



INFORMAL ECONOMIES OF ST. PETERSBURG

Ethnographic Findings
on the Cross-Border Trade



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INFORMAL ECONOMIES OF ST. PETERSBURG

ETHNOGRAPHIC FINDINGS ON THE CROSS-BORDER TRADE

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WITH

ERIC GORDY

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INTRODUCTION

Recent sociological literature has been rich in accounts of the development of networks of corruption, from broad theoretical explanations of the genesis of corrupt networks (Gambetta, 1996; Volkov, 2002), to explanations of the not always recognized functions of illegal activity for their participants (Bourgois, 1995) and the areas in which they operate (Sanchez-Jankowski, 1992). A broad literature presents economic activity outside of the framework of legal regulation as a problem, both in terms of the functioning of institutions and in terms of the development of stable political orders and commercial market in the “countries in transition” from the command economy structures of state socialism (Karklins, 2005).

Another approach which is no less current, but certainly less well represented in policy-oriented literature, is one which emphasizes the functions of extralegal economic exchange in facilitating the operation of markets (Grossman, 1995; Tanzi, 1995). This is especially the case in environments where the framework of legal regulation is unstable or unclear, where regulatory authorities tend to act unpredictably or seek to extend control over the operation of markets, or where the cost and complexity of compliance with the law can be greater than the cost and complexity of seeking alternatives (Radaev, 2002). To a greater or lesser degree, such conditions obtain in much of the post-socialist world.

It is therefore not surprising that economies in this part of the world should see an explosion of a wide-scale market for *bureaucratic services intermediaries*, facilitating informal relations between businesses and state authorities. In the area where the present study is conducted, this is confirmed by a study of corruption in small and medium business in St. Petersburg conducted by the Center for Independent Social Research in 2003-2004.¹ We seek to understand, explain, and set out the dimensions of this “*intermediaries’ boom*.”

There is of course nothing unique about the Russian economy or any of the other economies in “transition” in terms of the existence of intermediary services. In established capitalist economies, the role of intermediaries has been legitimized and routinized to a large degree, with many transactions depending on the involvement of brokers, attorneys, agents, and other individuals specialized in complex rules and bureaucratic procedures. It may be possible to regard the emergence of such

¹ The project «Prospects for Fighting Corruption in Post Socialist Countries: Cases of Russia and Hungary» was carried out in 2003-2004 within the frame of Think Tank Partnership Program supported by USAID, IRIS and KPMG Consulting Barents Group.

mediating services as evidence of functional specialization and hence as a normal development of the market from the economic point of view.

However, our research demonstrates a crucial difference between the mediating system in established capitalist economies and in Russia. While the main purpose of intermediaries in the West is to assist in meeting the requirements imposed by bureaucratic procedures, which are too complicated for non-specialists and require the mastery of arcane details, in Russia mediating services serve more often as a screen, functioning in fact as a hidden form of rewarding officials for accelerating bureaucratic procedures or for “closing their eyes” to discrepancies between formal norms and real practices.

METHODOLOGY

Both studies providing empirical data for this paper were conducted from the perspective of qualitative research methodology. The study of corruption in small and medium business in St. Petersburg included about 30 in-depth interviews with business representatives - top managers and key persons in different kinds of business organizations – regarding various informal aspects of their relationships with officials. The following study “Intermediaries’ Boom and Informal Relationships in the Business Sphere and Everyday life” was focused precisely on intermediaries and mediating services provided for solving problems between businessmen and officials. Two cases of intermediary services were chosen as the objects to be studied: customs brokers serving small and medium business in doing custom clearance, and tourist firms that perform as mediators for shuttle traders in their relationships with customs on the Russian-Finnish border. We used as a main research method for study of customs brokers in-depth interviews with different groups of actors involved in the custom clearance process (12 interviews were conducted with brokers, businessmen and customs officials). In case of shuttle traders the main research method was participant observation in shuttle buses going from St. Petersburg to different towns in Finland complemented by interviews with shuttle traders, bus drivers, tourist guides and other representatives of tourist firms specialized on shop-tours to Finland. Although our studies were focused on the St. Petersburg municipality alone, the outcomes received in the course of the study are not specific to St. Petersburg and could be reasonably extrapolated to describe phenomena throughout the Russian business sphere, particularly those involving small and medium sized business.

In this article we will focus on intermediaries that operate in the sphere of cross border cargo transportation by assisting cargo carriers in their interactions with customs officials. Complicated and intricate customs rules exist in every country – not only Russia – and that is why cargo carriers in all countries resort to the help of customs brokers who act as intermediaries. However, the role of customs brokers in Russia is not so much to assist businessmen in going through customs formalities, but to manipulate the system to reduce cargo costs and accelerate the process via informal channels. A special market of informal customs services has been formed in which customs brokers offer businessmen a wide spectrum of possible customs schemes – from “light-gray” to “fast black” (the cheaper the scheme, the longer it takes and the less the risk). While doing this, brokers take responsibility for substantiating the declared cost of the cargo, making use of informal agreements with customs officials.² For instance, if computers are declared in official documents by brokers as

² See, for example, Radaev V.V. «Tamozhnja daet dobro? Rossijskis biznes na puti k legalizatzii». In: Olimpijeva I., Pachenkov O.(eds) «neformalnaja ekonomika v postsovetskom prostranstve: problemy issledovanija i regulirovanija», SPb: CNSI, 2003, P. 57, Barsukova, S. Tamozhnnya i biznes: ot tenevogo tandema k legalizatsii? In: *Mir Rossii* 2002, N 2, S. 70-92 and others.

frozen vegetables, then customs officials in most cases know about it. However, they do not verify whether the actual cargo corresponds with what is declared in the documents because of their informal agreements with customs brokers.³

Customs brokers operate as intermediaries for the “white” or official sector of cross-border cargo transportation. There is also a significant informal sector of cross-border trading – so called shuttle traders who also need informal intermediaries’ services for carrying cargo across the border. In spite of its informal character, shuttle trading is a well organized business which still provides the major part of consumer goods flows from Finland to the St. Petersburg market. So, another object of the study was intermediaries serving “gray” or shadow cross-border cargo carriers. The role of intermediaries for shuttle traders is performed by tourist agencies, more precisely by tourist guides organizing shopping tours. It is the job of the tourist guide to solve the problems that frequently emerge at customs (since shuttle traders always break custom norms regarding the allowed weight of cargo). For these purposes a tourist guide uses various informal means (including bribes or personal contacts with customs officials, etc). The role of a guide as an intermediary who can “solve the problems” is crucial for shuttle traders. In this sense, it could be stated that the ability to regulate or anticipate how strict the customs control on the border will be is considered to be one of the main competitive advantages of a tourist agency offering shopping tours to Finland.

