

3 *Sistema* - Russia's informal system of power by Alena Ledeneva

Informality is the key to how politics, the economy and society function in Russia. If we want to understand how power works, we have to delve behind the Kremlin's formal facade and take into account informal networks, clientelism, kickbacks, complex rules and subtle signals. The term *sistema* (the system) refers to opaque ways in which informal networks interact with formal hierarchies.

Sistema cannot simply be 'reformed' in the traditional sense of the word. First, *sistema* is one of Russia's open secrets. Most Russians, and especially the elites, know what it is and how it works, but they would rather not spell it out. If they talked about it openly, the system's absurdity would become apparent. But the elites do not want to challenge *sistema* since this could get them expelled from their formal positions, from informal networks, or even from the country. Yet as long as Russia's elites do not challenge how the country is governed, meaningful change is impossible. Second, while *sistema* is in many ways absurd, detrimental for long-term development and probably ultimately self-destructive, it is also the glue that keeps Russia's economy and society together. If *sistema* unravelled, the consequences would be hard to manage.

Modernisation in Russia cannot succeed as long as this system of informal power and governance remains untouched. Russian leaders talk about changing Russia from the top down, without however addressing the informal rules and constraints that govern their own behaviour and that of political, bureaucratic and business elites.

Informal power and its instruments

Instruments of informal governance are not new, nor do they

⁸ Thomas Christiansen and Christine Neubold, 'International handbook on informal governance', Edward Elgar, 2012.

⁹ The Constitution Unit at University College London and Professor Robert Hazell, 'Inside Number 10: How the coalition really works', *Political Insight*, September 2011.

¹⁰ Thomas Christiansen and Simona Piatoni, 'Informal governance in the European Union', Edward Elgar, 2003.

only exist in Russia.⁸ For example, a recent study of Britain's formal and informal cabinet machinery throws light on how the British government really works.⁹ An older study warns of the potential dangers of informal governance inside the European Union.¹⁰ Not all informal links amount to informal governance, however. For example, Prime Minister David Cameron's links to the scandal-ridden Murdoch press bear little resemblance to the systematic links between political leaders and the media in Russia. The existence of informal practices in a society does not mean that there is a hidden system. It is only when such patterns of behaviour are repeatedly or predictably used that they transform into a system.

In Russia over the centuries, informal rules and practices have often been at least as important to understanding the workings of power and commerce as formal constitutions and laws. Tsarist Russia had its own *sistema* and so did the Soviet Union. A different *sistema* has evolved during the rule of Vladimir Putin.

Putin's *sistema*

On the surface, Putin's Russia is governed through a 'vertical of power', a hierarchy in which decisions are passed from the top down, from the centre to the regions, and from the government through the economy. But Putin's *sistema* also contains networks, controls and constraints that undermine this vertical and skew its policies. *Sistema* consists of the mix of formal governance (which is the result of official hierarchies and policies) and informal networks and influences.

Some observers have described Putin's governance model as neo-Soviet, because of its reliance on strong leadership, economic control, superpower ambitions and confrontational foreign policy. It has also been said to reproduce the 'stability of cadres' (an enduring and closed ruling elite) once associated with Brezhnev's period of late socialism. Top officials and insiders are shuffled around, but few ever get sacked or seriously demoted. Putin does not betray his own people – unless they break informal agreements and go against *sistema*.

Putin's *sistema* has some elements of the 'administrative-command' style of governance of late socialism (these were: state property, central planning, bureaucratisation, resource allocation on the basis of ideology and the mobilisation of cadres, or elites, through a defined command structure). But there are also significant differences: the party line has given way to private interests, state property to privatised assets, economic planning to the constraints of global markets, an economy of favours to pyramids of kickbacks, and command methods to instruments of informal governance.

Because *sistema* is complex, subtle, and ambivalent, most Russians find it difficult to spell out what they mean by it. When prominent journalists such as Yulia Latynina and Andrei Loshak write about Putin's *sistema*, insiders smile at its paradoxes while outsiders are shocked by its absurdity or simply doubt its existence. Let us consider an example.

