	67.3
Stavropol	2	23	216	47.1
Surgut	1	17	150	106.2
Tomsk	6	18	279	66.5
Tver	25	30	448	75.2
Ulyanovsk	4	30	191	45.6
Vladikavkaz	11	29	201	91.1
Vladivostok	22	26	218	169.4
Volgograd	27	23	371	186
Voronezh	28	31	364	111.4
Vyborg	23	20	279	297.9
Yakutsk	26	26	280	178
Yaroslavl	17	22	247	130.6

Source: The World Bank (2012).

As Table 8 shows, Moscow ranks the last on the ease to get construction permits. Interestingly, entrepreneurs in Petrozavodsk have more problems with getting construction permits than their counterparts in Saint Petersburg, which is explained by the fact that regional government agencies in Karelia impose additional requirements on businesses in this sphere. Also, there are certain regional differences in the ease of getting access to resources and government contracts for individual entrepreneurs. Although in all three regions, respondents indicate that it very difficult for them to get access to credits and government contracts, the situation is much better in Moscow than in Saint Petersburg and Karelia.

According to the 2015 OECD report, Russian banks' "rejection rates remain high, and it is widely believed that SMEs [small and medium-sized enterprises] face more

severe problems with access to external capital than large enterprises" (2015: 289). The OECD report explains high rejection rates by several factors: (1) the uneven level of Russia's banking industry that is still underrepresented outside of the biggest cities, such as Moscow and Saint Petersburg, (2) an insufficient use of new lending technologies, and (3) the lack of financial transparency of small businesses and individual entrepreneurs. These factors make many bank institutions consider this type of lending to be risky.

Also, the recent survey of small businesses conducted by the Russian Association of Entrepreneurs OPORA demonstrates that limited access to financial resources was one of their major problems. According to this survey, 44 percent of industrial small businesses face severe problems in accessing long-term financing (OPORA 2013). Also, the OPORA report points to very high interest rates for entrepreneurs (typically ranging from 14 percent to 17 percent) and their uneven regional distribution, with increased interest rates in remote regions (ibid.). This explains why individual entrepreneurs in Karelia consider access to financial resources more challenging than entrepreneurs in Moscow.

As far as government contracts are concerned, individual entrepreneurs in Moscow have much better access to public procurement than in other regions. There are two key factors explaining this situation. First, the majority of federal agencies are located in Moscow and, therefore, there are more opportunities for businesses to use their connections with procurement officers in the capital. Second, the main offices of national entrepreneurial organizations, such as the Russian Union of Industrialists and Entrepreneurs, and the Chamber of Commerce of the Russian Federation, are located in

Moscow and they take significant efforts to help their members to get access to government contracts. However, even in Moscow, individual entrepreneurs complain that they are systematically underrepresented in the public procurement. For example, an entrepreneur from Moscow illustrates the existence of unfair disparities in procurement in the following way:

> In the area of public procurement, for example, most contracts are signed either with affiliated companies or with big companies that pay enormous kickbacks. In Moscow, kickbacks can be as high as 70 percent. This is why for an individual entrepreneur like me, it is hardly possible to get a government contract, despite the fact that, in accordance with Federal Law #44, at least 15 percent of the annual volume of government purchases should be placed among small businesses and socially-oriented non-profit organizations. However, you will never find any public agency that follows this rule. I think that the key problem is an inefficient system of fines for public officials. For example, Article 11 of the Administrative Code states that if an agency buys less than 15 percent of the total annual volume of their purchases from small businesses and socially-oriented non-profit organizations, they will receive an administrative penalty in the amount of 50,000 rubles [about $715]. However, this amount is nothing in comparison with the amount of government contracts and the related amount of kickbacks. Therefore, for public officials, it is more profitable to violate the legislation and then pay administrative fines, than to follow the abovementioned procurement rule.

Finally, as far as inspections by regulatory agencies are concerned, there are practically no regional differences. In Moscow, Saint Petersburg, and Karelia, entrepreneurs complain that their regional public authorities failed to resolve this problem. In most cases, regulatory agencies use reactive responses to irregularities in operational activities of businesses by imposing on them large fines, instead of proactive measures aimed at preventing such irregularities. Thus, according to Boris Titov (2014), Russia's business ombudsman, "in 2013, only 12 percent of inspections ended with warnings, and in the rest 88 percent, fines were imposed on businesses." In addition,

regulatory agencies often use unrealistic and conflicting requirements, outdated regulations, and arbitrary interpretations of legislative acts. Thus, according to a survey of 2,000 entrepreneurs conducted by Russia's business ombudsman, "94 percent of businesses are not aware of all requirements set by the related regulatory agencies. In one case, a regulatory agency used outdated legal standards and official guidelines which were developed in the 1930s" (ibid.). In turn, reluctance of regulatory agencies to modernize their standards and improve their requirements might be related to their focus on collecting fines instead of preventing irregularities in business activities.

Administrative barriers related to inspections by regulatory agencies remain high in Russia in comparison with developed countries. For example, Table 9 presents an average number of inspections of individual entrepreneurs and businesses in 2011-2012 by different governmental agencies.

Table 9 Average numbers of inspections of businesses and entrepreneurs in 2011-2012

Inspections by agencies	2011	2012	Change by %
Customs Service of Russia	1.89	3.05	61.4
Police inspections	1.68	2.04	21.4
Antimonopoly Service	1.06	1.91	80.2
Biomedical Agency	1.5	1.62	8.0
Ministry of Culture	1.36	1.54	13.2
Supervision of Transport	1.6	1.44	-10.0
Ecological, Technological, and Nuclear Supervision	1.22	1.4	14.8
Financial Supervision	1.65	1.39	-15.8
Supervision of Consumer Rights Protection and Human Welfare	1.26	1.38	9.5
Ministry of Finance	1	1.33	33.0
Technical Regulation and Metrology	1.42	1.33	-6.3
Supervision of Natural Resources and Ecology	0.88	1.3	47.7
Supervision of Health Care	1.39	1.26	-9.4
Veterinary Supervision	1.19	1.2	0.8
State Registration	1.09	1.13	3.7
Emergency Ministry	1.0	1.12	12.0
Labor and Employment Service	1.09	1.1	0.9

Source: Ministry of Economic Development (2014: 72).

As one can see in Table 9, in 2012, on the average, small businesses and individual entrepreneurs were subject to 1.3 inspections by regulatory agencies. According to Alexander Litvak (2010: 8), an average score of the administrative burden of such inspections on entrepreneurs was estimated to be 2.84 on a 4 point scale (1 - extremely burdensome, 4 – not burdensome at all). Interestingly, Litvak found that entrepreneurs use informal relationships and bribes more frequently during fire safety and veterinary inspections (ibid.).

In order to mitigate this problem, in 2015, Russia's Governmental Commission adopted amendments to Federal Law #294 "On the Protection of the Rights of Legal Entities and Individual Entrepreneurs During State Control (Supervision) and Municipal Control" of December 26, 2008. These amendments introduce a three-year moratorium on planned inspections of small businesses and individual entrepreneurs beginning from January 1, 2016 until December 31, 2018 (*Ministry of Economic Development of the Russian Federation* 2015). However, this three-year moratorium is not expected to significantly decrease the current administrative burden of inspections for the majority of individual entrepreneurs and small businesses because it allows for numerous exceptions.

First, the recent amendments to Federal Law #294 allow regulatory agencies to inspect without any restrictions those entrepreneurs who received an administrative penalty of disqualification, suspension or the cancellation of their licenses within the previous 3 years. Second, the moratorium does not cover regular inspections of individual entrepreneurs who work in the spheres of health, education, social services, heating, electricity, and energy conservation. Third, the moratorium is not related to inspections of

industrial safety, radiation safety, and facilities that might have a negative impact on the environment. Finally, the moratorium includes only planned inspections, that is, inspections scheduled in the official plan that is published in advance (usually in September-October of the previous year) on the website of the regional public prosecution offices. Therefore, the moratorium does not regulate unannounced (also known as "unplanned") inspections that can be conducted by different regulatory agencies without any advance notice. Table 10 demonstrates the percentage of unannounced inspections conducted by different regulatory agencies in 2011-2012.

Table 10 Percentage of unannounced inspections

Agency	2011	2012
Accreditation Service	-	100%
Antimonopoly Service	91%	92%
Customs Service	48%	90%
Migration Service	60%	75%
Ministry of Finance	66%	75%
Labor and Employment Service	77%	74%
Service for Financial Supervision	71%	62%
Ecological, Technological, and Nuclear Supervision	68%	62%
Agency for Supervision of Health Care	63%	62%
Supervision of Consumer Rights Protection and Human Welfare	66%	59%
Biomedical Agency	70%	58%
Emergency Ministry	62%	56%
Agency for Technical Regulation and Metrology	52%	53%
Supervision of Transport	68%	48%
Ministry of Culture	45%	43%
Veterinary Supervision	48%	42%
State Registration	31%	35%

Source: Ministry of Economic Development (2014: 73).

According to Table 10, in most regulatory agencies, the percentage of unannounced inspections outnumbers the percentage of planned inspections. This suggests that despite the three-year moratorium on planned inspections, the

administrative burden of monitoring activities by regulatory agencies will remain significantly high for the majority of individual entrepreneurs and small businesses. The problem of inspections is exacerbated by the lack of external public and legal control over discretional abuses by public officials. The most severe problems in this sphere include limited access of the public to information about regulatory activities of agencies, insufficient coverage of corruption in the media, inadequate judicial review of agencies' actions, and lack of ombudsman programs in the entrepreneurial sector. In this respect, the following section will focus on an analysis of factors behind reluctance of local public authorities in Moscow, Saint Petersburg, and Karelia to mitigate administrative barriers of doing business at the regional level.

2.2. Analysis and discussion of the results

This section is devoted to an analysis of regional differences in the quality of local governance, a level of corruption, and the effectiveness of economic policies in Moscow, Saint Petersburg, and Karelia. First, I will analyze regional cases of governance and discuss their consequences for the development of the entrepreneurial sector in all three regions. Then, I will identify key implications of this analysis for anti-corruption activities.

Comparative analysis of the effectiveness of regional governance in Moscow, Saint Petersburg, and Karelia

Among the regions included in this dissertation research, Moscow is characterized by the highest level of entrepreneurial activities, while Karelia represents the lowest level. Further, while Moscow and Saint Petersburg experienced an increase in the number of entrepreneurs over the recent years, in Karelia, their number decreased by almost 8

percent between 2009 and 2014 (The Federal Statistics Service 2015). One of the key reasons behind this negative trend is the failure of the Karelian Administration to create a favorable entrepreneurial climate in their region. National ratings of the effectiveness of economic development at the regional level provide a relative measure of the quality of local governance in Moscow, Saint Petersburg, and Karelia. Table 11 summarizes regional ranks on the development of a competitive environment, public-private partnerships, innovation activities, and investment climate.

Table 11 Ratings of the effectiveness of regional governance in Moscow, Saint Petersburg, and Karelia

Region	Moscow	Saint Petersburg	Karelia
Rank of the region on the development of a competitive environment in 2014 (among 82 regions)	2nd-3rd	4th	67th-68th
Rank of the region on innovation development in 2012 (among 82 regions)	1st	3rd	71st
Rating of the region on investment climate in 2012-2013	Group 1A (maximum potential and minimum risk)	Group 1A (maximum potential and minimum risks)	Group 3B1 (low potential and moderate risks)
Rank of the region on the development of public-private partnerships in 2014-2015 (among 85 regions)	3rd	1st	63rd

Sources: Federal Anti-Monopoly Service of the Russian Federation (2015); National Research University Higher School of Economics (2014: 18); Rating Agency RAEX (2014); the Center for the Development of Public-Private Partnership (2015: 25-28).

Table 11 provides evidence of ineffective governance in Karelia in comparison with Moscow and Saint Petersburg. The results of Karelian economic policies are among

the worst in the country. The national ratings clearly reveal that Karelia's ranks on the development of a competitive environment, public-private partnerships, innovation and investment policies are among the lowest in Russia. Not surprisingly, the most recent ratings of the quality of regional governance by the Center for Information and Communications Research (2014, 2015) and the Foundation for the Development of Civil Society (2014, 2015) ranked the head of the Karelian Administration Alexander Khudilainen among the least effective governors in Russia. Table 12 compares the ratings of the Moscow governor Sergey Sobianin, the Saint Petersburg governor Georgy Poltavchenko, and the governor of the republic of Karelia Alexander Khudilainen calculated by the Center for Information and Communications Research and the Foundation for the Development of Civil Society in 2014 and 2015.

Table 12 Ratings of Moscow, Saint Petersburg, and Karelia's governors

Source	Year	Moscow (Sergey Sobianin)	Saint Petersburg (Georgy Poltavchenko)	Karelia (Alexander Khudilainen)
The Center for Information and Communications Research "Rating" (2015)	2015	7^{th} (among 85 governors)	9^{th} (among 85 governors)	85th (among 85 governors)
The Center for Information and Communications Research "Rating" (2014)	2014	10^{th} (among 83 governors)	11^{th} (among 83 governors)	83th (among 83 governors)
The Foundation for the Development of Civil Society (2015)	2015	9^{th} (among 81 governors)	26^{th}-27^{th} (among 81 governors)	74^{th}-77^{th} (among 81 governors)
The Foundation for the Development of Civil Society	2014	8^{th}-10^{th} (among 82 governors)	22^{nd}-25^{th} (among 82 governors)	78^{th}-80^{th} (among 82 governors)

Source	Year	Moscow (Sergey Sobianin)	Saint Petersburg (Georgy Poltavchenko)	Karelia (Alexander Khudilainen)
(2014)				

As we can see in Table 12, the Center for Information and Communications Research (2014, 2015) ranked Alexander Khudilainen the last among Russia's governors. Also, in 2014 and 2015, the Foundation for the Development of Civil Society included the Karelian governor in the group of the worst governors at the regional level. Khudilainen received the worst rankings not only because of low socio-economic indicators of the regional development, but also because of negative assessments of his governance by Karelian residents due to his involvement in the corruption scandals. For example, he was personally involved in the case of an illegal sale of the forest Siversky in the Gatchina district of the Leningrad region. In 2005, in his capacity as the head of the Administration of the Gatchina district, Khudilainen issued a decree to transfer the forest land to a private company that later sold it tenfold for the construction of individual luxury cottages (Zotov 2015). However, at that time, Khudilainen remained only a witness. In 2013, the case of this illegal sale of the forest Siversky in the Gatchina district was reopened in the court. In April 2015, residents of Karelia signed an Internet petition with the request to change the regional governor, stating that "in the three-year period since his appointment, he [Khudilainen] was not able to earn citizens' trust, failed to improve the socio-economic situation in Karelia, and is responsible for a tremendous growth of regional debt" (The World's Platform for Change 2015).

The previous Karelian governor Andrey Nelidov, who headed the Republic's Administration from 2010 to 2012, was also unpopular among local residents (Sokolov 2011). His Administration was tainted by corruption. In September 2015, Nelidov was arrested on charges of bribe taking (Article 290 of the Criminal Code of the Russian Federation). According to *the Investigative Committee of the Russian Federation*, Nelidov received a bribe in the amount of 500,000 rubles [about $8,065] from an entrepreneur for a right to carry out his trade and commercial activities on the territory of the national park "Kizhi" (Zotov 2015). This is one of numerous examples of "grease" money extortion by public officials.

The negative consequences of corruption among high-ranking officials can be best described with the aid of the famous Russian expression: "the fish rots from the head." This proverb means that when an organization, region, or state fails, the root cause can be attributed to its leadership. For example, Shelley (2014) indicates that "criminalization thrives at the bottom of society because the top offers the worst examples of entrenched crime and corruption" (2014: 78). For example, corruption of the Karelian Administration demoralizes low-ranking officials at numerous regulatory agencies.

In addition, regional administrations and regulatory agencies are highly hierarchical. In such organizations, it is common that illegal payments paid to lower level officials are distributed in certain proportions to their superiors. Some evidence of this can be found in an interview of a senior manager of a medium enterprise conducted by Kliamkin and Timofeev: "The lower level officials have a certain quota which they have

to pass on to their superiors who in their turn have to share a certain amount with their chiefs, but they can leave for themselves all money exceeding the quota" (2000: 137).

In such a system, honest public officials are not promoted, as they cannot contribute a share of informal payments to their superiors. Thus, in highly centralized bureaucratic systems, the amount of bribes which any particular official gets depends on the number of civil servants who work under his direct supervision. This leads to public-sector employment expanding out of control, without any corresponding public or social benefit. For instance, in comparison with other regions, Karelia has a relatively high number of bureaucrats per 10,000 citizens (224.2), which significantly exceeds an average indicator in Russia of 153.6 bureaucrats per 10,000 people (The Federal Statistics Service 2014). In Moscow and Saint Petersburg, these indicators are 102.9 and 122.0 bureaucrats per 10,000 citizens, respectively (ibid.). The negative effect of excessive bureaucratization manifests itself in competition between numerous public officials for informal payments, which increases uncertainty of doing business in the related region.

According to the Russian anti-corruption civil society organization "Clean Hands," Moscow, Saint Petersburg, and Karelia have different levels of corruption. *The Annual Report on Corruption in Russia's Regions* states that Moscow and the Moscow region have the highest level of corruption. In 2012, they received 15.1 and 14.7 percent of the total number of complaints about corruption, respectively (The Association of Russian Lawyers for Human Rights 2012: 23). In 2014, these numbers increased to 34 and 17 percent, respectively (The Association of Russian Lawyers for Human Rights

2014). In other regions, including Saint Petersburg and Karelia, levels of corruption did not change significantly over recent years, ranging from 3 to 4 percent (ibid.).

