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## **THE CORRUPTION CONUNDRUM: BRIDGING PERSPECTIVES BETWEEN EAST AND WEST**

### **ABOUT THIS REPORT**

This study explored issues of “corruption,” highlighting fundamental points of misunderstanding between East and West. Through surveys of the literature, field observations, face-to-face interviews, and discussion groups, the research examined emergent realities of the former Soviet Union and Central and Eastern Europe as related to corruption. Western anti-corruption activities toward the region provided a framework of comparison. The study delved into the various legacies that structure patterns associated with corruption in post-communist systems, especially those of the former Soviet Union. This report presents questions to help guide Western organizations as they encounter corruption in the region, both as part of anti-corruption programs as well as in wider diplomatic, business, foreign policy and assistance activities.

### **Disconnect between East and West**

When an American ambassador to Georgia hosted an American president on a visit there, the two had a few minutes together in private. Having heard about corruption in the post-Soviet state, the president asked the ambassador to fill him in about what could be done to “combat” it. “Mr. President, corruption *is* the system. How can you combat a system?” the ambassador replied.

Both question and answer warrant investigation. The question highlighted a prevailing image of the formerly communist states—especially those of the former Soviet Union. The mere mention of countries in Central Asia and the Caucasus often calls to mind the “c” word. This is important because the image of pervasive corruption can inform policy, whether consciously or not.

The answer points to the need to understand the context of corruption—indeed that certain patterns and modes of organization, not merely practices or activities that outsiders might consider corrupt, may be ingrained into the very functioning of certain aspects of post-communist systems. On the other hand, the wholesale characterization of countries as corrupt overlooks positive forces that can exist alongside, within, or even be a part of, those modes of organization.

To fully grasp the causes and patterns of corruption, it is necessary to understand the organizational realities that give rise to them. Researchers have found evidence

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suggesting that the conventional definition of corruption—the abuse of public office for private gain—does not always cleanly apply to the region because of the complex relationships between the state/public and private spheres. This phenomenon was rooted in the relations of the communist era. It was further encouraged by many of the “reforms” that were implemented, as well as aspects of globalization. Shaping these relationships in large part are informal social networks and groups that function in the region, both within and outside the state. The stated intentions of these networks and groups cannot be accepted at face value nor do the concepts and techniques conventionally used to analyze corruption necessarily take them into account. This review provides a framework for examining the powerful role these actors play in configuring public policy and practice, and indeed, the organizational capacities of state and “civil society.”

#### Anti-Corruption:

In the past decade, combating corruption has become a major priority of the international development community. Following a landmark 1996 speech, “fighting the cancer of corruption” by James Wolfensohn, then president of the World Bank, that institution became a recognized principal in the anti-corruption movement. Programs the Bank implemented in the formerly communist countries have helped inform programs elsewhere. Paul Wolfowitz, the current Bank president recently identified corruption as the foremost impediment to development, and withheld promised loans to countries where corruption was at issue.

Other important players have launched anti-corruption programs, from the Organization for Economic Cooperation and Development (OECD), to the United Nations, to relevant departments in the U.S. government. Nongovernmental organizations (NGOs) such as Transparency International have mobilized opinion to put the topic on the map.

Yet anti-corruption efforts in the former Soviet Union and Central and Eastern Europe could be bolstered by a better understanding of the context and causes of corruption in the region. The prevailing definition of corruption itself, the use of state or public office for private gain, reflects a narrow focus. That focus in turn is mirrored in many commonly employed diagnostic tools such as corruption indicators and measures. Diplomats, government officials, business and NGO representatives, and other Americans who deal with the region often equate corruption with *individual activities*—the traffic cop or border guard checking vehicles to extract bribes, the bureaucrat embezzling money, the state-employed physician accepting under-the-table payments.

At its most basic, corruption involves a violation of trust, whether it is the public’s trust of an official or the trust implicit in a corporate-stockholder or physician-patient

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relationship. But the focus on individual acts sometimes comes at the expense of attention to the underlying patterns of organization that pervade state and society and enable the activities. The focus may limit understanding of the nature and patterns of corruption in this region of the world—the “system” of corruption. A snapshot of the context of corruption in the region can help bridge the disconnect between those realities and outside interventions that bear on them.

### **Legacies that Shape New Corruption Structures**

The informal social networks and groups so influential today in the former Soviet Union are rooted in certain social, political, and economic systems that derive primarily from two legacies: that of communism and of post-communist directed change associated with certain reforms. These social networks and groups, whether integrated with or functioning as alternatives to formal political and economic systems, can be potent, if unseen, powers. They often circumvent, connect, override, and otherwise reorganize formal political and economic institutions and authorities.