The discussion begins by describing the phenomenon of informal mediation using empirical evidence drawn from the studies. We provide examples of the different types of informal intermediaries and of differences between them, using examples from our study of corruption in small business. The emphasis then shifts more precisely to informal mediating services hidden behind the official or formal activities of customs brokers and tourist agencies. The analysis then moves to a consideration, based on the empirical data, of the process of institutionalization of informal mediation in the Russian business environment. Using different analytical approaches we will attempt then to reveal the reasons behind the emergence of this phenomenon, the importance of informal mediation as economic institution and differences between intermediaries operating in the Russian business environment and their counterparts in the West.

³ The best example is import of computers and other high-tech devices. Usually these products were imported as “green beans” which is the cheapest product in terms of import taxes. That is why according to official statistics Russian market in the mid-90s seemed to be heaped up with green beans, and at the same time there was almost no import of electronic devices – of course, in reality the picture was different. Radaev, 2003.

THE “INTERMEDIARIES’ BOOM”

In recent years there has been an explosive growth of mediation services (provided by either firms or individuals) assisting businesspeople in getting access to bureaucratic services. Interviews with businesspeople reveal numerous examples of intermediaries operating in different spheres of the economy. Some of them fully replace official bodies in contacts with businesspeople. To get permission from this or that bureaucratic body a businessmen appeals to intermediary firms instead of going to the responsible bureaucratic body, and from this firm he or she finally gets the desired document. The best example of this type of structure is provided by intermediaries providing services in the sphere of licensing (and certification). For our informants it is obvious that in order to get license or certificate it is better to avoid direct contacts with licensing and certification centers which complicate the procedure deliberately, and work instead through an intermediary firm, which will issue the same papers on the basis of the same documents, but for a different price:

Naturally, I have never seen anybody, but everything goes to a firm. We pay the firm, and they do everything. They collect all the necessary documents, which are simply bought, because nobody has so much time to collect all this – it would take me half a year! In reality nobody does anything but the documents are here, they are on official paper and look nice. From institutes and training centers, that somebody attended courses, passed the exams, commission accepted, etc... It turns out that this pyramid is specially built on an empty place. And these firms, they are created around those officials who deal with issuing licenses. There are about a dozen people involved, you know... If they bring this paper – it will be accepted [by the officials], if not – well, it won't. It's amazing!

(director of construction firm)

The study provides numerous examples demonstrating the same situation with other bureaucratic bodies – state monopolies for gas, electricity, water, and other utilities. According to our informants, the procedure of getting permissions from these structures can take several months (if not years). However, if a businessperson uses the services of an intermediary firm the problem can be solved in a few days – but for a different price.

The distinguishing feature of the intermediary firms described above is that they are specially created for mediation purposes. There is also another set of firms, which are specialized in different services, and at the same time fulfill informal mediating functions. Some real estate firms serve as intermediaries between businesses and the Department of State Property, distributing state-owned premises for rent at reduced prices. According the Program for the

Support of the Development of Small Business in St. Petersburg, renting state-owned premises is cheaper or sometimes even free for some small and medium sized enterprises. Access to these premises is limited. But real estate companies connected to the local administration can help in finding an appropriate state-owned premise for a low rental price. The condition is that a business will make monthly payments of additional money to this firm in black cash.⁴ Not only real estate firms mediate these relationships (as seen from the following quotation).

Q: Did you have any problems with officials in opening your shop?

A: Oh, horrible! There was a law firm at the district administration that offered us very good premises. But then it turned out... Well, we said in the very beginning that everything was official and we completed a cashless transfer. Nonetheless, we were told that "You need to bring \$300 every month in cash anyway" [...]. And it was impossible to reject, because this firm is at the administration and we were told: We will simply not allow you to work in this district!

(director of the shop)

Indirect mediation is also provided by organizations operating around inspection agencies. These firms are not involved directly in the inspection process, however they provide services that become a condition for passing this or that inspection (or for avoiding additional inspections). The best examples here are fire protection and sanitary inspection:

«There are a lot of firms selling fire protection alarm systems with all necessary norms and rules. But we were told at the very beginning that: "you know, guys, even if you find a cheaper fire alarm system and install it following all formal requirements, it wouldn't be accepted by the fire inspectors. Because we have a monopoly in this district. Such and such firm is selling alarm systems here, and the owner of this firm is a chief policeman of the district. That's it.»

(director of a sewing shop)

«Accordingly, at the very beginning sanitary inspection conducted raids upon us, well, say – flying visits with insinuations⁵ [...] then we begin to interact according to an informal agreement – we send our employees for medical examinations to a certain clinic which the inspectors indicate to us – for us it doesn't matter to whom we pay this money. And I do not know what kind of connections they have got there.»

(director of a café)

It should be mentioned that the number of intermediaries who are specialized exclusively in informally mediating bureaucratic extortion is not as large as the number of firms that focus on "cutting the red tape." The peculiarity of informal mediation is that it can be performed by absolutely legal firms specialized in various kinds of services. As a matter of fact, intermediaries combine in their activities overt functions and hidden or shadow functions. Therefore, from the official side (from the documents and official reports) these firms appear as ordinary business

⁴ "Black cash" is a notion that can be related to Russian business environment of post-reform period. In a broad sense it means money in cash which is not registered in any official documents or accounts but which is used in business operations. "Black cash" is "invisible" in official documents of the firm's turnover, and is not exposed to taxation, control or official accounting, or shown in any bank account. As a matter of fact "black cash" is used for informal inter-payments between businessmen.

⁵ «Flying visits» is a direct translation from the Russian, referring to unannounced visits by inspectors with a high probability, whether justified or not, of finding violations likely to lead to a loss of certification.

organizations, which run “normal” businesses (and they really do) – consulting, selling equipment, dealing in real estate, etc. At the same time, intermediaries fulfill shadow or hidden functions by facilitating informal relations between businesses and the state. So under informal mediation we refer only to the informal component of mediation functions, precisely – mediation services that are based on informal access to a bureaucratic structure (or to an individual bureaucrat). Therefore the main problem here is to separate the strictly legal functions of intermediaries from the informal ones.

The intermediary structures described in the previous sections have one common feature – all of them serve the process of bureaucratic extortion, and the initiative to create such firms comes “from above”. Officials prefer dealing with intermediary firms because in this case they do not have to enter a rather risky corruption market personally. The use of “independent” organizations and firms changes the appearance of the interaction, reshaping it from a corrupt deal to an official procedure. It also narrows the circle of people communicating with an official directly and creates a protective barrier from undesirable “outsiders.”

In the next part of the presentation we will focus on another type of intermediary, the emergence of which can be seen as a “bottom-up” process, serving businesspeople in their attempts to avoid excessively demanding formal rules and requirements. This does not mean that officials are not involved in the process at all, indeed, as with any kind of informal mediation this service becomes possible exclusively due to the “good will” of officials, their readiness to “close their eyes” to some infringements of formal norms and procedures, and their informal personal relationships with intermediaries. However, informal intermediaries of this type act “on the side of businesses” rather than “on the side of officials,” and this is what distinguishes them from intermediaries facilitating bureaucratic extortion.