However, regional indicators of corruption calculated by the Russian anti-corruption civil society organization "Clean Hands" are based on the number of citizens' complaints from the related region. Therefore, these calculations are distorted in those regions where citizens are not willing or not ready to file complaints about corrupt officials. For example, there is evidence that this is the case in Karelia. As shown in Section 2.1 of this dissertation, entrepreneurs in Karelia are less likely to file legal complaints about administrative harassment in comparison with Moscow and Saint Petersburg. Also, Dininio and Orttung point to possible distortions in perceptions of corruption caused by state-controlled media or by fear of repression on the part of corrupt officials (2005: 515). Thus, an entrepreneur from Karelia describes the situation with media censorship in Karelia in the following way:

> In Karelia, the media is controlled by the Administration. I cannot name a single newspaper or journal that could help us to disseminate information about violations of rights of entrepreneurs by public officials and regulatory agencies. It is just impossible to publish any articles about corruption. No media source raises issues of corruption in Karelia. It all depends on the Karelian Administration. In Petrozavodsk, with its population of 300 thousand people, the situation is much worse than in larger regions and cities, such as Moscow and Saint Petersburg. In Karelia, the Administration has strong influence not only on the media, but also on business organizations. In fact, the Administration provides support and protection to affiliated organizations that are loyal to local high-ranking officials in return for informal payments or benefits. Other businesses do not have any opportunities to receive government contracts.

Furthermore, as analyzed in Section 2.1, individual entrepreneurs from Karelia demonstrate a very low level of trust in the enforcement system. Importantly, there have

been cases where enforcement officers acted in the same way as criminals offering their protection in return for informal payments for their services. For example, in his interview, a bar owner in Karelia told the story of his acquaintance with local police officers:

> One year after I opened my bar, I received a phone call from the police department and they asked me to pay them money for protection services in the amount of one million rubles [about $14,286]. I did not have the money and refused to pay. After all, why should I pay? One week later, they [policemen] came with a search warrant, they made a big mess in my bar, and confiscated all the alcohol. Eventually, I did what they asked. I did not have another option. Whom could I complain to?

This case can serve as one of the possible explanations of a decrease in the number of entrepreneurs registered in Karelia in recent years. Similar cases were registered in other Russian regions. In the Saratov region, policemen seized nearly 90 bottles of vodka from local individual entrepreneur (Andreyeva 2009). Interestingly, as Nadezhda Andreyeva notes, "there was no official information about the whereabouts of seized bottles… whether they became property of the state or were destroyed, despite the fact that the law requires to document such information" (ibid.) In the same vein, alcohol seized in three more stores by policemen disappeared without any trace (ibid).

The negative consequence of a corrupt enforcement system can be attributed to the effect of dual taxation. In addition to taxes paid to the state, entrepreneurs also have to make informal payments to the police in order to secure and protect their property. Under such conditions, entrepreneurs do not know exactly what proportion of their output will be taken in the form of payments for property rights protection. This has a negative

impact on their investment incentives and production efficiency. Uncertainty of doing business has a disastrous impact on economic development of the region. As Mancur Olson points out, "the victims of violence and theft lose not only what is taken from them but also the incentive to produce any goods that would be taken by others" (1993: 567). Even worse, entrepreneurs who face illegal activities on the part of enforcement authorities, lose their trust in public institutions in general.

Another explanation can be attributed to the fact that unlike businessmen in Moscow and Saint Petersburg, Karelian entrepreneurs are less actively involved in self-regulatory organizations that can protect them in situations of violations of their rights by corrupt officials. Several interviewed entrepreneurs from Karelia expressed their view that regional self-regulatory organizations are not involved in anti-corruption activities at all because they are controlled by the Administration and serve mainly as an instrument to solve personal problems of businessmen who have connections with high-ranking officials.

Importantly, the Karelian public authorities do not pay sufficient attention to the creation of Internet portals with information about regional entrepreneurial organizations and business associations. Table 13 compares information contents of the official websites of the regional committees for development of small businesses in Moscow, Saint Petersburg, and Karelia. It demonstrates that one of their most severe disadvantages is that they do not publish sufficient information about administrative barriers and challenges that individual entrepreneurs face while dealing with regulatory agencies. For example, only the Moscow website of the regional committee for

development of small businesses (http://www.mbm.ru) contains some information about administrative barriers at the regional level.

Table 13 Comparative analysis of information published on official websites of the regional committees for development of small businesses

Region	Moscow (http://www.mbm.ru)	Saint Petersburg (http://gov.spb.ru/gov/otrasl/c_business)	Karelia (http://smb10.ru)
Programs of support	+	+	+
Information about administrative barriers	+	–	–
Anti-corruption policies	+	+	–
Information about regional self-regulatory organizations	–	–	–
Hot line to complain about violations of entrepreneurial rights	+	–	–

Table 13 shows that only the Moscow committee for the development of small businesses posts on-line links to a hotline and bureau where entrepreneurs can complain about violations of their rights by public officials and regulatory agencies. Also, a comparative analysis suggests that the Karelian committee for the development of small businesses does not disseminate information about anti-corruption policies. Furthermore, only the site of the Moscow committee provides analytical information about changes in regulations and laws concerning entrepreneurs. The contents of the websites of the Karelian and Saint Petersburg committees for the development of small businesses publish mainly information about state support programs for entrepreneurs. However, they do not provide any assessments of the effectiveness of these programs at the regional level.

In all regions, the committees for the development of small businesses are not actively involved in disseminating information about self-regulatory organizations. Their official websites do not contain directories where individual entrepreneurs could find out about self-regulatory organizations that could help them resolve their administrative problems and defend their entrepreneurial rights. The active use of information-communication technologies at the regional level could provide a platform for discussions and exchanges of ideas between public authorities, businesses, and self-regulatory organizations. In this respect, public authorities should extend entrepreneurs' access to information through the creation of a unified portal for small businesses. The development of this portal should be aimed at optimizing the existing information technology infrastructure and involving the media in anti-corruption activities.

Implications of the research for the development and implementation of anti-corruption initiatives in Russia

According to Elena Panfilova, the head of the Russian Chapter of Transparency International, in situations of extortions of "grease" payments, companies have three strategies: "reject bribery, use a middleman or government relations specialist, or play by the [corrupt] rules. Only big companies can afford the first strategy as they have huge revenues and long-term plans" (cited in Nikishenko 2010). This statement helps to explain why individual entrepreneurs often choose to play by corrupt rules. Obviously, in order to change this negative situation, it is necessary to introduce additional strategies to the arsenal of anti-corruption measures that can be used by entrepreneurs and small businesses. In this context, this dissertation research on perceptions of individual

entrepreneurs toward ‘grease” payments can help to increase their participation in providing accountability of public administration in Russia.

The findings of the survey and interviews with entrepreneurs in Moscow, Saint Petersburg, and Karelia suggest that their attitudes toward corruption are an important determinant of the frequency of informal paymentts. Also, it was found that entreprenurs who belong to self-regulatory organizations are less likely to participate in corrupt practices than entrepereneurs who are not members of any professional network.

In the anti-corruption literature, numerous case studies give empirical support for a direct negative impact of self-regulatory organizations on the level of corruption, whether this impact transmits through changing positive attitudes of entrepreneurs toward informal practices (Collins, Uhlenbruck, and Rodriguez 2008) or through organizing their collective action against corrupt officials and agencies (Mària and Arenas 2009; Petkoski et al. 2009; Mantovani 2012; etc.). The latter body of studies shows that self-regulatory organizations mediate the effects of proactive and responsive anti-corruption efforts of entrepreneurs on the frequency of informal transactions in their relations with regulatory agencies.

Also, the technical report commissioned by the Council of Europe titled *Corruption Risks and Protection Mechanisms for Entrepreneurs in the Russian Federation* (No. ECCU-PRECOP-TP-7/2014) stresses the role of self-regulatory organizations in anti-corruption efforts. In regard to this, its authors Georgi Rupchev, Yves Moiny, and Alexey Kudryashov point to the importance of collective entrepreneurial organizations for the development of anti-corruption policies (2014: 52):

> Business associations that bring together companies from certain regions or business sectors could be an important tool to increase the efficiency of the anti-corruption initiatives. Collective action has the advantage of being more coordinated and cost-effective. Business associations could serve as platforms for companies' agreements and commitments to ethical standards and other joint anti-corruption actions. Trade chambers have been identified as another important player that could also assist companies in their anti-corruption efforts. Trade chambers could provide platform for information exchange and discussions, as well as consulting and other services.

However, in Russia, the mediating role of self-regulatory organizations in the relationship between businnesses and authorities is not well-documented. Therefore, it is necessary to conduct further research in order to find answers to the question of how to increase the effectiveness of Russian regional self-regulatory organizations, intensify their activities aimed at discouraging their members from engaging in corruption, and increase their willingness to organize collective action against corruption. In this context, Chapter 3 will focus on these important questions.

CHAPTER THREE. THE ROLE OF SELF-REGULATORY ORGANIZATIONS IN ANTI-CORRUPTION EFFORTS: NATIONAL AND INTERNATIONAL EXPERIENCES

This chapter includes two sections devoted to an analysis of the role of self-regulatory organizations in counteracting corrupt practices and a review of the emergence and evolution of entrepreneurial organizations in Russia, with a special emphasis on their current anti-corruption activities.

3.1. Role of entrepreneurial organizations in anti-corruption efforts

This section is devoted to an analysis of major theories, concepts, and approaches to the participation of self-regulatory organizations in providing accountability of public administration. It pays special attention to best practices and models of interactions between governments and business organizations at the national and international levels.

Theoretical approaches to providing societal accountability by self-regulatory organizations

The concept of vertical and horizontal accountability (O'Donnell 1998; Smulovitz and Peruzzotti 2000) and the collection action approach (the World Bank 2008; Petkoski 2009; Pieth 2012) provide a theoretical background for interactions between state agencies and business organizations. According to the political scientist Guillermo O'Donnell (1998), horizontal accountability is provided by state agencies that are legally empowered to take actions against corrupt public officials and agencies, while vertical accountability is provided by the electoral process. Catalina Smulovitz and Enrique

Peruzzotti distinguish another type of accountability – societal, which they define as "a nonelectoral, yet vertical mechanism of control that rests on the actions of a multiple array of citizens' associations and movements and on the media" (2000: 150). The legitimacy of societal accountability is based on the right to petition. It is aimed at controlling political actors and regulatory agencies by exposing and denouncing their wrongdoing. Table 14 describes the three types of accountability, with their key actors and activities.

Table 14 Types of accountability

Accountability	Key actors	Major activities
Horizontal accountability	The legislative, judicial, and executive branches, enforcement agencies	Prohibiting "grease" and other informal payments legislatively, providing enforcement, removing overregulation and administrative barriers, etc.
Vertical electoral accountability	Political organizations and citizens	Controlling political actors through the electoral process
Vertical societal accountability	Self-regulatory organizations, civil society, social movements, the media	Whistleblowing, monitoring compliance with anti-corruption regulations, organizing collective action against corrupt activities, etc.

As Table 14 demonstrates, actors who provide horizontal accountability are ultimately responsible for prohibiting "grease" and other informal payments legislatively and implementing appropriate enforcement procedures. Actors who provide electoral accountability include ordinary citizens and political organizations, with their main function to hold politicians accountable through the electoral process. Finally, actors in charge of societal accountability include collective actors, such as self-regulatory organizations, social movements, and the media. This dissertation focuses on the

development of practical recommendations to enhance the role of self-regulatory organizations and collective action by individual entrepreneurs. Special attention is paid to the development of coordinated actions of individual entrepreneurs and self-regulatory organizations in the fight against corruption.

In the context of societal accountability, one of the most serious fallacies of anti-corruption initiatives in Russia is that they underestimate the role of self-regulatory organizations and their moral authority. These organizations have civil, legal, and human-rights obligations to bring corruption and violations against entrepreneurs' rights to attention of the appropriate authorities. Self-regulatory organizations can play an active role in organizing anti-corruption campaigns, mobilizing different groups of businesses, and organizing their collective action. The World Bank defines collective action as "a collaborative and sustained process of cooperation amongst stakeholders," which "increases the impact and credibility of individual action, brings vulnerable individual players into an alliance of like-minded organizations and levels the playing field between competitors" (2008: 4). The importance of this approach to anti-corruption initiatives is explained by the fact that it "can complement or temporarily substitute for and strengthen weak local laws and anti-corruption practices" (ibid.).

Another reason for the use of collective action is related to inefficacy of the public system in mitigating the problem of corruption. In Russia, a continuing decline in trust in the government and enforcement institutions leads to an increasing skepticism and cynicism about anti-corruption campaigns organized by public authorities. According to the Global Competitiveness Report 2014-2015, public trust of politicians in Russia was

ranked 74th out of 144 countries, with a score of 3.0 on a 7-point scale, with 1- very low and 7 – very high (World Economic Forum, 2014a: 321). This reflects overall public distrust of political institutions. The perceived reliability of police services was ranked 114th, (with a score of 3.2) and judicial independence – 107th (with a score of 2.9), demonstrating low confidence of the Russian population in these institutions (ibid.). This explains why in most cases, individual entrepreneurs prefer not to object or respond to mistreatment by regulatory agencies. Under low levels of trust in political institutions, the police, and the judicial system, entrepreneurs do not feel such objections would be taken seriously by public authorities.

Also, Jay Albanese (2011) points to the cyclical nature of anti-corruption reforms in the public sector. To make these reforms sustainable, it is necessary to combine efforts of multiple stakeholders, including public authorities, private companies, civil society, academia, non-governmental organizations, and the media. As Albanese puts it, "it is clear that better surveillance and enforcement of laws alone is insufficient to change the entrenched corrupt practices. Changes are also needed in the attitudes, circumstances, and processes that allow corruption to flourish" (2011: 133). This is highly consistent with Philip Nichols (2009) who highlights deficiencies of international laws against corruption, stating that "law alone cannot resolve the damage inflicted by corruption" (2009: 810). Ngoc Anh Tran also finds that "political will [to curb corruption] can hardly arise from the government itself but instead is the result of the demand from a population that is equipped with sufficient capabilities" (2008: 1).

Numerous studies give empirical support for a negative impact of entrepreneurial organizations on the level of corruption, whether this impact transmits through changing attitudes of entrepreneurs toward informal practices (Collins, Uhlenbruck, and Rodriguez 2008; Powpaka 2002) or through organizing their collective action against corrupt officials and agencies (Mantovani 2012; Mària and Arenas 2009; Morell and Bettcher 2013; Petkoski et al. 2009; Sullivan, Bettcher, and Shkolnikov 2008; the World Bank 2008). In other words, entrepreneurial organizations can change the perceived necessity of informal payments indirectly through codes of conduct and education programs about anti-corruption compliance or directly through collective action campaigns against corruption.

Drawing on Thomas Donaldson and Thomas Dunfee (1994), Philip Nichols (2009) proposes to apply integrative social contract theory to anti-corruption strategies, according to which self-defined communities of people with shared tasks, values, and goals establish their norms of ethical behavior. Corruption is a collective action problem: although the business community as a whole is better off when corruption does not exist, individual firms have incentives to use corrupt transactions to their advantage since there are no guarantees that other firms will act honestly. Thomas Dunfee and David Hess refer to this situation as a "paradox of corruption": "corruption is universally disproved, yet universally present" (2000: 595). It is similar to another collective action problem known as the tragedy of the commons. The latter describes situations where unrestricted open access to common-pool resources leads to their overexploitation because each

individual actor takes only his own costs and benefits into account and ignores the related collective social costs.

In her seminal book *Governing the Commons* (1990), Elinor Ostrom, the Nobel Prize winner in Economics, demonstrates that in the long run, individuals can create institutional arrangements based on shared norms and patterns of reciprocity for resolving the tragedy of the commons. *Governing the Commons* (1990) shows that communities of people with shared norms can successfully overcome the free-rider problem. The contribution of this book to the theory of collective action can be attributed to the fact that it illustrates the diversity of possible solutions to collective action problems. Moreover, Ostrom (1990) argues that individuals who interact in the context of shared norms are not trapped in the collective action dilemma. This suggests that economic communities of businesses and entrepreneurs can resolve the corruption paradox through self-governance mechanisms based on their own norms of ethical behavior.

The ability of entrepreneurs to mobilize themselves against corruption differs significantly across various countries. Various institutional environments have a significant impact on "either rewarding and discouraging the choice to engage in cooperative self-governance" (Boettke, Lemke, and Palagashvili 2015: 315). However, self-regulatory organizations can improve this ability. One of the most important functions of self-regulatory organizations is to initiate and support collective action against corruption. For example, many countries of the former Eastern Bloc demonstrate that entrepreneurs can "learn the 'art and science of association." It is important to note that according to Ostrom's approach to collective action, "self-governance is a skill that

can either atrophy or strengthen" (ibid.). Therefore, it is possible to improve this skill through learning from best practices and successful cases of collective action initiatives.

To sum up, the development of advanced legislation is not sufficient to mitigate the problem of corruption. It should necessarily be combined with self-regulatory initiatives in the private sector. For example, self-regulatory organizations can draw up their own anti-corruption regulations, develop enforcing procedures, and internally monitor compliance with them. The advantage of self-regulatory organizations is that they represent collective players who can be very effective due to their shared values and common interests. National and regional associations of individual entrepreneurs and chambers of commerce can contribute to this process by developing codes of conduct, compliance programs, and initiatives to improve ethical behavior and culture at all levels of organizations.

International experiences in fighting corruption through collective action

Successful experiences of international business associations in the fight against corruption can be used as a role model for the development of domestic practices of collective action. In the long term, self-regulatory organizations can contribute to the creation of preconditions for the transition from a current model of state corporatism to societal corporatism based on mutual consultations between the government, business organizations, and civil society.

A collective action approach is widely used by different international development organizations, such as the World Bank, the United States Agency for International Development (USAID), World Economic Forum (WEF), and Center for

International Private Enterprise (CIPE). As the 2014 World Economic Forum Report on *Combating Human Trafficking* demonstrates, the private sector can be very efficient in fighting against organized crime and corruption. This report indicates that "public-private partnerships are the wave of the future and will link business, government and civil society together in entrepreneurial collaborations and resource sharing" (the World Economic Forum 2014b: 17).

