

Sistema, Power Networks and Informal Governance in Putin's Russia

By Alena Ledeneva



In her new monograph *Can Russia Modernise? Sistema, Power Networks and Informal Governance*, Alena Ledeneva seeks to decode and reveal how informal power operates. Concentrating on Vladimir Putin's system of governance – referred to as Putin's *sistema* – she identifies four key types of networks: his inner circle, useful friends, core contacts and mediated connections. These networks serve *sistema* but also serve themselves. Reliance on networks enables leaders to mobilise and to control, yet they also lock them into informal deals, mediated interests and personalised loyalties. Ledeneva's perspective on informal power is based on in-depth interviews with *sistema* insiders and enhanced by evidence of its workings brought to light in court cases, enabling her to draw broad conclusions about the prospects for Russia's political institutions. The book is available from Cambridge University Press from February 2013.

S*istema* in contemporary Russia is a shorthand term for a 'system of governance' that usually refers to open secrets or governance matters not-to-be-named. The term itself is elusive. Outsiders find it too general to mean anything in particular. Insiders are not ordinarily bothered with definitions of *sistema* – they intuitively know it when they experience the 'system made me to it' pressure. One of them

explains the unarticulated nature of *sistema* by the lack of distance of insiders from it:

This is not a system that you can choose to join or not – you fall into it from the moment you are born. There are of course also mechanisms to recruit, to discipline and to help reproduce it. In the Soviet Union there was more or less a consolidated state, whereas now it is impossible to disentangle the state from a network of private interests. Modern clans are complex. It is not always clear who is behind which interests.

It is these non-transparent interests and non-hierarchical, network-based aspects of governance that are missing in the most conceptions of Russia's systems of governance. Even when informal influence, connections, clans, cliques, clusters and other types of informal alliances within the elites are identified, the social networks that generate 'informal power' are not seen as intrinsic to the concept of governance. Moreover, it is often assumed that power networks shadow formal positions of power so that a 'map' of a pyramid of informal ties and influences can be produced. This is not how informal power operates. There is not much regularity about it. Besides, networks that channel informal influence function in an ambivalent fashion – they both support and subvert the existing governance model. Personalised power networks enable leaders at all levels to mobilise and to control, yet they also lock politicians, bureaucrats and businessmen into informal deals, mediated interests and personalised loyalties. This is the 'modernisation trap of informality': one cannot use the potential of informal networks without triggering their negative long-term consequences for institutional development.

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The Soviet *sistema* vs *sistema* in Putin's Russia

The collapse of the Soviet Union provides a starting point for assessing continuity and change in *sistema*. Soviet *sistema* was associated with the theoretical tenets of socialism – no private property, centralised planning, political and ideological rigidity – but it also triggered behaviour that went contrary to its proclaimed principles. In an insightful commentary on *sistema* in his memoirs, Joseph Brodsky recalls,

If one had brains, one would certainly try to outsmart the system



by devising all kinds of detours, arranging shady deals with one's superiors, piling up lies and pulling the strings of one's [semi-nepotistic] connections. This would become a full-time job. Yet one was constantly aware that the web one had woven was a web of lies, and in spite of the degree of success or your sense of humour, you'd despise yourself. That is the ultimate triumph of the system: whether you beat it or join it, you feel equally guilty. The national belief is – as the proverb has it – that there is no Evil without a grain of Good in it and presumably vice versa. Ambivalence, I think, is the chief characteristic of my nation.

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Putin's *sistema* functions with some elements from the 'administrative-command' system of Brezhnev's socialism. Administrative-command methods remain effective for mobilising new elites and allocating resources, adjusted to present-day objectives and priorities. But there are also significant differences: the party ideology has given place to market interests, state property to privatised assets, informal exchange of favours to monetised kickbacks, planning to the constraints of global finance, local-bound infrastructure to hi-tech technologies and overtly command methods to more subtle informal signals.

The key difference of Putin's *sistema* is its orientation on wealth. Due to the monetisation of the economy, power networks that used to be aimed at obtaining privileges have become oriented towards monetary income and capital. In the Soviet economy, favours of access to resources had to be routinely exchanged as the resources themselves were not alienable. Power networks rewarded their members with exclusivity – privileges of access to resources rather than ownership of resources *per se*. During Russia's transition to a capitalist economy, the assets themselves were granted, privatized, sold to foreign investors and taken out of the country.