IKEA's experience with *sistema*

Andrei Loshak uses the story of the Swedish furniture giant IKEA to illustrate the corrupt and counter-productive nature of the system: "[When it opened its first branches], the company announced that even in Russia it would be adhering to its clearly-formulated Swedish rules, based on the Protestant work ethic [which mandated that no bribes would be given]. As a result, officials in Khimki [a small town near Moscow] turned off the electricity just before

IKEA's first Moscow store was to open. There was no practical reason for this. They just wanted to 'give them a hard time' for their excessively strict principles. By the time IKEA opened in St

¹¹ Andrei Loshak, 'Kafka's castle is collapsing', *openDemocracy*, March 19th 2010.

Petersburg, the Swedes already knew that they had to have their own generator in each of their Russian stores – just in case. A wise decision, as subsequently emerged."¹¹

The company has opened 230 stores all over the world, but was unable to overcome what Loshak calls the 'implacable cupidity' of the officials in the Volga city of Samara: "The last complaint [of the Samara officials] was that the building was insufficiently hurricane-proofed. The Swedes were unable to obtain any information about destructive tornados wreaking havoc on the left bank of the Volga and took umbrage. IKEA's legendary founder Ingvar Kamprad announced that investment in Russia would be scaled down. But local officials were unlikely to be fazed by such trifles. Their actions are, after all, not dictated by narrow personal interest. They are supporting the normal functioning of an irrational system."

The question for foreign investors in Russia is whether it is possible to work within the system without getting involved in reprehensible practices. Loshak suggests that it is near impossible to work honestly in a corrupt environment. In other words: foreign investors cannot import their values if these contradict the values embedded in *sistema*.

IKEA had seen itself as a kind of Sir Lancelot intent on beheading the dragon of Russian corruption. But since corruption is an integral part of the system, the dragon immediately grows yet another head. In IKEA's case, a subsequent investigation revealed that the Russian employee responsible for procuring the generators was receiving kickbacks from the leasing company. These kickbacks considerably increased the costs of IKEA's corruption-avoidance strategy – while also feeding the dragon.

Loshak found that the Russian judiciary appears to be operating in a similarly absurd fashion: when IKEA tore up its agreement with the corrupt leasing firm, a Russian court fined it €5 million for breach of contract. "We had come up against something way outside what we usually encounter," said an IKEA source. The Swedes, just like the surveyor K in Kafka's 'The castle', tried to use the powers of reason to overcome the absurd – a fruitless attempt.

Paradoxes and traps of *sistema*

Loshak distils the absurd logic of *sistema* in the sentence "We were born to make Kafka come true" and speaks of an 'oxymoron culture' in which ideas such as 'conservative modernisation', 'sovereign democracy' and 'Parliament is not the place for discussions' disorient and brainwash the public. Latynina agrees, arguing that *sistema* provides absurd incentives.¹² Basic economic principles are turned on their heads: good deeds and value creation are punished while the extraction of kickbacks and rent-seeking behaviour are rewarded. *Sistema* does not punish wrongdoing; instead it defends its supporters and maximises the power of officials in charge of the distribution of funds. In this "through-the-looking-glass" land, writes Latynina, the very term *sistema*, which originally stood for a well-organised and co-ordinated structure, has come to mean its opposite. Among Russia's systemic paradoxes, Lilia Shevtsova, an analyst at Carnegie Moscow identifies "the failure of success, the uncertainty of certainty, the instability of stability and the impotence of omnipotence". She argues that the economy functions in a dysfunctional way: the economic growth and stability of Putin's Russia is detrimental to the country's development in the long term.¹³

¹² Yulia Latynina, 'Swarm or the antibaker – How modern Russia actually works', *3rdway.org – Third Way Liberal Discussion Forum*, March 26th 2010, translated by Viktor Tanatov from the Russian version first published in *Novaya Gazeta*.

¹³ Lilia Shevtsova and Andrew Wood, 'Change or decay: Russia's dilemma and the West's response', *Carnegie Endowment for International Peace*, 2011.

In my view, to describe the workings of *sistema* as absurd and self-defeating is at best a partial truth. Even if it is hostile,

anonymous, unpredictable and seemingly irrational, *sistema* also serves to glue society together, to allocate resources and to mobilise people; it contributes to both stability and change; and it ensures its own reproduction.