Massimo Mantovani (2012) distinguishes four types of collective action initiatives: (1) anti-corruption declarations that represent short-term anti-corruption initiatives for specific projects or agreements; (2) principle-based initiatives that involve long-term joint anti-corruption programs developed by multiple stakeholders; (3) integrity pacts in the form of formal written agreements against bribery between customers and companies; and (4) multi-stakeholder certifying business coalitions that promote standards of business conduct within a certain industry or country. Table 15 represents collective action initiatives based on two criteria: (1) their long-term or transaction-specific nature and (2) their level of complexity.

Table 15 Collective action initiatives

	Simpler collective action initiatives	**More complex collective action initiatives**
Transaction-Specific	**Transparency Pacts** Less formal transaction-specific initiatives can bring greater transparency to individual projects, such as government tenders	**Integrity Pacts** Pacts based on a formal contract with 3rd party monitoring work, best for major "one-off" transactions like infrastructure mega-policies
Longer-Term	**Principle-Based Initiatives** Principle-based initiatives lay the foundation for more concerned collective action	**Multi-Stakeholder Business Coalitions** Less formal transaction-specific initiatives can bring greater transparency to individual projects, such as government tenders

Source: Morell and Bettcher (2013: 3)

As Table 15 demonstrates, short-term transaction-specific initiatives include transparency and integrity pacts. A good example is the development of the commercial ethics pacts in Georgia, Nicaragua, Panama, and Paraguay by a coalition of businesses, public authorities, and civil society (Petkoski et al. 2009). These pacts are based on ethical principles and a set of actions that stakeholders agree to take in order to promote transparency and accountability in the relations between private and public organizations. For example, in Paraguay, the Commercial Ethics Pact requires businesses to attend special trainings and provide records that show compliance with legal and tax requirements. In cooperation with the Inter-American Development Bank, the Paraguay Commercial Ethics Pact also implemented a certification system for businesses based on their transparency.

In Table 15, longer term collective action includes principle-based initiatives and multi-stakeholder business coalitions. The World-Economic Forum Partnering Against Corruption Initiative (PACI) is a good example of international principle-based initiatives. It represents a multinational and multi-sector task force intended to help businesses to eliminate corruption, enhance their commitment to countering bribing, and improve their ethical standards. The PACI Principles "serve as a call to action for businesses around the world to join collective action initiatives, which increase public trust in business, deliver fair markets and level the playing field by fighting corruption" (the World Economic Forum 2014c: 3). The PACI initiative recognizes the importance of a multi-stakeholder, collaborative approach to combatting corruption.

The Center for International Private Enterprise (CIPE), one of the core institutes of the National Endowment for Democracy, focuses on assisting developing countries in building multi-stakeholder business coalitions to fight against corruption. CIPE takes significant efforts to develop partnerships with local business associations, chambers of commerce, and think tanks to promote accountability in the private and public sectors in developing countries. For example, CIPE's projects include building the capacity of the Bangladesh Women Chamber of Commerce and Industry, reforming the Pakistani Trade Organizations Ordinance, and assisting the Thai Institute of Directors (IOD) in adopting the Collective Action against Corruption Declaration. Recognizing the importance of strengthening entrepreneurial organizations, CIPE developed governance principles for business associations and chambers of commerce (Center for International Private Enterprise 2011), which were used in many countries.

It is important to note that multi-stakeholder coalitions are not limited to businesses and business associations, they can also include a wide variety of civil society organizations. For example, the United Nations Center for International Crime Prevention (UNCICP) proposes an integrated approach to incorporating social mechanisms to provide accountability of public administration (Langseth 2001). The UNCICP approach relies on civil society and business organizations as safeguards to monitor government agencies on a regular basis. The UNCICP pilot projects included the formation of social control boards consisting of civil society representatives elected by neighborhood councils in Merida (Venezuela), Santiago (Chile), San Jose (USA), and Costa Rica. Members of these social-control boards received special training from the UNCICP and

were entrusted with the monitoring of public agencies' performance and proposing reforms based on citizens' complaints about public service delivery.

Table 16 demonstrates that the introduction of these social-control boards had a positive impact on the frequency of corruption, transparency, citizens' access to public institutions, and effectiveness in service delivery of the related public agencies.

Table 16 Two-year average percentage changes in corruption-related indicators before and after social control mechanisms (1990-2000)

Country (unit)	Frequency of corruption	Access to institutions	Effectiveness	Transparency	Administrative complexity
Chile (Municipality-Santiago)	-10.50%	31%	29%	13.70%	-5.20%
Chile (National Judicial Branch)	-25.90%	9%	12.90%	6%	-22.40%
Chile (Prosecutors; Office Special Crime Unit)	-18.10%	11.40%	5.90%	7.20%	-1.80%
Venezuela (Municipality-Campo Elias)	-9.10%	15.90%	7.30%	7.50%	-9.50%
United States (Police Department-San Jose)	-7.40%	27.10%	9.40%	8.40%	-9.50%
Chile (Municipality-Santiago)	-10.50%	31%	29%	13.70%	-5.20%

Source: Langseth (2001: 13)

According to Petter Langseth (2001), social-control boards within the police force in the city of San Jose (USA), the municipal governments in Merida (Venezuela) and Santiago (Chile), and the judicial sectors in Costa Rica and Chile were responsible for the simplification of administrative procedures, reduction in administrative discretion of public officials, enhancement of citizens' access to information, and an increase in quality standards in public service delivery.

Importantly, women's grassroots organizations have been increasingly active in providing societal accountability in developing countries. These organizations bring

corruption and violations against women's rights to attention of the appropriate authorities. The 2012 United Nations Development Programme Report recommends to support the institutionalization of successful female grassroots practices, fund grassroots women's organizations to design, develop, and implement local anti-corruption programs, and promote their partnerships with research institutions to enhance their capacities to contribute to the fight against corruption (Purushothaman et al. 2012: 6-9). Women grassroots groups have a wide range of instruments that have proved to be successful in providing societal accountability (Figure 6).

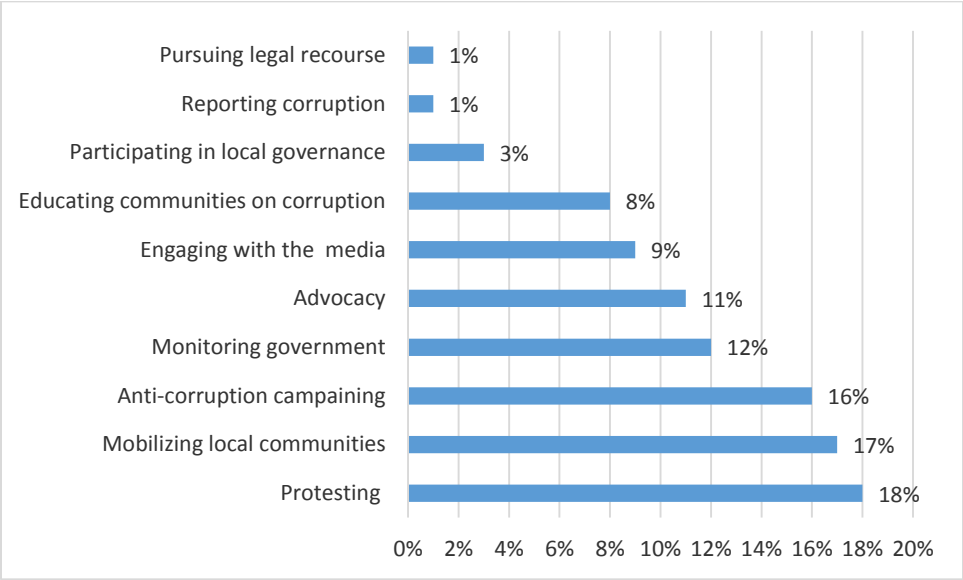


Figure 6 Successful strategies of grassroots women's groups.
Source: Purushothaman et al. 2012: 32.

A good example of the role that women's organizations can play in the fight against corruption is the Balkan Coalition of Women's Business Associations. It was

originally created in 2004 as part of a regional project in Romania conducted by the Center for International Private Enterprise. Over time, it evolved into a network of women's business associations from several countries. Currently, the network includes women's business associations from Central and Eastern European countries, such as Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Kosovo, Macedonia, Serbia, and Romania. The Balkan Coalition of Women's Business Associations serves as an advocate for gender equality, a transparent business climate, and accountable public administration. Women's business associations submit protests to the government against business-unfriendly regulations and organize special trainings, seminars, and education programs for women on leadership, entrepreneurship, and citizens' rights. Their key objective is to support female entrepreneurs and give them a voice in the political sphere. Recognizing the fact that corruption disproportionately affects women, they focus on encouraging their members to be actively involved in providing societal accountability and transparency in the public sector (Rotaru 2010: 12). The experience of the coalition demonstrates how trainings, seminars, and education programs on anti-corruption compliance organized by women's business associations help female entrepreneurs to prevent corruption and protect their rights.

The rapid development of Balkan women's business associations and their relative success in mobilizing female entrepreneurs from different countries in this region can be a role model for other regions. At the beginning of their post-communist transition, the former Eastern Bloc countries faced severe challenges for the development of the entrepreneurial sector, such as the absence of independent business associations,

especially women's organizations, and the lack of a general culture of associations. As Cornelia Rotaru notes, "Prior to 1989, no independent social associations were allowed in Central and Eastern European countries. The communist regime was afraid of any free association among citizens. One women's association was allowed in each country under the control of and funding of the Communist party" (2010: 10). In comparison, in 2010, Romania had more than 60 women's associations and Albania – 64 women's organizations that were actively engaged in "increasing membership, opening branches in other territories, and developing networks of similar organizations both nationally and regionally" (ibid.: 11). This experience vividly illustrates Ostrom's idea that self-governance is a skill that can be strengthened, and citizens can "learn the 'art and science of association" (cited in Aligica and Boettke 2009: 159).

The Balkan experience shows the importance for women's grassroots groups and business associations to mobilize themselves in collective action. In the Balkan case, cooperation between different women's organizations expands beyond the national borders, which allows them to have their own voice in regional politics. In comparison, one of the fallacies of Russia's self-regulatory organizations is a low level of mobilization of women entrepreneurs and their insufficient involvement in anti-corruption efforts. To a large extent, differences between Balkan and Russian entrepreneurial organizations and women's business associations, in particular, can be explained by the fact that their development followed the various trajectories of their political regimes. In the 2000s, Balkan countries managed to transform their communist

regimes and centralized economies into pluralist democracies and market economies, while Russia was gradually sliding back toward authoritarianism.

As a result, many Russian business associations focus their activities on pursuing private interests, often at the expense of interests of the entrepreneurial community as a whole. John Sullivan, Kim Eric Bettcher, and Aleksandr Shkolnikov (2008) refer to such organizations as redistributive associations. They have a negative connotation due to their focus on rent-seeking activities and are opposed to market-promoting associations that are interested in improving the business environment and decreasing corruption in the economy. Quite the opposite, redistributive associations are not interested in supporting anti-corruption reforms since they participate themselves in informal activities by taking advantage of their crony relations with the government. Differences between Balkan and Russian collective entrepreneurial organizations demonstrate that "context matters," meaning that "the institutional environment in which entrepreneurs act shapes and constraints the opportunities available at any point in time" (Boettke and Coyne 2009: 138). The next section will analyze the role of historical, political, and social factors in shaping and constraining contemporary entrepreneurial organizations in Russia.

3.2. Russian self-regulatory organizations in the entrepreneurial sector

Entrepreneurial organizations in the Russian Empire emerged relatively late in comparison with Western European countries, which can be explained by the late industrial development and mobilization of the bourgeoisie. The first entrepreneurial organizations in Russia emerged in the second half of the 19th century. They borrowed most of their organizational structures and key principles from the already existing

business organizations in Western countries, mainly Germany. In a very short period, they multiplied across the country, which was facilitated by the need of industrialists and entrepreneurs to represent their interests in the government.

At the beginning of the 20th century, Russian entrepreneurial associations became powerful representative institutions. Their main objectives were to direct economic policy in the interests of industrialists and business groups and serve as mediators between the state, entrepreneurs, and the public. For this purpose, they used a wide variety of mechanisms, such as filing petitions to government agencies, influencing public opinion through publications, and lobbying public officials. To distribute their views on economic policy, different self-regulatory organizations extensively published their annual reports, bulletins, and special journals devoted to industrial and entrepreneurial development. However, the growth of self-regulatory organizations in Russia was interrupted by the Revolution of 1917. The Soviet political system considered entrepreneurial organizations a phenomenon of a capitalist system.[4] As a result, self-regulatory organizations were closed and only after the collapse of the Soviet Union, they began to reemerge in Russia. The last two decades witnessed an increase in their importance in the economic and political arenas.

Emergence of self-regulatory organizations in Russia

In the second half of the 19th century, the first entrepreneurial organizations in Russia were organized in the form of stock exchanges, with their permanent elected

[4] In *the Great Soviet Encyclopedia* (1976), business associations were defined as "bourgeois organizations that unite capitalists ... so as to increase profitability, trample the rights of workers, do battle with foreign competitors, and manipulate foreign and domestic policies in the interests of monopolistic capital" (cited in Pyle 2005: 3).

bodies – commodity committees. They represented commercial and industrial interests in the political sphere. For example, the 1870 statute of the Moscow stock exchange clearly defined its representational functions. According to paragraph 21 of this statute, "an elected stock exchange committee is (1) to apply to public authorities for permits related to emerging trade and industrial needs, as well as to eliminate inconveniences that resulted from any orders or statutes regulating trade and industries; and (2) to give all kinds of suggestions to the Government, with the aim of providing benefits and prosperity to trade and industry" (cited in Rukosuev 2013: 101). Although state intervention in the activities of the Russian stock exchanges was comparatively limited, they were under control of public authorities. Stock exchanges comprised the largest group of collective business organizations in Russia.

Another form of self-regulatory organizations was represented by congresses of industries and commerce. The first congresses were held in Moscow in 1865, Saint Petersburg in 1870, and Nizhny Novgorod in 1896 (Vorontsova 201: 490-494). These congresses united numerous entrepreneurs from all over the country with government representatives. Their main task was to provide a platform for joint discussions of major problems in different industries. These congresses also provided an opportunity for entrepreneurs to demand benefits and privileges from the government and advocate for protectionist policies. Participation of higher public officials in these congresses demonstrates the willingness of the authorities to cooperate with the entrepreneurial circles. By the beginning of the First World War, there were about seventy congresses in Russia (Vorontsova 2013: 196-197). Their emergence gave a powerful impetus to

industrial development.

At the beginning of the 20th century, the first Russian chambers of commerce were organized in order to protect domestic industries and develop economic ties with foreign countries. They were also engaged in information exchange with analogous organizations in Western countries and represented interests of Russian industrialists in international markets. In 1909, the Russian-English Chamber of Commerce was founded in Saint Petersburg. It had 433 members, including 27 industrial organizations and 98 enterprises (Fedorov 1909). Following its example, other chambers of commerce adopted their charters, including the Russian-Belgian Chamber of Commerce (1909), the Slav Chamber of Commerce (1909), the Russian-Italian Chamber of Commerce (1911), the Russian-French Chamber of Commerce (1911), and the Russian-American Chamber of Commerce (1913). Since they represented the interests of large businesses that were engaged in international trade, their significance for entrepreneurs and small businesses was very limited.

In the 19th century, one of the most important characteristics of business associations in Russia was the lack of special laws regulating their organization and activities (Tikhomirov 1990: 8). For a long time, various industrial ministries monitored entrepreneurial organizations based on different regulations. Only in 1906, Russia's legislature adopted a special law on entrepreneurial organizations that universalized these regulations. For example, according to this law, all entrepreneurial organizations were subject to a mandatory application and registration process based on a set of official rules (Vorontsova 2013: 67). One of the advantages of this law was the formalization of

Russia's entrepreneurial organizations through the adoption of charters and normative documents. Table 17 demonstrates an increase in registered charters by different types of entrepreneurial organizations: general and specialized stock exchanges, congresses of industries and commerce, and unions of industrialists and entrepreneurs.

Table 17 The adoption of charters by business organizations in the Russian Empire

Organizations	1861-1869	1870-1879	1880-1889	1890-1899	1900-1905	1906-1909	1910-1916
General stock exchanges **Specialized stock exchanges**	7 -	7 -	7 -	3 5	12 8	18 2	26 4
Congresses of industries and trade	-	1	1	6	7	12	12
Entrepreneurial and industrial unions	2	2	4	5	2	4	13
Chambers of commerce	-	-	-	-	1	3	5

Source: Vorontsova (2013:67)

In the second half of the 19th century, stock exchanges played the leading role in the representation of entrepreneurs and industrialists in the political sphere. However, beginning in the 20th century, their role was undertaken by congresses of industrialists and entrepreneurs. By the Russian revolution of 1917, their number exceeded 70 (Vorontsova 2013: 371). Interestingly, congresses of industrialists and entrepreneurs in Saint Petersburg, then Russia's capital, emerged relatively late in comparison with other large cities, such as Moscow, Ekaterinburg, Kharkov, and Odessa. For a very long period, entrepreneurs and industrialists in Saint Petersburg did not have influential representative

organizations.

In his doctoral research on Russia's entrepreneurial organizations in the late 19th-early 20th centuries, Yuriy Tikhomirov (1990) proposes two reasons explaining the relatively late emergence of congresses of industrialists and entrepreneurs in Saint Petersburg. First, the market position of metropolitan businesses was better than in other cities due to stable and solvent demand on their goods and services from the government and nobility in the capital (ibid.: 8). The second reason is related to the use of corrupt practices by businesses in the capital. Thus Tikhomirov argues that "metropolitan industrialists and entrepreneurs [of Saint Petersburg] took advantage of their location in the capital to form personal connections with high-ranking officials, which allowed them to successfully resolve all problems confronting their businesses" (ibid.). Interestingly, the contemporary survey conducted for this dissertation research also shows that entrepreneurs in Moscow, Russia's current capital, tend to use corrupt practices, such as "grease" payments and personal connections with public officials, more often than in Saint Petersburg and Karelia.