CUSTOMS BROKERS AS INFORMAL INTERMEDIARIES

Customs brokers represent the most explicit example of combining formal and informal mediating functions in everyday business operations. Correspondingly the terminology of a “white-gray-black” spectrum is widely used in public discourse to indicate the status of customs brokers. The following section sets out the distinctions on the continuum from “white” to “gray” and “black.”

LEGAL STATUS OF CUSTOMS BROKERS: WHITE, GRAY AND BLACK CUSTOMS BROKERS

From a legal point of view all customs brokers can only be “white.” The label “customs broker” implies that the firm possesses a broker’s license and insurance, certified personnel and official accreditation at customs. According to the new Customs Code, in order to get a license and be listed in the State Register of Custom Brokers, a firm should pay a deposit of 50 million rubles (about 1,6 million USD) and carry 20 million rubles of insurance. Only big firms (mainly the branches of international or all-Russian brokerage companies) can afford the cost of deposit and insurance. The alternative way for a customs broker to operate legally is to get a guarantee of the Regional Association of Custom Brokers of Northwest (to be included in the List of the Persons Dealing in Customs which is agreed between the Association and the St. Petersburg customs agency). Although membership in the Association is rather expensive for medium and small customs brokerage firms — the entrance fee is about \$2000 (the National Brokers’ Association fee is \$5000), it is considered as a real option to gain access to legal operation in the market. As a result of toughening the rules the number of officially registered customs brokers operating in the Northwest customs region sharply decreased in 2004 when the new Customs Code came into effect. At the moment only about 10 big companies operating in St. Petersburg customs have licenses and are listed in the state Registry of Customs Brokers (compared to 212 customs brokers in 2003). Another consequence of the new customs regulation has been an increase in the prices of customs services, which makes them unaffordable for the majority of small and medium sized enterprises. In this respect, business owners are forced to resort to informal (gray) customs brokers.

Where do *gray* customs brokers come from? According to the new Customs Code the owners of cargo (declarants) are eligible to do custom clearance themselves.⁶ This opens up the

⁶ Big firms that regularly convey big amount of homogeneous cargo (like, for example, “Valio”) submit custom declarations without any assistance of custom brokers. In this case a firm-declarant has to possess the updated software support (which is constantly changing) and a special department for custom clearance or special staff dealing with customs declarations.

legal possibility for situations in which some specialized firms, which do not have any license for customs brokerage activities, do all the work of customs clearance on behalf of a declarant. Very often the role of gray brokers is played by transportation firms that fill in and submit customs declarations (and solve problems with customs) on behalf of their clients.

“We can be labeled as gray brokers. The real broker is some juridical person (organization) that possesses a license to represent the interests of some third person in the customs. Especially for this purpose! This juridical person should possess some, say, a set of instruments beginning with insurance plus this firm should have an approved software package, some special accounting documents, to be accredited somewhere and so on. And this firm is eligible to conclude a special agreement with a third person – a brokerage agreement. This is an official agreement, according to which it can do registration of cargo on behalf of third person. Correspondingly, the cargo customs declaration (CCD) – which is the main document at customs – is signed by this juridical person, not by the client. ... All this we call a real brokerage. Now imagine that we do all the same things. That means we have the same package of documents, the same CCD, but we bring all these documents to ...say... the top manager of our client firm and he signs it because he trusts us. So the CCD is sealed and signed by the client but we do all the real work [of customs clearance]”.

(director of a transportation firm)

Relationships with gray customs brokers imply an extremely high level of trust. The reason is that gray brokers do not sign the customs declaration. Instead it is signed by the top-manager of the client firm who bears full responsibility for it. However, an informal regulative mechanism based on relationships of personal trust and the maintenance of a respectable image in business circles seems to be even more effective than any official rules and formal punishments:

They do nothing, just put their signature, but this requires high level of trust between us. This is like family relationships – you trust a person and you live with him. If you don’t trust – then it is better to divorce. This is what we call a “gray brokerage” because a client doesn’t really understand what he signs. If the customs filed some charges they would be directed to the client – not to the gray broker. That is why I would say the responsibility in this case is even higher – if you lose your good name in these circles nobody would deal with you any more. I am not saying here that you can just get the lead put in you, but definitely people wouldn’t do any business with you.

(gray broker)

That is the reason why the clients — cargo owners — often do not even care about the official status or affiliation of a customs broker. Sometimes they do not care either about the legal status or even the name of the firm they deal with. For them the crucial point is not a firm but a concrete person – a trustworthy and use-proven specialist.

The name of a firm does not matter, the main role is played by a concrete person... I never check the credit history of a broker – what was in his past, what kind of cargo he dealt with, who are his clients at the moment – none of all this. Because you never can be sure that the answers to all these questions will find you the real broker.

I know N and that’s enough for me. I don’t even know the name of his firm.

(director of a firm, cargo-owner)

Transportation companies that substitute brokers in their relationships with customs can be called “forced brokers”, as they do not consider these functions as main activity but only as additional services aimed to “optimize” (speed up) cargo transportation across the border. These firms do not advertise their broker activities and as a matter of fact do customs clearance only for their clients who use transportation services.

Not only transportation firms can play the role of gray brokers. Another type of gray brokers is represented by individual experts on customs clearance who offer their services on a completely informal basis (“*informal/gray experts*”), using trust and interpersonal relations with a client. In their work they rely not only on expert knowledge about customs clearance procedures, but also on informal contacts with customs officials based on their past experience (the role of informal contacts with customs will be described below). Since gray experts work individually and informally they provide their services for comparatively much lower prices.

There is a person, a man with good contacts... say a former customs official,...who was fired from there or just left himself ... He simply stays at home, he has a computer at home. And he just has relationships with some firm– some logging company — and he does everything [customs clearance] using the seal and signature of that company, but he works at home. No taxes are paid, nothing at all. Only black cash. He can also enlist other specialists: “Vasya, can you calculate this or that for me?” Vasya also sits at home at the computer, calculating payments – and that’s the job. ... And again – when a firm is making its choice among the brokers, then if it resorts to official firm the declaration will cost 250 or 1000 USD, yes...and this guy will do everything for 100! What would they choose? Right! He says: “I am not able to do a broker declaration, but under your seal – no problem!”

As for “*black brokers*” we did not find any of them existing as particular organizational/institutional or individual entities. Under the term “black brokers” our informants usually imply corrupt officials – bribe-takers among custom officials or border guards who help carrier firms to convey cargo across the border without any registration when truck simply “disappears” after crossing the border and does not show up at the internal customs point for custom clearance. This does not mean that all of the cargo conveyed in this way is necessarily contraband forbidden for import. The reason may be a discrepancy in the documentation of the cargo (perhaps if it has “informal origins”) or it may simply be a way to avoid customs payments in order to increase profits. These practices were widely used in the beginning and middle of the nineties but they are not so widespread today. Our informants consider black brokerage as criminal and negative, they strictly distance themselves from this kind of activity calling it “*a partisans’ path or bribes on the border*”.