Russia's present-day *sistema* encourages the Russian people to work, but in an ambivalent, even paradoxical, way. Its system of incentives prioritises short-term profit at the expense of long-term sustainability; loyalty at the expense of professionalism; safety and collective responsibility at the expense of corporate leadership; and innovative strategies to circumvent the constraints of *sistema* at the expense of productive innovation. Russia's self-made businessmen often say that they have achieved their success despite *sistema*, whereas businessmen that are *sistema* insiders tend to be silent, or they deny that their success owes much to close links with influential politicians.

The impact of informality is not exclusively negative. One cliché about corruption in Russia is that the economy would not be able to work without it: anti-corruption policies cannot be effective until and unless Russia first addresses the problems associated with ineffective institutions, especially the judiciary.

In the short run, tools of informal governance (see box) can help leaders to pursue their policy objectives. Such tools help them to exert control over the media, bureaucracy and judiciary as well as parts of the economy. For example, companies in Russia know that the political leadership expects them to show 'corporate responsibility' through supporting political, social, youth, environmental and charity programmes. The leadership also uses informal leverage and networks to promote its modernisation agenda. So companies feel compelled, if not privileged, to sign up to Kremlin-sponsored projects such as the Skolkovo innovation city, even if they do not believe in their viability.

Tools of informal governance

I distinguish four types of instruments of informal governance: informal agendas, informal signals, informal affiliations and informal sanctions. Take the example of Russian television. Employees of all major TV stations have informal affiliations with the Kremlin. Control is exercised through informal signals, or even directives, such as black lists of individuals who should not be allowed to appear on TV, or white lists of people who should not be criticised. Informal agendas are revealed when TV stations routinely omit certain subjects or ignore certain individuals perceived as disloyal. For example, after Alexey Kudrin resigned as finance minister in September 2011, his face never appeared on Russia's official broadcasters; and records of his angry exchanges with President Medvedev were cut down to Kudrin's retort that stepping down would be his own decision.

Informal sanctions consist of diverting advertising away from disloyal TV channels, or by hinting to private banks which media organisations should have access to loans and which should not. Instruments of informal governance tend to be subtle and do not violate the law as such. One cannot pin down a bank or a private entrepreneur for not giving a loan or placing an advertisement on this or that channel, for the formalities are duly preserved.

In the long run, however, the informal tactics for mobilising elites and allocating resources to insider networks undermine the fundamental principles of the rule of law, the separation of powers and the security of property rights. Ultimately, they reduce Russia's chances of achieving the strategic goals of modernisation. I call this the 'modernisation trap of informality': one cannot use the potential of informal networks without triggering their negative long-term consequences. Informal networks enable Russia's leaders to mobilise people and resources for their modernisation projects. In the process, they create vested interests and lock politicians, bureaucrats and

businessmen into informal bargains and pledges of loyalty that then impede change and modernisation.

The intricacies of informal governance are hard to monitor and measure. Insiders often do not fully recognise these intricacies themselves – or they have built up a capacity to deny to themselves what they are doing. A recent survey of 500 top managers of a large state-owned company in Russia illustrates this point. When asked to assess their own leadership style in running their departments, the majority of the managers described themselves as either “visionary” or “democratic”. Yet 90 per cent of them said that the day-to-day leadership style prevalent in their company was “coercive”. This massive gap between people’s self-perception and their assessment of the governance system they operate under shows that *sistema* insiders somehow have to deal with its paradoxes and double standards, be it through self-deception, denial or cynicism.

Moreover, *sistema* leaves its insiders compromised and vulnerable – which makes it all the more difficult for them to speak out against the system. Widespread corruption, for example, helps to hold *sistema* together. Those involved in corruption are compromised, their property rights are insecure, and they are therefore bound into the system. Those people who do not want to play by the rules of the game face a choice: they can become passive members of society

¹⁴ Olga Kryshтанovskaya, ‘Anatomiia rossiiskoi elity’, *Zakharov*, 2005. without any prospects for advancement or enrichment, or they can challenge *sistema* and embark on the thorny path of dissidents.¹⁴

Exit and voice

When people fall out with *sistema*, they often, as outsiders, find it easier to see its contours and speak out against it. But not every criticism of *sistema* practices means that an insider becomes an outsider. Take the examples of Mikhail Prokhorov and Alexey Kudrin.