According to Tikhomirov (1990), at the end of the 19th century, entrepreneurs in large provincial cities were facing serious administrative problems which they often could not solve on their own. This is why they felt it was necessary to create collective organizations in the form of congresses of industries and trade to represent their interests in the relations with state agencies. To resolve administrative problems, congresses of industries and trade often filed petitions to government agencies. Petitions were also a very effective way to give recommendations about economic and industrial policies to the

government. Importantly, congresses of industries and trade worked in close cooperation with government agencies; sometimes they even included public officials as their members. In her study of Russian self-regulatory organizations, Vorontsova positively assesses this cooperation since the majority of their petitions were satisfied by the government (2013: 366).

Congresses of industries and trade used a wide range of instruments to enroll entrepreneurs as their members and influence public opinion about their activities. For example, "they used their legislative right to organize libraries, exhibitions, museums, lectures, and courses, as well as the right to publish journals and books" (Vorontsova 2013: 197). Importantly, in order to argumentatively present their perspectives on economic development before the government, entrepreneurial organizations invited distinguished experts, such as economists, jurists, and historians, to participate in open discussions about different issues and problems (Vorontsova 2013: 365). These discussions were analogous to roundtables and forums used by contemporary self-regulatory organizations.

In order to form favorable public opinion about entrepreneurship, business organizations cooperated with publicists and journalists who specialized in economic policy (ibid.: 367). Their articles, reviews, analytical and statistical reports were aimed at demonstrating a positive impact of entrepreneurship on social well-being. Business organizations owned numerous periodic sources, journals, bulletins, and newspapers, which constituted an important element in their system of public relations and information dissemination. The appendix lists major periodic sources owned by Russian

business organizations. In the 1900s, *Industry and Trade*, *the Southern Russian Mining Bulletin*, and *the Bulletin of Gold and Mining Industries* were among the most influential journals in the entrepreneurial circles, with the largest circulation of 2000, 1500, and 500 copies, respectively (the Appendix). They were used to broadcast views of entrepreneurs about important economic issues and policies.

However, an analysis of publishing activities of congresses of industries and trade in Russia demonstrates that the majority of them represented the interests of large and medium-sized businesses and did not pay sufficient attention to issues that confronted small businesses and handicraft entrepreneurs. For example, Table 18 shows the number of articles published in the journal *Industry and Trade* in 1908-1917. This journal was owned by the Board of the Congress of Industries and Trade, one of the largest entrepreneurial organizations in Russia. As we can see, only an insignificant number of articles were devoted to small businesses, handicraft producers, and cooperatives (see line 6 in Table 18).

Table 18 Topics of articles published in the journal *Industry and Trade*

Topics	The number of articles	
	1908-1914	1914-1917
1. Industry and trade in regions and branches	90	47
2. Returns on capital, profitability, and financing of industry and trade	17	-
3. Prices	11	14
4. Monopoly	13	1
5. Stock companies	6	3
6. Small businesses, handicraft production, and cooperatives	7	5
7. Market	10	17
8. International trade	97	35
9. Agriculture	18	4
10. Transport (mainly railroads)	79	20

Topics	The number of articles	
	1908-1914	1914-1917
11. Comparisons of private and state enterprises	11	5
12. Demands of protectionist policies from the state	56	21
13. State regulation	-	46
14. Finances (financial markets, banks, credit, and budget)	75	46
15. Taxing in industries and trade	95	36
16. Customs policy	36	14
17. Assessment of state policies	3	3
18. Objectives of economic policy and the economic program	-	25
19. Foreign capital	11	18
20. Labor issue	40	55
21. Industry and trade in other countries and the development of economic ties with them	94	37
22. Public organizations of the bourgeoisie	14	16
23. Political issues	-	11

Source: Vorontsova (2013: 246)

However, entrepreneurial organizations tried to influence and enroll entrepreneurs and handicraft producers as their members. According to Gushka (1912), in 1910, there were 143 business organizations, including 36 organizations representing the interests of entrepreneurs in Russia (cited in Rukosuev 2013: 105). Entrepreneurial organizations were an important element in the system of the relations between business capital and government. As Rukosuev indicates, "Entrepreneurial associations became influential organizations that had a significant impact on the nature and dynamics of economic development in Russian regions and the whole country, as well as industrial modernization" (2013: 107). Their successful experiences as mediators between the state, entrepreneurs, and the public can serve as a role model for contemporary self-regulatory organizations in Russia.

Contemporary Russian self-regulatory organizations and their anti-corruption activities

In contemporary Russia, self-regulatory organizations went through several phases in their development. Andrey Kiniakin (2006) distinguishes three waves of the reemergence of Russian entrepreneurial organizations after the collapse of the Soviet Union. The first wave began in the late 1980s-early 1990s. It was related to the structural transformation process in the political and economic spheres. The reorganization of the economy led to the emergence of national entrepreneurial associations that represented mainly the interests of large businesses. They included the Russian Union of Industrialists and Entrepreneurs, the Chamber of Commerce of the Russian Federation, and the Agrarian Union of Russia. The second wave in 1993-1997 was characterized by the acceleration of self-regulatory processes in the business community that led to the formation of numerous professional and business associations, such as the Association of Privatized Enterprises and the Federation of Russian Producers. Finally, beginning in the early 2000s, the third wave was characterized by the emergence of entrepreneurial organizations aimed at representing the interests of small and medium-sized businesses, such as the Russian Association of Entrepreneurs OPORA.

Russian entrepreneurial organizations can be divided in three major types depending on their industrial status: interindustry cross-sector associations of entrepreneurs, chambers of commerce, and professional business associations (Table 19).

Table 19 Types of contemporary self-regulatory organizations in Russia

Type	Examples of organizations	Key anti-corruption function
Interindustry	The Russian Union of Industrialists	They develop proposals to the

Type	Examples of organizations	Key anti-corruption function
cross-sectorial associations of entrepreneurs	and Entrepreneurs, the Russian Association of Entrepreneurs OPORA, the Union of Entrepreneurs in Saint Petersburg	government and business community on how to create an entrepreneur-friendly environment in Russia and eliminate administrative barriers in different industries and sectors of the economy
Chambers of commerce	The Chamber of Commerce and Industry of the Russian Federation, the Hamburg Chamber of Commerce in Saint Petersburg, etc.	They develop standards for professional services in certain market segments, which determine a role model for business conduct, including issues of ethics and anti-corruption procedures
Professional and business associations	The Russian Association of Lawyers, the Association of Pollock Fishers, the Association of Fertilizer Producers, the Russian Union of Leather Producers and Shoe Manufacturers, etc.	They maintain control and oversight of the legitimate practice of certain occupations (professional associations) or industries (business associations).

According to the Ministry of Labor and Social Insurance (2015), there are more than 250 self-regulatory organizations in Russia. However, only a limited number of them have sufficient resources and social capital to promote the interests of their members in the political system. The largest and most influential cross-sector associations, with wide networks of regional departments, include the Russian Union of Industrialists and Entrepreneurs, the Russian Association of Entrepreneurs OPORA, the Russian Chamber of Commerce and Industry, and the Russian Public Organization "Delovaya Rossiya" (Business Russia).

The Russian Union of Industrialists and Entrepreneurs was one of the first entrepreneurial organizations to initiate joint efforts and cooperation of the business community to combat corruption in the private sector. In early 2012, the annual Congress of the Russian Union of Industrialists and Entrepreneurs adopted fundamental principles of anti-corruption compliance for its members. In late 2012, these principles laid the basis

for the Anti-Corruption Charter of the Russian Businesses. Originally, it was signed by the largest entrepreneurial organizations. According to the Anti-Corruption Charter, "Russian business[es] and employer associations that are Parties to this Charter, recognizing the need for targeted and consistent efforts to promote this Charter among their members, shall encourage the development and implementation of best corporate practices, such as performance evaluation and reputation enhancement systems, including through corporate non-financial social reporting" (Conference of the States Parties to the United Nations Convention against Corruption 2013). Not only entrepreneurial organizations, but also any domestic or foreign company can join the Anti-Corruption Charter.

According to the Anti-Corruption Charter, businesses are to develop and implement special anti-corruption programs and policies that regulate their internal activities and their external relations with other businesses and public authorities. Major policies to be implemented by businesses include rejecting illegal preferences and benefits, supporting transparent and open procurement procedures, introducing rigorous financial control and auditing, providing anti-corruption training and education of staff, promoting law enforcement and cooperation with public authorities, disseminating anti-corruption information, and combating bribery of foreign public officials and officials of international public organizations. The signatories formed the Joint Committee for the implementation of the Anti-Corruption Charter. In 2013, the Committee developed guidelines for assessing the compliance of businesses with the Charter. At its first meeting, the Committee approved the Consolidated Registry in the form of an automated

database of organizations and businesses that joined the Charter. Table 20 shows their regional distribution in 2015.

Table 20 Regional distribution of signatories of the Anti-Corruption Charter of the Russian Business

Federal district	Number of organizations that signed the Charter	Major cities and okrugs (the number of organizations)
Central federal district	169	Moscow (87), Moskovskaya oblast (7)
Volga federal district	22	Saratov (14)
Siberian federal district	21	Krasnoyarsk (14)
South federal district	61	Volgograd (48)
Northwestern federal district	20	Saint Petersburg (10)
Ural federal district	105	Ekaterinburg (12), Khanty-Mansi autonomous okrug (36), Tumen
North Caucasian federal district	5	Nazran (4)
Far Eastern federal district	3	Khabarovsk (2)
Republic of Karelia	1	Petrozavodsk (1)

Source: Calculated based on the official website of the Anti-Corruption Charter of the Russian Businesses (http://against-corruption.ru/en/)

As Table 20 shows, Moscow is the leading region with the largest number of organizations that signed the Anti-Corruption Charter of the Russian businesses. As of December 2015, 87 organizations and businesses from Moscow signed the Charter. In Saint Petersburg, only ten organizations joined the Charter. The worst results are in the Karelian capital city of Petrozavodsk, where only one organization joined the Charter. As of September 2016, the Charter was signed by 826 organizations and businesses (the Anti-Corruption Charter 2016). Yet, an analysis of the Consolidated Registry shows that the vast majority of the signatories are open stock companies that represent large enterprises. Microenterprises and individual entrepreneurs comprise less than 8 percent of the total number of the Charter signatories. This supports the results of the interviews

conducted for this doctoral research, according to which most microenterprises are not involved in anti-corruption efforts. To a large extent, it can be explained by their limited size and resources. As the Council of Europe report on *Corruption Risks and Protection Mechanisms for Entrepreneurs in the Russian Federation* indicates, "due to their size and scope of operations, [small and medium-sized enterprises (SME)] are often driven by the values of the owner and dispose a rather informal communications structure. For instance, the work split between different levels of management for the proper implementation of codes of conduct could not be applied in SMEs because such organizational structures often do not exist in SMEs" (Rupchev et al. 2014: 38).

Another reason for low involvement of entrepreneurs in anti-corruption initiatives is related to the ineffectiveness of business associations in organizing collective action. This research found that most microenterprises and entrepreneurs do not track the development of anti-corruption initiatives themselves. This suggests that the most effective way for them to participate in the Anti-Corruption Charter is through their regional entrepreneurial organizations. After signing the Charter, regional entrepreneurial organizations should disseminate information about anti-corruption principles among microenterprises, individual entrepreneurs, and other entities. This, however, poses a severe challenge for entrepreneurial organizations because they often lack effective channels of information dissemination.

The interviews with entrepreneurs in Moscow, Saint Petersburg, and Karelia conducted for this research provide certain evidence that they do not have sufficient information about regional business associations, in general, and their anti-corruption

activities, in particular. A similar situation was observed in other Russian regions. For example, an empirical study of Russian entrepreneurial organizations in the Volgograd region found that only a small fraction of entrepreneurs (3 percent of the total number of respondents) could find articles about local businesses associations in the regional media and most of them had little information about anti-corruption initiatives (Lobyzenkova 2012: 102). Taking this into account, regional business organizations should engage the media more effectively to target microenterprises.

A relatively low level of personal involvement of entrepreneurs in anti-corruption efforts is directly related to the current focus of Russian business associations on large and medium-sized businesses. This finding was supported by the results of other empirical studies of business associations in different Russian regions (Yakovlev and Govorun 2011; Lobyzenkova 2009; Poltavskaya and Lobyzenkova 2011). The interviews with entrepreneurs in Moscow, Saint Petersburg, and Karelia provide additional support for this conclusion. As a result, the interests of entrepreneurs and microenterprises are underrepresented in the economic and political spheres. Their engagement in anti-corruption initiatives at the federal, regional, and municipal levels remains low. The inability of entrepreneurs and microenterprises to mobilize themselves in collective action leads to situations where their rights are systematically violated by public officials and regulatory agencies that impose additional administrative barriers and extort informal payments for routine government actions.

For example, the 2016 report of the *Wilfred Martens Center for European Studies* and the *Free Russia Foundation* points to a rapidly deteriorating economic environment

for Russian businesses and entrepreneurs who increasingly suffer from administrative corruption and predatory behavior of regulatory agencies (Zaslavskiy 2016). One of the recent examples is the 2016 demolition of kiosks (small shops) by the authorities in Moscow and other major cities on the pretense of improving urban scenery. Hundreds of entrepreneurs lost their bakeries, florists and coffee shops that were demolished by bulldozers in the middle of the night, which was later dubbed as "the Night of the Long Shovels." Despite the public outcry over the demolition of the kiosks, individual protests failed to mobilize massive numbers of entrepreneurs. The same situation was observed with the 2015 introduction of additional burdensome fees on large trucks (called "Rotenberg's tax" after the owner of the collecting company and son of Putin's friend Arkady Rotenberg). As Ilia Zaslavskiy notes "it staged desperate and disparate acts of protest, but none of them made explicit political demands" (2016: 8). The failure of local protests of entrepreneurs not only demonstrates a low level of cohesion of the Russian business community, but also indicates the lack of effective leadership on the part of entrepreneurial organizations.

According to regional surveys of entrepreneurs in Russia conducted by William Pyle (2011), most of them consider business associations mainly as consulting and lobbying organizations. These functions received scores of 4.36 and 4.00, respectively, on a 7-point scale, with 1 meaning the lowest importance, and 7 – the highest (Table 21).

Table 21 How important is service to firms joining association in past 3 years?

Service	Score (on the scale from 1 – not important at all to 7 – very important)
Informational, legal, consulting services	4.36

Service	Score (on the scale from 1 – not important at all to 7 – very important)
Opportunity to lobby government officials	4.00
Protection from illegitimate government interference	3.92
Small-business development	3.79
Development of contacts with other Russian firms	3.76
Participation in development of industrial policy	3.56
Participation in development of legislation	3.46
Resolution of disputes between firms	3.27
Development of contacts with foreign firms	3.09
Formation of behavioral standards/ethics	2.99
Development of "social partnership" in social-labor sphere	2.71

Source: Pyle (2011: 14)

Table 21 shows that Russian business associations received relatively low scores on the development of behavioral standards and ethical norms within industries and regions (a score of 2.99 on a 7-point scale). This finding was also confirmed in the interviews with entrepreneurs from Moscow, Saint Petersburg, and Karelia who consider that Russian self-regulatory organizations are not efficient as a moral and ethical role model. The next section focuses on a detailed analysis of this and other weaknesses of Russian self-regulatory organizations.

Weaknesses of Russian self-regulatory organizations

An analysis of Russian entrepreneurial organizations demonstrates that they have severe weaknesses that restrict their capacity to mobilize entrepreneurs and organize their collective action against corruption. The most significant drawback is related to their organizational structure. The comparative study of Russian and German business associations conducted by Andrey Kiniakin (2006) demonstrates that they have similar organizational structures. Yet, despite these structural similarities, Russian and German business associations have different operational principles. In both countries, practices of

reconciling economic and political interests are based on the neo-corporatist model that requires a partnership between the government and business stakeholders. However, the nature of this partnership differs significantly in the Russian and German political systems. According to Kiniakin, "in Germany, this partnership is predominantly liberal, with a range of features of a pluralist democracy, while the Russian corporatism is characterized by authoritarian tendencies with elements of patron-client relations" (2006: 4). This suggests that in Russia, this partnership is based on asymmetric relations where business associations often provide their political support for the regime in exchange for government contracts and other favors for their members.

The same conclusion is drawn by Maria Poltavskaya and Vera Lobyzenkova in their research on Russian business associations: "One can note the tendency of an increasing one-sidedness in the dialogue between the government and businesses, which is actually turning into a monologue... Today the relationship between businesses and the government has shifted toward centralization (on a democracy-centrism scale)" (2011: 45). The interviews with entrepreneurs conducted in Moscow, Saint Petersburg, and Karelia show that Russian business associations are predominantly used by their members to receive advantages and favorable treatment from the government, but not as an instrument to counteract excessive administrative barriers and corrupt practices. For example, an entrepreneur from Karelia expressed this idea in the following way:

> I do not trust entrepreneurial organizations at the federal level, especially if they are closely linked to the government authorities. In most cases, they serve as "a career elevator" for their members. This means that if you demonstrate your loyalty and don't criticize the government, then you can get a promotion within the organization, make contacts with important people, and as a result, receive some privileges from the government, such as access to resources or procurement contracts. This is why when my rights are violated by

> government agencies, I never ask these organizations for help, but prefer to solve these problems on my own.