“WHITE”, “GRAY” AND “BLACK” SCHEMAS

Although the terms “white, gray and black brokers” are widely used in public discourse they fail to describe the whole range of real interrelationships at customs. Our interviews indicate that the “white” status of customs brokers does not mean that they always strictly follow the rules. Besides, the “white status” of a custom broker matters only for a considerably narrow circle of mainly big and successful firms or foreign firms that run “white” business (“*we are white therefore we need a white custom broker*”).

In case of legal (*white*) customs clearance the amount of cargo, its weight, content and price strictly correspond to what is declared in the customs documents; customs payments are paid completely according to Customs regulations. There is also a wide spectrum of “*gray schemas*” which are used by all brokers – whether white or gray. Gray schemas mean that while making up customs declaration some infringement of legal rules or norms is committed. Gray schemas are used in order to speed up the process of customs clearance or to reduce the overall “customs expenses” paid by the cargo owner. The coloration of gray schemas can be lighter or darker depending on the degree of the violation of legal norms.

The most widespread way to reduce customs payments is to change the declared characteristics of cargo without changing the commodity group. Slightly changing the type of cargo can essentially reduce the minimum customs cost of imported goods that form the basis for the calculation of custom payments.

“Well, he says, let’s decide,” and looks at you attentively, “Probably this paint is not water-base, but synthetic polymer-base?!” You say – Yes, yes! He says: “Oh, and the minimum custom cost of this kind of goods is \$1”. You say, it is fine with you, that you declared this paint as nitroptalic but in fact it is synthetic-based paint.

So, we looked attentively through the guide, and defined the commodity group using the ten-symbol code. Although one can find another classification in the guide that can also fit this group ... Because you would never classify cargo with 100% guarantee.

This is the most “secure” way to reduce customs payments, as it is always possible to prove that this particular commodity can be identified according to this particular classification in commodity guide. The role of the customs broker in this case is extremely important. Due to his expert knowledge of the constantly changing normative basis and experience he can offer to a client a number of convincing options for the identification of commodities.

Another informal way of reducing customs cost of cargo is a fundamental replacement of one custom code (commodity group) by another. This schema is closer to the black one because in this case deliberate deception is obvious (the most typical example is when “coffee is declared as green beans”). Customs brokers consider this schema as contraband (in brokers’ argot it sounds like «contrabass»). The custom duties paid for “green beans” are much lower and the “savings” are shared between the customs broker, customs official, and declarant (cargo owner).

No less risky is a gray schema based on underestimation of the weight of the declared cargo. This schema is used for commodities which are difficult to measure – for instance, for cut timber, where overmeasures are difficult to identify.

It can be concluded that white brokers are equally active in using gray schemas as gray brokers. We assume also that white brokers play the main role in developing gray schemas used for reducing invoice prices. All this can explain why legal (white) custom brokers often prefer to avoid signing declarations, operating instead as ‘gray’ brokers using the signature of their clients:

It should be mentioned that white brokers mainly do not like to put their signature on the documents, and they try to do everything like the gray brokers. They make up the same cargo

customs declaration but do their best to get the client's signature under it. There is some intrigue in all this. They do some [white] activity as a blind, or with some clients, but actually try to incline a client to sign and seal [the declaration], which means that for them all their diplomas and licenses just serve as an umbrella for their gray activities. Of course, I cannot prove my estimations but I would definitely say that for more than half of the cargo that passes through customs gray schemas are used. And the lions' share of this half is made up by white brokers who use gray methods.

Black schemas include (aside from the already mentioned “disappearance” of cargo after crossing the border) so-called “*galimycontrabass*” (absolute/pure contraband). Under black schemas our informants mean cases when commodities prohibited for export/or import are hidden inside some regular cargo – for instance, vodka or cigarettes are hidden in cut timber. Another case is flagrant violation of the rules of cargo indication, such as massively underreporting the value of cargo. These devices are also referred to by our informants as “black schemas” (for instance when computers are declared as green beans).

We can not be completely certain that none of our informants ever use black schemas but generally these practices are condemned. Transportation firms (gray brokers) are afraid of contraband and wary of container traffic, especially in sealed containers, they prefer to deal with none-sealed cargo that they can check at the stage of loading.

RELATIONSHIPS WITH CUSTOMS

To “catch” the informal component of customs brokers’ mediation it is necessary to consider relationships between customs brokers and customs officials. The leitmotif of all interviews with businesspeople is that informal relationships of trust with customs officials are a key point in customs clearance procedure. This is true not only for the implementation of “gray schemas,” but for any kind of customs clearance operations. The informal role of customs brokers is explicitly described by one respondent:

“Actually there is no real need for the assistance of a so-called customs broker or declarant. You can easily fill in the declaration especially if you constantly convey one particular type of cargo and are not doing it for the first time. But his [broker’s] main role (why he is really needed) begins after you fill in the declaration. He is like a messenger of God on the earth. In other words, he is the person who goes to customs with your documents, and the customs would decide whether to let your cargo through or not. And, then, imagine that you come to customs and bring your documents yourself. A custom official wonders – who is this stranger? Where did he come from?” ... And it is quite a different situation if a declarant [broker] comes and says: “everything is fine, the inspection is done, we can go.” It is clear that your payment – agreed payment – is shared between them. Because if the declarant [customs broker] didn’t pay then he would be sent to the same circle as I was sent. And they [officials] wouldn’t take money directly from me – it will be a bribe in this case”.

(director of firm, cargo owner)

Strangers are not allowed in customs-broker relationships. Customs officials working in different departments are well acquainted with “their” brokers, who act as their “bread-winners.” The amount of informal “agreed” payments depends on the status of the customs official as well as on the scale of the deal. Regular inspectors’ “rates” are \$100-300 per deal, but for a large-scale operation the amount of payments can reach thousands of dollars, especially if top level officials are involved. The higher the bureaucratic level of the involved official the bigger is the informal payment and the more reliable and profitable is the deal⁷.

⁷ It should be mentioned here that in cases that were reported by our informants the level of involved officials was not as high because of the small size of the businesses and, correspondingly, consignments of goods involved.

Trustworthy contacts and partnerships are carefully cultivated by both sides, customs officials and customs brokers. It is almost impossible to trace all of the informal interactions and relationships that go beyond direct payments or cash flows between them:

Obviously, a relative [of a customs official] or a trustee can become a broker, and that's how brokers raise money. Because of these gray schemas. And the basis for these schemas is relationships of mutual trust with customs. If I am a relative of a commander of the customs post, then he knows for sure that this is not a control from above or a police inspection, that I will clearly "unfasten" from each cargo \$300 for him (for a small cargo shipment). And suddenly some guys come over from somewhere. And he doesn't know whether this is control or not – why should he help them? ... There are lots of interactions in customs, and for those who know the real structure of this business – everything goes through trustworthy – very-very trustworthy – persons.

