

How Russia really works

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She has a great deal of light on things in Ukraine, where I live

The strangest contradictions in Ukraine are between the very high level of kindness and trust among people in certain circumstances, and the fraudulent manipulation and absolute lack of trust on the other. Ledeneva, a woman of Siberian extraction living in England, conducted several series of interviews in for representative regions of Russia to provide ethnographic description of what actually goes on.

Her chapter titles pretty much tell the story. The first is entitled "Black PR." There is real democracy in Russia, in the sense that votes are counted and therefore matter. Public relations is important to influence the selection of candidates in an election, and to influence whether or not the populace gets upset about the treatment of a given person. Here in Ukraine, for instance, there was a strong black PR campaign during the elections of January 2010. Yulia Tymoshenko was painted as Jewish, among other things, in her stronghold in western Ukraine. She is now on trial on what most Western observers believed to be trumped up charges of abuse of office, stemming from a gas contracts renegotiated to end the impasse with Russia three winters ago. The Yanukovich government appears to be using whatever force is it can muster to smear her reputation during the course of the trial. The evidence of my eyes is that the numbers of her supporters who show up daily in downtown Kiev is small and diminishing. The public seems to be tiring of the show, which means that the president is winning.

The second chapter is entitled "Kompromat," an acronym for compromising material. The legal system in Russia and Ukraine is so confused that almost everybody can be found to be in violation of some law or another at any point in time. Moreover, just about everybody involved in business has to resort to questionable practices just to get things done. Compromising material can be indications of such semi legal business practices, sexual improprieties, hidden wealth, or anything else that might be embarrassing. The interesting thing is such material is relatively rarely used in public; instead it is used to coerce a person to some desired course of action.

The third chapter is entitled "Krugovaya Poruka," круговая порука or circular support. The concept dates back 1000 years, to times in which it was easier for overlords to hold entire villages responsible for the behavior of individuals within them, and to assess taxes at the village rather than the individual level. This practice was ended, by degrees, in the last years of the czar, only to emerge in Soviet times among the more powerful. Everybody needed to keep their back covered, and in order to survive in the system when needed friends. This concept evolved into circles of friends, mutually compromised, and therefore in need of mutual support. There is a Russian expression "better 100 friends than 100 rubles." In an environment in which everybody is in constant violation of the law, as the book expresses "temporarily out of prison," one absolutely needs protection.

The fourth chapter is entitled “Tenevoi Barter,” or shadow barter. Because the official laws, especially the tax laws, are so confiscatory in nature, every business feels obliged to avoid reporting profits and to pay people, as they say here in Ukraine, “in an envelope” to avoid paying payroll taxes and withholding. The devices that they use include myriads of shell corporations and phony loans. Because few of these arrangements are documented, as their very nature is illegal, the system depends on a high level of trust among participants. These barter schemes are often used to move profits offshore.

The fifth chapter is entitled “Dvoinaia Buchgalterii,” or double bookkeeping. An odd fact about Ukraine is that there are 1 million accountants in a land of 40 million people. It is an absurd number. However, these people are essential for making sure that the tax authorities did not rob the company blind. To make it all work, they need several sets of books. There are the books that they show to the government, books that they may show to external investors, and internal books reflecting the real estate of the business. There may be different books for different government entities. In any case, the entire system is quite complex. A bookkeeper has to be intelligent enough to stay on top of everything, and has to have nerves of steel. Interestingly enough, when the authorities go after a company it is usually the chief executive and the chief accountant who are the primary targets.

Finishing this book, one would think that it was impossible to do business in Russia, and by extension, Ukraine. Everyday observation contradicts this conclusion. A number of Western businesses operate reasonably successfully in Ukraine. A number of small businesses, even run by Westerners, succeed one way or another. The key seems to be recognizing the importance of personal relationships and the fungibility of legal systems and requirements. In any case, this is a book that belongs on the bookshelf of anybody doing business in the former Soviet Union.