Another weakness is the lack of entrepreneurial associations that focus on individual entrepreneurs and microenterprises. The empirical study of business associations in Russian regions conducted by Yakovlev and Govorun showed that they mainly focus on companies with high revenues and businesses located in regional capital cities (2011: 124). The interviews with entrepreneurs from Saint Petersburg and Karelia confirm this conclusion. An individual entrepreneur from Karelia, who owns a transportation business, puts it in the following way:

> National entrepreneurial associations are organizations affiliated with government agencies. All government agencies are working exclusively with large and medium-sized enterprises, and sometimes with small business with high turnovers. They do not protect the interests of entrepreneurs and microenterprises, with a turnover of less than 120 million rubles [about $1.7 million]. Officials are not interested in working with them because they cannot give large kickbacks. Because of corruption, microenterprises receive no additional support from government agencies.

The same situation was found in Saint Petersburg. An interview with a hostel owner from Saint Petersburg demonstrated that he shares similar problems with Karelian entrepreneurs:

> Programs for microenterprises should be developed at the municipal level. For example, in Saint Petersburg, there are 111 municipalities. However, when we came to the administrative heads of the municipalities, they told us that they had no funds. The federal budget allocates two billion rubles [about $286 million] annually to support small businesses, but microenterprises at the municipal level receive nothing. We are trying to unite microenterprises in the municipalities. The bureaucratic system ignores their interests and no one pays attention to them in the national entrepreneurial organizations. Entrepreneurs do not believe that these organizations can protect their rights. An alternative solution might be mobilizing microenterprises at the municipal level. For example, we are trying to organize the Association of Hostels in Saint Petersburg in order to represent our interests in

> public authorities. However, we are almost unique. I do not know many entrepreneurial associations at the municipal level.

This finding is highly consistent with the study of entrepreneurial organizations in the Volgograd region conducted by Vera Lobyzenkova (2009). She points out that the majority of entrepreneurial organizations are branches of national pro-government organizations (ibid.: 13). In the Volgograd region, "the number of 'grassroots' business associations that were initiated and organized by internal stakeholders within the region is extremely small" (ibid.). Lobyzenkova suggests that "the majority of business associations created at the federal and regional levels are initiated by the government. The creation of such 'state' structures (represented at the regional level by such well-known organizations as the Volgograd Chamber of Commerce, OPORA, the Volgograd Center for Protection and Development of Businesses, etc.) leads to the situation where small businesses perceive them as closed, inaccessible, and bureaucratic institutions with whom it is better not to have any deals" (ibid: 18-19).

The interviews conducted in Moscow, Saint Petersburg, and Karelia identified that business associations in Russia suffer from numerous inefficiencies in their organizational and operational activities. The most important drawbacks include inefficient cooperation with the media, insufficient distribution of information about their activities among the public and individual entrepreneurs, restricted access to their resources and educational programs based on membership, and the lack of close cooperation between business associations and civil society organizations. These factors explain why the majority of entrepreneurs are not actively involved in their activities and

express non-enthusiastic views about their creation. Another problem of Russian self-regulatory organizations is a low level of female entrepreneurs' engagement in their activities and the lack of attention to their specific problems and challenges.

A key feature of Russia's entrepreneurial organizations is the prevalence of *redistributive* over *market-promoting associations*. Redistributive associations focus on private interests pursued at the expense of interests of the business community as a whole. This is especially obvious in the case of elite business associations that are directly or indirectly controlled by the government. In general, entrepreneurial organizations can be divided into four types based on two criteria: (1) the domination of private interests over business community interests and (2) a level of independence from the government (Figure 7).

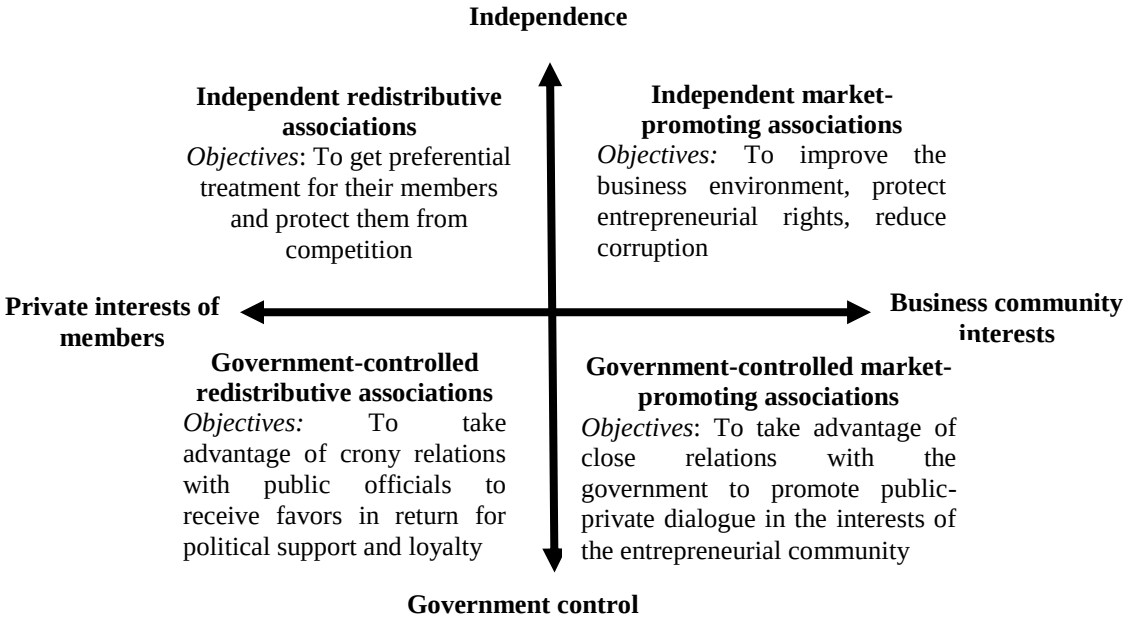


Figure 7 Types of associations based on their interests and level of independence

Grassroots entrepreneurial and civil society organizations with market-promoting objectives are located in the upper right quadrant in Figure 7. They are dedicated to the protection of human and entrepreneurial rights against oppression by the government. On the other hand, independent entrepreneurial organizations that are guided by redistributive objectives are located in the upper left quadrant. They are mostly organized at the regional level. Elite entrepreneurial organizations that are directly or indirectly controlled by the government, especially at the federal level, represent another type of redistributive associations located in the lower left quadrant. Their main distinctions from the previous type include strong crony relations with public officials and affiliation with government agencies. The key objective of elite entrepreneurial organizations is to receive favors for their members in exchange for loyalty and political support for the government, often at the expense of shrinking competition.

Poltavskaya and Lobyzenkova (2011) explain the lack of market-promoting grassroots organizations and the dominance of redistributive associations in Russia by three factors: (1) the recent regime shift toward authoritarianism, (2) a low level of civil society development, and (3) the emergence of elite business associations directly or indirectly controlled by the government. The current institutional environment incentivizes elite business associations to engage in rent-seeking activities, defined as "unproductive entrepreneurship" by William Baumol (1990). In other words, elite business associations take advantage of the system of crony state capitalism to receive favors from the government. The key reason is that "when there is a relatively high benefit to engaging in unproductive activities (e.g., rent-seeking and crime),

entrepreneurs will take advantage of those opportunities" (Boettke and Coyne 2009: 138). The prevalence of rent-seeking activities of business associations leads to a deteriorating environment for the whole entrepreneurial community. However, as Baumol notes the allocation of entrepreneurship between productive and unproductive activities is not stagnant and can change over time in accordance with "the relative payoffs society offers to such activities" (1990: 893). In turn, the relative pay-offs are determined by the institutional environment (Boettke and Piano: 2016: 131). In the case of business associations, their focus on rent-seeking activities can shift toward market-promoting objectives due to institutional change coming from internal sources, such as leadership, or external sources, such as political, social, and international pressures. The next chapter will propose practical recommendations on how to improve effectiveness of self-regulatory organizations and increase their participation in anti-corruption efforts.

CHAPTER FOUR. RECOMMENDATIONS TO COUNTERACT "GREASE" PAYMENTS IN RUSSIA

This chapter includes three sections that focus on public, private, and public-private counter-corruption measures and identifies key recommendations to improve policies regarding the use of "grease" payments. Each section begins with a diagnosis of what is wrong with the system, followed by some prognoses for how to fix these issues. In many cases, the proposed solutions would represent only partial fixes due to the fact that the best options might not be politically feasible under the current regime and institutional environment.

4.1. Counteracting "grease" payments in the public sector

This section provides a review of current anti-corruption laws and enforcement procedures in Russia. It makes several proposals regarding improvements in anti-corruption laws, deregulation reforms, measures against informal payments, and cooperation with international organizations and agencies. Taking into account severe limitations of Russia's public authorities in addressing the problem of corruption, Section 4.2 will present an analysis of anti-corruption initiatives and programs developed by civil society organizations and business association in the private sector.

Improvements in anti-corruption legislation and deregulation reforms

Over the last decade, Russia has made significant progress in adopting new anti-corruption laws. In 2008, three interconnected federal laws were adopted in Russia: (1)

the Federal Law "On Counteraction to Corruption," (2) the Federal Law "On Amendments to Certain Legislative Acts of the Russian Federation in Connection with the Adoption of the Federal Law on Counteraction to Corruption," and (3) the Federal Law "On Amendments to Certain Legislative Acts of the Russian Federation in Connection to the Ratification of the UN Convention against Corruption and the Criminal Law Convention on Corruption of the Council of Europe." These laws came into force in January 2009. They involved different aspects of Russia's anti-corruption regulation. The first law established a general framework of anti-corruption regulation. The second law developed provisions applicable to particular categories of government employees, public officials, judges, members of the State Duma, and persons holding state and municipal offices. The third law amended the Civil, Criminal and Administrative Codes of the Russian Federation in accordance with international conventions.

Although these laws introduced substantial improvements in Russia's anti-corruption legislation, there are serious gaps in the law which require immediate attention, including criminalization of illegal enrichment, protection of whistleblowers, and asset recovery. In 2006, Russia ratified the UN Convention against Corruption, however, not completely. Russia did not ratify Article 20 of the UN Convention on illicit enrichment that offers criminal punishment for officials who fail to explain reasonably the origin of their income and wealth. The Federal Law on Counteraction to Corruption places the duty of state and municipal servants to report to their employer income, property and obligations of a monetary nature, which also covers their spouses and

children who are minors. However, Russia has not yet adopted legislative measures which are necessary to establish illicit enrichment as a criminal offense.

Whistleblowers within public and private organizations play an important role in detecting corrupt practices. At the present time, there are no special laws on protection of whistleblowers in Russia. Whistleblowing involves high risks of reprisals on the part of organizations or persons whom they have accused, meaning that lack of special programs and legislation in this arena undermines inducements to report misconduct on a fellow employee or superior within organizations. For example, special provisions on protection of whistleblowers are provided in the UN Convention Against Corruption (Art. 33). Furthermore, financial motivations for whistleblowing make this mechanism work more effectively. For instance, the False Claims Act, which was the first US law adopted specifically to protect whistleblowers, gives financial incentives for people who report corrupt practices in the form a percentage of the money recovered or damages won by the government. In general, awards range from 15 to 30 percent of the total amount recovered under the False Claims Act. It is a very efficient tool in detecting misconduct of public and private employees. In 2016, the US Department of Justice (DOJ) recovered over $4.7 billion of stolen money thanks to whistleblowers who filed cases under the Federal False Claims Act (Department of Justice 2016a).

According to Article 9 of the Federal Law on Counteraction to Corruption, a government employee who discloses corruption to its employer, the prosecutor's office or other state bodies "is under the protection of the State." However, it does not specify concrete measures aimed at protecting whistleblowers. The protection of whistleblowers

in the private sector is very limited. In 2015, a bill aimed at providing legal protection for whistleblowers who report corrupt public officials and private companies was introduced in the State Duma. However, it has not been enacted. It also remains unclear how effectively the whistleblowing law will be enforced in the case of its enactment. Currently, many agencies prefer to fire corrupt employees instead of reporting them to public authorities because of reputational damages for the related organizations. As Elena Panfilova, the head of Transparency International Russia, pointed out, "without bringing cases to attention of the appropriate authorities, it will be impossible to create the system of 'zero tolerance' toward corruption" (cited in Petrov 2011).

Finally, apart from specific anti-corruption laws, policy makers should be more actively involved in removing excessive bureaucratic procedures and administrative barriers which facilitate the widespread usage of informal transactions in Russia's highly-regulated economy. In 2009-2010, the Center for International Private Enterprise together with USAID and Russian chambers of commerce in eight regions (Saratov, Astrakhan, Volgograd, Kirov, Smolensk, Novosibirsk, Perm, and Khabarovsk) conducted a project on *Improving Regulation to Reduce Corruption*. This project focused on the identification of legal loopholes, excessive bureaucratic discretion, and other issues in the current legislation guiding the relations between regulatory agencies and entrepreneurs. Their proposals included eight recommendations: (1) enactment of the Federal Law on Administrative Regulation, (2) creation of a single registry of state and municipal services, (3) annual monitoring of the effectiveness of administrative regulations, (4) analysis of regulations by government agencies based on the methodology developed by

chambers of commerce, (5) monitoring of regional and local implementation of federal laws by the Ministry of Justice, (6) development of a legal concept of transparency of government agencies and local governments, (7) establishment of a legal procedure to review regulations, and (8) active involvement of academia in drafting federal and regional regulations (Center for International Private Enterprise 2010). However, since 2010, little has been done in implementing these recommendations.

An analysis of regulations regarding inspections of businesses by federal, regional, and local agencies can help to answer the question of why administrative barriers persist despite recent reforms. Even after several legislative attempts to improve the regulation regime, it remains extremely burdensome for most businesses. Predatory behavior is so widespread among Russian regulatory agencies that some scholars refer to them as "inspectocracy" (Atchinson 2014) or "grabbing hand" (Shleifer and Vishny 1993; Frye and Shleifer 1997). "Inspectocracy" is an allusion to kleptocracy, which means a government with corrupt rulers (kleptocrats) who grab public assets and exploit the population in order to increase their personal wealth. In the same vein, "inspectocracy" is a system of regulatory agencies at the federal, regional, and local levels that systematically extort informal payments and grab assets from businesses and entrepreneurs. This term is synonymous to "grabbing hand," under which Andrei Shleifer and Robert Vishny understand "the government [that] consists of a large number of substantially independent bureaucrats pursuing their own agendas, including taking bribes" (cited in Frye and Shleifer 1997: 354).

Systematic failures to improve laws regarding the inspection regime in Russia are explained by enormous resistance of members of "inspectocracy" who sabotage all reforms by taking advantages of loopholes and gaps in new laws. For example, in 2001, the State Duma adopted Federal Law #134 on "Protection of the Rights of Legal Entities and Individual Entrepreneurs During State Control (Inspections)," according to which each regulatory agency can inspect a business only once within a two-year period. However, according to a survey conducted by OPORA in 2003, "nearly 75% of respondents [entrepreneurs] complained that they were still inspected more than once a year, and with 30% saying once a month or more" (cited in Atchinson 2014: 71). The key reason was that the law made an exception for unscheduled (unplanned) inspections and regulatory agencies took advantage of this loophole.

The same happened with Federal Law #294 of 2008 that replaced Federal Law #134. Federal Law #294 further reduced the number of inspections per each agency from one in every two years to one in every three years. It also decreased the time period for inspections from 30 to 20 days and prohibited duplicating inspections by different agencies. However, enforcement of this new law was also ineffective. In 2009, "small businesses had to deal with inspections from more than forty different agencies" (ibid.: 74). As was argued in Chapter 2, the recently introduced three-year moratorium on inspections of small businesses, that came to force in 2016, is also not expected to remove excessive inspections for the majority of entrepreneurs due to numerous loopholes.

The existence of powerful "inspectocracy" blocks improvements in the inspection regime. This suggests the need to enhance oversight over inspectors themselves and increase their liability for administrative offenses and bribing. In this respect, a recent presidential decision to decrease the minimum penalty for bribery seems counterproductive. In March 2015, President Putin signed an amendment to the Criminal Code, according to which the minimum penalty for accepting a bribe decreased from 15 to only 5 times of its amount. Additional control over inspectors should be provided by representatives of business associations during inspections. For example, in 2009, OPORA received the right to be present during inspections of their members (Atchinson 2014: 74). Also, to avoid loopholes in the inspection law, it is necessary to organize a public-private dialogue in the form of joint working groups consisting of representatives of the business community and policy makers. This measure will allow entrepreneurs to provide their feedback and recommendations on improving the current law. Principles of organizing public-private dialogues will be discussed in more detail in Section 4.3. It is also important to improve enforcement of the already existing laws in this sphere.

Enforcement of laws against corruption and informal payments

The development of comprehensive anti-corruption laws should be accompanied by their effective enforcement. Special anti-corruption enforcement agencies play a critical role in preventing corruption in the public administration system. However, in Russia, law enforcement proved to be unable to prevent corruption and extortion of informal payments from businesses by regulatory agencies. Moreover, as Chapter 2 argued, police officers themselves are involved in such activities. In recent years, the

problem of corruption of law enforcement in Russia has been continuously deteriorating. Even specialized anti-corruption units within law enforcement are criticized for involvement in corruption scandals. In September 2016, Dmitry Zakharchenko, deputy head of the Interior Ministry's Committee for Economic Security and Combating Corruption, was arrested on charges of abuse of power, obstruction of justice, and bribery. About $120 million were seized from his Moscow apartment, and over $300 million were found in his father's foreign bank accounts. As Russia's business ombudsman Boris Titov suggests, "this money that was compiled from small amounts extorted from the business community… is evidence of the corruption situation that has developed in the country" (cited in Movchan 2016).

Corruption of law enforcement authorities is exacerbated by low salaries of policemen and the lack of affordable housing. This disturbing trend is especially obvious under the current economic crisis that is responsible for further shrinking of formal incomes of enforcement officers. A long-term recession creates strong incentives for enforcement officers to quickly regain their economic losses through extortion of bribes. This leads to situations where law enforcement officers use their office not to defend the rule of law, but for personal enrichment. Importantly, in Russia's hierarchical law enforcement system, informal payments collected by lower-level officers who are directly involved in everyday administrative corruption are distributed in certain proportions to higher-level officials. In such a system, loyalty is valued much more than experience and professional qualifications, and it is measured by the amount of

"annuities" from illegal proceeds distributed by street-level enforcement officers to their superiors.