Informal relationships between custom brokers and clients also penetrate the whole procedure of drawing up the Customs Cargo Declaration, although this is a strictly formalized document. This refers first of all to "agreed payments" that are negotiated between customs broker and "declarant" (cargo owner). There were no informants in our study who confine their relationships with customs broker to formal payments. Even in case of one-time (or occasional) customs clearance you have to pay some money for "establishing good relationships with customs."

The role of informal relationships with customs is even more explicit in the answers to the question, what businessmen consider to be a "good customs broker", how they choose a partner.

Q: OK, what is a good customs broker for you?

A: Somebody who has kinship or close trustworthy relationships with customs officials. He might have good relationships with the Department of Custom Costs Control or with the customs chief. The variants can be different, various relationships. But the main thing is trustworthy relationships with customs.

During the study we were interested in how new or non-established businesspeople look for customs brokers to serve as partners, and how they become acquainted with the informal possibilities of reducing customs costs. The search for partners usually begins with gathering information from open sources - from official websites or newspaper advertising or in the Yellow Pages guide. Then they phone the firms that they find – the first information that they get through these conversations is usually unclear and confusing.⁸ The partnerships formed in this way are rarely successful. The most fruitful way of finding a partner is to use recommendations provided by firms or businesspeople who are well experienced in dealing with customs brokers. These businesspeople often joke ironically about those newcomers who try to solve their problems in official way – using the Yellow Pages or other official sources of information.

It is apparent that the system of informal mediation between businessmen (cargo owners) and customs is deeply incorporated into formal legal framework. As long as the law provides the

⁸ We also tried to phone to some firms indicated in Yellow Pages as customs brokers, pretending that we are businesspeople who need to convey dome paint from Finland, and we were trying to find out how much would it cost to do the customs clearance. The usual answer was – come down to our office and we'll talk about it in person.

possibility for cargo carriers to do customs clearance without resort to official (“white”) customs brokers there will always be space for “gray” custom brokerage activities. Perhaps for this reason, “gray” custom brokers are not much concerned with the ongoing reformation of the customs legislation, and are sure that they will continue to survive regardless of the strictness of legislative norms. The scale of informal customs brokers’ mediation can be indirectly estimated from the following figures: According to official statistics only 30% of cargo goes through customs brokers, while 70% is reported directly by declarants (www.custom-house.ru). According to the estimates of some experts, only 5-20% of cargo passes customs clearance through “white” schema, while the rest crosses the border using “gray” schemas of various kinds (Barsukova, 2002).

SHUTTLE TRADERS AND TOURIST FIRMS

Shuttle trading represents an informal economic sector in which individual traders bring small consignments of goods across the border. The shuttle-trade business has been acknowledged as a large-scale and meaningful phenomenon in Russian economy since the early-mid nineties. People from various demographic categories of population were involved in these economic activities, which were new for Russia at the time. For some people this experience provided the basis (both financial and social) for further development of their own trade businesses. For others it was only a chance to survive or to improve their financial situation temporarily. Shuttle traders brought goods to the Russian market from Poland, Italy, Turkey, the United Arab Emirates, China, South Korea and other countries. Goods brought by small cross-border traders are reported to make up about 20 - 25% of all Russian imports, and up to 60-75% of sales in certain categories of consumer goods (such as footwear, clothes, etc.). The situation has changed somewhat since the mid-nineties. However, according to the Institute of International Economic and Political Studies of the Russian Academy of Sciences (2002), over 5 million people in Russia are still involved in the shuttle-trading business, adding annually 12-15% to the volume of official foreign trade in Russia, which constitutes about \$ 20-25 billion.⁹

SHUTTLE TRADING IN ST. PETERSBURG

Finland has always been one of the most attractive countries for St. Petersburg shuttle traders because of its geographical closeness to St. Petersburg. Finnish commodities were always highly valued by Soviet people for their high quality, and tourist trips to Finland during the Soviet times were among the most prestigious and highly prized. Shop-tours to Finland as a particular form of tourism appeared in St. Petersburg at the beginning of the nineties and boomed in the period of 1994-1996. Accordingly, the tourist market in St. Petersburg was divided into two sectors: “intellectual” tourism and “shopping” tourism. Many firms were established specializing exclusively in shop-tours to Finland, and even big “intellectual” tourist firms had special departments (or guides) specializing in this type of tours.

Individual shuttle traders go from St. Petersburg to Helsinki, Lappeeranta, Imatra and other towns in Finland. They buy different kinds of goods (most of all cleansers, washing powder, second hand clothes, ironing-boards and dryers) and foods (coffee and fish) in Finland to sell in St.

⁹ Butuzova, L. Moskva. Velokij chelnochnyj put'. Moskovskie novosti, 2002-11-12.
<http://www.cotton.ru/cgi-bin/vestnik/article.pl?id=11823>

Petersburg. The cost of the trip to Finland by shuttle-bus is very low– 12-15 EUR for a round trip ticket by bus, or 25-30 EUR by minibus per person. But as a matter of fact shuttle traders manage to avoid even these expenditures: the money earned by selling two packs of Russian cigarettes in Finland (only one pack is allowed by custom regulations) would completely cover the cost of the bus ticket. They sell the cigarettes at the first bus stop just after crossing the border at the supermarket called “Shajba” (hockey puck) very close to the border, which got its name due to the round shape of the building. Usually somebody in the bus (in most cases the tour guide herself or himself) gathers all the cigarettes and sells them through their personal local “channels” – familiar shadow cigarette traders, who are in most cases former Russian citizens living in Finland. These traders come to Shajba every day at the time of the shuttle-buses’ arrival. This business appears to be very well developed and works as a more or less seamless system.

A regular shop tour to Helsinki usually lasts for one day. Every night at 10 p.m. about ten big tourist buses start on their trip and come back to St. Petersburg next evening. Shuttle traders spend the night in the bus, arrive to Helsinki in the early morning, spend several hours shopping and start back to St. Petersburg at 1 p.m. On the way back to the border the bus stops at various shopping centers and hyper-markets, gathering traders that were doing shopping there. The time of arrival to St. Petersburg depends on how successful the procedure of crossing the border is carried out. If no problems with customs emerge, the bus returns to St. Petersburg about 8 p.m. There are also longer tours which last two to three days, in which case traders stay at hostels and private apartments in Finland.

Shuttle trading appears to be a physically exhausting enterprise – usually traders go on tours two to three times a week in order to make a full use of a multiple-entry visa. The overwhelming majority of shuttle traders are women of different ages – usually there are maximum one or two males (if any) out of 30-40 traders in a bus. Tour guides are also almost all women. So it can be stated that shuttle trading is a women’s business in St. Petersburg.