Putin's Russia has seen an increase in economic growth but also an increase in the scale of the economy of kickbacks, widespread practices of informal deals over the budget funds and informal capital flows. Stanislav Belkovsky coins the term of the 'economy of r-o-z', referring to three common forms of corruption: splitting profits, paying kickbacks and carrying in bribes (*raspil*, *otkat* and *zanos*). He quotes corresponding percentages on deals with informal income and emphasises the quantitative specifics of present-day *sistema*: from the 25 per cent splits, 10 per cent kickbacks and 2 per cent bribes in the 1990s to the 60 per cent splits, 30 per cent kickbacks and 10 per cent bribes in 2010¹. Informal income has become a "drug for thousands of thousands of bureaucrats and businessmen and their dependents," he says. "Practically all elites are addicted to the injections of informal income...Many state officials understand that they should fight this addiction, but cannot resist another dose."²

The sistema ambivalence

In my view, *sistema* should not be associated simply with corruption and dysfunctional government. *Sistema* benefits from corruption but also restricts it with its inner channels of checks and balances. It sustains informal control over assets and appointees and reserves informal leverage for re-negotiating property rights and positions. The vulnerability of individuals, the flexibility of rules and ambivalence of constraints are at the core of the functioning of *sistema*. *Sistema* is complex, anonymous, unpredictable and seemingly irrational, but it serves to glue society together, to distribute resources and to mobilise people; it contributes to both stability and change; and it ensures its own reproduction. Present-day *sistema* incites people to work, offers effective stimuli and adequate motivation, but does so in an ambivalent and even paradoxical way. Its incentives prioritise short-term gain at the expense of long-term sustainability, loyalty at the expense of professionalism, safety and collective responsibility at the expense of leadership, and innovative circumvention of *sistema* constraints at the expense of productive innovation. Self-made businessmen often comment on their success being achieved against the odds and despite the forces of *sistema*, whereas *sistema* businessmen prefer to avoid the subject of building close links with influential politicians or deny the links altogether. Power networks enable their leaders to receive support and to trust others (inner circle), to access resources (useful friends), to mobilize cadres for solving problems (core contacts), and to reduce risks and uncertainty (mediated contacts). All these functions are not without strings attached.

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Sistema works

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. It would be a mistake, however, to associate *sistema* with a failed state. It would be too simplistic to claim that Putin's micro-management does not work. Quite the opposite, it is amazing how much does get done in Russia despite the infrastructural problems and institutional inefficiencies, and the explanation lies in the effectiveness of networks and relationships. *Sistema's* output is impressive because it is capable of mobilising people, of recruiting youth and of creating opportunities. When it comes to individual recruitment, offers that came from authorities are difficult to resist and hard to refuse.

Moreover, such offers are met with enthusiasm and selflessness. Businessmen rationalise their participation by future gains for business and for themselves through *sistema's* promise of scale and potential, and often disregard *sistema's* downsides. If successful, their businesses will be used by *sistema* or appropriated through *sistema* raiding; if unsuccessful, a new generation of businessmen will be mobilised. Just as people exploit *sistema*, the *sistema* exploits people. Breaking out of this reproductive circle can be assisted by honesty and trust at individual level, the idea of common good recognised by all, equality before the law, security of property rights – which thus far have been kept unstable in order to keep asset holders in control – and accountability of the leadership's informal governance.

Factors of change: financial integration, technological modernisation, legal globalisation

The financial integration of Russia into the global community created possibilities of moving wealth and capital from Russia, which were especially visible when associated with individual exits from *sistema*. According to the 2011 national opinion poll, 65 per cent of Russians answer 'yes' to the question 'Do state officials have bank accounts abroad?'³.

Another factor essential for the opening up and consequent transformation of *sistema* is associated with globalisation in technology and infrastructure. Advances in mobile communication technology, the rise of Internet access and Russia's openness and exposure to global infrastructure are not only changing the behaviour of the elites but also bringing about some unintended consequences. The culture of privileges for *sistema* insiders is transforming under the global influence and there are also transformations in the public understanding of the common good and infrastructural equality.

The third challenge to *sistema* is the loss of sovereignty in legal affairs. The analysis of 'telephone justice' in the materials and appeals to international courts reveals signs of legal globalisation (for those who can afford it) and relative weakness of *sistema* outside Russia. Given a large number of cases initiated by Russian citizens against Russian Federation, experts refer to the European Court of Human Rights as the Supreme Court of Russia. Yet international courts are also used by the government for the purposes of asset recovery from *sistema* fugitives.

None of these developments by itself can be sufficient for the transformation of *sistema*. It is so complex that its change must be an outcome of multiple factors, including the transformation of the leadership.