The problem in Russia is that there are multiple agencies aimed at preventing corruption, such as the Presidential Council for Combating Corruption, the National Anti-Corruption Council of the Russian Federation, the Anti-Corruption Parliamentary Commission, the Accounts Chamber, the Financial Monitoring Service, and the Interior Ministry's Committee for Economic Security and Combating Corruption. However, their incentives for coordination are weak and their practices fall far short of the policy's intent. Their functions overlap and their powers are diluted and unclear.

Another problem is the dependence of law enforcement agencies on the executive branch. Key agencies with authority to investigate and prosecute corruption cases in Russia, including the Federal Security Service and the Prosecutor General's Office, lack independence as their directors are nominated and can be dismissed by the President. These offices also are tainted with corruption. For example, high-ranking officials of the Federal Custom Service, the Federal Security Service, and the Prosecutor General's Office were involved in one of the largest corruption cases known as the Three Whales case, which centered around a furniture import company engaged in weapons and oil smuggling, as well as money laundering (Yasmann 2006).

A more recent example is an investigative report published by the Anti-Corruption Foundation (FBK) headed by Alexey Navalny that implicated the Prosecutor General Yury Chaika, his relatives, including his sons Artyom and Igor Chaika, and a number of high-ranking officials in the Prosecutor's Office. The report accuses them of

corruption, extortion, raiding, and other offenses with links to an organized criminal group whose members killed 12 people in the village of Kushchevskaya in 2010 (Abramov 2015). Several courts of Moscow dismissed the claim of the Anti-Corruption Foundation against Yury Chaika on formal grounds. This case demonstrates that impunity of high-ranking officials from prosecution is a major weakness of judicial and law enforcement bodies in Russia.

Theoretically speaking, Russia could significantly improve the fight against corruption if a single independent anti-corruption agency is charged exclusively with authority to investigate and prosecute corruption practices. For instance, many researchers point out that the main factor which made it possible to curb corruption in Hong Kong was the establishment of the Independent Commission Against Corruption (ICAC) in 1974 (Rose-Ackerman 1999: 159-62; Langseth 2000: 7; Quah 2006: 178-9). Several important preconditions insured its efficiency. First of all, being independent from the police and civil service, the ICAC reported only to the Colonel Governor. Second, officials working for the ICAC had authority to investigate and prosecute corruption cases, including all procedures associated with it, such as wiretaps, check of bank accounts, searches without need for legal warrants, arrests, detentions, bails, and seizures of illegal funds. It also provided recommendations on legal and administrative reforms and educational workshops for civil servants and the public. Third, officials of the ICAC were deterred from corruption by relatively high salaries in comparison with other agencies. In addition, they were protected from departmental transfers. Finally,

special regular surveys were used to monitor corruption levels in Hong Kong and public trust in the ICAC.

The creation of a single powerful and independent anti-corruption agency in Russia does not seem to be politically feasible. Moreover, anti-corruption campaigns conducted by public authorities serve their short-term political purposes. Also, ever-increasing anti-democratic tendencies suggest that Russia's political elites lack will to curb corruption. The multitude of anti-corruption agencies resembles a feudal system consisting of separate fiefdoms that compete for public funds and resources, without necessary accountability. The consolidation of these agencies into one entity could allow them to play a stronger normative and advocacy role in the development of anti-corruption policies. Their current overlapping jurisdiction only adds to complexity and ambiguity of anti-corruption regulation. Taking this into account, there is an urgent need for better coordination among various agencies that have discretion to prosecute corrupt public officials.

Cooperation with international anti-corruption organizations and agencies

As corruption is a cross-border problem, Russian anti-corruption agencies need to coordinate their efforts with international law enforcement organizations. Recently, many governments have recognized shared responsibilities and commonality of the problem of corruption among countries. As a result, a number of international anti-corruption conventions have been adopted. In 1999, the Organization for Economic Co-operation and Development (OECD) adopted the Convention on Combating Bribery of Foreign Officials in International Business Transactions. In 2012, Russia signed this Convention.

However, according to the 2015 Transparency International report on *Enforcement of the OECD Anti-Bribery Convention* (2016), Russia and 19 other countries have "Little or No Enforcement" and lack effective mechanisms to deter bribery.

In 1999, the Council of Europe launched the Group of States Against Corruption (GRECO). Apart from European member states, it includes a number of observers, such as Canada, Japan, Mexico and the United States. In 1999, Russia signed the Council of Europe Criminal Law Convention on Corruption. By signing it, Russia automatically became a member of GRECO. In 2006, Russia ratified the Council of Europe Criminal Law Convention on Corruption and amended its national laws according to its provisions. However, Russia has not yet signed the Council of Europe Civil Law Convention on Corruption which defines common international rules in the field of civil law and anti-corruption regulation. The Civil Law Convention on Corruption contains provisions which are important for Russia, such as remedies for injured persons, compensation for damage from corruption, invalidity of corrupt contracts, asset recovery, and whistleblower protection. Asset recovery, which is also a fundamental principle of the UN Convention Against Corruption, is extremely important because corrupt proceeds of Russian officials are often laundered abroad and stolen funds are often found in real estate and financial markets in developed countries. For example, recently a team of investigators and lawyers tracked millions of dollars stolen in the infamous Hermitage Capital case to accounts of Russian tax police officers in Canadian banks (Leblanc 2016).

The recent trend in enforcement of the Foreign Corrupt Practices Act (FCPA) by US authorities is the expansion of its extraterritorial reach. If money from bribery

schemes has passed through the US financial system, then US authorities can launch cases against foreign officials under the FCPA. The DOJ goes to extraordinary length to locate and to bring FCPA violators to justice in the US. Yet, in reality, it can be extremely challenging if alleged FCPA violators are Russian nationals. The ability of the DOJ to prosecute foreign individuals is limited in highly corrupt countries, such as Russia, that are not willing to cooperate and assist in extradition. To begin with, Federal Rule of Criminal Procedure 4 requires US prosecutors and law enforcement to serve summons to individual defendants personally. This, however, requires permission from a foreign state, which might be difficult to receive in countries that have not signed mutual legal assistance treaties with the US. The Russian case demonstrates that even signed extradition treaties are no panacea for anti-corruption enforcement actions against foreign individuals.

4.2. Counteracting "grease" payments in the private sector

This section provides a review of current problems of self-regulatory organizations found in Chapter 3 and a discussion of possible solutions. It makes several suggestions regarding a shift of business associations from redistributive goals toward market-oriented objectives, creation of favorable public opinion about self-regulatory organizations, their cooperation with civil society, creation of a national online portal to disseminate information about their activities, and participation of female entrepreneurs in anti-corruption campaigns.

Shift of business associations from redistributive toward market-promoting goals

The analysis of Russian redistributive and market-promoting associations

presented in Chapter 3 allows for several suggestions. First, there is a need to support the growth and development of grassroots market-promoting organizations founded at the local level by entrepreneurs themselves, rather than created through government initiatives. As Sullivan, Bettcher, and Shkolnikov (2008: 4) show grassroots organizations based on voluntary memberships have more incentives to act as "the voice of business." Unlike large companies, microenterprises and entrepreneurs cannot benefit from corruption in terms of getting preferential access to government procurement or financial resources. As the interviews with entrepreneurs in Moscow, Saint Petersburg, and Karelia demonstrated, most of them have to pay facilitation payments for routine government actions that they are legally entitled to receive. Therefore, they have strong incentives to protect entrepreneurial rights, resist oppression on the part of regulatory agencies, and fight against corruption.

Second, it is critical that Russian redistributive associations move away from the promotion of private interests and toward the use of open and direct mechanisms of representation of interests of the entrepreneurial community as a whole. Entrepreneurial organizations directly or indirectly controlled by the government can be efficient in organizing public-private dialogue due to their close relations with the government and public officials. Potentially, they could play an active role in increasing the quality of decision making in the political sphere through a wide range of institutional instruments, such as their participation in joint activities with government authorities, informational support of the legislative process, and the organization of public-private partnerships. A good example is a project conducted by the Center for Private Enterprise (CIPE) in

Russia. It was aimed at assisting the Saratov Chamber of Commerce and Industry in developing an innovative approach to the fight against corruption at the regional level. Their approach focused on finding gaps and contradictions between federal, regional, and local laws and closing these gaps through an advocacy campaign and partnership with public authorities. The results of this project included the reduction of administrative barriers in different areas, such as licensing, certification, and obtaining construction permits.

Creation of favorable public opinion about business associations and cooperation with civil society organizations

The interviews with representatives of self-regulatory organizations identified that currently Russian business associations do not have sufficient public support. They need to develop their ties with the general public and civil society organizations. The public should perceive business associations not only as an instrument for lobbying the private interests of entrepreneurs, but also as an instrument for increasing their social well-being. As discussed in Chapter 3, pioneering entrepreneurial organizations in the Russian Empire took significant efforts to form favorable public opinion about their activities. Favorable public opinion could encourage cooperation between business associations and civil society organizations. Also, it is important for Russian entrepreneurial organizations to attract new members and receive support from civil society. This can be achieved through various methods, such as social networks, blogs on anti-corruption compliance in the private sector, online forums and courses, specialized Facebook groups, anti-corruption videos on YouTube, and online petitions, such as Change.org. Favorable public opinion and support by civil society organizations can be a potential force leading

to synergies that entrepreneurial organizations would not be able to achieve independently.

As analyzed in Section 3.1, anti-corruption activities of civil society organizations and business associations are based on the same principles. Both of them can serve as a mediator between the state, businesses, and the public (see Figure 8). In this regard, it is necessary to unite efforts of civil society activists with individual entrepreneurs and their collective organizations.

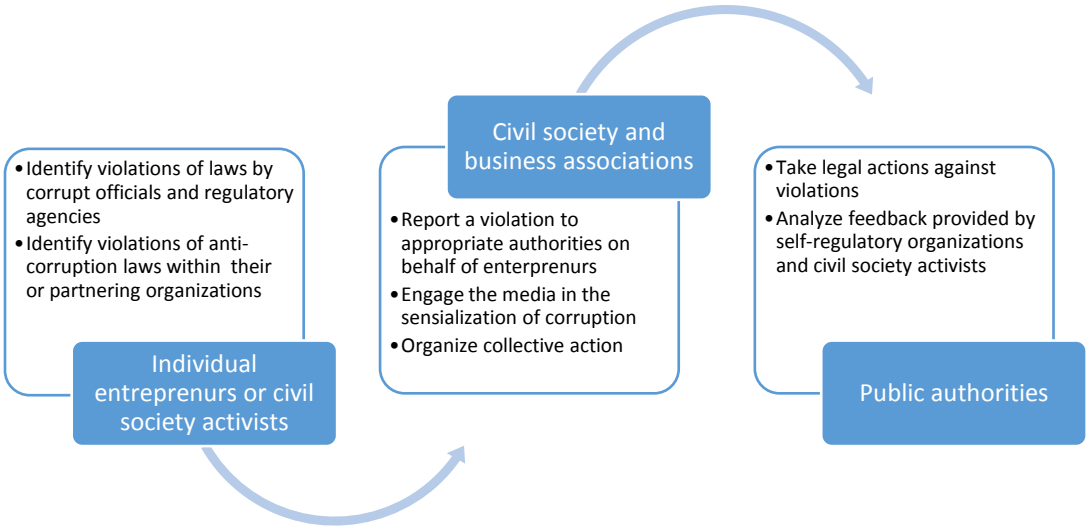


Figure 8 Business associations as mediators between public authorities and entrepreneurs

The failure of Russian business associations to organize collective action by entrepreneurs suggests a need to combine their efforts with other social groups and to develop strong ties with civil society organizations. Judging from international experience, a partnership between collective civil society organizations and business associations can be an effective tool for mobilizing isolated private actors and organizing

massive anti-corruption campaigns. For example, based on twelve international case studies, Shaazka Beyerle (2014) demonstrates how civil society organizations and business associations played a critical role in pushing government agencies to transparency and accountability, even in countries characterized by pervasive corruption, such as Brazil, India, Uganda, and Afghanistan. It is noteworthy that according to Transparency International (2017), Uganda and Afghanistan have lower ratings on the Corruption Perception Index than Russia. In 2016, Uganda and Afghanistan were ranked 151st and 169th out of 179 countries, respectively, while Russia was ranked131st (ibid.). Although Brazil and India have higher ratings on the Corruption Perception Index than Russia, they also have extremely complicated political and socio-economic environments. Successful anti-corruption campaigns in these countries provide evidence that together civil society organizations and business associations can overcome challenges posed by corrupt governments and public administration. These organizations used a wide variety of bottom-up strategies, including civil disobedience, information gathering and dissemination about corruption, monitoring public officials and agencies, protests, petitions, strikes, social audits, digital resistance through social networks, and anti-corruption education. The key advantage of bottom-up anti-corruption strategies in the private sector is that they complement and reinforce top-down anti-corruption initiatives in the public sector.

Information dissemination through the media and the creation of a national online portal for individual entrepreneurs

Also, the interviews with entrepreneurs in Moscow, Saint Petersburg, and Karelia identified that they do not have sufficient information about self-regulatory organizations

and their anti-corruption activities. This finding is consistent with studies conducted in other regions. For example, according to the study of business associations in the Volgograd region conducted by Lobyzenkova (2012: 102), only 3 percent of entrepreneurs find articles about small businesses and their associations in the regional media very often. Taking this into account, self-regulatory organizations need to develop a system of information dissemination about their activities. They can use a variety of mechanisms, such as developing close cooperation with the media, publishing their own periodic sources, adding hotlines and feedback channels to their websites, and using social networks. The media sensitization of corruption-related issues is an important element of anti-corruption efforts. It facilitates legal and regulatory responses to rent seeking. Moreover, the media inflates public concerns about this problem.

This task could be particularly challenging since Russia remains one of the most dangerous countries in the world for independent media due to numerous murders, detentions and arrests of journalists and human right activists, denials of entry for international journalists, and frequent targeting of independent outlets by regulators (Freedom House 2015). According to the Committee to Protect Journalists (2017), 36 journalists were murdered in Russia since 1992. The number of nonfatal attacks against journalists is even bigger. Only in 2016, the Glasnost Defense Foundation (2017) reported 54 attacks on journalists and bloggers. Among topics which are subject to particular political pressure are human rights abuses, governmental corruption, organized crime, and police torture. This is a serious cause for concern as a free and independent media is a significant part of anti-corruption campaigns.

In authoritarian countries, where most media sources are controlled and censored by the government, Internet resources are becoming more important. For example, social networks played a significant role in the collapse of authoritarian regimes during the Arab spring (Ray 2011; Comninos 2011). Table 22 shows a percentage of households with personal computers and Internet access in different Russian regions in 2013.

Table 22 Households with personal computers and Internet access in Moscow, Saint Petersburg, and Karelia

Region	Moscow	Saint Petersburg	Karelia
Percentage of households with personal computers (%)	83,5	84,4	84,2
Percentage of households with Internet access (%)	82,1	81,6	80,1

Source: The Federal Statistics Service (2013)

As shown in Table 22, in Moscow, Saint Petersburg, and Karelia, more than 80 percent of households were reported to have Internet access. This is relatively high in comparison with an average indicator of 65.1 percent of households with Internet in Russia (The Federal Statistics Service 2013). Therefore, it seems fair to say that the development of new information technology can significantly influence anti-corruption efforts of civil society organizations and business associations in these regions.

The active use of information communication technology could allow entrepreneurs and other business entities to hold regulatory agencies and public officials accountable for their actions. In this respect, most interviewed entrepreneurs from Moscow, Saint Petersburg, and Karelia supported a proposal to create a national online portal that will unite individual entrepreneurs, self-regulatory organizations, and civil

society activists. In addition to general information related to entrepreneurship, this portal should publish ratings of Russian regions based on the number of complaints about violations of entrepreneurs' rights, including extortion of "grease" payments by regulatory agencies. At the present time, this information is impossible to find. Furthermore, complaints should be automatically dispatched to public authorities for investigation and to journalists for publication in the local and regional media. Also, entrepreneurs should be able to track the status of their complaints through this portal.

Increased participation of female entrepreneurs in anti-corruption campaigns

Historically, women-owned businesses have long been underrepresented in male-dominated industries, such as construction, transportation, warehousing, finance, and insurance. The low percentage of women-owned businesses in these industries points to certain difficulties in providing their credibility and competing in the male-dominated environment. For example, according to a female entrepreneur from Moscow who sells satellite antennas, "women in many industries, including mine, are not taken seriously and face challenges, such as proving their capability and credibility, competing in a male-dominated environment, and overcoming sexism, discrimination, and stereotypes." Furthermore, in an interview for this research, a female entrepreneur from Moscow indicated that women-owned small businesses are often perceived by society as less deserving of benefits than other types of small businesses. According to Transparency International, women are disproportionately affected by corruption in the following spheres: (1) restricted access to decision making due to an uneven playing field for women and men in corrupt societies; (2) limited protection and advancements of

women's rights due to a corrupt enforcement system; and (3) reduced access to resources (2007: 3-4). Taking this into account, women's experiences with corruption can contribute to collective action against "grease" payments. For example, in another interview conducted for this research, a female entrepreneur from Saint Petersburg described her motivation to participate in anti-corruption campaigns in the following way:

> I do not distinguish between the interests of my family and the interests of society. I live in this country and my well-being depends on a healthy social and business climate. I believe that it is impossible to build a happy family without taking social problems into considerations. Corruption distorts economic development, leads to an inefficient use of resources, disavows the purpose of public service, distorts incentives of businesses, and strengthens regionalism and nepotism. Moreover, it is linked to capital flight, which leaves our economy without necessary investment. As a result, the whole society suffers, including my family. If you like, my motivation can be defined as a maternal instinct.