Based on our participant observation, two types of shuttle traders operating in the field of informal cross-border trading can be distinguished. Small traders, individuals who do not own their own businesses, represent the first type. They sell imported commodities through personal networks - to their friends and co-workers, or through some retail shops. Another example of small shuttle trading involves some person regularly supplying some small producers with various accessories (for instance, small shipyards regularly send shuttle traders to Finland for component parts of yacht equipment). Small traders usually do not bring large quantities of goods across the border, so they do not fundamentally break the weight limits, which allow 50 kilograms per person as purchase for individual consumption (wholesale purchase is not permitted at all). Usually small traders cooperate with each other in order to get price reductions and tax-free checks or “invoices” (a service provided by some shops for shuttle traders giving them the opportunity to get some money back for their next purchase).

The second type of shuttle traders can be called “wholesale traders”. They often have their own shops or stalls at market places (usually open air markets, but not exclusively), so they make wholesale purchases. Usually they buy certain types of goods, and the consignments of these goods are often considerably exceed the weight and quantity restrictions on imported commodities according to custom regulations. Wholesale traders are more individualized as compared with small traders, they do not need anyone to cooperate to get reduction. At the same time, they form

a more coherent group in the bus because they need to consolidate in order to “fix the problems” that regularly occur with customs officials at the Russian border, in other words, they cooperate to collect the bribe to be given to the customs official.

Both small and wholesale shuttle-traders bring commodities across the border as “goods for personal consumption”, so they do not pay any customs duties and therefore they do not need any customs brokerage assistance. However, since shuttle-traders regularly break custom rules regarding the weight and the amount of goods can be brought across the border, they always need some mediating structure or person to solve the problems that arise between them and custom officials. The role of mediation is performed by tourist firms, or to be more precise, by tourist guides who organize the trip.

TOURIST FIRMS AS INFORMAL MEDIATORS

There are two main intermediary functions of tourist firms that are based on informal (or semi-formal) activities: assisting shuttle traders in getting visas and solving problems with customs while crossing the border. For a long period – since the very beginning of shuttle-trading business in St. Petersburg – the major role of tourist firms was to provide shuttle traders with visas and insurance. Although these functions were based exclusively on formal relationships with the Finnish Consulate, providing shuttle-traders with visas can nonetheless be called a semi-informal service since the tourist trip as such was fictitious and the main purpose was to simplify the procedure of getting visa. In nineties in order to get even a one-entrance visa to Finland it was necessary to provide an invitation from some person or organization in Finland or a hotel reservation. Tourist firms used their official status, and cultivated relationships with the Finnish Consulate, allowing them to get visas without any difficulty. Of course, tourist firms also provided traders with a bus and a group leader who was accordingly called “a guide” (although she/he was never supposed to provide “tourists” with any excursions).

As a matter of fact, there were no problems in crossing Russian border at that time – the rules and restrictions for imported cargo had not yet been developed. Crossing the Finnish border was more problematic since shuttle traders tried to bring to Finland large quantities of alcohol and cigarettes for sale. As customs rules regarding imported goods became more strict some tourist firms (specializing in shop-tours) had to “solve problems at customs” in order to proceed with shopping tourism. In our study we have not got evidence about any direct relationships between tourist firms and customs, but interviews with tourist guides provided a lot of examples of indirect “breeding” of customs officials. Our informants reported that on every holiday they brought gifts to customs officials on behalf of their firms. Tourist guides often bring some goods from Finland for some familiar customs official (on their order) in order to maintain to keep good relationships. All these strategies were aimed toward cultivating informal relationships with custom officials allowing the firm to avoid inspection of the bus on the way back from Finland.

Today the content of informal functions performed by tourist firms has been changed fundamentally, mainly because of legislative changes and organizational changes in the business environment. On the one hand, because of the simplification of the procedure of getting a Finnish visa, the role of tourist firms in this area has diminished dramatically. Since 2002 one can apply for a one-year multiple-entry visa without any invitation or hotel reservation – it is enough for applicants to write that they are going to Finland for shopping or as a tourist. This

procedure has become simple and well organized, and the intermediary functions of the tourist firms are no longer required: people simply apply for the visa themselves. On the other hand, the constant toughening of customs rules and regulations has increased the role of informal mediation at the border crossings. Here the role of the tour guide as an intermediary between shuttle traders and customs officials has been increased.

Changes in the informal functions of tourist firms have caused the landscape of the tourist business in St. Petersburg to be transformed. Since the role of a tourist firm in organizing shopping tours has been narrowed down to renting a bus and providing a guide, there is no longer any need for a tourist firm to operate as a complete organizational entity. Many “shopping tourism” firms have been transformed into “virtual” firms – they do not have any office, formal staff, or equipment. The only thing that such a “tourist agency” director needs is a telephone. They rent buses from transportation firms, hire bus drivers and recruit a group of “tourists” via traders’ networks. The director of such a virtual firm often works as a guide, operating at the same time a shuttle trader. Now the role of a shopping tour firm (if any) is basically organizational and is limited to the preparation of the tour – finding and providing a bus and a guide. All of the procedures around the tour itself, including crossing the border and mediating between shuttle traders and the border guards and custom officials, are accomplished by the guide. For shuttle traders, the name of a firm matters less than the name of the guide. They prefer to work continuously with the same guide. If a guide switches to another firm, then most of the guide’s clients follow along.

THE ROLE OF THE GUIDE

The role of the guide can be divided into two parts - organizational and intermediary. The organizational function of a guide is rather explicit. She or he is supposed to gather people and fill the bus (more people – more money for the guide and the firm), and work out the route, identifying hyper-markets and shops to be visited in Finland. Sometimes the route is fixed before the trip, and sometimes it is corrected according to the needs and wishes of the shuttle traders. In the latter case a guide is expected to find a balance between the interests of all the passengers. She is also supposed to look after her passengers during the tour (to prevent quarrels and conflicts among shuttle traders), to gather documents at the border and to communicate with border guards and customs officials.

The intermediary role of a guide is not as obvious and often hidden for people who are unfamiliar with the procedure. It starts when the bus comes to the Russian border crossing and becomes more apparent if the group confronts problems at customs. Passing the customs inspection on the way back is the most critical point of the tour and the guide plays a major role in this procedure. Since custom officers – as they tell us in our interviews – can always (!) find something done in a wrong way, the main task of the guide is to ensure the speed of passing the customs inspection, which usually means convincing the customs official not to inspect the bus. So the role of the guide is crucial here. Her or his experience, personal contacts and personal characteristics do matter: the task is easier when the guide is familiar with the customs officials and has good relationships with them. The role of the guide is also important if custom officials find any other violation of the rules – e.g. smuggling. In this case the all of the passengers on the bus would be arrested and the guide would be expected to stay at customs until the incident is over.

The significance of organizational and intermediary functions of the guide is different for different types of tours and shuttle traders. For groups of small traders, the so-called “cigarette

traders” (sounds like “cigarette-case” in Russian) who mainly bring small amounts of goods, using the cigarette “business” to cover their travel expenses, the role of the guide is primary organizational. As a matter of fact these groups do not stop at many markets and shops, therefore their buses are the first to come to the border on the way back. As a rule, they do not have many troubles with Russian customs since they do not bring many goods.