As Russia’s third-richest businessman and owner of the New Jersey Nets, Prokhorov had been known more for his lavish lifestyle than his political ambitions until, in June 2011, he became leader of the ‘Right Cause’ party. Right Cause has evolved out of a number of small but unsuccessful liberal parties, and is now widely assumed to be a ‘pocket opposition’ party used by the Kremlin to capture the urban liberal vote.

In 2011, the Kremlin decided the party needed a more effective leader and Prokhorov took over. However, after a brief and failed attempt to add his own candidates to Right Cause’s list, Prokhorov was expelled from the party in September 2011.

Prokhorov’s story demonstrates the double standards inherent in *sistema*. He did not mind playing by *sistema*’s informal political rules that placed him in the position of party leader. When he was expelled, however, he accused Vladislav Surkov, the Kremlin’s then chief of political operations, of being a “puppet master” for having engineered his dismissal and stifling ‘real’ political opposition. Prokhorov seemingly preferred a loud exit from *sistema* to compliance with its rules on loyalty.¹⁵

It is also possible to express discontent within the confines of *sistema*, as illustrated by Kudrin’s departure after eleven years as Russia’s finance minister. After Kudrin had openly disagreed with President Medvedev over budget spending, he was asked to resign. But Kudrin used his resignation to show loyalty to Putin so his options have remained open.

The fact that some prominent figures are willing to speak out against *sistema* could be an indicator of change within the political elite. However, speaking out is generally equated with going against *sistema*, which usually

¹⁵ In December 2011, after this essay was written, Prokhorov announced that he would run in the March 2012 presidential election. Many observers suspect that Putin backs Prokhorov’s decision, to give the election a veneer of pluralism. The fact that Prokhorov seemingly returned to favour despite his attacks on Surkov could reflect Surkov’s waning fortunes: in December Surkov was removed from his political role to become deputy minister for modernisation.

results in expulsion. Most members of the elite will be reluctant to cut the branch they are sitting on, so they will continue to play by *sistema* rules.

Reform needs to start above, not from above

By keeping *sistema* insiders compromised and under suspended threat of punishment, Russian leaders can shape their decisions and manage power networks. By resorting to informal tools of pressure or blackmail, however, the leaders themselves become compromised, which makes them less likely to question their own leadership style. Russia's current leadership is talking about reforming Russia 'from above' by focusing on changing the behaviour of others (often using informal tools). But it is unrealistic to expect them to reform the 'above' – themselves – first, which would involve leaders reflecting on the informal ways they use to get things done, admitting and changing them.

It is this self-reflection, the need for the elites to transform themselves before they seek to change others, that is the key to Russian modernisation. Previous modernisation attempts in Russia, including the reforms of Peter the Great, liberalisation under Alexander II and Gorbachev's *perestroika*, failed to achieve their long-term objectives. These leaders changed institutions mostly according to imported templates. But they left untouched the informal governance mechanisms, the inner workings of *sistema*. I argue that the reason for that recurrent failure was that the leaders of these reform efforts never became fully aware of the power networks and informal instruments they used to advance their modernisation agendas. In this sense, they acted blind-folded. They made what looked like profound changes, but they could not make these changes sustainable because the new formal institutions and rules did not correspond to the underlying informal norms and customs.

As soon as Peter the Great passed away, and with him his strong personal control over new institutions and key actors, *sistema* made

a full comeback. Russian bureaucrats – now residing in newly built, European-looking St Petersburg, dressed in West European attire and conversing in German and Dutch – returned to the more comfortable practices of profiting from their government jobs, promoting friends and relatives and diverting public funds toward private projects (or private funds to public projects).

It will take an enlightened leader (or group of leaders) – one who is self-aware – to fight *sistema*'s destructive forces while preserving its capacity for innovation, and gradually to replace informal tools with effective alternatives. Russia's modernisation campaign cannot reach its ambitious goals unless the consequences of informal governance are spelled out.

It is tempting to assume that there are obvious reform measures that Russia could undertake to replace *sistema* with a market economy and the rule of law. But *sistema* enables Russian society to cope with its problems while at the same time undermining those reforms. Unless Russia's leaders address this fundamental paradox, there is no obvious way of tackling *sistema* without weakening the social cohesion that enables Russian society to function.