Similar gender-specific incentives to participate in anti-corruption campaigns were found in the study conducted by Dollar et al., who argue that women are "more trustworthy and public-spirited" and less "individually oriented (selfish)" than men (2001: 423). Drawing on Dollar et al. (2001), it can be argued that business associations need to increase the role of female entrepreneurs in their activities. Table 23 demonstrates potential roles of women and female entrepreneurs in providing different types of accountability in the multilateral system of anti-corruption regulation.

Table 23 The role of women and women's organizations in providing accountability

Accountability	Potential role of women
Horizontal accountability	Increasing the number of women in power, recruiting female police officers to enhance enforcement agencies
Vertical electoral	Increasing the participation of women in political parties and the electoral

accountability	process
Vertical societal accountability	Empowerment of women's grassroots organizations and mobilization of women businesses to protect their rights and social well-being

In terms of horizontal accountability, it is still difficult for Russian women to get access to high-ranking positions. Also, women are underrepresented in enforcement agencies, such as the police. There is empirical evidence that recruiting female police officers can be very effective at decreasing a level of corruption in law enforcement. For example, Sam Quinones (1999) and Jeremy McDermott (1999) analyze successful cases of female police forces in Mexico and Peru, which contributed to a significant reduction in corrupt activities. In the context of electoral accountability, women comprise a large community of voters responsible for holding politicians accountable. However, women are significantly less active than men in working for a party or candidate in an election campaign. Therefore, it can be recommended for Russia's political parties to more actively involve women in their activities and in political life in general.

Section 3.1 contains a detailed analysis of activities of women's grassroots organizations in providing societal accountability in different countries. Importantly, in Russia, the majority of non-governmental organizations are run by women and they play a critical role in the sphere of civil initiatives (Poltavskaya and Lobyzenkova 2011). According to Poltavskaya and Lobyzenkova (2011), since in Russia many successful civil society organizations were initiated by women, female entrepreneurs could follow their

example and create business organizations "from below" at the regional and federal level (2011: 180).

Overall, it is impossible to mitigate the problem of "grease" payments in the Russian entrepreneurial sector without women's contributions to the fight against corruption. The multilateral system of anti-corruption regulation based on vertical and horizontal accountability combines the elements of self-regulation and traditional public regulation. One of the positive aspects of this system is the ability of women to transform public policies in the direction of equality. Therefore, a major advantage of this system is that women and women's organizations can actively participate in the process of anti-corruption policy formulation, as well as monitor its implementation. The integration of all stakeholders ensures the effectiveness of anti-corruption regulation.

4.3. Public-private cooperation in the fight against informal transactions in the entrepreneurial sector

This section provides several suggestions regarding organizing and maintaining public-private dialogue in the policy-making sphere and public-private partnerships in the form of joint projects aimed at mitigating informal payments in Russia. Although they share similar principles, it is important to distinguish between public-private dialogue and public-private partnerships. In a broad sense, public-private dialogue means the participation of private actors in the policy-making process, while public-private partnerships require the participation of businesses in the policy implementation through joint projects with governmental agencies.

Public-private dialogue

The key objective of public-private dialogue is to improve the policy-making process through inclusive participation of representatives of the business community and civil society who have on-the-ground experiences with issues targeted by decision-makers in the public sector. Public-private dialogue can elevate issues of particular concern for entrepreneurs to the top of the government agenda, provide necessary data for the adoption of new laws, and give necessary feedback on existing regulations. Public-private dialogue can be organized based on a top-down approach when public authorities select particular businesses and business associations to provide their input on policies under consideration. According to an alternative bottom-up approach, business leaders themselves initiate discussions about public issues through advocacy campaigns.

As argued in Chapter 3, in the Russian Empire, business associations took significant efforts to inform public authorities about their perspectives regarding economic development. They often relied on distinguished economists, jurists, and historians to justify their position and invited them to participate in open discussions with public officials (Vorontsova 2013: 365). Contemporary forms of public-private dialogue include roundtables, forums, and workgroups.

International experiences highlight key principles for the success of public-private dialogue between business associations and public authorities. For example, based on 38 countries, Benjamin Herzberg and Andrew Wright distinguish eight strategies for persuading policy makers to change administrative regulations: (1) reach out to small businesses, (2) strengthen business associations, (3) define a network of government agencies involved in regulations, (4) generate a two-tiered output, including both legal

proposals and policy papers, (5) use branding and marketing with a clear mission statement, (6) appoint a dynamic coordinator, (7) manage expectations, and (8) be flexible and ready to involve new partners. Table 24 represents several countries where business communities benefitted significantly from public-private dialogue in terms of removing excessive regulations.

Table 24 Examples of successful public-private dialogues that led to improved laws regulating businesses

Country	Benefit	Before	After
Bosnia (Bulldozer Committee)	Improving statutory capital requirements when registering a LLC	$6,500	$1,300 – Increased number of registered companies (doubled in some areas)
Bosnia (Bulldozer Committee)	Improving laws on the registration of foreign companies	3 different institutions, 3 sets of applications, more than 3 months	1 institution, 1 set of application, 1 month long process
Vietnam (the Vietnam Business Forum)	Improving labor restrictions for expatriate employees	Decree #105 limited the number of foreign employees to 3% of the total staff, with a limit of 50 employees	Circular #04 allowed managers to remove this limitation under special permissions.
Turkey (Coordination Council for Improvement of the Investment Climate)	Amending a law on the registration process for companies	19 steps to register, 2.5 months	1 step, 8 procedures to register, 9 days in total
Botswana (National Business Conference and High Level Consultative Council)	Setting institutional means for economic empowerment	Public grant program with high corruption, no investment guarantee agency	Citizen Entrepreneur Development Agency (CEDA). Direct link to the Ministry of Finance, subsidized loans, 50 applications per week

Source: Herzberg & Wright (2005).

These examples show the importance of the participation of business associations in legislative activities related to administrative regulations. Open discussions,

consultations, roundtables, and workshops bring together representatives of public authorities, business associations, and individual entrepreneurs. They should be used as a platform to discuss administrative barriers to doing business. One of their most important advantages is an intensive process of dialog, which can provide new insights into the nature of issues and promote action for responsible public administration.

Public-private partnerships

In a broad sense, public–private partnerships (also known by its abbreviations PPP, 3P or P3) can be defined as "cooperative institutional arrangements between public and private sector actors" that typically have a long-term nature (Hodge & Greve 2007: 545). In a similar vein, Hans Van Ham and Joop Koppenjan define a PPP as "cooperation of some sort of durability between public and private actors in which they jointly develop products and services and share risks, costs, and resources which are connected with these products" (2001: 598). The last decade has seen a clear trend toward cooperation between public and private actors in different spheres, including joint programs and projects aimed at both preventing and combatting informal transactions in different countries.

In 2010, the Saratov chamber of commerce in partnership with the Center for International Private Enterprise conducted a survey among Russian entrepreneurs and government experts to answer the question of what counter-corruption measures should be given priority. Table 25 lists their responses.

Table 25 What measures would counteract corruption?

Measures	Business experts	Government experts	Avg. %
1. Regulations specifying the rights and duties of officials	59	67	63
2. Liability of officials for corruption	61	63	62
3. Increased efforts to investigate corruption of government officials	60	62	61
4. Amendment of regional laws and regulations based on anti-corruption analysis	58	61	59
5. Creation of a system to raise public awareness of the law and enhance a "legal" culture	57	62	59
6. Transparency in the work of government agencies	56	61	58
7. Legal and anti-corruption education in schools and universities	56	62	58
8. Media efforts to encourage public intolerance of corruption	52	64	57
9. Development of regional civil society institutions	53	62	57
10. Interdepartmental coordinating agency to counteract corruption in the region	51	56	53
11. Public events to discuss ways to counteract corruption	46	58	51
12. Public outreach on anti-corruption topics	45	57	50
13. Monitoring compliance with anti-corruption laws	48	54	50

Source: Center for International Private Enterprise (2010: 13).

In Table 25, many counter-corruption measures require PPP, for example, monitoring the work of government agencies, organizing anti-corruption education in schools and universities, and monitoring compliance with anti-corruption laws. A good example of PPP is a joint project organized by Citizens' Watch, a human rights non-governmental organization, with Saint Petersburg University of Ministry of Internal Affairs of Russia (http://www.univermvd.ru/). The main goal of this project is to make police ethics a larger part of education programs and address the problem of violations of human rights by the police. Since 1992, Citizens' Watch organizes special training programs that contribute to anti-corruption efforts, promote ethical values among police officers, and develop their social responsibility.

Another example is the Guild for Audio-Video Trade Development that partnered with authorities to assist in implementing new regulations that targeted counterfeit products. In 2003, the State Duma adopted a new law on licensing that became the basis of copyright protection. Its enforcement, however, was inefficient due to predatory behavior of police officers. As Dinissa Duvanova indicates, "multiple reports suggest that authorities often patronized pirated trade, while harassing legitimate traders with arbitrary inspections (2009: 453). In 2003, law-abiding businesses of the Guild for Audio-Video Trade Development created a program aimed at improving the situation in this market. They denounced pirated trade and offered their assistantship in enforcing new regulations to Moscow authorities. At the beginning, the director of the Guild was not sure about the reaction of the Moscow authorities. However, time showed that "authorities were eager to win private sector allies in their fight against pirates and low level corrupt enforcement mechanisms" (ibid. 454). As Dinissa Duvanova (2009: 455), "in a situation in which Russian consumers continue to favor illegal products and the authorities' actions to enforce inadequate regulations continue to hurt legal business, the central interest of the Guild's members is to ensure legal protection of their businesses and fair competition." The situation with pirated products still remains serious in Russia, yet, the Guild for Audio-Video Trade Development helped to increase a share of legal products in this market.

Yet, public-private partnerships are not very actively used in the sphere of anti-corruption enforcement. *The Center for the Development of Public-Private Partnership* distinguishes several problems in this sphere. First, there is no legal definition of public-

private partnerships in Russia's federal legislation (2013: 12). This often leads to mutual misunderstandings and confusion. Another obstacle is related to the lack of public mechanisms to provide special benefits to private parties who participate in such partnerships (ibid.). Finally, according to a study conducted by the Expert Institute in Moscow, "the key barrier that creates the greatest obstacles to the development of PPP in the world and in Russia is a low level of skills and lack of experience of public officials in charge of PPP projects" (2010: 31-32).

At the present time, the Russian entrepreneurial community does not fully realize the great potential of PPP in the fight against corruption. This, however, does not mean that such situation will remain in the future. In this respect, it is critical to organize special programs and seminars for public officials about benefits and mechanisms of successful PPP projects in the sphere of anti-corruption regulation. Finally, it is important to publicize existing PPP through the media, which will ensure openness and transparency of arrangements between business associations and public authorities.

CONCLUSION

This dissertation moves beyond "mainstream" studies of corruption in post-communist states that focus primarily on the demand side represented by regulatory agencies and public officials who distort legal and regulatory institutions to their advantage through extortion of informal payments and other types of illegal activities. In contrast, this research focuses on the supply side represented by Russian individual entrepreneurs. This focus allows for the identification of specific factors facilitating the spread of "grease" payments in Russia's economy, which are often ignored by policy makers who are in charge of anti-corruption reforms. Contrary to widely-accepted views about the cultural predisposition of Russian citizens to pay bribes, the research found that the vast majority of informal payments are made by entrepreneurs not to achieve illegal advantages, but to obtain property rights that are denied to them by regulatory agencies, despite the fact that businesses are eligible to receive these rights under the law.

In this respect, this research provides a new conceptual framework for analyzing corruption in the administrative system as a violation of both entrepreneurial and human rights. This framework centers around business communities and collective entrepreneurial organizations as protectors of entrepreneurial and human rights. Entrepreneurs and their collective organizations represent an important part of civil society. Under the conditions of Russia's deteriorating political environment and

shrinking civic space, collective business organizations should take the lead in the promotion of anti-corruption initiatives and broader human rights campaigns. However, their potential is currently limited due a low level of cohesion and mobilization of individual entrepreneurs. As a result, local protests organized by entrepreneurs against administrative injustice fail to attract massive numbers of participants. This problem is exacerbated by inefficiencies of the current work of collective organizations and Russia's business ombudsman who is responsible for protecting entrepreneurial rights. The research found that low trust of individual entrepreneurs in these institutions prevent them from filing formal complaints to these organizations in situations of extortion by regulatory agencies. As a result, most entrepreneurs still prefer to solve administrative problems through "grease" payments.

This research also complements a traditional approach to the study of gender-specific attitudes toward corruption with an economic perspective that focuses on female entrepreneurs and their attitudes toward "grease" payments. According to this perspective, gender specific challenges related to economic competition in a male-dominated environment and women's traditional roles as family caretakers make them less tolerant to "grease" payments. The practical implication of this finding is a need to enhance the role of women in the economic and political arenas, not only for the purpose of social justice and fairness, but also for social well-being.

This dissertation research also contributes to the growing body of literature related to informal payments by focusing on motivations and perceptions of Russian individual entrepreneurs about the use of illegal transactions. As Nichols indicates, an

understanding of attitudes toward corruption among the local population is critical for policy making because these attitudes play an important role in determining the viability of anti-corruption regulations (2001: 898). Further, "the assertion that some cultures embrace corruption should be tested when possible" (ibid.). In this context, the study provides wide opportunities for exploring and assessing Russian individual entrepreneurs' perceptions regarding "grease" and other informal payments to public agencies. This study is linked to earlier institutional debates concerning deregulation reforms as the key method to combat corruption in the public sector. This research project was designed to explore complementary methods and solutions to mitigate "grease" payments, with a focus on the role of self-regulatory organizations and collective action initiatives.

Before summarizing key conclusions, it is necessary to point to several limitations of this study and provide directions for further research. A severe limitation of this research is related to the fact that it is based on a self-reporting of the use of "grease" payments. The self-reporting about informal activities has certain disadvantages due to reluctance of respondents to give honest answers. For example, self-reported answers about the scope of this problem might understate the frequency of "grease" payments. Entrepreneurs might be afraid to reveal their own participation in informal activities. Although anonymity of the conducted survey was meant to mitigate this issue, a self-reporting bias might persist due to subjective fears of respondents.

Institutional embeddedness of "grease" payments in the public administration system suggests the need for the integration of the research into the demand and supply

sides of informal practices. However, this study does not include interviews with public officials from regulatory agencies who represent the demand side. This research is limited to the examination of "grease" payments in the context of entrepreneurs' experiences. However, their experiences might not be representative of other legal entities, for example, large and medium-sized businesses. Therefore, further research is needed to investigate the role of perceptions and attitudes toward "grease" payments in decision making of different legal entities. The importance of this further research is explained by a need to explore whether large and medium-sized businesses initiate corrupt transactions to get illegal advantages, such as access to public procurement and financial resources, more often than entrepreneurs and microenterprises. This question is important for developing practical recommendations on implementing anti-corruption compliance programs for large and medium-sized businesses.

Also, the finding about the impact of entrepreneurs' attitudes toward "grease" payments, gender, and membership in business associations on the frequency of informal transactions does not necessarily mean that these factors have the same effect elsewhere. It is possible that while the relations between the frequency of "grease" payments, gender, and membership in business associations observed in this study are similar to those in other countries, the pathways linking informal transactions with the abovementioned factors might be different. Also, Russian cultural norms regarding corruption might be very distinct from some other countries. Future work would benefit from looking in more detail at the relation between the frequency of "grease" payments

and country-specific determinants that characterize the predisposition of economic actors to informal activities in different institutional environments.

This study of "grease" payments in Russia provides evidence about the rise of rent-seeking activities of regulatory agencies, including the police, tax authorities, customs, antimonopoly administration, registration organizations, and labor and social services agencies. Extortion of informal payments by these regulatory agencies represents a disturbing trend in the domestic institutional environment. "Grease" payments are deeply rooted in Russia's administrative system. In turn, rent-seeking activities of regulatory agencies lead to the problem of overregulation in the entrepreneurial sector, which manifests itself in additional bureaucratic procedures for doing business in Russia.

This study confirms the finding of previous research related to gender-specific attitudes toward "grease" payments and corruption in general. Female entrepreneurs not only demonstrate more negative attitudes toward "grease" payments, but they also less frequently use informal transactions in the relations with regulatory agencies. The importance of this finding is explained by the fact that women's experiences can significantly contribute to the fight against corruption in Russia. The active participation of female entrepreneurs and women's organizations in the development and implementation of anti-corruption programs could create an atmosphere encouraging ethics and gender equality. There are several possible explanations of behavioral differences between genders related to corruption. Interviews with female entrepreneurs conducted in the course of this doctoral research confirmed the argument of Dollar et al. (2001) that women are "more trustworthy and public-spirited" than men. For example,

one of the interviewed female entrepreneurs pointed to a maternal instinct as her motivation to participate in anti-corruption campaigns since the well-being of her family depends on well-being of society as a whole. Another finding of this research confirms the argument of Swamy et al. (2001) that women use informal relations less often than men who predominantly form clientelistic networks both in the political and economic spheres. The survey conducted for this research found that female entrepreneurs are less actively involved in activities of collective organizations in their industries.

This study also suggests that membership in business associations is an important determinant of the frequency of informal payments. The importance of self-regulatory organizations is explained by the fact that collective action can be a way for small businesses and individual entrepreneurs "to leverage influence and power to more effectively resist corruption" (the World Bank 2008: 13). Self-regulatory organizations can provide their support for individual entrepreneurs and other entities in implementing better anti-corruption programs and provide a platform for them to collectively participate in anti-corruption efforts. Several pioneering projects have already been developed by professional organizations to combat "grease" and other informal payments. They provide sufficient evidence that self-regulatory organizations can be a potential force leading to synergies that individual entrepreneurs would not be able to achieve independently.