There is much evidence to suggest that, in many countries, informal systems facilitate, inhibit, and alter even such major forces as industrialization, urbanization, bureaucratization, and democratization. On the one hand they can generate transformative social change. On the other, they may foster corruption and, indirectly, the organized crime that uses corruption to minimize risk to its own activities. Despite the pervasiveness of informal systems, their role in economic and political development—whether in capitalist or communist states or in the developing nations—has often been undervalued. During the era of communist rule, for example, informal systems generated what one Polish scholar called “dirty togetherness”—a mode of collective collusion created to elude the constraints of communist rule. It persisted, and in some cases even intensified, after the regimes collapsed.

#### “Finagling” as a Way of Life:

In the formerly communist countries of the former Soviet Union and Central and Eastern Europe, informal systems have deep roots. Some of these systems long served as a way to oppose and circumvent the command structures of the state. Much ethnographic research [see sidebar] details how people invented ways to make end runs around the constraints imposed by central planning and the bureaucracy. The practice known in Russian as *blat*—informal ways devised to obtain otherwise unobtainable information, resources, services, and privileges—became common, essential to survival. Nearly everyone was compelled to engage in what to Western eyes might be corruption.

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The informal networks created to access the state worked their way into the institutions of the state. For instance, the manager of a state-owned enterprise, faced with unworkable dictates from central authorities, commonly used his personal connections with suppliers and distributors to set the terms of business transactions. It was the Soviet system itself that enabled informal but (officially) illegitimate private partners to penetrate key institutions. Over time, informal networks altered many state distribution and bureaucratic procedures. Governance of various regions of the Soviet Union was virtually operated by such networks. The relationships did not become formally institutionalized, but they became regularized, exhibiting clear patterns of operation. Sometimes, informal systems became part and parcel of the state itself.

#### Legal Pluralism:

In a system in which the state controls the economy and owns the means of production, property belonged to no one and everyone. It was easy to deduce that goods belonging to no one and everyone could be acquired by and belong to anyone. Pragmatic concerns trumped legality, but people worked out their own systems of morality. One researcher observed the fine moral distinctions practiced by workers in a state-owned enterprise. Although ethics dictated that taking goods from a co-worker was stealing and definitely not acceptable, if a worker took the same goods from his factory his actions were morally justifiable. The latter was merely “lifting.”

People had well-developed ethical systems, but they were ones in which legality and morality often diverged. What was legal was often not considered moral; and what was illegal was often considered moral. The divergence in the Soviet Union was stark. Here, the Stalin-era definition of crime reinforced people’s view of community as divorced from the state’s notion of law (*zakon*).

As the power of the state eroded with the collapse of central planning, the wide gap between state and society under communism positioned existing informal systems to step into the void. They have now assumed a large role. Some researchers have postulated that “network capital,” a term used to describe the crucial resource that informal networks provide in a society, may be more abundant now than before the demise of communism. The behaviors and skills honed in the past, combined with the new circumstances of uncertainty and potential short-term opportunities, explain why.

#### Dirtier Togetherness:

The aftermath of the fall of communism was a time of potential for drastic change—an example of what historical Karl Wittfogel has called an “open historical situation.” In such a situation, informal systems of relations dating from an earlier era often play crucial roles,

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even as they help shape the new order. When the regimes of Central and Eastern Europe crumbled in 1989 and when the Soviet Union broke apart two years later, the informal systems that had existed for so long could have taken one of two directions (assuming they did not disappear from the scene altogether): either supporting the development of change associated with reform or obstructing it. Many of the reforms empowered by informal systems impeded the development of rule of law and governance that would benefit a wide public.

The erosion of centralized states empowered certain informal groups and networks, leading to their proliferation and entrenchment. They were able to play pivotal roles in many of the reform processes of the 1990s—from privatization and economic restructuring, to changes in law and public administration, to the development of “civil society.” However constructive their intent, many of them also offered unrestrained opportunities for some players, operating through the informal systems, to acquire resources for their own private ends. Russia’s experience with mass *grabitization* of state-owned enterprises illustrates the penetration of some privatization efforts by informal groups and networks, including organized crime.

#### Old Forms Reconfigured:

Throughout the region, networks and groups that coalesced under communism (including the *nomenklatura* people who had been approved by the Communist Party to hold positions of authority) resurfaced in new forms. In many cases researchers studying these networks and groups have had to invent terms to describe them. This suggests that conventional ways to analyze state and institutional change are ill-equipped to explain development in the region.