Another type is “shopniki” - arrant shuttle traders (or mixed groups combining small traders and wholesale traders). These groups stop at every shop, therefore the bus is always overloaded with commodities; it comes to the border very late in the evening and the passengers often have problems with customs. For this kind of group the intermediary role of the guide is most important. From our interviews with guides, two basic intermediary strategies can be distinguished. The first one can be called “preventing,” in which the guide bribes the customs official in order to prevent inspection of the bus. This strategy is used by guides of wholesale traders’ groups when the bus is heavily overloaded, and violations of norms are apparent even without the special procedure of weighing. In this case the intermediary function of the guide is crucial – he\she is the only person who can give the bribe to the customs official. Informal relations between the guide and customs officials are very important here since they are used for facilitating bribe giving. Custom officials would never take a bribe from a stranger. In an interview with a person who tried to work as a guide but failed to give a bribe, she explained her failure by the fact that the customs official did not know her personally. This case also confirms assumption that this is the guide who is a real and very significant intermediary between traders and customs officials, while the firm plays mainly an organizational role. The name of the firm, which was well known to the custom officials, did not play any significant role in the described situation – the customs official was afraid to take money from an unfamiliar guide. So personal connections count among the professional and personal characteristics of the guide that are crucial for successful corrupt mediation.

Another strategy is to avoid bribes and to cross the border using only good relationships with customs officials. This strategy is used by the guides of “mixed” groups, when violation of norms is not as obvious and the official on duty is not as rigorous. Regardless of the chosen strategy the guide is always ready to pay the bribe. Money for a bribe is collected by the guide from all passengers-traders. Usually the size of bribes is calculated as a percentage of the money that traders get back as tax-free or via the invoice system, usually it is about 200-300 EUR per bus. The collected money is put into the carrier customs declaration, by which the contents of the entire bus are declared, and submitted to the customs official by the guide.

Informal relations between the guide and customs officials are of key importance for both strategies (this is one reason why buses often hurry to the border in order to arrive before a familiar customs official goes off shift). Tour guides carefully foster these relationships by means of small presents and gifts, which they bring to customs officials from time to time. Of major importance here is the need to create a good reputation as a trustworthy and responsible partner. This means that the guide is expected to never allow prohibited goods to be brought in her or his bus, to fulfill all of the formal requirements so that the customs inspection procedure is made easy for the customs official. The goal is for the customs official to recognize a guide who signifies: “everything is fine with this bus because everything is always fine with this guide.” Custom officials also benefit from such trustworthy relationships with guides because they save them inspection time and bring welcome gifts and money. The best case is when the guide finally gets the phone number of the official so that she can check up on the “situation at customs” over the phone while approaching the border.

Sometimes it happens that customs officials do not take bribes for various reasons: they are afraid of inspection and law enforcement, or they work together with the SWAT soldiers, or for some other reason. Sometimes they are required to inspect the bus by the planned schedule of regular bus inspections. If the bribe is not accepted, the traders in the bus get very angry with the guide because this means he or she did not fulfill his or her main duty.

When the money is not taken by the custom official and the bus is checked, the function of a guide is to soften the situation. This means that the guide has to negotiate with customs officials about the amount of the fine to be paid by traders for extra weight – the most frequent violation identified by customs officials. The main task of the guide is to reduce the sum of the fine as much as possible. According to our interviews, usually the fine is decreased by 50-70% after negotiations with customs.

Our findings allow us to conclude that the role of tourist firms as intermediaries in shuttle trading has decreased, because regulations in the sphere of tourism between St. Petersburg and Finland have been changed recently and became easier to navigate and understand. As a result, the need for the mediation functions of the firms does not exist any more. This is a good example of how simplification of the official procedures allowed avoiding intermediary services in one sector of interaction between businesspeople and the state.

INSTITUTIONALIZATION OF INFORMAL MEDIATION

We would argue that currently, informal mediation in relationships between businesspeople and authorities is going through a process of *institutionalization*. In this part of the paper we will try to demonstrate that the phenomenon of informal mediation has developed during the past years into sustainable informal institution that has come to occupy a stable position in the Russian economic environment.

INFORMAL MEDIATION AS SOCIAL INSTITUTION

According to the theory of institutionalization developed by Peter Berger and Thomas Luckmann (Berger and Luckmann, 1996) the essence of institutionalization is the reduction of uncertainty in the external environment, making it more predictable for people (Berger and Luckmann, 1996: 54). Based on empirical data obtained during the studies we consider institutionalization of informal mediation through the processes of habituation, typification, objectivation and legitimation of interactions between businesspeople and informal intermediaries.

The emergence and formation of the institution of informal mediation is preceded by the *habitualization* of informal economic practices in the Russian business environment, where infringement (or avoidance) of formal rules and regulations has become a generally accepted norm of economic activity. The prevalence of informal relations in vertical interactions – between businesspeople and officials – is predetermined by the imperfection of the bureaucratic system, and by the impracticability of formal regulations. It is widely acknowledged that the legislative environment in Russia does not facilitate business development, particularly for small and medium sized business. The most typical expression from interviews with businesspeople is “*If you had not been violating the rules... If you had been playing fair, then it would have been better not to be working at all.*” As it follows from our study, “informal stimulation” of officials of different ranks in order to overcome bureaucratic barriers has become a routine practice in everyday economic activities.

As informal practices become habitualized, the most effective of them become crystallized, with their further transformation into typical patterns of behavior. Our study provides empirical evidence that using intermediaries for informal interactions with officials has become such a typical pattern for Russian businesspeople. The reasons for using informal intermediaries’ services are the following:

a) Businesspeople prefer to deal with intermediaries because it is simpler (intermediaries know all the details and hidden dangers of this process) and faster (anyway it saves time and therefore - money).

Ok, in order to register the agreement for all these premises for rent, I went to officials...one, two...- oh, this will be the eighth visit. In June I started my visits to these officials, spent overall 16 hours, today it is already October – five months have passed! And no result so far... It is better to do it through the agency, formerly we paid them \$1000 and they did everything in one month. I don't know how we will do it...

(director of a trading firm)

In fact there are two ways for businesspeople to solve a “bureaucratic” problem. The direct way means applying to the official body trying to fulfill all formal legal requirements. This way can take an extremely long time and the result is not guaranteed. Another way is the indirect way, operating through intermediary structures, which is faster and less time-consuming. As a result one can see the double-faced strategy that businesspeople often use in their relationships with officials: if the problem is urgent and vitally important for a firm they choose the more expensive but faster and more “reliable” indirect method. In cases of less urgency – the long method of navigating one’s own way through bureaucratic procedures.

b) Using intermediaries makes it possible to avoid emotional strain, which is usually a painful part of the interpersonal communication between businesspeople and officials, and not only in cases where it is necessary to solve the problem using informal means:

“I want to say that every official - depending on his upbringing, his intellect and I don't know what else to a greater or lesser degree - would necessarily smear you on the table. If he is a cad, then he will be actively doing this. If he is a well-brought-up, then he will be doing this by his indifference. None of them cares about you!”