However, one of the most serious obstacles to anti-corruption activities of Russia's business associations is a relatively high level of their bureaucratization, especially at the federal level. Most large business associations affiliated with the

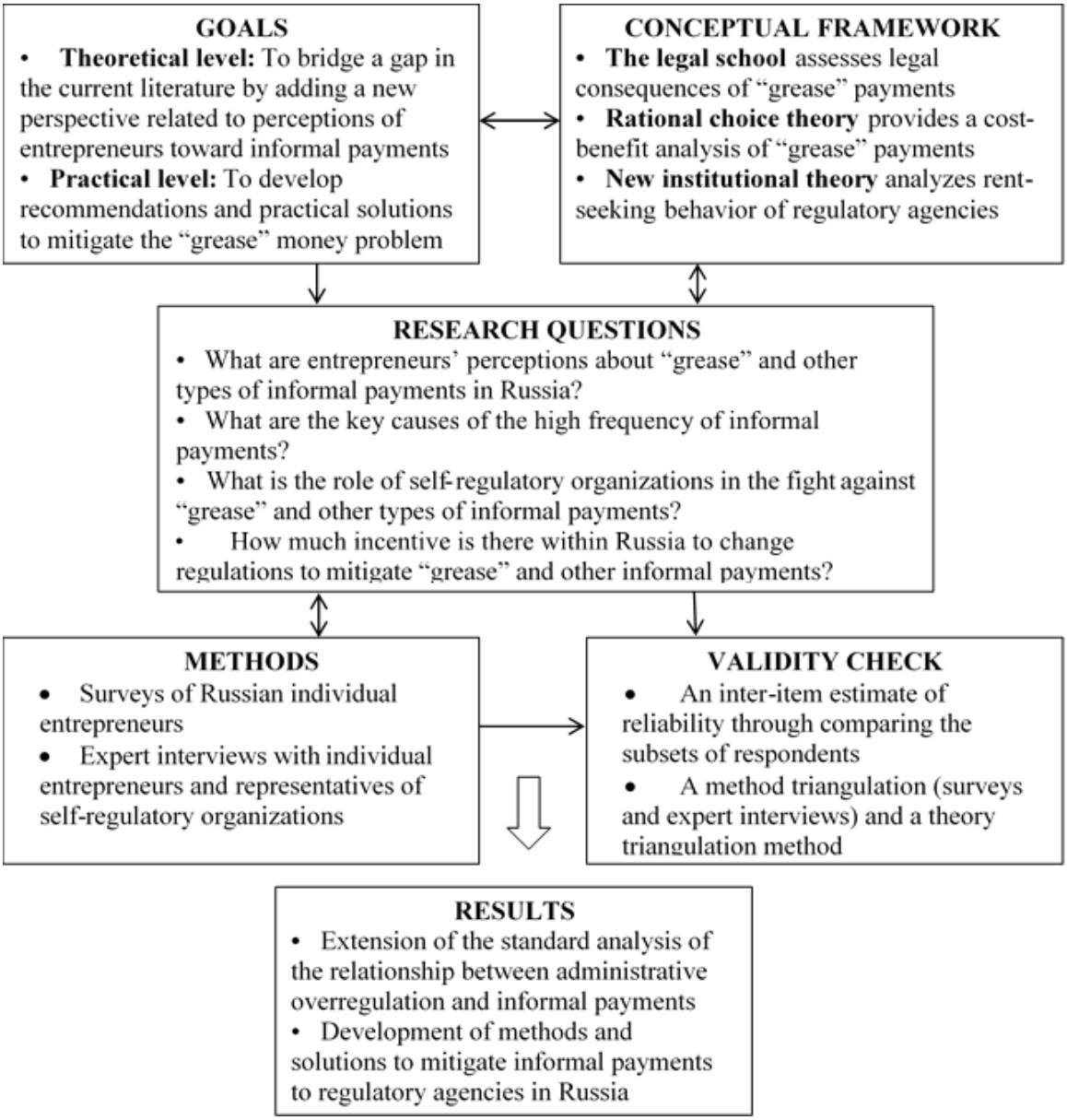
government located in Moscow and big metropolitan cities, such as Saint Petersburg. On the one hand, the creation of such elite business associations as OPORA Russia and Delovaya Rossia allows state agencies to control businesses. On the other hand, the concentration of large entrepreneurial organizations at the federal level blocks the development of independent business associations initiated by entrepreneurs themselves within municipalities and regions. The interviews with entrepreneurs conducted for this research showed that entrepreneurs do not trust large elite business associations because they promote private interests of its members and actively use informal practices in the form of personal connections with public officials. Their inefficiencies in the fight against corruption only discourage individual entrepreneurs from participation in their activities. This suggests the importance of developing and supporting entrepreneurial organizations initiated at the municipal and regional levels. Although there are several examples of such associations, their number is very limited, especially in provincial regions.

As civil society in Russia is not well-developed, business associations can help its formation in their role as protectors of entrepreneurial and human rights from violations by public authorities. Due to their representational role and economic leverage, business associations have better opportunities to organize a public-private dialogue and draw attention of public officials to inefficient regulations. For example, recently, significant progress has been made on improving regulations related to the liberalization of criminal prosecution of businessmen charged with economic crimes. In 2016, under pressure from Russia's business ombudsman Boris Titov and several business associations, President

Putin introduced new amendments to the Criminal Code that limited discretion of police officers and improved protection mechanisms against malicious criminal prosecution of entrepreneurs. One of the positive aspects of self-regulatory organizations is their ability to react to new challenges faster than public authorities. The fact that members of self-regulatory organizations share common objectives makes a positive impact on their regulatory processes. From this perspective, the multilateral system of anti-corruption regulation, which integrates public and private actors in anti-corruption initiatives, ensures the effectiveness of their mutual efforts.

Activities of collective business organizations contribute to more effective anti-corruption programs not only due to their significant human and financial resources but also due to their internal organizational structures that allow them to mobilize individual efforts. However, in order to be effective, self-regulatory organizations in Russia should move away from their currently used forms of the promotion of interests of separate entrepreneurial circles toward the use of open and direct mechanisms of the representation of interests of the whole entrepreneurial community. The key objective of business associations in the political system is to create a basis for an intensive dialogue between businesses and authorities and to increase the quality of decision making in the political sphere through a wide range of institutional instruments, such as their participation in the activities of government authorities, informational support of the legislative process, and organization of public-private partnerships.

APPENDIX 1. THE DESIGN MAP OF THE RESEARCH PROJECT



APPENDIX 2. SURVEY

PROJECT TITLE: "GREASE" PAYMENTS IN THE RELATIONS BETWEEN REGULATORY AGENCIES AND INDIVIDUAL ENTREPRENEURS: THE CASE OF RUSSIA

PART 1. INFORMED CONSENT

Purpose of the Study: The project objective is to define attitudes of Russia's entrepreneurs toward "grease" payments and analyze external and internal factors that motivate their decision making regarding these payments to regulatory agencies.
Contact: This research is being conducted by Yulia Krylova, a PhD student at the School of Policy, Government, and International Affairs at George Mason University, Fairfax, USA (ykrylova@gmu.edu, phone: 703-2034111). Her scientific advisor Professor Shelley may be reached at ishelley@gmu.edu for questions.
Procedures: You will be asked to answer four questions that will take about 5-10 minutes.
Risks: There are no foreseeable risks for participating in this research.
Potential Benefits: This research is not designed to help you personally. It is expected that in the future, numerous individual entrepreneurs will benefit from this study through recommendations on how to solve problems related to overregulation.
Confidentiality: Your confidentiality will be maintained through anonymous surveys without the necessity to provide your names or any personal data; all received surveys will be coded with a sequential number not linked to your identity. Your name will not be included on the surveys. While it is understood that no computer transmission can be perfectly secure, reasonable efforts are made to protect your confidentiality.
Right to Withdraw: Your participation in this research is completely voluntary. You may choose not to take part at all. If you decide to participate in this research, you may stop participating at any time. If you decide not to participate in this study or if you stop participating at any time, you will not be penalized in any way.
Participant Rights: If you have questions about your rights as a research participant or wish to report a research-related injury, please contact: **the George Mason University Office of Research Integrity & Assurance at 703-993-4121**, **e-mail: irb@gmu.edu.**

PART 2. QUESTIONNAIRE

Region: Moscow □ Saint Petersburg □ Karelia □

Gender: Male □ Female □
Number of employees □
Participation in organizations of entrepreneurs: Yes □ **No** □

1. **In your opinion, how often do civil servants from regulatory agencies extort "grease" payments in your region?**

Please indicate your answer with "x"	**Never**	**Very rarely**	**Rarely**	**Often**	**Very often**

2. **In your opinion, how often do individual entrepreneurs initiate informal payments to regulatory agencies in your region?**

Please indicate your answer with "x"	**Never**	**Very rarely**	**Rarely**	**Often**	**Very often**

3. **Would you agree or disagree with the following statements?**

Please indicate your answer with "x"	**Strongly disagree**	**Disagree**	**Neither agree nor disagree**	**Agree**	**Strongly agree**
A. The use of "grease" payments is always justified in the situation of excessive regulation					
B. The consequences of "grease" payments are negative for businesses					
C. Individual entrepreneurs who use "grease" payments are more successful in their business than those who do not pay them					
D. Individual entrepreneurs feel humiliated when bureaucrats require "grease" payments for routine government actions					
E. Individual entrepreneurs in my region are interested in organizing collective action to counteract the extraction of "grease" payments					

4. Which of the following solutions and how often do you use in the situation of excessive administrative procedures?

Please indicate your answer with "x"	**Never**	**Very rarely**	**Rarely**	**Often**	**Very often**
Pay "grease" payments					
Use personal connections in regulatory agencies					
File a petition to public authorities					
File a complaint to regional associations of entrepreneurs, chambers of commerce, or similar self-regulatory organizations					
File legal actions within a court					

Thank you for your participation in this survey!

APPENDIX 3. INTERVIEWS

PROJECT TITLE: FACILITATING PAYMENTS IN THE RELATIONS BETWEEN REGULATORY AGENCIES AND INDIVIDUAL ENTREPRENEURS: THE CASE OF RUSSIA

INFORMED CONSENT FORM

RISKS: There are no foreseeable risks for participating in this research.

BENEFITS: This research is not designed to help you personally. It is expected that in the future, numerous individual entrepreneurs will benefit from this study through recommendations on how to solve problems related to overregulation.

CONFIDENTIALITY: The data in this study will be confidential. Your name will not be included on the collected data. All received interviews will be coded with a sequential number not linked to your identity.

PARTICIPATION: Your participation is voluntary, and you may withdraw from the study at any time and for any reason. If you decide not to participate or if you withdraw from the study, there is no penalty or loss of benefits to which you are otherwise entitled. There are no costs to you or any other party.

CONTACT: This research is being conducted by Yulia Krylova, a PhD student at the School of Policy, Government, and International Affairs at George Mason University, Fairfax, USA (ykrylova@gmu.edu, phone: 7032034111). Her scientific advisor Professor Shelley may be reached at ishelley@gmu.edu for questions. You may contact the George Mason University Office of Research Integrity & Assurance at 703-993-4121 if you have questions or comments regarding your rights as a participant in the research. This research has been reviewed according to George Mason University procedures governing your participation in this research.

INTERVIEW QUESTIONS

- Do you think that administrative procedures are burdensome for individual entrepreneurs in your region? Give examples if possible.
- In your opinion, how individual entrepreneurs perceive “grease” payments to regulatory agencies? Give examples if possible.

- Do you think that individual entrepreneurs in your region are interested in organizing collective action to counteract “grease” payments?
- Which organizations do you think should take the lead in counteracting “grease” payments”?
- What can be the role of self-regulatory organizations in such efforts?
- In your opinion, what solutions are the most successful in situations of excessive administrative procedures?
- Do you know any successful cases of mitigating excessive administrative procedures without “grease” payments? What have been major barriers for tackling “grease” payments in your region?
- In your personal experience, are self-regulatory organizations helpful for entrepreneurs in your region? How can they increase their potential?
- How can self-regulatory organizations help in organizing collective action by individual entrepreneurs?
- Does the self-regulatory organization you belong to help entrepreneurs in situations of excessive administrative procedures? What organizational strategies have they used to counteract “grease” payments?
- What challenges and problems do individual entrepreneurs and self-regulatory organizations face in their efforts to counteract “grease” payments? How can these challenges and problems be overcome?
- What support do self-regulatory organizations need to receive from the government?
- What have been major advances in counteracting the problem of administrative burdens on individual entrepreneurs in recent years?
- In your opinion, what anti-corruption initiatives should self-regulatory organizations focus on?
- Have you ever participated yourself in collective action organized by self-regulatory organizations? Give examples if possible.
- Do you have any recommendations for individual entrepreneurs who find themselves in situations of administrative overregulation?
- What would you recommend for self-regulatory organizations to ensure that their strategies address concerns of individual entrepreneurs?

APPENDIX 4. DETAILED SUMMARY OF THE PROCEDURES, TIME AND COST REQUIRED FOR A BUSINESS TO OBTAIN ELECTRICITY FOR A NEWLY CONSTRUCTED BUILDING IN SAINT PETERSBURG

No.	Procedure	Time to Complete	Associated Costs
1	Submit an application for an electricity connection to the utility and await technical conditions and a contract for a connection *Agency:* Lenenergo The following documents are required to be submitted with general application for a connection: 1. Copy of the document confirming the ownership of the construction site and land plot; 2. Map specifying location of electrical installations; 3. A copy of the certificate on state registration and certificate of tax registration. 4. A copy of company's charter as amended; 5. Table with load calculations; 5. Copy of the application template for an electricity connection; 6. A copy of the document confirming the authority of the person signing the application. Once technical conditions are ready, the utility notifies the customer and a connection contract is signed. It became possible to submit application online since 2014. However, less than 10 percent of all customers used this option.	15 calendar days	RUB 1,316,000
2	Prepare design of the connection and obtain approvals *Agency:* Private project design firm Once the technical conditions are ready a customer hires a design company which prepares design of the connection. After preparation of the project design, it is presented to Lenenergo experts and based on their examination, the customer receives a statement of approval or rejection on the proposed project design documentation.	60 calendar days	RUB 250,000
3	Customer obtains an excavation permit *Agency:* State Administrative Technical Inspectorate The subcontractor applies for the excavation permit at the state administrative and technical inspection.	33 calendar days	RUB 0
4	Complete connection works according to technical conditions *Agency:* Contractor	30 calendar days	RUB 400,000

No.	Procedure	Time to Complete	Associated Costs
	The subcontractor executes all the external works and upon completion prepares the necessary documentation.		
5	Receive an inspection of the completed works from the utility and obtain compliance documents *Agency:* Lenenergo The distribution utility inspects the completed works and issues a document certifying that the works were completed according to technical conditions. During this visit the Technical Act and Act on division of responsibilities will be signed.	30 calendar days	RUB 0
6	Receive an inspection from Saint Petersburg Supply Company of equipment compliance *Agency:* Saint Petersburg Supply Company Saint Petersburg Supply Company inspects the meter and prepares a document certifying equipment compliance.	21 calendar days	RUB 3,000
7	Conclude a supply contract, seal the meter and await supply of electricity *Agency:* Saint Petersburg Supply Company After all inspections are completed the customer submits documents required for conclusion of an electricity supply contract. After the contract is signed the supply utility sends an order to the distribution utility to turn on the electricity.	30 calendar days	RUB 0

Source: The World Bank (2015)

APPENDIX 5. MAJOR PERIODIC SOURCES PUBLISHED BY CONGRESSES OF ENTREPRENEURSHIPS IN THE RUSSIAN EMPIRE

Title (place)	First year	Last year	Publisher	Type	Periodicity	Circu-lation
Industry and Trade (St. Petersburg)	1908	1917	Board of the Congress of representatives of industries and trade	Journal	2 times per month, since 1915 daily	2000
Fishing Industry	1913	1916	Fishing Industry Committee of the Congress of representatives of industries and trade	Journal	Monthly	n/a
Industrial and Commercial South (Odessa)	1911	1917	Board of the Congress of representatives of industries and trade of Southern Russia	Journal	2 times per month	n/a
Southern Russian Mining Bulletin (Kharkov)	1880	1909	Board of the Congress of mining industrialists of Southern Russia	Journal	From 2 times per month to 2-3 times per week	1500
Collection of Technical Articles (Kharkov)	1903	1908	Board of the Congress of mining industrialists of Southern Russia	-	Monthly	n/a
Ural Mining Review (Ekaterinburg, since 1905 – St. Petersburg)	1897	1906	Board of the Congress of Ural mining industrialists	Journal	Daily, from 1905 – 1 time every two weeks	n/a
Oil Industry (Baku)	1899	1917	Board of the Congress of Baku petroleum producers	News-paper, then journal	2 times per month	500
Bulletin of Gold and Mining Industries (Tomsk, since 1904 – St. Petersburg)	1892	1906	Regular advisory council of gold and platina producers	Journal	2 times per month	500
Bulletins (Kutaisi)	1913	1914	Board of the Congress of Mangan producers	Journal	1-2 times per month	n/a
Newspaper of Russian Producers of Agricultural Machinery and	1908	1912	Board of the Congress of Russian producers of agricultural machinery and tools	News-paper	Monthly	220

Title (place)	First year	Last year	Publisher	Type	Periodicity	Circu-lation
Tools (Kharkov)						
Glass-works Producer (Moscow, since 1913 – St. Petersburg)	1907	1917	Regular Bureau of Congresses of glass-works producers	Journal	Monthly, since 1908 - 2 times per month	500
Timberman (St. Petersburg)	1910	1917	Board of the Congress of representatives of timber industry and trade	Journal	Daily	n/a
Bulletin of Flax Industry (Moscow)	1914	1918	Board of the Congress of representatives of flax industry	Journal	Monthly	n/a
Bodaybinsky Newspaper (Bodaybo)	1916	1917	Board of the Congress of goldminers	News-paper	Daily	n/a

Source: Vorontsova (2013: 204-207)

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