For instance, in Romania, elites consisting largely of former Party *apparatchiks* cooperated to control resources. One ethnographer has labeled them “unruly coalitions” because they were loosely clustered, neither institutionalized nor otherwise formally recognized, and less visible and legitimate than, for example, conventional political parties. In the same way, in Hungary, another ethnographer has employed the term “restructuring networks” to describe groups that helped shaped privatization. The product of their endeavors, neither private property nor collective property, has been called “recombinant” property, because it involved cross-ownership by managers of several firms. These managers were able to acquire interests in one another’s firms only because they had extensive insider information.

In Poland, informal social circles rooted in the communist era and based on nothing more formal than friendship and acquaintance, similar social background, and common experience came to play a significant role in organizing politics and business well into the

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post-communist era. Members of these circles had their fingers in many pies—government, politics, business, foundations, NGOs and international organizations. Because the members placed their primary loyalty to their fellow members above that to any formal organizations or institutions with which they are affiliated, and because they circulated among and traversed different domains (politics, economics, law) and spheres (state and private), scholars have called them “institutional nomads.” Their mutual loyalties were cemented not only by the access to resources and opportunities that their pooled efforts reap, but also by the awareness that they were all involved in “dirty togetherness.”

“Clan” is a traditional term used for groups based on kinship or genealogical ties. Social scientists and journalists in Russia and Ukraine (as well as ordinary citizens) have borrowed the term to describe groups that emerged in these countries that have no formal structure and are exclusive and loyal to the leader and each other, although not related by blood. While the loyalty of clan members to each other is anchored in long-standing association, trust, and shared narratives, they also have concrete economic, political, and societal incentives to act together.

In some Central Asian states as well, clan networks, here based on kinship, interact with state authorities to promote their own ends. One ethnographer has observed that, although these clans can provide a counterbalance to the authority of the central state, they also can increase possibilities for profit-seeking via government subsidies and favors rather than through market competition.

#### Characteristics of Informal Groups and Networks:

If scholars engaged in hands-on research in formerly communist states have invented new terms for the informal systems operating in the region, many other analysts and practitioners continue to use old terms and categories to examine the developments and institutional change there. Corruption and organized crime are of overriding concern in the West and to donor organizations. But the frameworks in which corruption is commonly understood in the West are frequently employed without a view of the complex interrelationships between informal systems and the state.

Institutional change is often seen in terms of breaks rather than continuities from the past. But examining certain characteristics of these informal systems in the formerly communist countries clarifies the flawed conceptions of corruption and organized crime.

*Informal locus of decisionmaking.* The first property of informal systems is that the unit or locus of decision-making is the informal group or network itself. Western analysts tend to overemphasize the role of individuals instead of recognizing that circumstances often encourage individuals to act as part of a group with a common agenda. Political and

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economic uncertainties and weakly established rule of law are among the forces driving people to operate as part of strategic alliances that pool resources to survive and even thrive, as they did in the past.

In inventing and applying terms like “institutional nomads” and “clans,” sociopolitical analysts from the former Soviet Union and Central and Eastern Europe demonstrate greater comprehension of why the most accurate locus of analysis is neither the individual nor any formal organization with which he or she may be associated. Civil servants in these countries are frequently more loyal to an informal group or network to which they owe their actual and potential opportunities, including often their official positions, than to the institution in which they hold the position.

*Operating in multiple spheres.* The second property of informal groups and networks is that they mediate, blur, and orchestrate the interdependency of different spheres—state and private, legal and illegal, bureaucracy and market. An individual’s allegiance to the informal group is dictated by the imperative to operate in multiple spheres. A group’s strength derives in significant part from its ability to access the resources and advantages in one sphere for use in another.

In the classic definition of corruption, there is a clear dichotomy or separation of state (or public) and private spheres. Yet if outside analysts insist on orderly distinctions, they may fail to understand settings in the region in which the state-private distinction is nonexistent or those in which it is obscured. They may fail to grasp that the conventional conception of corruption may not always neatly apply.

*Influencing multiple domains.* Informal groups and networks operate, often simultaneously, in the domains of politics, economics, and law, with access to and success in one often contingent on access to and success in another. Their ability to operate in this fashion stems from the absence of independence of the various domains. One domain is used to extract or leverage benefits in another.