(director of a dressmaking establishment)

When a businessperson goes to an intermediary, the situation is different – it takes the shape of formal service and businesspeople feel like customers in that case. So it can be stated that by using intermediary services businesspeople reduce the “emotional costs” of informal interactions with officials.

c) Not least important, using informal intermediaries reduces the uncertainty of the situation, and increases its predictability. According to our respondents, intermediaries make the whole system of interactions between business and authorities “*more clear*”. Of course, this does not imply that the procedures of the bureaucratic body are more transparent, but rather that intermediaries are uniquely positioned to offer a better understanding of the steps that businesspeople need to undertake in order to effectively achieve their goals in interacting with state institutions.

The study provides empirical evidence of *objectivation* of informal mediation. In some spheres the set of informal mediation institutions has a sort of coercive power over individual behavior. Using the services provided by intermediaries has become, if not obligatory, then vitally necessary for businesspeople if they want to run business without troubles. This can be seen from different cases of failed attempts to avoid using intermediary services. One of the most vivid

examples is when businesspeople try to do custom clearance directly through customs bodies avoiding the services of intermediaries:

The way through the customs – it is just horrible! We were doing everything by ‘a white scheme’. The system works as follows – we try to do everything fairly, paying all customs duties and so on. But the customs rules and customs laws are very complicated, they can object to anything, and won’t let a commodity through. But it can be done very easily ... We tried once to go through customs procedures using a ‘gray’ scheme. And it turned out to be much easier and much cheaper. And now we are thinking: what for? Why have we suffered so much for five years? Every time we bring a commodity through customs it costs four days of my life.

(director of a shop)

The above quotation explicitly demonstrates how “white” business is being converted into the gray zone under the pressure of institutionalized informal relationships in the business environment.

Institutions require *legitimation*, which is “ways by which they can be explained and justified” (Berger and Luckmann, 1996: 61). The leitmotif of all explanations of our informants regarding the existence of intermediaries is that they are created by officials themselves to produce additional profits. Our informants are deeply convinced that intermediary firms are specially created by officials themselves in order to get additional “informal” payments for avoiding impracticable and intricate bureaucratic rules. Some of our informants are even sure that people who work in these structures are in close kinship or friendship relations with officials. In general, businesspeople perceive intermediaries as an “objective necessity” of the business environment and accept them as such. Justification of informal intermediaries is based on their convenience for businesspeople. Even with the high price of mediation services they provide for businesspeople the real possibility of solving problems and economizing on other expenses.

ECONOMIC ESSENCE OF INFORMAL MEDIATION

The informal character of intermediaries’ functions makes it difficult to use North’s institutional economic approach for this analysis. Under the category of informal institutions, North emphasizes cultural and historical factors hindering the implementation of economic rationality (North, 1997). Although cultural and historical contexts play an important role in economic behavior, the role of informality (understood as the operation of informal rules and practices) cannot be confined to the effect of cultural context. Numerous studies of the informal economy in post-socialist transitional economies, including this one, have demonstrated that the infringement of formal rules, and the emergence of informal conventional agreements that regulate interactions between economic actors, facilitate economic rationality. The process of deformalization of rules taking place in the Russian business environment (Radaev, 2001) implies the incorporation of informal rules into formal institutions, and the replacement of formal regulations with informal ones. From this perspective, informal institutions appear more as rational “devices” to increase economic rationality than as cultural and historical conditions and “rules that are imposed by individuals on themselves to limit maximizing behavior” (North, 1997).

From the perspective of a transaction costs approach, the economic essence of the institution

of informal intermediaries is seen as assisting businesspeople to reduce transaction costs related to complying with formal bureaucratic rules and regulations. Transaction costs of this kind exist in any economy, that is why in every country one can find intermediaries serving businesspeople in overcoming bureaucratic barriers and fulfilling official regulations and requirements. Their existence is predetermined by at least two factors:

Formal rules never correspond completely to economic reality; there is always a discrepancy between the economic ideology standing behind formal rules that are developed by the state, and the economic interests of some groups of economic actors, who are expected to comply with formal rules. So expert consulting is needed in order to optimize economic behavior to fit formal requirements.

The character of formal rules is too intricate in practice, therefore expert knowledge is needed for interpretation of formal rules and assistance in fitting formal requirements.

Organizations that can be referred to as mediating structures include various consulting and auditing firms serving businesspeople in their relationships with fiscal bodies, customs brokers, licensing and certification agencies and other specialized firms assisting businesspeople in their interactions with various official bodies. The same kinds of organizations seem to operate in the Russian economy. However, our study has proved that the content of services provided by intermediaries operating in the Russian business environment differs from their analogues in the West. One of the most important differences involves the role of informality in their activities. Our empirical data indicate that the informal component of mediating functions, through which informal access to official bodies is maintained, plays a crucial role in the effectiveness of mediating functions.

PARTICULARITIES OF INTERMEDIARIES IN THE RUSSIAN CONTEXT

It is possible to distinguish some particularities of the Russian socio-economic context that make the role of intermediaries different. While it is certainly true that formal rules never correspond completely to economic reality, in transforming societies (and in Russia in particular) this gap is even more essential. In the model proposed by North (1997), the process of formalization is seen as a step subsequent to institutionalization, with the purpose of legitimating rules and practices that developed over the course of institutionalization. This process is more typical for the American pattern of relationships between business and the state, which is predetermined by a long history of American social and economic development. In Russia we can see quite the opposite process at work in the development and implementation of formal institutions – change does not develop organically, but is imposed “from above.” The elaboration of new economic laws in Russia is very often primarily predetermined by the goal of corresponding to western patterns and models of the market economy, and does not take into consideration the correspondence of legal regulation to the real economic situation. This is aggravated by the lack of professional and expert knowledge to develop laws and regulations appropriate to the transforming economy.

Another particularity refers to organizational embodiment of formal institutions, which is poor for a variety of reasons – the lack of financial resources provided by the state for the organizational implementation of formal regulations and the lack of highly qualified specialists, among other factors. That is why even “good” laws fail at the stage of their real implementation. The inefficiency of the organizational embodiment of formal institutions results in a situation in which the deficit of bureaucratic services paves the way toward corruption and informal mediation.

The informalization of the economic environment provides the basis for flourishing of informal intermediaries. The practice of concealment of profits and economic operations provides businesspeople with “black cash” resources, which in turn facilitates informal interactions with intermediaries.

All of what is presented above can be interpreted to suggest that informal intermediaries in the Russian business environment function either as an instrument for bureaucratic extortion or as a form of latent resistance of business against aggressive state policy. Unlike their analogues in the West, informal intermediaries in Russia do not serve for adjusting economic practices to formal rules, but rather for creating a false impression of correspondence between the former and the latter. In practice, intermediaries function to alter formal procedures in a way that brings them into closer correspondence with real economic practices. The principal resource they use for this purpose is informal access to various bureaucratic bodies.

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