The future of Putin's sistema: the modernisation trap of informality

Sistema cannot simply be 'reformed' in the traditional sense of the word. First, challenging *sistema* could get the reformers expelled from their formal positions, from informal networks, or even from the country. Second, if *sistema* unravelled, the

consequences would be hard to manage, as it is also the glue that keeps Russia's economy and society together. Third, it requires an enlightened leadership, capable of self-restriction, fighting *sistema's* destructive forces while preserving its capacity for innovation, replacing informal tools with effective alternatives. Russia cannot modernise to its full potential unless the issues of informal governance are spelled out and tackled. In the short run, tools of informal governance 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 the purposes of stability. 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. 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 to complete modernisation projects, but in the process, they create vested interests and lock politicians, bureaucrats and businessmen into informal bargains and pledges of loyalty that subsequently impede change and modernisation. Unless Russia's leaders address this governance paradox, there is no obvious way of tackling the change of *sistema* without weakening the social cohesion of the Russian society.

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The paradox of informal power

Leaders rely on informal networks for getting things done but are also limited, if not imprisoned, by them. They can apply sanctions to particular members and weaken some specific networks but leaders cannot radically modify their own dependence on informal governance. Reliance on networks *per se* should not be viewed as defective as it is effective in enabling leadership and society to function at all. Effectiveness of the leadership can only be achieved in synergy with *sistema* – the leader's power is not strictly speaking personal, it is ingrained in power networks that the leader can mobilise. The more leaders try to change



sistema, the more they have to rely on the informal means of execution of power and decision-making outside of formal procedures. The more they rely on them, the more they get entangled and eventually tied up with *sistema*'s power networks. The more reliant on institutions, and thus less interventionist, leaders are, the less credit they receive for their leadership. It is almost as if informal leadership is the key characteristic of leadership in Russia, unachievable without instruments of informal governance. Modernisation in Russia cannot succeed as long as this system of informal power and network-based governance remains untouched. I argue that modernisation of *sistema* should start with the modernisation of the networks it relies on. Russian leaders keep talking about changing Russia top down, without ever addressing the informal rules and constraints that govern their own behaviour and that of political, bureaucratic and business elites. Modernising leaders'

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own networks by gradually reducing their use, or even by being aware of their use, has the potential to change *sistema* from the inside. Channels of recruitment have to accommodate those with loyalty to Russia, but not necessarily to its leadership. Exposure to global education and professional training can lead to modernisation of loyalty patterns within hierarchies and modernisation of relationships within horizontal networks.


Reflexive modernisation

The starting point is reflexive awareness about one's own leadership style, recognition of the degree of reliance on informal governance, the ability to distinguish between personalised and corporate loyalty, and the will to recognise a boundary between friendship

and the use of friendship. The motivation for the leadership to change may arise from both internal and external sources. The December 2011 peaceful protests certainly demonstrated the need for reflection for leaders, their followers and protestors alike and created a significant shift in policies. A number of events before, during and after the 2011 parliamentary elections contributed to the protests. The announcement in September 2011 regarding the decision by the Putin-Medvedev tandem that Putin will run for President, and Medvedev will be Putin's choice for Prime-Minister triggered a reflexive change in the middle class. The arrogance of the jobs swap announcement motivated many successful, self-respecting, and apolitical people to vote for the first time. Crude manipulation of the election outcome, rather than use of more sophisticated political technologies applied in previous elections, became another factor in protests. Even among supporters

Putin's return as President came to be perceived as pursuing personal ambition, rather than any *sistema* necessity. Internet-based forums have turned into hubs of reflexivity, and social networking sites turned out to be more effective for channelling protest moods than oppositional activism. Yet the outcome of the 2012 Presidential elections demonstrates that the majority have vested interests in *sistema* and that personal loyalty and compliance within power networks continue to be more important than loyalty to universal values. It is also indicative that the so-called non-system opposition propagates an elimination or replacement of Putin's networks, rather than rejecting the network-based system of governance as such. The protests are pitched more against Putin than for the

general principle of leadership change-over. Standing up for universal principles does not make a viable position in Russia, where 'beating the system' and 'privileged access' remain both national sport and survival strategy.

It is essential, however, not to overstate the personalisation of *sistema* in the sense that Putin's *sistema*, which he had shaped by mobilising his personal networks, is not really controlled by him. Like everyone else, leaders are 'locked' into their networks while relying on them in performing their public functions and satisfying their private needs. Reversely, not relying on networks might also limit, if not undermine, the leadership capacity – they have to operate within the culturally acceptable codes and discourses, otherwise they lose their base. Thus, the main implication of the ambivalence of *sistema* is that its leader is also its hostage. 

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