A look at post-communist political-economic structures helps explain how this interdependency both resembles, and differs from that under communism. In contrast to the system under communism, no single group allocates resources, although a single group can monopolize an entire sector or sectors. Today, the relationship of power to property is no longer one way: Not only can power be converted into property, but property can be converted into power—a change from the past. For the informal groups and networks that began to fill the void created when state control over resources was crumbling or had collapsed, economic opportunities became available, but often remained contingent on political connections, as they had under communism.



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Labels like *oligarchs* and *financial-industrial groups* (FIGs)—commonly applied to Russia—describe the structure of power and the wielders of influence, but they also reflect the interdependence of the various domains. For business groups, making a profit virtually requires forming exchange relationships with agents of the state. Careers depend on the ability to “weave political networks,” as one scholar put it, and elite groups are engaged in a constant struggle to win appointments to strategic posts. The political domain, that is, is used to extract benefits from the economic domain.

Like the political domain, the legal domain may be used to obtain economic advantages. The way people observe the law today, as they did under communism, remains substantially discretionary in many contexts and countries of the region. If people believe that invoking the law is impractical or disadvantageous, they can use informal practices. Breaking the law does not necessarily determine criminality; many people do so routinely. For example, economic imperatives virtually dictate tax evasion by businesses, for example. One analyst has observed that the fairly ubiquitous character of such practices means that *anybody* can be framed and found guilty of some violation of the formal rules.” The law can be used to create advantages for one’s own group and to disadvantage competing groups. In some cases, allegations of corruption are used, by “financial clans,” for instance, as a means to contain opponents.

The power and continuity of informal systems are not difficult to detect. Throughout the region, political and economic influence has accrued to groups that skillfully blend, equivocate, mediate, and otherwise combine the state and private spheres. Political-economic influence has resided precisely in what one analyst called the “control of the interface” between state and private.

#### Negotiating “State” and “Private:”

Negotiating the interface between state and private may take various forms. In certain postcommunist contexts, the spheres within and around the state tend to be flexible and fluid. They are situationally and even fleetingly activated, deactivated, and otherwise molded by actors, who work in informal systems and use both the state and the private spheres strategically to achieve individual, group, and even official goals.

One ethnographer has characterized the Russian state as consisting of two spheres: one “officialized public” and the other “personalized public.” That is, within the state, public and private realms coexist and overlap. When the Soviet Union collapsed, it was principally the officialized public sphere that succumbed, while the personalized public sphere expanded into new areas of everyday life. The officialized public sphere did, however, manage to adapt to the new realities.

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This coexistence translates into practice in the everyday activities of state actors ranging from the tax police to offices that monitor organized crime. When Russian entrepreneurs approach state officials seeking protection from “mafia” or debtors, for example, the officials comply. They do so, however, not only by using legitimate anticrime measures and other legal resources at their disposal, but also by exploiting their links to criminal affiliates and groups.

State officials are able to do this and do it legally because a personalized public sphere existing side by side with an officialized public sphere sanctions it. These officials perceive it as a hybrid model and recognize they have to relate to the state by discriminating between laws they find useful and laws they do not. They continually switch the context in which they are operating from officialized public to personalized public and back again as their purposes might dictate.

#### Flex Organizations:

Entities that have evolved to meet the need to switch between the state and private spheres have been called “flex organizations”—in recognition of their impressively adaptable, multipurpose character. The actors who empower these organizations move back and forth between spheres, depending upon their desire to access bureaucratic, business, government, and foreign resources.

Although in formal terms, flex organizations are often NGOs, they may possess the authority of state organizations. Their influence depends at least in part on the coercive power of the state as well as their access to and relationships with state officials. In fact, state officials often play dual roles, doubling as leaders in these “private” organizations. The ambiguity of their roles facilitates the (often private) purposes of the public actors who empower them.

Three traits of flex organizations make them especially useful: the ability of the actors who use them to shift their agency between state and private; the propensity to bypass otherwise relevant institutions, such as those of the government; and the ability to deny responsibility for their actions. Flex organizations are not holdovers from communism: They have been enabled by the breakdown of the command structure of the centrally planned state, as well as by certain reforms, both of which privileged a network-based organization of government and business.

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## **Assessing Capacity**

If social engineering efforts in this region of the world are to foster good governance and build independent, centrist institutions, while minimizing corruption, they must take into account the organizational capacities of state and society that have emerged from past legacies. The following questions are designed to help assess these capabilities in specific contexts.

### Organizational Capacities within States:

To guide thinking about the capacity for building independently sustainable state institutions and implementing policies that serve a wide public, outsiders might consider asking:

- Which domains (political, economic, and legal) do informal groups such as clans, control? How total is the control? What is the basis for access by these groups to money, privileges, and contacts, and what is the basis for the distribution of these resources?
- Do state authorities have the capacity to remain separate from the agendas of informal groups? If a clan departs from the scene, do the institutions it empowered lose their influence and also disappear?
- Does the state have the capacity to create resources, not just divest itself of them? Or is state authority limited mainly to distribution?
- What access to the state do citizens have?

### Organizational Capacities within Society:

There is a widely held belief that Russians and Central Asians (if not some other peoples) lack democratic traditions and therefore are not “ready” for democracy. This conviction can be used by powerful elites to further their own purposes: to justify repression or to contend that change is just not possible. To cite one of many examples, in Tajikistan the dearth of democratic traditions does not mean there is tolerance of abuse. In this Central Asian state, the notion of just rule and of governance that honors prevailing social, political, and religious beliefs has deep roots. Social engineering efforts need to accommodate traditions that incorporate different concepts of democracy and justice.

To assess the prospects for curbing the power of informal groups that have become identified with parts of the state apparatus, the following questions are instructive:

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- What factors promote the consolidation of power or its erosion?
- What institutions, informal or otherwise, can present limits to the power of informal groups such as clans? For example, what potential intermediaries exist between state and society, and what is the basis for their ability to mediate (e.g., long-standing friendship, family ties, formal position)? What kinds of individuals have influence and authority and what is the basis for that?
- If there is a demand for accountability, does it come from competing clans or the public?
- What are the traditions of horizontal ties among citizens, and what potential do they have to provide countervailing influence?
- What are the traditions of “moral authority” in society and how might they apply?
- If there is a movement on the part of citizens to demand accountability, how widespread is it? Can “corruption” be an issue for public discussion?

#### Assessing Anti-Corruption Partners:

Western organizations in search of Eastern partners for potential collaboration in anti-corruption efforts must pay close attention to the background, networks, and possible agendas of their prospective interlocutors. The donor community has looked to NGOs and the “independent sector” to play a major role in transition away from communism; as exemplars of democracy, they were to help build “civil society” by mediating between citizens and the state. But NGOs may not be the panacea they often are considered in the West, and have limitations that outsiders must understand. They need to recognize too that not all political and social institutions were created in the image of the West.

Of special concern is the effect of outside funding on a country=s economic, political, and social relations. Many Western expectations have collided with the reality that the NGOs in this region evolved out of a system in which long-standing association of the members of a group often takes precedence over the group=s proclaimed mission. By focusing on NGOs that may represent their own narrow interests, donor organizations sometimes have perpetuated a system in which a great deal depends on patronage and personal connections. Some ethnographers have noted that when donors do not help to build bridges among recipient groups= create incentives for them to work together= funding through NGOs frequently inspires competition among these groups and can reinforce old

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hierarchies. Thus, if efforts to curb corruption are to be perceived as such on the recipient side, they must have a “cross-clan” character in that they incorporate several informal groups and are as broadly representative as possible. Outsiders’ efforts are likely to have a lasting impact to the extent that they work to build institutions that do not benefit one political, economic, or social group over others.

In choosing an NGO that can be a partner for constructive change, outsiders might want to ask:

- What were the organizational bases for the formation of the NGO? Was it simply the longstanding acquaintance of the key individuals?
- To what extent is the NGO dominated by or composed of members of a single informal group or network?
- Is the NGO capable of and committed to genuine public outreach?

Images of pervasive corruption to the contrary, there may be some support and potential for anticorruption efforts in the region. These include the enforcement of informal codes of honor and the organization of structured discussions among such targeted circles. Traditional leaders and brokers, who command respect, can help set standards and settle disputes. For instance, in Uzbekistan, *mahallas* neighborhood groups of Islamic origin help resolve conflicts ranging from domestic disputes to land disputes. In Kyrgyzstan, the *aksakal* (“white beard”), an elderly, experienced man whose actions have distinguished him, is seen as someone who can settle disputes.

In some settings, informal discussions within certain respected social circles or among professionals, has given impetus to the development of new standards. In some countries, scandals covered in the media have brought heretofore subterranean issues to open public discussion, and created debate about the acceptability of certain practices and uses of social networks.

Such developments do not obviate the need for anti-corruption efforts to have as their starting point a grasp of how informal systems permeate and shape the organizational capacities of state and society. Such understanding, for scholarship, policymaking, or program management, is relevant—whether analyzing the transition away from communism, designing development projects in the region, or implementing anticorruption and rule-of-law programs.